



# **BUDGET OPTIONS**

**FOR NEW YORK CITY**

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**February 2 0 0 9**

**IBO**  
New York City

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\*denotes new option

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\*denotes new option

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# Introduction

FOR THE PAST FOUR YEARS, New York City has enjoyed multibillion dollar budget surpluses. During such good fiscal times, there was little enthusiasm for considering ways city government could spend less or raise additional revenues. While even in the best of times there are not sufficient resources to meet all of the demands on city government, the need to raise more funds or cut spending is less compelling when the city is ending the year with bigger-than-expected surpluses. But now, with the city facing a \$4.3 billion shortfall in 2010, the fiscal year that starts in just five months, and an additional shortfall of nearly \$7.0 billion in 2011, the pressure is once again on to find savings and increase revenues.

While it is relatively easy to call for cutting back a service or raising a tax, the reality is somewhat more complex. Much like Newton's third law, many potential budget actions cause reactions. Policymakers and the public must consider the possible consequences of the savings or revenue raising measures. Charging for Freon removal, a service now done for free by the sanitation department, could result in more illegal dumping; raising taxes on high-income earners could induce some of them to leave the city, negating part or even all of the of the additional expected revenue.

Since IBO published the first edition of its annual Budget Options for New York City in 2002, the volume has provided New Yorkers with a synopsis of the positive and negative effects—the pros and cons—for dozens of budget options for the city. The volume also has offered New Yorkers an impartial outline of a variety of ways to save funds or increase revenues and their budgetary effects. We also note if the city cannot unilaterally implement a particular measure. For example, any options related to changing pension benefits must be approved by the state.

A number of options presented in prior years have been adopted by the city, such as the merger of the Department of Employment into the Department of Small Business Services, the redeployment of police officers who had been assigned to the Drug Abuse Resistance Education Program, the creation of a subsidiary insurance company for the Health and Hospitals Corporation, and the shifting of children from the child welfare system's congregate care facilities to family-based home care. The Mayor's Preliminary Budget for Fiscal Year 2010 includes three measures that were part of last year's volume: reducing fire department engine company staffing, changing staffing patterns on advanced life support ambulances, and eliminating grass clippings from sanitation department trash pickups. Since these three options are still only proposals, we have included them again in this year's volume to help readers consider them.

In this latest edition, we examine 70 options and make objective calculations of their anticipated savings or revenue. Eighteen of the options are new and some others are substantially revised. For the options that are repeated from last year, we provide updated fiscal calculations and in some cases additional policy considerations as well. **IBO presents a set of arguments for and against implementing each of the measures presented here.**

A significant number of the options in this volume, including many of the new ones, address city labor costs. Labor is the largest single city expense, projected to cost \$35.2 billion this fiscal year under the Mayor's most recent financial plan, and grow to \$38.7 billion by 2013. Given the number of questions we have been asked about labor costs recently, weighing the pros and cons of various budget options related to the cost of municipal labor seems fitting.

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, Fiscal Policy Institute, and Manhattan Institute or by current or former public officials. Other options appear 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 that developed out of the knowledge and insight of IBO's own economists and budget analysts. Regardless of its source, each budget option underwent the same thorough and impartial analysis.

The options presented here are by no means exhaustive. In no way does the report's inclusion—or omission—of specific budget options reflect an assessment of their viability or desirability. Like the Congressional Budget Office, which develops a similar volume for the federal government, **our role is to analyze, not endorse.** We welcome your suggestions for inclusion in future budget options as well as comments on this new installment.



# *Savings Options*



# OPTION: Eliminate Public Funding of Transportation For Private School Students

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Savings:  
\$57.4 million annually

NEW YORK STATE LAW requires that if city school districts provide transportation for students who are not disabled, the district must also provide equivalent transportation to private school students in like circumstances. Under Department of Education (DOE) regulations, students in kindergarten through 2<sup>nd</sup> grade must live more than a half mile from the school to qualify for free transportation, and as students age the minimum distance increases to 1.5 miles. DOE provides several different types of transportation benefits including yellow bus service and full- and reduced-fare MetroCards.

In the 2008 school year, 21 percent of general education students receiving full- or reduced-fare MetroCards attended private schools (roughly 127,000 children). In the same year, about 44 percent of general education students using yellow bus service attended private schools (approximately 39,000 children). DOE spends more than \$263 million on the MetroCard program and yellow bus services for general education students.

The MetroCard program is financed by the state, the city, and the Metropolitan Transportation Authority (MTA)—the city and state contributions are \$45 million each while the MTA absorbs the remaining costs. Total expenditures in the 2008-2009 school year for yellow bus service are expected to be \$224 million, making the city's portion roughly \$101 million based on a 45 percent share of expenditures.

Elimination of the private school benefit, which would require a change in state law, could reduce city funding by roughly \$57 million—\$10 million for MetroCards (21 percent of the city's \$45 million expense) and \$48 million for yellow bus service.

**PROPOSERS MIGHT ARGUE** that when families choose to use private schools, they assume full financial responsibility for their children's education and there is no reason for the city to subsidize their transportation, except for those attending private special education programs. Proponents concerned about 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 to the transportation authority 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 government services. Furthermore, opponents might argue that as public transportation becomes increasingly expensive in New York City all schoolchildren have an increased need for this benefit.

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

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Savings:  
\$17.2 million annually

THE 33 MEMBERS OF THE CULTURAL INSTITUTIONS GROUP (CIGs) mostly operate on land owned by the city. These institutions—ranging from the Metropolitan Museum of Art to the Brooklyn Museum—receive \$43.8 million in operating support for energy costs under their contracts with the city. They are scheduled to receive an additional \$64.3 million in operational subsidies for fiscal year 2010. With the implementation of CultureStat in fiscal year 2009, each CIG initially receives 90 percent of its budgeted allocation, with the balance contingent upon performance. The following calculations reflect the 90 percent baseline allocation.

This option is a one-time adjustment that would reduce operational subsidies to some CIGs based on their current funding; the energy payments would remain unchanged. The option would separate the CIGs into three tiers of operating subsidy reduction: (Tier I) the three that currently receive subsidies greater than \$7.5 million would be reduced by 50 percent; (Tier II) the eight that currently receive between \$1 million and \$7.5 million would be reduced by 25 percent; and (Tier III) the remaining CIGs receiving less than \$1 million would not be reduced.

The operational funding to the CIGs would decrease by a total of 30 percent, saving the city \$17.2 million. These reduced subsidies would then be maintained in subsequent years.

**PROPOSERS MIGHT ARGUE** that although few people advocate a reduction in cultural funding, with the city facing projected budget shortfalls in the coming years cuts will be unavoidable in many city-funded programs. This type of cut is more progressive than other proposals as it places the strain of the overall reduction in funding on the wealthiest CIGs while leaving the majority of the institutions with no decreases in funding. The wealthier Tier I and Tier II CIGs are more likely to have greater fundraising capabilities and would be better able to withstand the overall reductions to their operational funding than the smaller CIGs and other cultural groups that are also funded by the city. Even with the 50 percent reduction, the Tier I CIGs would still receive an average of \$4.2 million each in discretionary funds.

**OPPOSERS MIGHT ARGUE** that given their size, Tier I and II institutions have large fixed costs and have historically depended on city support. In the last year, city subsidies to these CIGs have already been significantly reduced. Support from the private sector cannot be relied on due to the current economic downturn; hence the level of private donations might be insufficient to fill funding gaps, leading to disruption in programs, at least in the short term. Additionally, proposed state budget cuts, if adopted, could further reduce the funding base of some CIGs. The Tier I and II institutions tend to serve far larger populations than those in Tier III. Measured on a per visitor basis, there may be less difference between the CIGs subsidies. Furthermore, suggested admission prices are already high at many of these institutions, and might have to rise further to cover the subsidy reduction, deterring some potential visitors. Finally, many of the city's cultural institutions have been credited with drawing out-of-town visitors to New York. If services are cut or admission prices increased, tourism and its accompanying spending on restaurants, hotels, entertainment, and shopping could be curtailed.

# OPTION: End the Department of Education's Financial Role as FIT's Local Sponsor

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**Savings:**  
**\$7 million annually**

THE FASHION INSTITUTE OF TECHNOLOGY (FIT) is currently considered a community college in the State University of New York (SUNY) system. Like all SUNY community colleges, it has a local sponsor, in this case the city's Department of Education, which is required to pay part of its costs. The city has no financial responsibility for any other SUNY school, even though several are located here. FIT is the only SUNY community college in New York City; all other community colleges in the city are part of the City University of New York system.

FIT specializes in fashion and fashion-related professions. Originally it was a two-year community college, but in the 1970s FIT began to confer bachelor's and master's degrees. Today the school has 23 bachelor's degree programs and six graduate programs, which account for nearly half its total enrollment. Admission to FIT is selective, with fewer than half of applicants accepted; a large majority of its students are full-time and a substantial fraction are from out of state. Thus the school is a community college in name only; functionally, it is a four-year college.

Under this proposal, FIT would convert from a community college to a regular four-year SUNY college; the Department of Education would cease to act as the local sponsor and would no longer make pass-through payments to subsidize FIT. As a result, the college would have to rely more on tuition, state aid, its own endowment or that of the state university system, and any operational efficiencies and savings that it can implement. This change in FIT's status would require state legislation.

**PROPONENTS MIGHT ARGUE** that there is no reason for FIT's anomalous status as a community college sponsored by the Department of Education; given that it is, in practice, a four-year SUNY campus it should be funded like any other SUNY campus. They might also argue that because New York City is a major fashion capital, there are good prospects for philanthropic and industry support to make up for loss of local sponsorship. They might also argue that the mission of the Department of Education is to provide for K-12 education for New York City children, and that subsidizing FIT is not relevant to this mission. Finally, they might argue that the current economic downturn will lead to more students seeking higher education—especially at affordable, well-regarded institutions like FIT—so tuition will remain a strong revenue source, softening the blow of the loss of city funds.

**OPPONENTS MIGHT ARGUE** that loss of local sponsorship could lead to a sharp rise in tuition that will offset the affordability of FIT. Additionally, opponents could note that the State has never met its current mandate for 40 percent funding of community colleges, so it is not likely that the state would make up the loss of city funds. They might suggest that even if the current arrangement does not make sense, the logical alternative would be to incorporate FIT into the city university system, which would not produce savings for the city.

# OPTION: Citywide “Vote-by-Mail”

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**Savings:**  
**\$7 million annually**

ELECTION DAY POLL SITES NO LONGER EXIST IN THE STATE OF OREGON. Instead, all Oregonians registered to vote receive their ballots in the mail three weeks before each election and then have the option of returning their completed ballots either by regular mail or by personally dropping them off at specially designated collection sites or county election board offices. Voters in 37 of 39 counties within Washington State also now vote-by-mail (VBM), as do some 40 percent of Californians. This option proposes that New York City move towards discontinuing the operation of election poll sites across the city by adopting a similar vote-by-mail system. Implementing this proposal would require amending New York State’s Constitution.

Securing permission to institute a VBM system in New York City would result in annual savings of about \$7 million, which would be attained largely from reduced personnel needs. There are roughly 4.2 million registered voters in the city. On average, \$15.6 million is spent annually by the city on about 30,000 per diem workers needed to staff elections at roughly 1,350 poll sites across the five boroughs. The city also spends each year about \$1.5 million to transport voting machines to and from the poll sites and roughly \$800,000 on police overtime. The initial investment in scanners and other equipment needed to implement a VBM system—which we estimate at about \$5.5 million—would most likely be eligible for federal funds under the Help America Vote Act. This would be significantly less costly than replacing the existing machines with eligible polling site-based options such as an optical scanner system (\$28.4 million) or a direct recording electronic system (\$75.5 million).

**PROponents MIGHT ARGUE** that VBM systems present a number of advantages in addition to significant cost savings. As in Oregon, where voter participation has increased after statewide adoption of vote-by-mail in 1998, implementing a VBM system here could boost voter turnout.

The public would come to appreciate no longer being required to rush to poll sites, sometimes in inclement weather, often followed by waits on long lines before casting their votes. Voters would also have more time to gather information on new ballot initiatives which, as of now, they may have encountered for the first time upon entering a voting booth. Rigorous vote-by-mail security systems like those in place in Oregon would protect against the risk of fraud. Finally, voter watchdog groups would value the readily auditable “paper trail” of mail-in ballots.

**OPponents MIGHT ARGUE** that poll sites are places of civic community and that the gathering of citizens at Election Day polling places is a venerable tradition that must be preserved. Opponents would also argue, notwithstanding claims to the contrary by officials in jurisdictions that have adopted VBM systems, that such a process would almost certainly increase the risk of fraud or abuse. For example, given the loss of the privacy enjoyed once one closes the curtain at a poll site, voters that have received their ballots in the mail could conceivably be either monetarily enticed or intimidated into filling out their ballots in a certain manner.

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

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Savings:  
\$3.6 million annually

THIS OPTION WOULD ELIMINATE late-night service on the Staten Island Ferry. Service would end at midnight on weekdays, and 1 a.m. on weekends, and would resume at 5 a.m. In place of ferry service, buses would carry passengers between Manhattan and Staten Island terminals.

The Staten Island Ferry is operated by the city Department of Transportation (DOT). In July 1997 the passenger fare was eliminated, and since the attacks of September 2001 no vehicles have been allowed on the ferry.

Average daily ridership on the ferry is around 54,000 passengers. On a typical weekday only 2 percent to 3 percent of these passengers travel after midnight and before 5:00 a.m. On weekdays there are five trips that leave Staten Island and six trips that leave Manhattan between 12:01 a.m. and 4:59 a.m. Express bus service between Manhattan and Staten Island is very limited during these hours.

The smallest ferry boats operated by DOT have a capacity of 1,280 passengers, and require a crew of nine plus one attendant. This capacity is far beyond what is needed during late nights. DOT has been planning to contract out its late-night ferry service to private companies in order to take advantage of these companies' smaller boats. The city projects that this action would save \$1.2 million per year.

The operating expenses of the Staten Island ferry are roughly \$83 million per year. Late-night trips are around 11 percent of the total number of trips. Assuming that terminating late-night service would reduce operating expenses by 7 percent, the annual savings would be slightly under \$5.8 million. Based on Federal Transit Administration data for the MTA Bus Company, which provides a mix of local and express service in New York City, the operating expense of a bus trip between Manhattan and Staten Island would be around \$230 per trip. The annual cost of providing bus service every 20 minutes to 30 minutes between midnight and 5:00 a.m. would be just over \$2.2 million, giving a net savings of \$3.6 million. We assume the buses would not charge a fare, as they would replace a fare-free service.

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

**OPponents MIGHT ARGUE** that using buses instead of ferries will mean a longer, less comfortable ride for passengers, as well as potentially longer waits if buses are full. In addition, shutting down the ferry late at night might be seen as a precedent for other reductions in transit service. Finally, allowing bus passengers to wait inside the ferry terminals would reduce the cost savings and delay the boarding process, but forcing passengers to wait outside raises safety and comfort concerns.

## OPTION: Eliminate Youth Connect

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**Savings:**  
Approximately \$230,000 annually

THIS OPTION WOULD ELIMINATE THE Department of Youth and Community Development's (DYCD) Youth Connect (formerly known as Youth Line). Youth Connect, an information and referral service for youth, families, and communities, provides a toll free hotline Monday through Friday from 9:00 a.m. to 7:00 p.m. Operators connect callers to an array of local services and resources, which relay employment opportunities and offer education and training programs, including Out of School Time Programs, Runaway and Homeless Youth Services, Immigrant Services, and Beacon Community Centers. Callers can also submit questions online.

According to the Mayor's Management Report, Youth Connect received about 47,000 calls in fiscal year 2008, up from 42,000 in 2007. The increase in calls was due to a spike in queries about the Summer Youth Employment Program and the Out of School Time Program. Youth Connect's operating expenses for 2008 totaled about \$260,000. The budget for the current year is roughly \$230,000.

**PROPOSERS MIGHT ARGUE** that the creation of 311 and Enhanced 311—the human services referral service—have made this hotline redundant. In fiscal year 2008, 311 received about 30,000 DYCD-related inquiries of the kind handled by Youth Connect. Furthermore, unlike the Youth Connect hotline, 311 is available 24 hours a day. Youth Connect calls are referred to 311 when the hotline is not in service.

**OPPOSERS MIGHT ARGUE** that the hotline receives a large number of calls for services, a number that has been increasing over the last several years. In October of 2008, DYCD relaunched Youth Line as Youth Connect, an online expansion of its Youth Line call center. Young people can now receive information through e-mail, text messaging and social networking websites. They can also stay abreast of relevant news about youth services through the Youth Connect e-mail blast, an informational e-mail sent to multiple users, a form of outreach that 311 does not provide, designed to engage young people on their own terms while connecting them to real-world city services.

