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Budget Options

For New York City



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Contents

New Options for 2018

	<i>First Year Impact (Savings)</i>	
Require Landlords of Rental Buildings to Obtain Operating Permits	\$17 million	7
Double the Incentive Payments for the Health Benefit Waiver Program	\$3 million	25
Shift Paymnets of All WageWorks Fees for Commuter Benefits Plans to Employees	\$1 million	26
Switch to Auto-Loading Garbage Pick-up in Low-Density Neighborhoods	\$30 million	27
	<i>First Year Impact (Revenue)</i>	
Tax Single-Use Disposable Plastic Bags	\$80 million	68
Increase Parks Marina Dockage Rates to Mirror Market Rates	\$1 million	81
Sell Biogas Produced as a Byproduct of Wastewater Treatment	\$2 million	95

Savings Options

<i>Reducing Subsidies</i>	<i>First Year Impact (Savings)</i>	
Divert an Additional 10 Percent of Paratransit Trips to Taxis	\$13 million	3
Eliminate Public Funding of Transportation for Private School Students	\$56 million	4
End the Department of Education's Financial Role as FIT's