## OPTION: Eviction Insurance Pilot Program

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Savings:  
\$711,000 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 \$17.35, 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 \$14.72, and annual savings to the city in avoided shelter costs would be \$7.1 million.

**PROPOSERS MIGHT ARGUE** that preventing homelessness is both less expensive and more humane than emergency shelter. Eviction insurance would be essentially self-supporting, so any reduction in shelter use represents a net gain for the city. An eviction insurance program would complement the existing system of emergency grants and loans that the city offers, but would be more consistent with the ethic of personal responsibility that underlies current welfare policy. (These grant and loan programs could be more narrowly targeted in order to promote participation in an insurance program.) Landlords might be more willing to rent to low-income households with eviction insurance, because it reduces their risk—both real and perceived. The city could require six months or more of premium payments before households would be eligible for insurance coverage, to prevent last-minute enrollments by those facing imminent eviction.

**OPPOSERS MIGHT ARGUE** that low-income households do not have the resources to pay even a modest premium. Particularly given that the city already offers grants and loans to prevent homelessness, it is not clear that there would be enough households willing and able to participate in an eviction insurance program to make it feasible. The existence of insurance protection could create a “moral hazard”—that is, by providing a safety net, it could undermine the normal incentive to pay rent. Moreover, if only those households facing imminent eviction take advantage of the program, the costs are likely to greatly outweigh the premium payments unless the latter are prohibitively high. Finally, it is not clear that eviction is a good predictor of future homelessness. If few of the participating households would have become homeless, savings will be limited.

## OPTION: Eliminate Grass Clippings from Trash Collection

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Savings:  
**\$2.1 million annually**

CURRENTLY, THE DEPARTMENT OF SANITATION (DSNY) collects bagged grass clippings from residential yards around the city. Grass clippings represent approximately a third of the roughly 136,000 tons of yard waste the city collects every year but cannot recycle.

To reduce this portion of refuse tonnage, DSNY has encouraged residents and institutions not to bag grass clippings and place them out for collection. Instead, residents are urged to let grass clippings decompose naturally on their lawns. DSNY has published a brochure to encourage such practice entitled, "[Leave it on the Lawn: A guide to mulch-mowing.](#)"

Based on a DSNY study of waste composition and the seasonal cycles of lawn mowing, IBO projects that the city would save approximately \$2.1 million annually if the sanitation department stopped collecting grass clippings. This savings represents the export cost of about 22,000 tons of clippings diverted from regular collection, multiplied by the weighted average of the five boroughs' export contract costs with commercial haulers. Given challenges in enforcement and educating residents on the new policy, IBO's projection assumes 50 percent compliance. However, higher levels of compliance would generate greater savings.

**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 approximately \$94 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.

**OPPONENTS 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: Increase Public School General Education Class Sizes by Two Students

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Savings:  
\$187 million annually

UNDER THIS OPTION, the general education average class sizes in each grade would be increased by two students, which would produce savings by reducing teacher headcount. Based on estimated 2009 enrollments and 2009 average teacher salaries, a two student increase in class size in the early grades would eliminate 896 teaching positions; with an additional reduction of 261 positions in grades 4 through 6. In the middle schools, after accounting for Title I status where appropriate, larger classes would result in a reduction of 503 more positions while in the high schools the change would mean the reduction of 512 positions. The total staff reduction equals 2,172 teachers. This reduction yields a combined estimated annual savings of \$187 million, based on current salaries and benefits.

Under collective bargaining agreements, the Department of Education (DOE) can not raise class sizes in grades K–3 beyond 25 students per class. Previous Chancellors’ regulations had set even lower goals in these early grades, as well as targeting middle school class sizes for reduction. In addition, 2007 legislation intended to end the long-running Campaign for Fiscal Equity law suit, now requires the department to enter into a “contract for excellence” (C4E) with the state which supersedes both prior labor agreements and Chancellor’s restrictions. Under the C4E, average class sizes must be reduced in all grades in the next few years with priority given to the lowest performing schools. Failure to make progress in reducing class sizes could result in reduction or loss of state foundation aid which now includes the revenue stream dedicated for early grade class size reduction. The city’s C4E, the teachers’ contract and the Chancellor’s regulations would all need to be altered if this option were to be implemented. Positions funded with state and federal categorical funds would not be eliminated under this proposal.

**PROPOSERS MIGHT ARGUE** that the research on the benefits of smaller classes, particularly in the upper grades, is not conclusive, and that the marginal difference of increasing class sizes by two students is likely to have a minimal impact on academic outcomes. Proponents could claim that scaling back the size of the teaching force would make it easier for DOE to recruit well trained and properly certified teachers. Smaller class sizes can also require a substantial capital investment which competes with other facility needs of the system.

**OPPOSERS 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 and spent hundreds of millions of dollars to reduce class size in recent years and this proposal would essentially waste these efforts. Opponents could cite academic research linking smaller class sizes to stronger student performance, particularly in the early grades. They also cite the desire of parents to have their children receive individualized attention. Finally, they could point to the potential that a heavier teaching load could drive qualified teachers out of the system.

# OPTION: Pay-As-You-Throw

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**Savings:**  
**\$316 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 (DSNY) services funded by city taxes.

PAYT programs are currently in place in cities such as San Francisco and Seattle, and more than 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 IBO projections of waste disposal costs and DSNY projections of volume and recycling diversion rates, each residential unit would pay an average of \$97 a year for waste disposal in order to cover the cost of waste export, achieving a net savings of \$316 million. A 14 percent reduction in waste would bring the average cost per household down to \$83 and a 20 percent reduction would further lower the average cost to \$77 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 \$111 million. They also might argue that illegal dumping in other localities with PAYT programs has mostly been commercial, not residential, and that any needed increase in enforcement would pay for itself through the savings achieved.

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

## OPTION: Collect Debt Service on Supportive Housing Loans

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### Savings:

\$1.8 million in 2010, \$3.5 million in 2011, \$5.3 million in 2012, \$7.1 million in 2013

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

Collecting both principal and interest on new loans, which have averaged \$46 million per year over the last six years, would yield \$1.8 million in revenue in the first year, and grow as the total volume of outstanding loans grows. We assume the loans are made for a 30-year term. Collecting only the interest, while forgiving the principal, would yield less revenue, beginning with about \$450,000 in the first year, growing to \$1.7 million per year by 2013. Collecting only the principal would generate \$1.3 million in 2010, rising to \$5.4 million by 2013.

**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 could be more people living on the streets or in the city's costly emergency shelter system. They might argue that even a deep subsidy for permanent housing is more cost-effective—and humane—than relying on the shelter system.

## OPTION:

# Establish Co-payments for the Early Intervention Program

Savings:  
\$17 million annually

THE EARLY INTERVENTION PROGRAM (EI) provides developmentally disabled children up to the age of 3 with services through nonprofit agencies that contract with the Department of Health and Mental Hygiene (DOHMH). Eligibility does not depend on family income. With approximately 20,000 children participating at a time and a total cost of \$450 million, the program accounts for about a quarter of the total DOHMH budget.

EI is funded from a mix of private, city, state, and federal sources. For children with private health insurance, payment from the insurer is sought first, but relatively few such claims are paid; only \$3.9 million came from private insurance in 2008. Medicaid and Child Health Plus pay the full cost for children enrolled in those programs, with \$231 million coming from those sources in 2008. The remaining costs are split equally between the city and the state. In recent years, the city has successfully increased the share of the program paid by Medicaid. As a result, the net cost of EI to New York City has declined from well over \$100 million in 2004 to \$57 million in 2008.

Under this option, the city would seek to further reduce these costs through the establishment of a 20 percent co-payment for services to families that have private health insurance and incomes above 200 percent of the Federal Poverty Level. In addition to raising revenue directly from the estimated 15 percent of EI families that fall into this category, this could increase payments from private insurers by giving participants an incentive to assist DOHMH in submitting claims. Cost-sharing would also reduce the number of families participating in EI; it is assumed here that one fifth of affected families would leave the program. Institution of this cap would require approval from the state Legislature; state savings would be slightly greater than city savings—approximately \$18 million—because there would also be a slight reduction in Medicaid spending. (Note that this only includes EI services in New York City; there would be additional savings for the state and for counties from services elsewhere in the state.)

**PROPOSERS MIGHT ARGUE** that establishing co-payments could alleviate some of the strain the EI program places on the city budget without reducing the level of service provision. In particular, they might note that since the current structure gives participating families no incentive to provide insurance information to the city, public funds are paying for EI services for many children with private health coverage. The institution of co-payments would provide these families with the incentive to seek payments from their insurers for EI services. Finally, they might note that cost-sharing is supported by the Governor and used in many other states.

**OPPOSERS MIGHT ARGUE** that the institution of a 20 percent co-payment for EI services could lead to interruptions in service provision for children of families that, to reduce their out-of-pocket expenses, opt to move their children to less expensive service providers or out of EI altogether. They might further note that it is most efficient to seek savings in programs where the city pays a large share of costs; since the city pays for only a quarter of EI, savings here do relatively little for the city budget. 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 EI services could require more costly services later in life. Finally, opponents might note that enrollment and costs in the program have been stable since 2004, suggesting that additional cost-savings measures are not urgent here and that the city should not be creating any new barriers to enrollment.

## OPTION: Reduce FDNY Engine Company Staffing

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Savings:  
\$35.8 million annually

THE NEW YORK CITY FIRE DEPARTMENT'S (FDNY) current contract with the firefighters union specifies that the majority (150) of the agency's 210 engine companies are to be staffed with four firefighters and a fire officer. Eleven other engine companies are at all times staffed with five firefighters and an officer.

The remaining 49 engine companies are staffed with five firefighters and an officer as long as the citywide sick leave rate for firefighters remains at or below 7.5 percent, as is presently the case. In the event the sick leave rate rises above 7.5 percent, the city is contractually entitled to reduce the staffing level of these 49 engine companies to four firefighters and an officer.

This option calls for a collectively bargained severance of the link between firefighter sick leave rates and mandated staffing on these 49 engine companies, thereby removing the fifth firefighter post from each unit and generating annual savings of about \$35.8 million. Some portion of these productivity savings could be shared with firefighters in the form of salary increases, although doing so would reduce the net savings to the city.

**PROponents MIGHT ARGUE** that the fire department's willingness to staff the 49 engine companies at issue with four firefighters rather than five when the sick leave rate rises above 7.5 percent suggests that doing so is not inconsistent with the agency's goals of protecting public and firefighter safety. They might also argue that firefighters should refrain from abusing their unlimited sick leave privileges without the need for an incentive system encouraging them to do so.

**OPponents MIGHT ARGUE** that the additional response capability associated with five as opposed to four firefighters on engine companies significantly enhances not only the safety of firefighters but also their ability to respond effectively to emergency situations. They might further contend, particularly in an era in which the city continues to face the threat of another terrorist attack, that all 210 of the FDNY's engine companies should under all circumstances be staffed with five rather than four firefighters.

## OPTION: Make Parent Coordinators Part Time in Schools with Fewer Than 500 Students

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Savings:  
\$14.9 million annually

IN THE 2003–2004 SCHOOL YEAR, as part of the Department of Education’s Children First reforms, each school was provided funding for a parent coordinator position. Half of the funding for these positions was provided from city tax levy and half from reimbursable funds. The position was created to foster engagement with parents and to provide parents with tools to better participate in their children’s education. The coordinators were to help facilitate two-way communication with parents at each school and work to resolve issues and concerns raised by parents.

In the first year of the program, approximately 1,270 positions were budgeted at an annual salary of \$34,000 plus fringe benefits. The total cost for the new positions was almost \$50 million. For the 2008–2009 school year, approximately 1,509 positions are budgeted at a citywide average salary of \$38,260 along with an additional \$500 allocated for supplies, for a total cost of \$58 million. After the 2003–2004 school year, the positions became fully funded by city dollars. Currently, roughly 773 schools with full-time parent coordinators have enrollments of less than 500 students. Conversion of these positions to half-time positions would save approximately \$15 million.

**PROPOSERS MIGHT ARGUE** that the lack of specific responsibilities with measurable outcomes for these positions raises questions about the use of the funds. Proponents can also suggest that limited school resources are best used for direct services to students and that these positions should be funded from a source other than tax levy dollars given that these jobs are not integral to operating a school. Other proponents might argue that schools in which parent involvement is already strong do not need an additional full-time, paid position to encourage participation of parents. The public school system has other resources to support the parent involvement piece of Children First reform including parent/teacher associations, school leadership teams, 32 community education councils, and district family advocates under the Office of Family Engagement and Advocacy.

**OPPOSERS MIGHT ARGUE** that research indicates there is a positive relationship between parental involvement and academic outcomes and that having a full-time parent coordinator in every school helps to strengthen the parents’ role. Opponents may also argue that reducing the position to half-time based on enrollment is arbitrary and a better approach would be to at least target Title I schools to maintain parent coordinators, since they are already required to spend 1 percent of their Title I allocation on parent involvement.

# OPTION:

## One Day of Unpaid Leave for Many City Employees

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### Savings:

Approximately \$9 million annually

THIS OPTION WOULD MAKE THE DAY AFTER THANKSGIVING a mandatory day off without pay for city workers and employees at agencies not involved in performing essential health and safety functions. It would apply to both union and non-union employees but exclude public safety, code enforcement, transportation, and public health employees, and teachers who already have the day off. About 40,000 city employees would be affected. For unionized workers, implementation would require collective bargaining. This option would realize about \$9 million a year in wage savings.

Similar proposals are being considered in other U.S. cities. Chicago's mayor, Richard Daley has proposed shutting his city down for three days—the day after Thanksgiving, Christmas Eve, and New Year's Eve, and Mayor Ron Dellums of Oakland has proposed a city shutdown of 12 days this year.

**PROPOSERS MIGHT ARGUE** that since many people already consider the day after Thanksgiving a part of the long holiday weekend, there is little demand for many services in city offices on that day. Additionally, a large number of city workers schedule annual leave for that day to create a four-day weekend, making it difficult to fully staff those offices that remain open. Therefore, treating the day as a furlough will not have a significant effect on overall output and will be a relatively painless way to save money, especially when compared to other alternatives, such as layoffs and other staffing options.

**OPPONENTS MIGHT ARGUE** that the a mandatory work furlough imposes too great a burden on many city employees who would receive what is essentially a pay cut of 0.4 percent.

## OPTION: Alter Staffing Pattern in EMS Advanced Life Support Ambulances

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Savings:  
\$4.2 million annually

THE FIRE DEPARTMENT'S EMERGENCY MEDICAL SYSTEM (EMS) currently includes the staffing each day of about 150 Advanced Life Support (ALS) and some 400 Basic Life Support (BLS) ambulance tours. The latter are staffed with two emergency medical technicians (EMTs); in contrast, two higher-skilled and more highly paid "paramedics" are deployed in ALS ambulance units. This option proposes staffing ALS units operated by the fire department with one paramedic and one EMT as opposed to two paramedics.

Citing an inability to meet its internal goals for ALS response time and a critical shortage of paramedics in the labor market, the fire department in January 2005 petitioned the New York City Regional Emergency Medical Advisory Committee (REMAC) for permission to staff ALS ambulance units with one paramedic and one EMT as opposed to two paramedics. Each area of the state falls under the jurisdiction of one of 14 such committees, with the primary purpose of each REMAC being to allow for local medical direction and guidance in the development of regional EMS systems. The New York City REMAC is the only such committee in the state that requires ALS ambulance units answering 911 calls within its jurisdiction to be staffed with two paramedics. In its January 2005 request to the local REMAC, the fire department argued that "throughout the country there is no set staffing level of ambulances," and that "there is no published data that shows improved clinical effectiveness by ALS ambulances that are staffed with two paramedics." Furthermore, the fire department pledged that ALS units staffed with one paramedic and one EMT would, when necessary, receive support in the field from other ALS units. The agency also stated its commitment to perform a "quality assurance review" during implementation of its proposal to ensure that quality of care is maintained.

In response to the fire department's request concerning ALS staffing, the local REMAC essentially concluded that the agency would need to provide further evidence supporting the contention that ALS ambulance units in New York City could be safely staffed by fewer than two paramedics.

**PROPOSERS MIGHT ARGUE** as did the fire department in 2005, that the agency's ability to meet its internal performance objectives related to ALS response time necessitates the deployment of additional ALS ambulance units. Under existing staffing protocols, however, this would require hiring more paramedics which the agency has argued is exceedingly difficult given the shortage of paramedics in the labor market. Also, New York City is the only jurisdiction within the state where ALS units are required to be staffed with two paramedics.

**OPPOSERS MIGHT ARGUE** that the city should not risk the diminished medical expertise that could result from the removal of one of the two paramedics currently assigned to ALS units. A more appropriate solution to the city's desire to deploy more ALS units would instead be an increase in pay for paramedics, thereby improving our ability to recruit and retain such highly skilled emergency medical personnel.

## OPTION:

# Increase the Workweek for Municipal Employees to 40 Hours

### Savings:

\$128.7 million in 2010; \$267 million in 2011; and \$411.4 million in 2012

THIS PROPOSAL WOULD INCREASE the workweek for civilian, non-uniformed, non-pedagogical workers from 35 hours and 37.5 hours to 40 hours. With the exception of the uniformed employees of the police, fire, correction, and sanitation departments, teachers at the City University of New York and the Department of Education, and certain Section 220 craft workers, most city employees work a 35-hour week. There are a few employees, primarily at the fire department and at the probation department, that have a workweek of 37.5 hours. This proposal would increase the workweek for all non-uniformed, non-pedagogical workers to 40 hours. With city employees working a longer workweek, agencies could perform the same tasks with fewer workers, saving wage, benefit, and eventually other nonlabor costs.

In theory, if employees currently working a 35-hour workweek were to work a 40-hour workweek, the city would require 12.5 percent fewer workers. Similarly, functions where employees currently work a 37.5-hour workweek could be performed with 6.25 percent fewer workers. With allowances made for small worksites and titles that have a small cadre of incumbents, IBO estimates that approximately 6,020 positions would be eliminated if this proposal were to be implemented—approximately 8.8 percent of all nonmanagerial non-pedagogical civilian employees working less than 40 hours a week.

If the workforce reductions happened immediately, the city could save \$369.3 million annually in wage and benefit costs in the first year, increasing with average labor costs in subsequent years. Given the disruptions involved in laying off large numbers of city workers, however, presumably the city would instead try to achieve the staff reductions primarily through attrition. So it is assumed here that the new lower staffing level would be phased in over three years.

This proposal would require collective bargaining.

**PROponents MIGHT ARGUE** that the city is unusual in having a 35-hour workweek for most of its employees, since most full-time private sector employees in the New York area work 40 or more hours per week. They might note that the federal government, along with many state and municipal governments, also has a 40-hour workweek for its employees.

**OPponents 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 may also argue that requiring city workers to work a total of 40 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 (in the case of those working 35 hours per week) or a 6.25 percent pay cut (in the case of those working 37.5 hours per week). Finally, opponents also might argue that the city will not be able to achieve the 10 percent in productivity savings with the increased workweek, and that the anticipated savings are overly optimistic.

## **OPTION: Allow Police Officers to Work Fewer but Longer Tours While Also Eliminating 20 Minutes of Paid “Wash Up” Time**

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**Savings:  
\$55.2 million annually**

POLICE OFFICERS ARE CURRENTLY SCHEDULED to work a total of 243 tours each year before subtracting out vacation days, personal leave, and other excused absences. Each tour lasts 8 hours and 35 minutes, with the final 35 minutes reserved for debriefing activities as well as for “washing up” and changing clothes before heading home. This budget option proposes scheduling police officers for fewer but lengthier tours each year—specifically tours lasting 12 hours and 15 minutes, with only 15 minutes at the end of each tour thereby reserved for debriefing and wash-up.

The total number of hours police officers are scheduled to appear for duty each year would remain unchanged. Given the increase in tour length and decrease in the number of scheduled tours, police officers would also need to agree to fewer scheduled vacation days each year. However, the total number of scheduled hours of vacation time would not be altered.

The desirability of this option in the eyes of police officers is based on an assumption that being required to report to work fewer times each year would outweigh the increase in the length of each tour. Meanwhile, budgetary savings for the police department would result in large part from the 20 minute decrease (from 35 to 15 minutes) in paid “wash up” time at the conclusion of each tour. Exercising this option, which would need to be approved through collective bargaining, would allow the police department to maintain the same daily police coverage with about 450 fewer officers, generating annual savings of about \$55.2 million.

**PROPOSERS MIGHT ARGUE** that the current amount of so-called wash-up time currently allotted at the end of each tour is more than is needed. They would also note that past attempts to contractually entice police officers into a reduction of wash-up time have failed so a different approach is required. Offering the opportunity to work fewer but longer tours could well be such an approach; given that many officers live a considerable distance from the city and would thus welcome a scenario in which they would need to travel less often to and from their assigned commands. Proponents might also add that neighboring Nassau County has adopted 12-hour tours of duty for their police officers.

**OPPOSERS MIGHT ARGUE** that the current allotment of 35 minutes for debriefing and changing clothes is legitimate. Others might also argue that a 12-hour shift is simply too long given the stress inherent in police work. The end result would be a decline in police officer performance as well as safety. Also, the status quo of having three tours per day as opposed to only two increases the agency’s ability to respond to large-scale emergencies because reinforcement personnel are scheduled to arrive for duty sooner under the current three tours per day scenario than would be the case with two 12-hour shifts.

## OPTION: Encourage Classroom Teachers to Serve Jury Duty During Noninstructional Summer Months

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Savings:  
\$3.3 million annually

UNDER THIS OPTION TEACHERS, who are not expected to teach summer school, would be encouraged to defer jury duty service until the summer when regular school is not in session. Use of per diem substitutes would decline, which would produce savings by lowering the absence coverage budget. The anticipated absence coverage budget is reduced by the number of jury duty days served multiplied by the number of teachers called into jury service during any given school year. We assume an average length of jury duty service of three days per teacher. The substitute teacher savings equal \$443 per teacher. If 10 percent of the teaching force were called for service but deferred to the summer, this reduction yields a combined estimated annual savings of slightly more than \$3 million, based on current occasional per diem rates for teachers as of September 13, 2007.

Over the course of one year, 600,000 people serve jury duty in New York. On any given day, civil and criminal courts in Manhattan alone require anywhere between 1,800 to 2,000 jurors. In the Department of Education, time away on jury duty has special classification as a nonattendance day although it's an excusable absence. The education department is required to cover every teacher absence with an appropriate substitute. Under current statutory law any person who is summoned to serve as a juror has the right to be absent. Under current collective bargaining agreements, teachers who are required to serve jury duty receive full salary during the period of such service, and are required to remit an amount equal to the compensation paid to them for such jury duty. If service is performed over the summer, jury duty checks may be kept if employees are not working.

**PROponents MIGHT ARGUE** that above and beyond financial savings, the best benefit is for the school children who would no longer lose three days of instruction while the classroom teacher is at the court house. The education department's own substitute teacher handbook points out that, especially for short-term substitutes, time will be spent on establishing authority, otherwise known as classroom management, as opposed to actual instruction. Additionally, many schools have difficulty in getting substitute teachers to come in. Jury duty absences may place avoidable stress on school administrators and other school-based staff as they attempt to work out coverage issues.

**OPponents MIGHT ARGUE** that teachers need to be able to fully relax and recharge during the summer "off" months. Deferral of jury duty might otherwise hinder well laid out family vacation plans. Opponents could also argue that the policy would unfairly play one form of civil service against another, encouraging others to defer. Given the size of the education department's teaching force, it is also possible that deferral of all teacher jury service to the summer could result in concentrations of teachers in the jury pools over the summer.

# OPTION:

## Establish a Four-Day Work Week for Some City Employees

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### Savings:

\$32.6 million in 2010; \$61.3 million in 2011; and \$92.3 million in 2012

PRESENTLY, MOST CIVILIAN EMPLOYEES work seven hours a day for five days, or 35 hours a week. Under this proposal, some city employees would work nine hours a day for four days or 36 hours a week. Agencies involved in public health, law enforcement, code supervision and oversight, transportation, and public safety would retain the current five-day workweek, as would all employees of the public schools and hospitals. IBO estimates that the change would apply to about 40,000 employees.

If this proposal were implemented, productivity could increase by approximately 2.8 percent, since employees would be working an additional hour per week without incurring any additional labor costs. This increase in productivity would result in the gradual elimination of 1,100 employees, either through attrition or personnel redeployment. Additionally, the city would accrue savings from utility and cleaning costs since offices would now be open four days a week instead of five days a week. This would include a reduction in energy usage in city offices, with environmental benefits beyond the financial savings.

A reduction in days worked will result in a corresponding decrease in unproductive commuting time and other time related to daily pre-work preparation. This time may be more than an hour per week for most affected city employees, and so could more than offset the additional hour worked without additional pay. Affected city offices would be open to the public one less day out of the week, but would be open two hours longer on the other days, which would allow for earlier openings and/or later closings and make it easier for citizens to access offices outside regular work hours.

This proposed option requires the consent of the affected unions.

**PROponents MIGHT ARGUE** that with a four-day work week, significant labor savings can be realized without the need for pay cuts. They might also argue that reducing city employee commuting would result in less crowded public transit and roads for other New Yorkers, and that opening city offices earlier in the day or keeping them open later in the evening may make access more convenient for many New Yorkers who work nine-to-five schedules, more than offsetting the inconvenience of the lost day. Finally, supporters might argue, by spending less time on commuting and other daily work-related tasks, employees will have more time for other purposes, such as time with their family. Consequently, this proposal is likely to be supported by city employees and their unions, making it easier to achieve than other labor savings.

**OPponents MIGHT ARGUE** that by making employees work an additional hour each week without pay, this proposal is equivalent to a 2.8 percent wage cut. They might further note that many employees have other commitments and may not have the flexibility to work nine hours a day; others might make greater use of discretionary sick leave, since a day of sick leave would be more valuable to the employee with a longer workday. Opponents might also note that without layoffs it would take a number of years to achieve the reduced staffing, and thus the savings. Most importantly, opponents might argue, the productivity gains are overly optimistic, since employees are unlikely to sustain the same level of effort over a longer day.

## OPTION: Institute a Biweekly Payroll System for City Employees Currently Paid on a Weekly Basis

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Savings:  
\$700,000 annually

MOST CITY EMPLOYEES ARE PAID on either a biweekly or semi-monthly basis. However, certain city employees—members of the Uniformed Sanitationmen’s Association (USA) and certain Department of Environmental Protection (DEP) and Department of Sanitation (DSNY) Section 220 craft workers—are paid on a weekly basis.

A conversion of the pay date period for these city employees to a biweekly basis would save the city money from two primary sources. First, the city would accrue interest on the additional week of money held by the city treasury. Second, DSNY and DEP would accrue productivity savings by eliminating the need to deploy personnel for the distribution of paychecks to the worksites of the affected employees. Instituting this change in the payroll system would allow the city to save \$700,000 in total from both the additional interest earned and the increased productivity. Implementing this change requires collective bargaining negotiations with the affected unions at DSNY and DEP.

**PROPONENTS MIGHT ARGUE** that this option provides cost savings to the city in a relatively painless manner. Savings could be realized by streamlining timekeeping and payroll practices at DSNY and DEP. For the unions, this change could count as productivity savings in bargaining with the city, and might be more acceptable to the unions and their members than other options might be. This option could also have additional benefits for the affected unionized employees; for example, USA members do not have direct deposit because it is too costly for the city to process direct deposit every week and there is a time constraint as well.

**OPPONENTS MIGHT ARGUE** that this proposal would represent a transfer of interest earnings from employees to the city treasury. Many union members may be against this “subsidy” since they would argue that they are currently underpaid for difficult work. Some may argue that no or little productivity savings will accrue because no other productive work will be available for those restricted/light-duty employees who would otherwise be assigned to these pay distribution functions. The latter would have to go on sick-leave if no other work is available. Finally, some may argue that if this option is implemented, training may be required for current clerical personnel assigned to the weekly payroll function in order to teach them the biweekly payroll and timekeeping system. As a result, some of the savings may be offset by this training cost.

# OPTION: Eliminate Pension Payments for Employees Of Private Cultural Institutions

REVISED

Savings:  
\$8 million annually

NOT ONLY DOES NEW YORK CITY MAKE PENSION CONTRIBUTIONS on behalf of its own employees through payments to the five city-maintained retirement systems, it also makes pension contributions to the Cultural Institutions Retirement System (CIRS) on behalf of certain private-sector employees. These city pension contributions are made on behalf of the employees of 28 private but city-subsidized cultural institutions such as the American Museum of Natural History, the Brooklyn Academy of Music, the Staten Island Historical Society, and the Brooklyn Museum of Art. (The city also makes pension payments to the New York State and Local Retirement System on behalf of non-city employees of the New York, Brooklyn, and Queens Public Libraries, but those workers are quasi-public employees and are members of a state-run public employee retirement system.) Employees of the 28 cultural institutions are not considered public employees and the CIRS is not considered a public employee retirement system. The CIRS also includes some employees of private not-for-profit day care centers, but these employees would not be affected by this option.

The CIRS administers a defined benefit pension plan that—unlike the five city-maintained retirement systems—never requires employee pension contributions. Additionally, unlike the deferred compensation benefits available to most city employees, the CIRS also administers a Section 401 (k) Savings Plan where employers match contributions of up to 3 percent of the employee's annual salary.

In recent years, New York City has contributed about \$8 million annually to the CIRS for employees of the 28 cultural institutions. If New York City eliminated pension funding to the CIRS on behalf of these private-sector employees, the savings would be about \$8 million in fiscal year 2010. If the institutions assume the cost of the pension contributions to the fund, the operation of the fund and the benefits paid would not be affected.

**PROponents MIGHT ARGUE** that New York City should not be in the business of funding pensions for private-sector employees, particularly when employed by well-funded organizations, some of which have substantial endowments. If these organizations determine that pensions for their employees are required, they should raise the necessary funds through donations, grants, and other revenues, just as they do for their other costs. Alternatively, they might agree that city support for these organizations is appropriate, but argue that it should be through a more transparent subsidy for operating expenses rather than funding of long-term pension liabilities.

**OPponents MIGHT ARGUE** that this funding is simply part of the overall city funding of cultural institutions, which New York City residents use and appreciate immensely. They might argue that halting these contributions abruptly could create great financial strain on organizations that are already struggling with declines in their endowments and private donations. They might also note that the cost of making pension contributions for employees of these organizations is much lower than the cost of running the organizations directly with public employees.

# OPTION:

## Merge Separate City Employee Pension Systems

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**Initial One-Time Costs: \$60.0 million in 2010**

**Savings: \$36 million in 2011, \$40 million in 2012 and \$45 million in 2013**

**NEW YORK CITY CURRENTLY HAS FIVE RETIREMENT SYSTEMS:** The New York City Employees' Retirement System (NYCERS), the New York City Teachers Retirement System, the Board of Education Retirement System (BERS), the Police Pension Fund, and the Fire Pension Fund. In contrast, the state has only three retirement systems. This option would merge the city's Police and Fire Pension Funds for uniformed police and fire personnel, and the Board of Education Retirement System with NYCERS. Either merger would require a change in state legislation.

BERS covers civilian, non-pedagogical personnel employed by the New York City Department of Education. NYCERS covers most other civilian and some uniformed city employees. Both retirement systems offer similar benefits to civilian employees in terms of pension eligibility, pension calculations, and creditable service. A key difference involves BERS's administration of the Section 403 (b) tax deferred fixed and variable investment programs, which NYCERS does not offer its members. Similarly, the Police and Fire Pension Funds have very similar retirement plans. Currently, the main differences between them relate to some actuarial assumptions and a few plan provisions, such as the Police Pension Fund's treatment of unpaid child care leave as creditable pension time.

The initial costs of the mergers would cover moving, training, portfolio rebalancing, and transition costs. The estimated savings in subsequent years would be realized by eliminating redundant organizational titles and gradual employee attrition, negotiating lower fees with investment fund advisors and program managers, and increasing organizational efficiencies, such as performing one audit a year rather than two. Since the main attributes of the police and fire systems are virtually identical, the transition costs of the merger would be less than those for NYCERS and BERS; portfolio rebalancing costs would be higher, however. In total the police and fire merger would involve \$26 million (0.08 percent of assets) in one-time costs; savings would rise from \$11 million in 2011 to \$14 million in 2013. The BERS-NYCERS merger would have one-time costs of \$34 million (0.07 percent of assets) with savings rising from \$25 million 2011 to \$30 million in 2013.

**PROPONENTS MIGHT ARGUE** that there is no reason to incur the additional cost of maintaining separate retirement systems when their pension plans have similar, if not identical, retirement plan features. With respect to BERS, it could be argued that it is an artifact of the Board of Education era and thus is no longer needed. The merging of facilities could reduce costs and, in the case of BERS, potentially free up additional land and building space for the Department of Education. The Office of the Actuary could accrue productivity savings in the future as the oversight responsibilities for these retirement systems could be streamlined. Moreover, the merged systems would allow for efficient time management for those public officials who serve as trustees of the funds.

**OPPONENTS MIGHT ARGUE** that simply merging the now separate Boards of Trustees would result in boards that were too large and cumbersome to manage effectively and thus hinder fiduciary oversight of the newly merged retirement system. In addition, New York City recently tried to merge BERS into the Teacher's Retirement System and the state legislature decided against the proposal, in part because of union opposition. In the case of the fire and police systems, one might also argue that there are cultural and occupational characteristics unique to each uniformed force that may make the merger undesirable to many of its members.

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

### Savings:

\$12 million in 2012, \$27 million in 2013, and \$43 million in 2014; increasing in later years

MOST FULL-TIME NEW YORK CITY CIVILIAN Non-pedagogical employees are members of either the New York City Employees Retirement System (NYCERS) or the Board of Education Retirement System (BERS). NYCERS is the city's defined-benefit retirement plan for civilian workers. BERS primarily includes civilian employees working for the Department of Education, school safety agents and crossing guards who are on the police department's payroll, and non-city employees who are employed by charter schools and the School Construction Authority.

Most new employees are eligible to retire as early as age 57, provided they have at least five years of creditable NYCERS or BERS service. This proposal would establish a new, defined-contribution pension plan to replace the current NYCERS or BERS "57/5" program for newly hired non-pedagogical civilian workers. The city would contribute 8 percent of each employee's salary into 401(k) or 457 type accounts, with investment choices made by individual employees. Employees could make additional contributions to these tax-deferred accounts up to the legal limit. Several states have similar defined-contribution plans for government workers. Michigan, for example, adopted a plan in 1997 for new employees, excluding school employees and the state police. In 2007, the defined-benefit pension costs for the Michigan state civilian workforce were 18.1 percent of payroll, while the average defined-contribution cost was only 6.55 percent of payroll. Since New York's current defined-benefit plan is less costly than Michigan's, and the proposed defined contribution plan is somewhat more generous, the savings would be smaller here—pension costs would drop from 8.7 to 8.0 percent of payroll for NYCERS and from 10.1 to 8.0 percent of payroll for BERS.

Note that the savings to the city depends on both the city contribution rate in the new system and the expected returns for the city's existing defined-benefit system, while the impact on employees depends on the contribution rate, the return on employees' accounts, and the perceived cost to employees of the shift of investment risk to them from the city. So the savings from a shift to defined-contribution pensions could vary greatly depending on the details of the new plan and future market performance. IBO's estimate of the savings is based on an 8.0 percent contribution rate. (This is similar to the current option available to City University of New York pedagogical employees who can elect a defined-contribution retirement account.)

**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. Since workers who leave city service can roll over their 401(k) or 457 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 would avoid the need for the city to increase its contribution if it overestimates investment returns or underestimates the future longevity of employees and future wage increases. Lastly, it protects the city from bearing the cost of unfunded benefit increases arising from future state legislation.

**OPPONENTS MIGHT ARGUE** that defined-contribution plans unfairly transfer market risk from the city to its workers and that it would lower benefit levels for long-term city workers, harming retention. Currently, long-term workers receive generous benefits while short-term workers receive few, if any. Opponents also might fear that workers might spend accrued retirement funds when changing jobs, leaving them with inadequate retirement savings. They might also note that defined-contribution plans do not protect workers who become disabled before retirement, unlike traditional pension plans which offer regular disability and on-the-job disability benefits. Finally, they might contend that workers who retire during a market downturn will have much lower pensions than if they retired at other times.

# OPTION: Change the Pension Multiplier Factor in the Computation Of Pension Benefits for Newly Hired Civilians

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## Savings:

\$6.5 million in 2012, \$14.0 million in 2013, \$22.4 million in 2014; increasing in later years

UNDER STATE LAW, most civilian city employees retiring at age 57 or above and with less than 20 years of service receive pensions equal to 1.67 percent times years of service times final average salary. For those with 20 years–30 years of service, the formula is 2.0 percent times years of service times final average salary. So in general, city employees need 25 years of creditable service to get pensions equal to 50 percent of their final average salary, considered a full pension.

Under this option, a full pension would require 27 years of creditable service, instead of 25. Thus, the new formula would now be 1.85 percent times years of service times final average salary for those with 20 years–30 years of service. For those with less than 20 years of service, there would be no change in the pension calculation.

Some jurisdictions have lower percentage multiplier factors. For example, in Minnesota, civilian employees are eligible for pension allowance at age 65 equal to 1.7 percent times years of service times final average salary. Hence, a Minnesota civilian public employee would get only 42.5 percent of final salary with 25 years of creditable service. In New Jersey, the pension multiplier factor is 1.82 percent times years of service times final average salary. In addition, recent pension legislation enacted by New York State requires 27 years of service for a full pension at age 55 for new employees in the United Federation of Teachers pension plan.

As with other pension changes, this option would only apply to new employees and would require state legislation. Savings would begin three years after enactment, and then grow steadily for many years as the fraction of employees subject to the new rules increased.

**PROPOSERS MIGHT ARGUE** that with defined benefit pension plans increasingly rare in the labor market, particularly in the private sector, the city can make cost-saving changes to its generous defined-benefit plans with minimal effect on its ability to recruit workers. They might also note that some other public pension systems have pension multiplier factors lower than New York's. They also might argue that this change would help with retention, since employees might stay for an additional two years to get the full 50 percent. Finally, they might note that by encouraging workers to delay retirement, this proposal would eventually also produce savings on retiree health benefits; these savings would not be realized for many years, however, since retiree health benefits, unlike pensions, are funded on a pay-as-you-go basis.

**OPPONENTS MIGHT ARGUE** that this pension factor reduction would hinder recruitment in hard to fill positions. They also might argue that this reduction in pension benefits, like other multi-tier systems, could lead to discord among the city workforce since workers in the same job title would now get different pension benefits depending on the date they begin employment.

## **OPTION:**

# **Establish 50 as the Minimum Age to Collect Retirement Benefits for Newly Hired Uniformed Personnel**

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### **Savings:**

**\$2.3 million in 2012, \$5.2 million in 2013, and \$8.4 million in 2014; increasing in later years**

AT PRESENT, UNIFORMED POLICE, FIRE, CORRECTIONS, AND SANITATION personnel can retire and begin collecting full retirement benefits as soon as they have completed 20 years of credited service, regardless of age. The annual pension benefit for such individuals is equal to roughly one-half of their final salary, and these retirees also retain city health insurance coverage. Most other city employees may retire after 20 years of service but must wait until age 57 or older before beginning to collect pensions.

In three of the nation's next five largest cities (Los Angeles, Chicago, and Philadelphia), newly hired police officers and firefighters who choose to retire prior to age 50 do not begin collecting full pension benefits prior to that age even if they have completed 20 years of service. In Houston, the fourth largest city in the U.S., newly hired police officers are not eligible to begin collecting retirement benefits until age 55. Moreover, in implementing the provisions of the Pension Protection Act of 2006, the U.S Internal Revenue Service has determined the normal retirement age for public safety officers to be age 50.

This option proposes that uniformed personnel that join city service beginning in fiscal year 2010 and remain on the job for 20 or more years be eligible to retire and begin collecting retirement benefits only upon reaching their 50<sup>th</sup> birthday. In addition, uniformed personnel who serve less than 20 years but long enough to qualify for a reduced pension would not begin collecting retirement benefits until the latter of their 50<sup>th</sup> birthday or the date on which they would have completed 20 years of service had they not left prior to that point. Disability pension policies pertaining to the city's uniformed personnel would not be impacted by this option.

New York State legislation must be enacted to implement this proposal because new pension eligibility requirements for city personnel cannot be set solely through local collective bargaining.

**PROPOSERS MIGHT ARGUE** that the payment of city retirement benefits to individuals less than 50 years of age is increasingly unsustainable given today's longer life spans. The absence of a minimum age for benefits paid to retired police, fire, correction, and sanitation personnel significantly adds to the cost of funding their respective pension systems and therefore implementing this option would result in savings to the city. Moreover, many uniformed service personnel are able to have second careers after they retire from city service and collect retirement benefits at the same time. Finally, proponents might urge New York City to follow the current practice in the majority of the U.S.'s next five largest cities, which also face a host of competing needs for public resources.

**OPPONENTS MIGHT ARGUE** that such a revision to the city's pension system for uniformed personnel would significantly hinder recruitment efforts. They could also contend that the pay and retirement benefits offered to prospective personnel by distant cities is of very limited relevance when compared to what is offered by competing public-sector entities in New York State and jurisdictions that neighbor New York City which have retirement plans similar to the city's.

## OPTION: Establish a Minimum Retirement Age Of 62 for Civilian Employees

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### Savings:

\$5.1 million in 2012, \$10.9 million in 2013, \$17.5 million in 2014; increasing in later years

PRESENTLY, MOST CIVILIAN EMPLOYEES entering city service are eligible to retire at age 57 with a minimum of five years of service. The 57/5 program replaced the basic Tier IV, age 62/10 years of service retirement plan that had existed for most civilian workers until 1995. Other states have higher normal retirement age for public employees, such as 60 in New Jersey and 65 in Minnesota.

This budget option would change the normal retirement age (currently age 57) for new civilian employees back to 62. Special retirement plans that currently allow retirement at age 55 (such as fire alarm dispatchers, automotive service workers, and emergency medical technicians) would also have a normal retirement age of 62 for new employees.

As with other pension changes, savings would begin three years after enactment, and then grow steadily for many years as the fraction of employees subject to the new rules increased. New York State legislation would be required to implement this proposal.

**PROPOSERS MIGHT ARGUE** that with increasing longevity, the normal retirement age should be going up, not down. Moreover, the change would bring the city's normal retirement age into line with the Social Security system's minimum age to receive regular retirement benefits. Additionally, extending the retirement age would help with retention of employees in certain titles, such as emergency medical technician, who—since the 1995 changes—are eligible for early retirement with no actuarial penalty at age 55. Proponents might also note that city workers already face different retirement rules based on the year in which they were first hired. Finally, beginning in the 2020s New York City will also realize savings in retiree health benefits from workers deferring retirement as a result of this proposal.

**OPPONENTS MIGHT ARGUE** that while some public-sector employers have higher retirement ages than New York's 57, others allow retirement as early as age 55. They might also note that the 57/5 retirement plan is funded not only by regular employee contributions but also by additional member contributions of 1.85 percent, which were created specifically to fund this early retirement program. In addition, they might argue that it would be even harder to recruit and retain high-quality city employees since potential applicants would no longer discount the low comparative wages for certain city positions with the better retirement benefits. Finally, opponents might argue that morale would suffer if employees doing the same work were covered by different pension benefits depending on when they were hired.

## OPTION: Increase From 5 to 10 the Number of Years Needed for Pension Vesting

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### Savings:

\$1.0 million in 2012, \$2.1 million in 2013, \$3.3 million in 2014

NEW YORK CITY EMPLOYEES are members of the New York City Employees' Retirement System, the Teacher's Retirement System, the Board of Education Retirement System, the Police Pension Fund and the Fire Pension Fund, depending on their agency and title. Currently, all city employees need to have five years of credited service to be considered "vested" and eligible for a pension benefit.

For city civilian employees in the 57/5 retirement program, the pension benefit is paid at the age of 57 if the member is vested. For city uniformed personnel who are vested, the pension benefit is paid at any age once the member has completed 20 years of credited service. And all city employees are entitled to retiree health insurance if they have at least 10 years of credited service and are receiving a pension check from any city retirement system.

This proposal calls for increasing the pension vesting requirement from five years to 10 years for all new city employees. If implemented in fiscal year 2010, the savings from this proposal would grow annually from \$1 million in 2012 to \$3.3 million in 2014. This proposal would have no effect on other pension features, such as accidental and regular disability. While New York City and the respective unions can bargain over this pension change, New York State legislation is required for it to take effect.

**PROPOSERS MIGHT ARGUE** that this change would appropriately align the 10-year service requirement for pensions with that for retiree health insurance, easing the administration of both programs from a human resource management perspective. Additionally, employee retention could be enhanced as more members would stay in city service for at least 10 years to obtain both pension and retiree health insurance benefits. Finally, unions may be more inclined to support this pension reform proposal, as opposed to others, because this proposal will only affect new members.

**OPPONENTS MIGHT ARGUE** that a change in the pension vesting requirement would hinder recruitment efforts among experienced professionals, such as engineers and accountants, who are over 50 years of age. Public-sector professionals are often not as well-compensated as private-sector employees doing similar work, and prospective older applicants may be willing to accept the lower salary in return for a vested pension benefit after only five years of service. Finally, critics might also contend that the elimination of the five-year vesting requirement in hard-to-recruit titles, such as police officer and emergency medical technician, could make it even more difficult to staff those positions.

## OPTION:

# Eliminate Overtime as a Factor in the Computation of Pension Benefits for City Employees

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### Savings:

\$6.2 million in 2012, \$13.7 million in 2013, and \$22.0 million in 2014

PUBLIC SECTOR PENSION PROGRAMS in New York City and New York State are relatively unusual in that earned overtime pay is one of the factors used in the determination of an employee's pension benefit. This is not the case in most other jurisdictions across the country. In fact, according to a 1998 national survey conducted by the U.S. Department of Labor (the most recent data available), only 6 percent of full-time employees in state and local government pension plans nationwide have overtime as a "pensionable" component of their plans.

For individuals newly hired by the city beginning in fiscal year 2010, eliminating overtime as a factor in the computation of their eventual retirement benefit would yield annual savings (net of employee contributions) of \$6.2 million in 2012, with annual savings climbing to \$22.0 million by 2014. The city would not realize savings until 2011 due to a current actuarial practice that builds in a time lag between the point at which a pension plan is modified and that modification's impact on the city budget. This proposal would affect city employees except for those employed of the Department of Education (including teachers) and those who receive compensatory time rather than overtime when working extra hours.

Such a change to the city's pension plan would require the approval of the state Legislature and would not alter the provisions of the city's various pension plans as they relate to current city employees.

**PROponents MIGHT ARGUE** that the inclusion of overtime as a factor in its pension plans is a costly anomaly that the city cannot afford. They might also argue that the current practice of including overtime in the computation of one's "final average salary"—upon which annual pension benefits are based—might lure some city employees to seek out excessive amounts of overtime in their final year(s) on the job.

**OPponents MIGHT ARGUE** that inclusion of overtime as a factor in the computation of retirement benefits is legitimate in that it is part of employees' hard-earned compensation. Opponents might also argue that any diminution of pension benefits for new city employees could exacerbate ongoing difficulties in attracting certain categories of new hires.

## OPTION:

# Change the Final Average Salary Calculation to Three Years for New Police and Fire Department Employees

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### Savings:

\$1.7 in 2012, \$3.8 million in 2013, \$6.1 million in 2014; increasing in later years

UNIFORMED POLICE AND FIRE EMPLOYEES ARE CURRENTLY ENTITLED to a normal service retirement allowance after the completion of 20 years of creditable service. The annual service pension benefit for individuals who retire with 20 years of service is generally equal to one-half of their final average salary (FAS). FAS is the total compensation earned during the final 12 months of creditable employment immediately preceding retirement or the three-year average, whichever is greater. The three-year average can be calculated as either the average of the final 36 months immediately preceding retirement or the average for any three consecutive calendar years, whichever is higher. In virtually all cases, uniformed police and fire employees use the final 12 months of compensation in calculating their FAS.

In contrast, the FAS for uniformed correction and sanitation employees is calculated as the greater of the average annual wages earned during any three consecutive calendar-year periods or the final 36 months immediately preceding one's retirement date. Moreover, when considering whether to use the three consecutive calendar-year method, if the salary earned in one of the three years exceeds the average of the two preceding years by more than 10 percent, the amount in excess of 10 percent is not counted in the FAS computation. Under this proposal, the FAS calculation currently used in the correction and sanitation departments would be adopted by the fire and police departments.

As with other pension changes, this option would only apply to new employees and would require state legislation. Savings would begin three years after enactment, and then grow steadily for many years as the fraction of employees subject to the new rules increased.

**PROPOSERS MIGHT ARGUE** that the use of a one-year FAS inflates pension benefits by artificially boosting the final average salary of uniformed police and fire employees, whose overtime earnings usually in their final year of service. They might also argue that the disparity in treatment between the different uniformed departments, whose employees all have some opportunity to work discretionary overtime, is undesirable.

**OPPOSERS MIGHT ARGUE** that the one year FAS most accurately reflects the final average salary of uniformed employees, whose compensation is expected to include overtime. They might argue that many cases of seeming excess overtime in an employee's final year are the result of decisions by management, and that it is unfair to presume that all uniformed employees are "gaming" the system in their last year of service. Finally, they might argue that pensions are particularly important in attracting qualified firefighters and police officers; given the physical and mental demands of their work, they cannot be expected to serve as many years as other workers.

# OPTION: Change the Final Average Salary Calculation To Five Years for New Civilian Employees

## Savings:

\$3.8 million in 2012, \$8.2 million in 2013, and \$13.1 million in 2014; increasing in later years

MOST CIVILIAN EMPLOYEES are currently entitled to a pension based on a three-year final average salary (FAS). The three-year average is calculated as either average compensation of the final 36 months immediately preceding retirement or average compensation for any three consecutive calendar years, whichever is higher. Moreover, when doing the three calendar year calculation, if the salary earned during one of the three years exceeds the average of the previous two years by more than 10 percent, the amount in excess of 10 percent is not counted in the FAS computation.

This budget option would change the FAS time period to five years for newly hired civilian employees. Thus, the FAS would now be calculated as the average compensation of the final 60 months immediately preceding one's retirement date or the average for five consecutive calendar years, whichever is greater. Several public sector pension systems use five years as the final average salary period. For example, the retirement systems of Alaska, Florida, Kentucky, and Indiana, have a FAS period of five years.

As with other pension changes, this option would only apply to new employees and would require state legislation. Savings would begin three years after enactment, and then grow steadily for many years as the fraction of employees subject to the new rules increased.

**PROponents MIGHT ARGUE** that the use of a five-year FAS time period would limit increases in discretionary overtime in the final years of service, which can artificially inflate pension payments. They might also argue that as defined-benefit pensions become rarer, employees should be willing to accept somewhat lower average pensions in return for the protection from risk defined-benefit plans provide. Proponents might also note that city workers already face different retirement rules based on the year in which they were first hired.

**OPponents MIGHT ARGUE** that although there are several states that have a five-year FAS period, the three-year FAS period is still the norm with defined benefit public sector pension plans. They might also argue that extending the FAS time period from three years to five years could impair city employee recruitment, since the quality of city pensions helps offset the lower salaries for some positions compared with the private sector. Finally, they might argue that morale would suffer if employees doing the same work were covered by different pension benefits depending on when they were hired.

## OPTION: Change Medical Titles from Uniformed to Civilian

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### Savings:

\$200,000 in 2010, \$400,000 in 2011, and \$800,000 in 2012

THE POLICE PENSION FUND AND THE FIRE PENSION FUND cover all uniformed ranks in the New York City police and fire departments, respectively. The benefits of these plans include the right to retire at 50 percent of final average savings after the completion of 20 years of creditable service. Most members of these plans are rank and file uniformed members who began their employment as either police officers or firefighters. However, members also include police surgeons, fire medical officers and related titles, who are considered uniformed employees despite the fact that most of these employees have not received training in the police or fire academies. As uniformed employees in these titles, they are eligible for the more generous provisions of the Police and Fire Pension Funds, and are represented by uniformed police and fire unions—the Captains’ Endowment Association for Police Surgeons and the Uniformed Fire Officers Association for Fire Medical Officers. In contrast, medical personnel employed by the correction and sanitation departments are not considered uniformed employees. Nor do most police departments consider their medical personnel to be uniformed members. For example, Nassau County classifies its medical personnel as civilian.

Under this measure, newly hired physicians would be considered civilian employees and, thus, not eligible for membership in the police and fire pension systems. New employees would be enrolled in the New York City Employees’ Retirement System and enjoy the same pension benefits as other civilian city employees. Employees in these categories would also be switched to a civilian union for collective bargaining purposes. Finally, newly hired civilian physicians will no longer be eligible for Variable Supplemental Fund benefits, or for other uniformed benefits such as unlimited sick leave. The savings would grow over time as the share in the affected titles hired after the change increases.

This savings option would only apply to new employees and would require a change in state law.

**PROPOSERS MIGHT ARGUE** that since the correction and sanitation departments do not consider their medical personnel to be uniformed, there is no compelling reason for police surgeons and fire medical officers to be classified as uniformed. Supporters might also point out that the overwhelming majority of police and fire departments do not consider their equivalent titles uniformed or provide them with the same benefits as firefighters and police officers. Finally, they might also note that the rationale for giving uniformed employees more generous wage and pension benefits than civilian employees is that their work necessarily involves strenuous and life threatening work. It is questionable whether the same holds true for police surgeons or fire medical officers.

**OPPOSERS MIGHT ARGUE** that police surgeons and fire medical officers frequently oversee the health of other members of the uniformed forces, and uniformed status is necessary for this direct oversight of uniformed personnel to be effective. Secondly, they might argue that the disruptions involved in changing the status of these titles would not be worth the savings, given the small number of positions involved. They might also argue that any diminution of existing pension benefits to new police surgeons and fire medical officers would hurt recruitment as this type of work may not be attractive to many physicians.

## OPTION:

# Consolidate the Administration of Supplemental Benefit And Welfare Benefit Funds for City Employees

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Savings:  
\$10.2 million annually

SINCE 1971, NEW YORK CITY HAS PROVIDED FUNDS to the various unions representing city employees to supplement their health benefits. These benefit funds are administered by the unions and offer members a range of benefits not covered by the general health insurance plans, including dental and vision coverage. Consolidating 73 of these supplemental health and welfare benefit funds currently receiving city contributions into a single fund serving these affected employees would yield savings by eliminating duplication and giving the enhanced fund greater pricing power when contracting to provide benefits to its members. While the specific benefits package offered to some members may change based on this greater contracting power, it is expected that, on the whole, benefit levels after consolidation will remain unchanged.

In 2005, the last year for which data is available, the Comptroller estimated that the city contributed approximately \$852 million to 73 supplemental benefit funds, of which more than \$72 million, or 8.4 percent of the total city contribution, was used to cover administrative expenses. Because the supplemental benefit funds are managed by each individual union, the administrative expenses per employee vary greatly by benefit fund. Administrative costs of these various welfare plans ranged from \$33 per benefit fund member to \$431 per member in 2005, with the average being a little more than \$125 per member.

District Council 37's benefit fund, which has one of the largest number of members, spent approximately \$108 per member on administration in 2005. If the consolidated benefits fund had District Council 37's administrative cost per member, the city could save almost \$10.2 million annually, without reducing the level of city contributions for benefit services. Implementing such a consolidation would require the approval of the unions through collective bargaining negotiations.

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

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

# OPTION:

## Bonus Pay to Reduce Sick Leave Usage Among Correction Officers

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Savings:  
\$4.4 million annually

AT PRESENT, UNIFORMED POLICE, fire, corrections, and sanitation personnel are contractually entitled to unlimited sick leave. This proposal would have the Department of Correction make bonus payments to correction officers who use three or fewer sick days in a consecutive six-month period. The goal would be to induce a reduction in the costly use of sick leave, thereby resulting in net financial savings. If successful, such an incentive program could be adopted by the city's other uniformed agencies.

The sick leave rate for uniformed corrections personnel has been higher than that of their sanitation, police, and fire counterparts each year since 1990. The costliness of sick leave usage by correction officers stems from the fact that the city's jails contain numerous "fixed" posts that must be staffed at all times. As a result, additional staff is scheduled to work in each jail in anticipation that some number of the staff will call in sick. Also, officers completing their scheduled shift are frequently required to work a second shift on overtime to fill a post left unstaffed as a result of colleagues calling in sick.

This proposal, which would require collective bargaining, would reward correction officers who use no sick days in a six-month period with a bonus equal to 0.5 percent of base salary. Officers who use one, two, or three sick days would receive bonuses equal to 0.375 percent, 0.250 percent, and 0.125 percent of annual base salary, respectively. Although use of four or more sick days would result in forfeiture of bonus pay for that period, all officers would be entitled to start with a "clean slate" at the beginning of the next six-month period.

The average base salary for correction officers is currently \$57,807. Therefore, the bonus for an officer who uses no sick days in a six-month period would be \$289 and drop to \$72 for an officer using three days. To achieve net savings, the proposal would need to reduce the costliness of sick leave usage by an amount greater than the sum paid out in bonus pay. For example, enticing staff that currently average three to ten sick days per year to reduce their sick leave usage by three days would yield \$4.4 million in net savings for the city.

**PROPOSERS MIGHT ARGUE** that numerous state and local governments reap savings by monetarily rewarding personnel (including law enforcement personnel) that limit usage of sick leave. Proponents also might argue that even if the proposal resulted in only minimal net savings, the payment of a bonus to officers who demonstrate very high rates of attendance would rightly offer them a tangible reward they deserve.

**OPPOSERS MIGHT ARGUE** that city employees should refrain from abusing their sick leave privileges without a reward system enticing them to do so. On practical grounds, opponents might argue that some particularly cost-conscious correction officers may report to work on days on which they are truly ill so as to not lose bonus pay, thereby potentially jeopardizing the safety and health of inmates and fellow officers. They also might argue that officers whose assignments expose them to greater stress and risk of getting sick would end up unfairly losing bonus pay as a result of legitimate sick leave usage.

# OPTION: Paid Holidays Only After Three Months of Employment

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## Savings:

\$11.7 million in 2010, \$12.3 million in 2011, and \$12.8 million in 2012

MOST FULL-TIME NEW YORK CITY EMPLOYEES are eligible for 12 paid holidays annually, starting from their date of appointment. Thus, a city employee hired on November 1, would be eligible for three paid holidays (Election Day, Veterans Day, and Thanksgiving Day) with less than one month of service. Under this proposal, new employees would not be granted holiday pay until the completion of three months of city service.

Many private-sector union contracts have some service requirements before qualifying for holiday pay benefits. Even in the public sector, there are instances of reduced holiday pay benefits for new employees. For example, in the collective bargaining agreement between Nassau County and the Nassau County Patrolmen's Benevolent Association, new hires get only 10 paid holidays during their first two years on the job while incumbents with more than two years on the job get 12 paid holidays. Moreover, there has been a reduction in paid holidays for not only new hires but also for incumbents in the city workforce. In the recently negotiated 2003–2007 collective bargaining reopener agreement, for example, the Marine Engineers Benevolent Association, which represents uniformed pilots and marine engineers in the fire department, agreed to a reduction of two paid holidays for all of its bargaining unit members.

Under this option, newly hired uniformed employees who get biannual holiday pay will get a pro-rata one time deduction in holiday pay to account for holiday pay ineligibility during the first three months of employment. For newly hired civilian employees, including teachers, any holidays that occur during the first three months of employment will either not be paid, or—depending on the title and needs of the department—be paid only if the employee works the holiday.

While New York City can unilaterally implement this proposal for its non-union workforce, the city would need to negotiate with the affected unions to implement it for union members.

**PROponents MIGHT ARGUE** that this proposal is a relatively painless way to save money by asking new employees to bear a non-recurring cost during a relatively brief period. They might also argue that is prudent to offer holiday benefits only employees who have a reasonable expectation of long-term employment with the city. Additionally, proponents might argue, since this proposal only affects new hires, it would be more acceptable to current city workers and their unions than other cost-cutting measures, such as layoffs.

**OPponents MIGHT ARGUE** that this proposal once again puts the burden on the city's workforce instead of being spread more broadly. They might also argue that new employees who start at the title's minimum wage rate cannot afford to take this wage cut because it would represent a significant drop in their overall annual salary.

## OPTION: Defer Health Insurance Coverage for New Employees for Three Months

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Savings:  
\$45 million annually

MOST NEWLY HIRED CITY EMPLOYEES receive health insurance coverage on their first day of city employment. These employees include those appointed from a civil service list, exempt employees, and those non-competitive city employees for whom there is an education or experience requirement. In contrast, for provisional, temporary, and non-competitive positions with no experience or education requirement, city health insurance coverage begins only after 90 days of continuous employment. This option would defer eligibility for city funded health insurance for all newly hired employees until the first pay period following 90 days of city employment.

Other public and private employers frequently have a waiting period before they are eligible for health insurance coverage. For example, most New York State employees other than members of the Civil Service Employees Association have a waiting time of 56 working days before becoming eligible for employer provided health insurance coverage.

Savings from this option would come mainly from not making health insurance payments for three months for newly hired employees. Other savings include the administrative costs of health insurance enrollment for those employees whose employment ends before the completion of three months of service, and productivity savings from applying coverage to all city employees uniformly.

Implementing this option for union employees would require collective bargaining.

**PROPOSERS MIGHT ARGUE** that this option provides cost savings to the city in a relatively painless manner since this is a modest sacrifice for new city employees, many of whom may have continuing health insurance through their former employer during part of this three-month period. They might also argue that since health insurance coverage involves a significant cost to employers, these benefits should come only once there is a reasonable probability of continued employment. They might also argue that the terms of health insurance coverage should be the same for all employees.

**OPPOSERS MIGHT ARGUE** that governments should take the lead in providing health care to all their employees; denying health coverage to some employees could encourage private-sector employers to cut back on health coverage, potentially increasing the number of uninsured in the city. Opponents might also argue that if consistent treatment of all city employees is a goal, then the city should raise, not lower, the level of its health coverage. Finally, opponents might argue that this is simply a cut in compensation for city employees without any genuine productivity savings.

# OPTION: 100 Percent City Funding of Only One Health Insurance Plan

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## Savings:

\$25 million in 2010, \$27 million in 2011, and \$30 million in 2012

NEW YORK CITY CURRENTLY PAYS THE FULL COST of health insurance for city employees electing Group Health Incorporated (GHI) or the Health Insurance Plan of New York (HIP). Administrative Code 12-126 mandates that the city pay 100 percent of the HIP rate, while collective bargaining agreements with the city's unions have mandated full funding of GHI's Comprehensive Benefit Plan since the 1980s. Members of AFSCME District Council 37 unions have an additional plan, Med-Team, underwritten by GHI, which also requires no employee premium sharing.

Currently, GHI's premiums are slightly lower than HIP's. For GHI, the city pays \$4,171 annually for individual coverage and \$10,825 for family coverage. For HIP, the city pays \$4,476 for individual coverage and \$10,966 for family coverage. Under this option, the city would pay 100 percent of the premiums for the lowest priced health insurance plan currently being offered instead of 100 percent of either the HIP or GHI premium rate. If the employee elected a health insurance plan that was not the lowest priced health insurance plan (currently GHI), the employee would pay the difference in the premium. Collective bargaining and/or state or local law would require that the lowest priced health insurance for this purpose have certain minimum coverage and offer either a preferred provider plan or a health maintenance organization.

This change would only apply to active employees, not retirees. This is particularly important if HIP again becomes the lowest-cost plan, since HIP is not available in certain parts of the country and there is no expectation that retirees, unlike current employees, will live in the New York City area.

**PROponents MIGHT ARGUE** that employees are being asked to contribute towards their health insurance premiums by almost every other employer, public and private. Even with this option, the city would still pay the full cost for at least one of the health insurance plans that are being offered, a far cry from other employers who are mandating some employee cost sharing on all their health insurance plans. Furthermore, they might argue, limiting the city's 100 percent payment to only the lowest priced health insurance plan would encourage competition among insurers to control costs. Because there is currently no incentive for employees to choose between them based on premium, GHI and HIP do not compete with each other on costs.

**OPponents MIGHT ARGUE** that the current system makes sense because GHI and HIP plans are not really comparable; right now, the city pays the full costs of the lowest cost health maintenance organization and of the lowest cost preferred provider program. Opponents might also argue that for employees who live outside the city, like many teachers, the lowest priced health insurance provider may not offer adequate services, in effect penalizing employees for their choice of residence. Opponents might also note that GHI and HIP already both have much lower premiums than any competing plan; encouraging cost competition between might only encourage a destructive race to reduce benefits. They might also argue that if the low-cost plan often changed from year to year, there could be wasteful costs for both the city and employees as people switched back and forth between them. Finally, opponents might argue that rather than an efficiency improvement, this proposal is simply a pay cut, and would harm the city's ability to attract and retain employees.

## OPTION: Health Insurance Co-payment by City Employees

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### Savings:

\$320 million in 2010, \$347 million in 2011, and \$375 million in 2012

THE CITY'S HEALTH INSURANCE COSTS have increased sharply over the past decade. Savings could be achieved by renegotiating municipal workers' healthcare benefit package to shift a portion of the health insurance premium costs to active employees and retirees. Specifically, employees and retirees (approximately 565,000 New York City health care plan enrollees) would contribute 10 percent of the cost of their health insurance premiums for individual and family coverage. Implementation of this proposal would have to be negotiated with the respective municipal unions.

Approximately 92 percent of active city health insurance enrollees select either General Health Incorporated or Health Insurance Plan of New York health insurance and pay no premiums. 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 toward the cost of individual coverage and 25 percent of the additional costs of family coverage. Under this option, current employees and retirees would contribute 10 percent of the current New York City health insurance contribution rate on a pre-tax basis. This will marginally reduce the employee contribution rate below 10 percent.

**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 to work with the city to seek lower premiums. It will also provide greater incentives for unions to work with the city to aggressively seek lower health care premiums. Proponents also might say that given the dramatic rise in health insurance costs, premium cost sharing could prevent a reduction in the level of coverage and service provided to city employees. Additionally, proponents could argue that contributing a share of the costs in a defined-benefit health insurance plan would be preferable to shifting to a defined-contribution plan (e.g., a health care reimbursement arrangement), where the city gives the employee a fixed amount of money for the employee to purchase health insurance. 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 bear an even bigger share of the costs if health insurance premiums continue to rise. Finally, critics will argue that many city employees, particularly professional employees, are willing to work for the city despite higher private-sector wages, in return for the attractive benefits package. Thus, this proposal, if realized, could effect the city's effort to attract or retain talented employees in the long run, especially in positions that are hard to fill.

# OPTION: Reduce Medicare Part B Reimbursement By 50 Percent for Retirees

**Savings:**  
\$93.5 million in 2011 and \$100.0 million in 2012

ELIGIBLE CITY RETIREES ARE CURRENTLY ENTITLED to three types of retiree fringe benefits: retiree health insurance, retiree welfare fund benefits, and Medicare Part B reimbursements. (Medicare Part B fills some of the gaps in regular Medicare coverage, such as physicians' fees.) If an eligible city retiree is age 65 or is otherwise eligible for Medicare Part B benefits, New York City reimburses the full Medicare Part B premium amounts paid by the employee and eligible spouse. Medicare Part B reimbursement checks are typically mailed out to city retirees in August to cover the previous year's Medicare Part B premiums. For most city retirees (those making less than \$80,000 for an individual or \$160,000 for a couple), the annual reimbursement rates were \$1,122, and \$2,244, respectively, in 2007.

Beginning with the Koch Administration, the Medicare Part B reimbursement rate, which had been 100 percent, was cut several times, so that by 2000, 67 percent of premiums were reimbursed. In 2001, the City Council restored the 100 percent reimbursement rate over Mayor Giuliani's veto. Many employers do not have any Medicare Part B reimbursement programs, and those who do typically reimburse a fraction rather than the entirety of the premiums. Boston, for example, has a 50 percent Medicare Part B reimbursement program for eligible retirees.

Under this measure, New York City would once again reduce Medicare Part B reimbursements, this time to 50 percent. Calendar year 2009 Medicare Part B reimbursements, which would be paid in August 2010, would be 50 percent of the expected annual Medicare Part B premiums of \$1,157 for individuals and \$2,314 for eligible couples. The earliest fiscal year that could be effected would be 2011, when the city savings would be about \$93.5 million.

This budget option would require appropriate legislation passed by the City Council.

**PROponents MIGHT ARGUE** that this change is warranted because the city already provides 100 percent funding for secondary insurance for retirees, and most retired city employees also receive welfare fund benefits that include prescription drugs and require no premium cost sharing. With these benefits and the Part B reimbursement, most city retirees currently pay nothing toward the costs of their health care coverage. Proponents might also note that many employers do not offer Medicare Part B reimbursements as part of the retiree fringe benefit package at all, so reimbursing 50 percent of the premiums is still a generous benefit, especially considering that Part B premiums are expected to continue rising. Finally, proponents might note that this change requires neither state legislation nor collective bargaining.

**OPponents MIGHT ARGUE** that this reduction in the Medicare Part B reimbursement rate was already tried by previous administrations and rejected by the City Council. They might also note that this reduction in the Medicare Part B reimbursement rate will have a disproportionate impact on lower-income retirees, many of whom already struggle to survive on their pension and Social Security checks. Moreover, opponents might argue, many individuals accepted city employment based on their expectation that the current fringe benefits accorded to retirees would remain intact—an implicit promise that should not be broken. Finally, opponents might argue that unilaterally cutting retiree benefits could hurt the city's ability to recruit qualified employees.

# OPTION:

## Increase State Reimbursement for Certain Criminal Justice Costs

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**Savings:**  
**\$29 million annually**

UNDER CURRENT NEW YORK STATE LAW, certain criminal justice costs are shared between local governments and the state. Over time, the state's reimbursement for probation services has declined; this option would raise the state's reimbursement rate for probation services to 50 percent. In addition, new city-funded alternative programs with the potential to avoid costly placement of juvenile delinquents have been developed in recent years. This option would have the state and city share the costs of these alternative programs equally—potentially generating savings for both the city and the state, which bears the full cost of incarceration of adult felons, and half the cost of placement of juvenile delinquents.

Under New York State's Executive Law 246, the state reimburses up to 50 percent of eligible local probation services costs. As recently as 1986, New York State reimbursed county probation departments for nearly 47 percent of their total budgets. However, the amount of state funding has dropped significantly over the years, and in recent years the state has reimbursed New York City for only about 19 percent of approved expenditures. At the same time the responsibilities of the city's Department of Probation have increased in areas such as DNA testing and sex-offender registration.

The Department of Probation also operates or oversees several programs designed to provide eligible alleged juvenile delinquents with an alternative to detention (ATD) in the city's Department of Juvenile Justice's secure and non-secure detention facilities, and to provide juveniles found to be delinquent with an alternative to placement (ATP) in state custody. To the extent that these programs divert youth from detention and placement, these alternatives—which are far less expensive—save both the city and state money, although they are primarily funded by the city.

Restoring the state's contribution to 50 percent would provide more than \$25 million each year for New York City probation services, and making ATD and ATP programs eligible for reimbursement, would save the city another \$4 million. The support of New York's Governor and state Legislature would be required to implement this proposal.

**PROponents MIGHT ARGUE** that historically the state has been a more equal partner in funding local probation services. If state funding for probation continues to erode, the quality of probation services may suffer, especially given that the city's probation department supervises roughly 39 percent of all probationers in the state and 51 percent of all felons on probation in the state. As probation is an alternative to incarceration, the state benefits directly when felons are placed under probation rather than incarcerated in New York State prisons, for which the state bears the bulk of the cost. Similarly, the costs of ATD and ATP programs should be shared because both the city and state benefit from avoiding the higher costs of placement. Moreover, alternatives allow youth to remain in the community and schools, potentially decreasing recidivism by avoiding difficult transitions from detention or placement back into the community.

**OPponents MIGHT ARGUE** that New York State Executive Law 246 allows for a statutory cap but does not require a minimum contribution for local probation services. They might also argue that the ATD and ATP programs developed by the city are still in their early stages and have not been proven effective. Furthermore, these programs may serve youth who would have otherwise been released to their families pre-adjudication, or placed under supervision post-adjudication, and therefore would not yield the expected savings.

# OPTION: State Reimbursement for Inmates in City Jails Awaiting Trial for More Than One Year

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Savings:  
\$69.2 million annually

AT ANY GIVEN TIME about two-thirds of the inmates in Department of Correction (DOC) custody are pretrial detainees. A major determinant of the agency's workload and spending is therefore the swiftness with which the state court system processes criminal cases. Throughout the adjudication process, detention costs are almost exclusively borne by the city regardless of the length of time it takes criminal cases to reach disposition. The majority of long-term DOC detainees are eventually convicted and sentenced to multiyear terms in the state correctional system, with their period of incarceration upstate (at the state's expense) shortened by that period of time already spent in local jail custody at the city's expense. Therefore, the quicker the adjudication of court cases involving defendants detained in city jails and ultimately destined for state prison, the smaller the city's share of total incarceration costs.

Existing state court standards call for no felony cases in New York State to be pending in Supreme Court for more than six months at the time of disposition. In calendar year 2007, however, nearly 1,500 convicted prisoners from the city had already spent more than a year in city jails as pretrial detainees.

If the state reimbursed the city only for local jail time in excess of one year at the city's average cost of \$192 per day, the city would realize annual revenue of about \$69.2 million. It should be stressed that the reimbursement being sought in this option is separate from what the city has been seeking for several years for other categories of already convicted state inmates temporarily held in city jails for a number of reasons (e.g., parole violations and newly sentenced "state readies"). The reimbursement sought with this option is associated with long-term pretrial detention time served by inmates who are later convicted and sentenced to multiyear terms in the prison system.

**PROponents MIGHT ARGUE** that the city is unfairly bearing a cost that should be the state's, and that the city has little ability to effect the speedy adjudication of cases in the state court system. They could add that imposing what would amount to a penalty on the state for failure to meet state court guidelines might push the state to improve the speed with which cases are processed. In addition, the fact that pretrial detention time spent in city jails is ultimately subtracted from upstate prison sentences means that the state effectively saves money at the city's expense.

**OPponents MIGHT ARGUE** that many of the causes of delay in processing criminal cases are due to factors out of the state court's direct control, including the speed with which local district attorneys bring cases and the availability of defense attorneys, among other things. Furthermore, given that a disproportionate number of state prisoners are from New York City, calling upon the city to bear the costs associated with long-term detention constitutes an appropriate shifting of costs from the state to the city.

# OPTION: Raise Reimbursement Rate For Certain Categories Of State Inmates Held In City Jails

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Savings:  
\$44.3 million annually

THE CITY CURRENTLY RECEIVES FROM THE STATE \$37.60 per day for several categories of state inmates temporarily held in city jails, far less than the average cost incurred by the city of \$192 per day.

The state inmates at issue comprise about 6 percent of the roughly 14,000 inmates held in city jails. These inmates include individuals who have violated some aspect of the conditions under which they were paroled from state prison and newly convicted and sentenced felons awaiting transfer into the state prison system.

Under this option, the reimbursement rate would be increased from \$37.60 to \$192 per day, the average daily cost of incarcerating an inmate in the city's jail system. Implementation of this option would require enactment of state legislation.

In the state's 2009–2010 Executive Budget, the Governor proposes eliminating all state reimbursement for state-ready inmates who are transported to state prison within 10 days and for parole violators. The state argues that improvements in the process of declaring inmates state ready has led to a reduction in the number of state inmates in local jails. While the average daily population of state-ready inmates is down considerably since the start of this decade, the city still incurs considerable costs housing state inmates. Were this proposal to be enacted the savings from enacting this budget option would increase to \$55.2 million. On the other hand, the city's November Plan proposes reducing the number of state inmates in city jails by moving certain inmates from city facilities to state facilities. Were this proposal to be enacted the number of inmates eligible for reimbursement would decrease and the savings from this option would be reduced.

**PROPOSERS MIGHT ARGUE** that imposing on localities the cost of incarcerating state inmates is inherently unfair. They might argue, as did the Bloomberg Administration in documentation accompanying the release of the 2008 Preliminary Budget, that state-ready inmates and parole violators are the responsibility of the state and that the city should therefore receive full reimbursement for the actual cost of incarcerating these inmates.

**OPPONENTS MIGHT ARGUE** that there is at least some justification for holding localities responsible for the cost of temporarily incarcerating these state inmates. For example, newly sentenced felons are incarcerated in city jails as a result of transgressions or crimes committed within the city.

# OPTION: Increase Private Insurance Payments for Early Intervention

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**Savings:  
\$9 million annually**

APPROXIMATELY 30 PERCENT OF CHILDREN enrolled in the Early Intervention (EI) program have private insurance. By law, the city is supposed to bill these insurers for EI services, then bill Medicaid for services for Medicaid-eligible children; costs paid neither by private insurance nor by Medicaid are divided equally between the city and the state. But while the city has successfully increased the share of costs paid by Medicaid, the fraction paid by private insurance is still extremely low—less than 2.5 percent in 2007.

A bill currently being considered by the state Legislature, A.6814, would increase insurance payments for EI by requiring insurers to cover EI services and by prohibiting denial of EI claims on the grounds that the claims were not preauthorized, not medically necessary, not referred by the child's primary care physician, or because medical care had been provided by an out-of-network provider. Since the majority of denials of EI claims by insurers are for reasons covered by A.6814, this has the potential to significantly increase private insurance revenue for the program. In states with similar laws, such as New Jersey, Connecticut, and Massachusetts, the fraction of EI costs covered by private insurance ranges from 10 percent to 60 percent.

Revenue in New York would be lower than in these states because—unlike New York—the majority of EI families have private insurance. Taking the lowest share of private insurance payments in states with similar laws (10 percent in Connecticut), and adjusting for the lower proportion of EI families with private insurance in New York, yields an estimate of increased payments of \$19 million, of which about \$1 million would offset current Medicaid payments (some Medicaid-eligible children also have private coverage) and the remainder would be divided equally between city and state. Additional administrative costs would be modest because the city already submits claims for all children for whom private insurance information is available.

**PROPOSERS MIGHT ARGUE** that it is appropriate for private health insurers to pay for Early Intervention, given the program's clear health benefits. They might further argue that given the incentives facing insurers, they will inevitably seek to shift costs to taxpayers, so proactive measures such as this are needed to preserve an appropriate balance of costs between the private and public sectors. Finally, they might argue that the city's success in increasing Medicaid payments for EI, and the effectiveness of similar laws in other states, demonstrates the potential of improved claiming as a way of offsetting costs for this valuable but costly program.

**OPPONENTS MIGHT ARGUE** that taking advantage of the new law would require more aggressive claiming, the cost of which will offset any savings, and that insurers will simply find new grounds not explicitly prohibited on which to deny claims. In addition, they might argue that the city should be seeking genuine cost reductions in the program, rather than simply shifting costs to insurers, especially since insurers will likely try to pass them on in the form of higher premiums. And they might argue that the necessity for state legislation makes this an unlikely source of near-term savings for the city in any case.



# *Revenue Options*



## OPTION:

# Personal Income Tax Increases for High-Income Residents

### Revenue:

\$455 million in 2010, \$583 million by 2013

UNDER THIS OPTION, THE MARGINAL TAX RATES OF HIGH-INCOME NEW YORKERS would be increased. Currently, the highest of the four personal income tax (PIT) brackets begins at \$50,000 of taxable income for single filers, \$90,000 of taxable income for joint filers and \$60,000 for heads of households. The effective marginal tax rate in the top bracket is 3.65 percent (the 3.2 percent base rate multiplied by the 14 percent surcharge). This option would create two additional tax brackets at the top. The fifth bracket would begin at \$125,000 for single filers, \$225,000 for joint filers, and \$150,000 for heads of household, and with the surcharge its marginal rate would be 3.92 percent. The top bracket would begin at \$250,000 for singles, \$450,000 for joint filers, and \$300,000 for heads of household, with an effective rate of 4.20 percent.

This option is similar in structure to the 2003–2005 PIT increase that raised upper-income tax burdens, but the income levels defining the top brackets are different and the increases in marginal rates are 0.25 percentage points less than those in effect from 2003 to 2005. This option also differs in that it does not include the 2003–2005 “recapture provisions” under which some or all of taxable incomes not in the highest brackets were taxed at the highest marginal rates. If the higher rates of this proposal went into effect at the beginning of fiscal year 2010, the city would receive an additional \$455 million of PIT revenue in 2010, rising to \$583 million by 2013. This tax change would require approval by the state Legislature.

**PROPONENTS MIGHT ARGUE** that continuing the recent PIT increases would provide a substantial boost to city revenues without affecting the vast majority of city residents. Only 4.5 percent of all city resident tax filers in 2010—or 7.0 percent of all taxpayers—would pay more under this proposal; all of them would have adjusted gross incomes above \$125,000. There is no evidence that these affluent New Yorkers left the city in response to the recent three-year tax increase, even with a larger state income tax increase also enacted at the same time. Also, this proposal avoids burdensome recapture provisions and features far smaller tax increases than those enacted from 2003 to 2005, so most all affected taxpayers would bear less of a tax increase than they did previously. Finally, for taxpayers who do not pay the alternative minimum tax and are able to itemize deductions, increases in city PIT burdens would be partially offset by reductions in federal income tax liability, lessening disincentives for the most affluent to remain city residents.

**OPPONENTS MIGHT ARGUE** that New Yorkers are already among the most heavily taxed in the nation and a further increase in their tax burden is likely to induce movement out of the city. New York is one of only three among the largest U.S. cities to impose a personal income tax, and its PIT burden is second only to Philadelphia’s. Tax increases only exacerbate the city’s competitive disadvantage with respect to other areas of the country. Even without recapture provisions, in calendar year 2010 city residents earning more than \$500,000 would on average pay an additional \$10,400 in income taxes. These taxpayers are projected to account for a little more than half of the city’s PIT revenue in that year, and if 5 percent of them were to leave the city in response to higher taxes, this option would yield \$183 million less PIT revenue per year (assuming those moving had average tax liabilities for the group). Over time the revenue loss would be further compounded by reductions in other city tax sources, such as business income taxes, the sales tax, and the property tax.

# OPTION: Restructure Personal Income Tax Rates To Create a More Progressive Tax

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## Revenue:

\$342 million in 2010, \$437 million by 2013

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 temporary 2003-2005 PIT increase affecting upper-income filers, this option would provide tax cuts to most resident tax filers and a lasting boost to city tax collections.

The tax rates with the 14% surcharge included would become as follows: The lowest marginal rate would be reduced from 2.91 percent to 2.68 percent, and the next highest rate would be reduced from 3.53 percent to 3.36 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 rate of 3.82 percent would end at incomes of \$125,000 for single filers, \$225,000 for joint filers, and \$150,000 for heads of households (single parents). The next bracket would have a marginal rate of 3.92 percent for incomes up to \$250,000, \$450,000, and \$300,000 for single, joint, and head of household filers, respectively. The marginal rate in the new top bracket would be 4.20 percent, a 0.55 percentage point increase over the current top rate. This option does not include "recapture" provisions, so taxpayers in the top brackets would again benefit from the marginal rates in the lower brackets of the tax table.

If the new rates were approved by the state and went into effect at the beginning of fiscal year 2010, the city would receive an additional \$342 million in PIT revenue in 2010, growing to \$437 million by 2013.

**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. A projected 75.7 percent of all tax filers would receive a tax cut in calendar year 2010. Finally, for many taxpayers who itemize deductions on their federal returns, 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 raise revenue, this option is somewhat inefficient. For tax year 2010, the reductions in base rates in the bottom two tax brackets decrease the revenue-raising potential of the accompanying increases by at least \$120 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 \$144,000 in 2010. 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 1,000 filers) were to leave town, this option would yield \$141 million less in PIT revenue per year, 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: Restore the Former Commuter Tax

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Revenue:  
\$715 million in 2010, \$853 million by 2013

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. Ten years ago the New York State Legislature repealed the tax, effective July 1, 1999. If the Legislature were to restore the commuter tax at its former rates effective on July 1 of this year, the city's PIT collections would increase by an estimated \$715 million in 2010, \$737 million in 2011, \$800 million in 2012, and \$853 million in 2013.

**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. Census Bureau data on the numbers and earnings of commuters and city residents indicates that in 2006 commuters on average earned \$108,800 in the city, compared to residents' average earnings of \$60,800. 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 unilaterally eliminated a significant source of city revenue.

**OPPONENTS 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 and commercial property taxes, which should provide the city enough revenue to pay for the services that commuters use. Finally, at the time that the state Legislature repealed the commuter tax, suburban legislators argued that it was fair to provide commuters with a tax cut because city residents had 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 one-third greater than the nonresident tax that was repealed.

## OPTION: Establish a Progressive Commuter Tax

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### Revenue:

\$1.4 billion in 2010, \$1.7 billion by 2013

ANOTHER OPTION TO INCREASE CITY REVENUES would be to establish a progressive commuter tax—one in which commuters with higher incomes are taxed at higher rates, similar to how city residents are taxed though at only one-third the rates. Regardless of where it is earned, the commuter's entire taxable income would be subject to a progressively structured tax, though the resulting liability would then be reduced in proportion to the share of total income actually earned in New York—comparable to how New York State taxes nonresidents who earn some or all of their income within its borders. Mayor Bloomberg proposed such a tax in November 2002, but he called for taxing city residents and commuters at the same rates. Enacting this proposal requires state approval. 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, 2009, the boost to city revenues would be substantial: \$1.369 billion in 2010, \$1.468 billion in 2011, \$1.593 billion in 2012, and \$1.660 billion in 2013.

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 2009, just under half of all commuters will have annual incomes above \$125,000 (compared with 8.4 percent of all city resident filers); this group would also be responsible for 87.2 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 constitute 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 some 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 2010 would be an estimated \$1,537. 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: Raise Cap on Property Tax Assessment Increases

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### Revenue:

\$71 million in first year and \$135 million to \$170 million in fifth year

UNDER CURRENT LAW, property tax assessments for Class 1 properties (one-, two-, and three-family homes) may not increase by more than 6 percent per year or 20 percent over five years. For apartment buildings with four to 10 units, assessment increases are limited to 8 percent in one year and 30 percent over five years. This option would raise the annual assessment caps to 8 percent and 30 percent for five years for Class 1 properties and to 10 percent annually and 40 percent over five years for small apartment buildings. State legislation would be needed to implement the higher caps and to adjust the property tax class shares to allow the city to recognize the higher revenues.

This change would bring in \$71 million for fiscal year 2011 (with the assessment roll for fiscal year 2010 already largely complete, 2011 is the first year the option could be in effect) and \$135 million to \$170 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 \$84.

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 low in order to promote homeownership. Assessment caps are one way to provide protection from rapid increases in taxes driven by appreciation in the overall property market that may outstrip the ability of individual owners to pay, particularly those who are retired or on fixed incomes.

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

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

**OPponents 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 would argue that given the equity and revenue shortcomings of assessment caps they should be eliminated entirely rather than merely raised.

# OPTION: Tax Vacant Residential Property the Same as Commercial Property

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**Revenue:**

\$66.5 million in 2010, rising to \$355.8 million per year when fully phased in

UNDER NEW YORK STATE LAW, a vacant property in New York City (outside the area south of 110<sup>th</sup> Street in Manhattan) which is situated immediately adjacent to property with a residential structure, has the same owner as the adjacent residential property, and has an area of no more than 10,000 square feet is currently taxed as Class 1 residential property. In fiscal year 2010, there are roughly 24,400 such vacant properties. As Class 1 property, these vacant lots are assessed at no more than 6 percent of full market value, with increases in assessed value due to appreciation capped at 6 percent per year and 20 percent over five years. In 2010, the median ratio of assessed value to full market value is expected to be 1.2 percent for these properties.

Under this option, which would require state approval, each vacant lot with an area of 2,500 square feet or more would be taxed as Class 4, or commercial property, which is assessed at 45 percent of full market value and has no caps on annual assessment growth. About 13,200 lots would be reclassified. Phasing in the increase in assessed value evenly over five years would generate \$66.5 million in additional property tax revenue in the first year, and the total increment would grow by \$72.4 million in each of the next four years. Assuming that rates remain at their 2010 levels, property tax revenue in the fifth and final year of the phase-in would be \$355.8 million higher than without this option.

**PROPONENTS MIGHT ARGUE** that vacant property should not enjoy the low assessment benefits of Class 1 that are meant for housing. They might also argue that this special tax treatment of vacant land discourages residential development, an unwise policy in a city with a critical housing shortage. Proponents might further note that the lot size restriction of 2,500 square feet (the median lot size for non-vacant Class 1 properties in New York City) would not create incentives to develop very small lots, and the city's zoning laws and land use review process also provide a safeguard against inappropriate development in residential areas.

**OPPONENTS MIGHT ARGUE** that the current tax treatment of this vacant land serves to preserve open space in residential areas in a city with far too little open space. Opponents also might have less faith in the power of existing zoning and land use policies to adequately restrict development in residential areas.

## OPTION: Extend the Mortgage Recording Tax

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Revenue:  
\$140 million annually

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 residential MRT tax rate is 1.0 percent of the value of the mortgage if the amount of the loan is under \$500,000, and 1.125 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 the state Legislature to broaden 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 \$140 million annually.

**PROponents MIGHT ARGUE** that this option serves the dual purpose of increasing revenue and ending the inequity that allows cooperative apartments to avoid a tax that is imposed on transactions involving other types of real estate.

**OPponents MIGHT ARGUE** that the proposal will increase costs to coop purchasers, resulting in depressed sales prices and ultimately lower market values.

## OPTION: Eliminate the Manhattan Resident Parking Tax Abatement

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Revenue:  
\$3 million annually

THE CITY IMPOSES a tax of 18.5 percent on garage parking in Manhattan. Manhattan residents who park a car long term are eligible to have a portion of this tax abated, and are instead charged a 10.5 percent tax. By eliminating this abatement, which requires state approval, the city would generate an additional \$3 million annually.

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

They might also point out that the additional tax would be a small cost relative to the overall expense of owning and parking a car in Manhattan. The median monthly cost to park is \$500 in downtown Manhattan, and \$630 in midtown. The tax increase would therefore range from \$40 per month to \$50 per month—less in residential neighborhoods with less expensive parking. This relatively modest increase is unlikely to significantly influence car owners' choices about where to park.

**OPPONENTS MIGHT ARGUE** that the tax abatement is necessary to encourage Manhattan residents to park in garages, thereby reducing demand for the very limited supply of street parking. Furthermore, cars are scarcely a luxury good for the many Manhattan residents who work outside the borough and rely on their cars to commute. Eliminating the tax abatement could push these households to leave the city altogether. Finally, they could argue that, at least in certain neighborhoods, residents are essentially forced to pay the same premium rates charged to commuters from outside the city, which are higher than those charged in predominantly residential areas.

# OPTION: Eliminate Property Tax Exemption for Madison Square Garden

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Revenue:  
\$14 million in 2010

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 2010, the tax expenditure, or amount of foregone taxes, is expected to be \$14 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, measured in 2009 dollars, will reach \$322.8 million in 2010.

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). Eliminating this exemption would require the state to amend this section of the law.

**PROponents MIGHT ARGUE** that tax incentives are now unnecessary because the operation of Madison Square Garden is almost certainly profitable. Because Madison Square Garden, L.P. owns the Knicks and Rangers teams, and the MSG Network and Fox Sports New York, it receives game-related revenue from tickets, concessions, and cable broadcast advertising. In addition, Madison Square Garden hosts concerts, theatrical productions, ice shows, the circus, and much more in its arena and theater, and it collects both rent and concession revenue on these events. Proponents also might note that privately owned sports arenas built in recent years in other major cities, such as the Fleet Center in Boston and the United Center in Chicago, generally do pay real property taxes—as did MSG from 1968 when it opened until 1982—although some have received other government subsidies such as access to tax exempt financing and public investment in related infrastructure projects. In the case of MSG, the continuing subsidy, long after the construction costs have been recouped, is at odds with the philosophy that guides economic development tax expenditure policy.

**OPponents MIGHT ARGUE** that the presence of the teams continues to economically benefit the city and that foregoing \$14 million is reasonable compared to the risk that the teams might leave the city. Some also might contend that renegeing on the tax exemption would add to the impression that the city is not business-friendly. In recent years the city has entered into agreements with the Nets, Mets, and Yankees to subsidize new facilities for each of these teams. These agreements have leveled the playing field in terms of public subsidies for our major league teams. Eliminating the property tax exemption now for MSG would be unfair.

## OPTION: Revise Coop/Condo Property Tax Abatement Program

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**Revenue:**

\$102 million in 2009, rising to \$128 million in 2012

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 December 2006 IBO study found that 40 percent of the abatement program’s benefits go to apartment owners whose tax burdens were already as low, or lower, than that of Class 1 homeowners. Another 14 percent gave other apartment owners benefits beyond the Class 1 level.

Under the option outlined 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. With any of these examples, state approval is necessary.

The additional revenue would vary depending on precisely how the exclusion was defined. The current “waste” in the program is estimated at \$170 million in 2009 and will grow to \$214 million by 2012. While it is unlikely that an exclusion like the ones discussed above could eliminate all of the inefficiency, it should be possible to reduce the waste by at least 60 percent.

**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. Since city resources are always limited, it is important to avoid giving benefits that are greater than were intended to some of the city’s 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 more than ten years to come up with a revised program, but so far has failed to do so.

# OPTION: Secure Payments in Lieu of Taxes from Colleges and Universities

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Revenue:  
\$75 million annually

UNDER NEW YORK STATE LAW, real property owned by colleges and universities used in supporting their educational purpose is exempt from the city's real property tax. This exemption is expected to cost the city \$299.8 million<sup>1</sup> in foregone property tax revenue (often called a "tax expenditure"). Exemptions for student dormitories and additional student and faculty housing will represent 24.3 percent (\$72.7 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 \$75 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 than Connecticut.

**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.

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

## OPTION: Extend the General Corporation Tax to Insurance Company Business Income

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**Revenue:**

Approximately \$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 adjusted net income plus officers' compensation, or a 0.16 percent tax on capital) plus a 1.5 percent tax on premiums; nonlife insurers covering accident and health premiums pay a 1.75 percent tax on premiums; all other nonlife insurers pay a 2.0 percent tax on premiums.

Almost all states with insurance taxes provide for retaliatory taxation, under which an *increase* in State A's tax on the business conducted in A by insurance companies headquartered in State B will automatically trigger an increase in State B's tax on the business conducted in B by companies headquartered in State A. Like other states, New York includes a credit for retaliatory taxes in its insurance tax.

Reimposing the New York City tax on insurance companies would raise the combined state and local insurance tax rate in New York substantially above the national average and trigger widespread tax retaliation. However, the Department of Finance has suggested in its tax expenditure reports that extending the city's general corporation tax to insurance companies—that is, taxing the net income they earn in the city but not the premiums they are paid—could result in a less adverse retaliatory impact. State approval would be required for these changes.

**PROPONENTS MIGHT ARGUE** that this tax would put insurance companies on more equal footing with other incorporated businesses in New York City. Retaliatory taxes would probably be imposed only by the states that retaliate against general corporate income taxation of insurance companies, avoiding the more widespread retaliation that would be triggered by a separate insurance corporation tax.

**OPPONENTS MIGHT ARGUE** that enough states base retaliation on total taxes and fees paid by insurers to make retaliation to a city general corporation tax on insurance companies a serious problem. More broadly, any extension of business income taxes would make New York City's tax structure less "city-like": New York is one of the few U.S. cities with business and personal income taxes, and these are on top of the more typical property and sales taxes also levied here. The additional taxes are often the focus of complaints that New York City is overtaxed and not business-friendly.

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

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Revenue:  
Approximately \$125 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 (December 2007) published calculation, there were 54 such corporations in New York City, and they saved an average of \$2.8 million in GCT taxes each. However, that calculation preceded the onset of the current recession, which is reflected in the revenue estimate given above. Eliminating the cap would require state legislation.

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

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

## OPTION: Eliminate the Film Production Tax Credit

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Revenue:  
\$30 million per year starting in 2012

THIS OPTION WOULD DISCONTINUE THE FILM PRODUCTION TAX CREDIT, which was signed into law on January 3, 2005. The Film Production Tax Credit provides a 5 percent refundable tax credit for qualified production expenses for eligible film projects shot primarily in New York City, either at a production facility or on location. Feature length films, television films, television pilots, and television series are eligible; other film projects (documentaries, news shows, and current affairs shows, for example) are ineligible. Qualified expenses include costs of technical crews, facility use, props, makeup, wardrobe, sets, and background talent. Excluded are costs of stories and scripts and salaries for writers, directors, and performers (other than extras without spoken lines). Applications must be approved prior to the start of production, and the tax credit can be claimed for the year in which production is completed.

The City of New York has allocated a total of \$192.5 million for the Film Production Tax Credit for the years 2005 to 2011. Although the total allocation is the sum of annual amounts intended to be available for assignment to applicants (\$12.5 million for 2005 and \$30 million for each subsequent year), future years' allocations may be shifted back and assigned to current applicants if earlier year allocations are depleted. At present, the total allocation for the tax credit through 2011 is expected to be committed by 2010 because of the sharp jump in applications after the state raised its film production tax credit from 10 percent to 30 percent in April 2008.

**PROPOSERS MIGHT ARGUE** that the 5 percent credit offered by New York City is too small to affect production location decisions, particularly for large-budget television series and major feature films. Even for low-budget projects they might argue that the city's tax credit is unnecessary because the 30 percent tax credit provided by New York State is a sufficiently large incentive to keep projects in-state. Finally, if new economic activity is the city's goal, it could be achieved at lower cost by tax incentives targeted more narrowly at new (or relocating) television series or low-budget films.

**OPPOSERS MIGHT ARGUE** that the 5 percent city tax credit combines with a 30 percent state tax credit to provide a total tax credit that is more competitive with the generous tax incentives offered by nearby states. They might further argue that the state credit is at risk of ending because the funding allocated to the credit has been depleted and future funding is uncertain; the New York City credit may be all that is available. They might also point to the fact that a majority of the 181 feature films in the program to date have had relatively small budgets—56 percent had budgets under \$5 million—as evidence that the tax credit is benefiting smaller companies.

## OPTION: Tax Laundering, Dry Cleaning, and Similar Services

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Revenue:  
\$35 million annually

CURRENTLY, RECEIPTS FROM LAUNDERING, dry cleaning, tailoring, shoe repair, and shoe shining services are excluded from the city and state sales tax. This option would lift the exemption, broadening the sales tax base to include these services. It would result in additional revenue of about \$35 million annually.

PROponents MIGHT ARGUE that laundering, tailoring, shoe repair, and similar services should not be treated differently from other goods and services that are presently being taxed. Existing tax distortions create economic bias toward consumption of untaxed services. By including laundering, dry cleaning, and other services in the sales tax base the city would decrease the economic inefficiency created by differences in tax treatment. The bulk of taxes would be paid by more affluent consumers who use such services more frequently, slightly decreasing the regressive nature of the sales tax. The city's commitment to a cleaner environment, which is reflected in the various city policies that regulate laundering and dry-cleaning services, further justifies inclusion of these services in the sales tax base.

OPponents MIGHT ARGUE that laundering, tailoring, shoe repair, and similar services are provided by the self-employed and small businesses, and these operators may not have accounting or bookkeeping skills and could have difficulties in collecting the tax. Some individuals and firms might be forced out of business. They could also argue that because a portion of laundering and dry cleaning receipts are actually paid by businesses (i.e. hotels and restaurants), bringing those services into the sales tax base would further increase the number of business-to-business transactions subject to the tax. They would point out that ideally, sales taxes should only be imposed on the final sale to a consumer; this is because when business-to-business transactions are taxed, the burden of the tax is shifted onto the consumer through an increase in the price of the good.

## OPTION: Impose Sales Tax on Capital Improvements

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Revenue:  
\$200 million annually

THIS OPTION WOULD INCREASE CITY REVENUES by broadening the sales tax base to include capital improvement installation services. In New York, services such as landscaping and auto repair are taxed but other services to improve buildings or property such as the installation of central air systems, refinishing floors, and upgrading electrical wiring are not subject to sales tax. If New York City taxed capital improvements, it could collect an additional \$200 million.

PROPOSERS MIGHT ARGUE that there is no economic distinction between capital improvements and other services and goods that are currently taxed: broadening the base would ensure a more neutral tax structure and decrease differential tax treatment. The present tax structure creates consumption distortions, which this proposal would diminish. It also might be argued that the sales tax as a whole would become less regressive since expenditures on capital improvement services rise as income rises.

OPPOSERS MIGHT ARGUE that this proposal could reduce the number of people employed in the capital improvement services. Small independent contractors and small firms, burdened by additional taxation, might leave the business or attempt to evade the tax. The tax would also produce a small disincentive to improve real property. They also could argue that because a portion of capital improvements are directed at improvement of business property, bringing those services into the sales tax base would further increase the number of business-to-business transactions subject to the tax, and businesses would in turn shift the burden of the tax onto consumers by increasing prices. They would point out that, ideally, sales taxes should only be imposed on the final sale to a consumer.

## OPTION: Tax on Cosmetic Surgical and Nonsurgical Procedures

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### Revenue:

Approximately \$60 million per year

FEES FOR MEDICAL PROCEDURES are currently not subject to state or city sales tax. Under this option, both surgical and nonsurgical cosmetic procedures would be subject to the city sales tax. In 2007 cosmetic procedures by board-certified physicians yielded \$12.0 billion in fee payments, nationwide. (This total did not include procedures that were reconstructive rather than cosmetic. Nor did it include fees for facilities, anesthesia, medical tests, prescriptions, and other ancillaries.) IBO estimates that over \$1.5 billion was generated in New York City. The amount of additional revenues generated in the city by fees for facilities and other ancillaries, as well as by noncertified cosmeticians or “facialists” for procedures such as dermabrasions and chemical peels, is unknown, and is not factored into the tax revenue estimate provided above.

**PROPOSERS MIGHT ARGUE** this is a lucrative fee-for-service industry. While medical training and certification are required to perform all of the surgical and most of the nonsurgical procedures, the procedures themselves have primarily aesthetic rather than medical rationales. The American Medical Association (AMA) distinguishes cosmetic surgery, which is “performed to reshape normal structures of the body in order to improve the patient’s appearance and self-esteem,” from reconstructive surgery, which is “performed on abnormal structures of the body... generally... to improve function, but [it] may also be done to approximate normal appearance,” and recommends that the latter, but not the former, be included in standard health benefits packages. For tax purposes, there is no reason to treat cosmetic enhancements differently than cosmetic products. They could also argue that with the introduction of a tax on cosmetic procedures in New Jersey in 2004, the potential border effects (tax-driven shifts in economic activity) of a New York City tax would be limited.

**OPPONENTS MIGHT ARGUE** rather than seeing cosmetic procedures as luxuries, people increasingly regard them as vital to improving self-esteem and general quality of life. As the purview of medicine extends to not just curing illness, but promoting wellness, quality-of-life improvements are more and more being considered health necessities. Health benefits never should be subject to a sales tax, and it will not suffice to tax procedures not covered by insurance, because insurers do not provide consistent guidelines. Furthermore, market surveys indicate that cosmetic surgical and nonsurgical procedures are sought by persons at all income levels. The burden of a tax on these procedures would therefore not fall only on the wealthy.

## OPTION: Increase the Fine for Recycling Violations

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**Revenue:**

\$2.8 million to \$8.5 million annually

IN 2008, THERE WERE 138,500 CITATIONS GIVEN TO CITY RESIDENTS AND BUSINESSES for violating city recycling rules. Approximately 84 percent of those deemed valid were paid in full. This is a very high yield rate compared to those of other city violations. But the size of a recycling violation fine is one of the city's lowest. At \$25, the fine for a first violation has not increased since it was set in Local Law 19 of 1989. While the fine's low cost undoubtedly contributes to its high payment rate, it may not deter future violations as well as a higher fine might.

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

If the base fine for recycling violations was doubled to \$50, revenue would likely grow by \$2.8 million. If the base fine was raised to the current level of other sanitation fines (\$100), the city could expect \$8.5 million in revenue. (These estimates do not assume that the current payment rate would decline as the fine amount increases.)

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

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

## OPTION: Institute a Residential Permit Parking Program

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### Revenue:

\$2.0 million in 2010, \$4.0 million in 2011, and \$6.0 million in 2012

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. As part of PlaNYC, Mayor Bloomberg proposed instituting resident permit parking in neighborhoods adjacent to the proposed congestion pricing zone. However, because the state Legislature did not approve congestion pricing, the permit plan has not moved forward.

Under the proposal, permit parking zones would be created in selected areas of the city. Within these zones, only permit holders would be eligible for on-street parking for more than a few hours at a time. Permits would be sold primarily to neighborhood residents, although they might also be made available to nonresidents and to local businesses. IBO has assumed an annual charge of \$100, with administrative costs equal to 20 percent of revenue.

**PROponents 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.

**OPponents MIGHT ARGUE** that it is inherently unfair for city residents to have to pay for on-street parking in their own neighborhoods. Opponents also might worry that despite the availability of public transportation or off-street parking, businesses located in or adjacent to permit zones may experience a loss of clientele, particularly from outside the neighborhood, because more residents would take advantage of on-street parking. Some opponents may note that in cities and towns that already have residential permits, it appears to have worked best in neighborhoods where single-family homes predominate.

## OPTION: Increase Fees for Birth and Death Certificates to \$30

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Revenue:  
\$9.7 million annually

RESIDENTS OF NEW YORK are entitled to original birth and death certificates at no cost, but the Department of Health and Mental Hygiene charges a fee for duplicate copies. The department issues over 700,000 duplicate certificates each year.

A provision of the state public health law sets the fee New York City charges for such certificates to \$15. Municipalities elsewhere in the state are subject to different limits; some are required to charge only \$10, while in others the local health department is free to set any fee equal to or less than the fee charged by the state. The New York State Department of Health charges \$30 for duplicate birth and death certificates.

Raising the city fee to the state level would presumably have little effect on demand for certificates, since people require them for legal or employment reasons. IBO assumes that doubling the charge to \$30 would reduce the number of certificates requested by 5 percent, yielding net revenue of \$9.7 million.

State legislation would be required for this proposal, either to raise the fee directly or to grant the authority to raise it to the City Council or health department.

**PROPOSERS MIGHT ARGUE** that there is no reason the city should charge less than the state for the identical service. They might further argue that a state law specifically limiting fees in New York City is arbitrary and does not serve any legitimate policy goal; such fees should either be consistent statewide or set by local elected officials. Proponents might also argue that given the highly inelastic demand for birth and death certificates, such an increase will have a much smaller economic impact than most other fee increases.

**OPPOSERS MIGHT ARGUE** that the purpose of this fee is not to raise revenue but to cover the cost of producing the records, which has certainly not doubled. They might further argue that provision of vital records is a basic public service, access to which should not be restricted by fees. Finally, they might argue that it is appropriate for fees to be lower in New York City than elsewhere because of the greater proportion of low-income residents here.

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

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Revenue:  
\$2.7 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 2009, 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 \$2.7 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 property tax rate increase.

## OPTION:

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

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Revenue:  
\$55 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 for 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 a minimum of \$38 million under the current bottle bill. With the proposed expansion, the potential revenue increases to at least \$55 million each year. Cost savings would likely result as additional materials are diverted from city-managed refuse and recycling collection and disposal.

**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 in parks. Finally, proponents might argue that the diversion of additional materials from the waste stream managed by the Department of Sanitation would lower expenditures on collection and disposal operations.

**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 for Freon/CFC Recovery

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Revenue:  
\$1.4 million annually

CHLOROFLUOROCARBON (CFC) gas, also known as Freon, is considered a major contributor to the 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, 56,017 appliances were tagged for CFC recovery in 2008. The CFC recovery is done by sanitation workers who have completed CFC recovery certification. There are currently 20 certified CFC recovery uniformed workers and three civilian mechanics who maintain the vehicles used by the recovery workers, as well as two clerical aides responsible for setting up the recovery appointments. Charging \$25 per appointment would garner the city roughly \$1.4 million annually, approximately the personnel costs for the CFC recovery program. At \$75 per appointment, the city could collect about \$4.2 million, easily covering the personnel and capital costs for the CFC recovery program and providing a funding stream for other programs.

**PROponents 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.

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

# OPTION: Charge Fees for Assessment Appeals at the Tax Commission

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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 2007, the Tax Commission received about 42,000 appeals applications. These applications were a small percentage of the total number of properties in the city, but were disproportionately filed by owners of apartment buildings and commercial properties, especially in Manhattan. The Tax Commission charges no fees at present for this service, and is currently budgeted at about \$4.0 million. This proposal would institute a filing fee of \$40 per applicant, and an additional \$50 fee for applicants who proceed to a hearing before Tax Commission members. Approximately 50 percent of all applicants reached the hearing stage in 2006.

**PROPOSERS 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. If the fee resulted in a 10 percent drop in the number of filings, the amount raised by this option would decline by \$273,000. 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 ongoing operations or to provide support for desired improvements.

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

## OPTION: Increase Food Service Permit Fees to \$500

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Revenue:  
\$4.6 million annually

RESTAURANTS AND OTHER FOOD SERVICE ESTABLISHMENTS in New York require a license from the Department of Health and Mental Hygiene to operate, which must be renewed annually. In 2007, the department processed 4,639 new food service establishment applications and 18,532 renewals, for a total of 23,171 permits. About 10 percent of these permits were for school cafeterias and other non-commercial establishments, which are exempt from fees.

The health department has traditionally set the fee at a level sufficient to cover the full costs of the permitting process, including inspections, processing applications and other administrative costs. However, as costs in this area have increased, fees—currently \$280, plus \$25 if the establishment serves frozen desserts—have not kept pace. In 2007, total costs for processing food service permits, including the cost of doing inspections, were \$10.5 million for commercial establishments. But the health department collected only between \$5.8 million and \$6.3 million from food service permits. Thus, fees cover only about 60 percent of the costs associated with restaurant permits. Increasing the application fee from \$280 to \$500 (leaving the frozen dessert charge unchanged) would bring permit fees into line with permit costs and raise \$4.6 million in revenue.

**PROPOSERS MIGHT ARGUE** that it is established city policy that the fees charged for services like restaurant permits should cover the associated costs. They might further argue that if the city wishes to subsidize restaurants, it should do so directly and transparently, rather than by providing permits at a discount. They might note that permits are a very small portion of restaurant costs so that this increase is unlikely to have a noticeable effect on restaurants' ability to operate in the city. In fact, if undercharging for permits leads to inadequate resources for processing permits, delay or uncertainty in that process could be much more costly to restaurants.

**OPPOSERS MIGHT ARGUE** that while in the long run fees should cover the cost of permits, an immediate increase would be a burden on a sector that is already disproportionately affected by the economic downturn. They might also argue that while paying an additional \$220 would be trivial for a large restaurant, many other restaurants and food service establishments are very small and operate on thin profit margins. Finally, they might argue that if the goal is simply to raise revenue, economists generally agree that broad-based taxes are preferable to charges focused on particular industries.

## OPTION: Restore the Fare on the Staten Island Ferry

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Revenue:  
\$4.5 million annually

THIS OPTION WOULD RESTORE THE FARE charged to passengers who board the Staten Island Ferry as pedestrians, beginning in July 2009. 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 2008 had around 20 million riders. If and when vehicles are allowed back on the ferry, pedestrians will still make up the vast majority of passengers. Gross revenues from a 50 cent round-trip fare would be somewhat over \$4.9 million per year. Assuming collection costs equal to 10 percent of fares, net revenue would be roughly \$4.5 million annually.

Beginning March 2008, Staten Island residents who use the Verrazano Narrows Bridge pay a toll of \$4.98 (charged going into the borough only) using E-ZPass, or \$6.70 using tokens. Residents traveling in vehicles with three or more occupants have the option of using prepaid coupons costing \$2.33 per crossing (also paid only going into Staten Island). Express bus riders traveling from Staten Island to Manhattan pay a \$5.00 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.

The Metropolitan Transit Authority (MTA) has proposed increasing fares and tolls on its facilities by a substantial amount—possibly more than 20 percent—beginning June 2009. If the MTA board approves such an increase, the disparity between the free ferry and what the MTA's customers pay will be even greater.

**PROponents MIGHT ARGUE** that ferry riders should be expected to pay at least a nominal share of the service costs. The Staten Island Ferry's operating expenses have increased dramatically in recent years, due to additional safety and antiterrorist measures. According to the Mayor's Management Report for fiscal year 2007, the operating expense per passenger for the Staten Island Ferry was \$4.62. If the 25 cent fare were restored, passengers would be paying well under 10 percent of the cost of a ride. In contrast, fares on New York City Transit subways and buses cover more than half of operating expenses.

**OPponents MIGHT ARGUE** that charging ferry riders would contradict the "one city, one fare" policy started by the Giuliani Administration. Once MetroCard readers were installed through the transit system, free transfers between buses and subways were instituted. As a result, a majority of transit users in New York City can now make their trips with only one fare. However, according to an analysis by IBO of data from the Regional Transportation-Household Interview Survey, a majority of Staten Island residents who use the ferry to travel to Manhattan still pay more than one fare to get to their final destination. In addition, ferry riders are on average less affluent than express bus riders, and face longer total travel times.

## OPTION: Toll the East River and Harlem River Bridges

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Revenue:  
\$830 million annually

THIS PROPOSAL, analyzed in more detail in the IBO report *Bridge Tolls: Who Would Pay? And How Much?* involves placing tolls on 12 city-owned bridges between Manhattan and Queens, Brooklyn, and the Bronx. In order to minimize backups and avoid the expense of installing toll booths or transponder readers at both ends of the bridges, a toll equivalent to twice the one-way toll on adjacent Metropolitan Transportation Authority (MTA) facilities would be charged to vehicles entering Manhattan, and no toll would be charged leaving Manhattan. The automobile toll on the four East River bridges would be \$8.30, equal to twice the one-way E-ZPass toll for the MTA-owned Brooklyn-Battery and Queens-Midtown Tunnels. The automobile toll on the eight Harlem River bridges would be \$3.80, equal to twice the one-way E-ZPass toll for the MTA's Henry Hudson Bridge. A ninth Harlem River bridge, Willis Avenue, would not be tolled since it carries only traffic leaving Manhattan. The Ravitch Commission recently made a similar proposal.

Estimated annual toll revenue would be \$590 million for the East River bridges and \$240 million for the Harlem River bridges, for a total of \$830 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 revenue by more than half, to \$376 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-users alike. Transportation advocates argue that, although tolls represent an additional expense for drivers, they can make drivers better off by guaranteeing that roads, bridges, tunnels, and highways receive adequate funding. Some transportation advocacy groups have promoted tolls not only to generate revenue, but also as a tool to reduce traffic congestion and encourage greater transit use. Peak-load pricing (higher fares at rush hours than at non-rush hours) is an option that could further this goal. If more drivers switch to public transit, people who continue to drive would benefit from reduced congestion and shorter travel times. A portion of the toll revenue could potentially be used to support improved public transportation alternatives. Finally, proponents might note that city residents or businesses could be charged at a lower rate than nonresidents to address local concerns.

**OPPONENTS 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 may 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 might be the effect on small businesses. Finally, opponents might argue that even with E-ZPass technology, tolling could lead to traffic backups on local streets and increased air pollution.

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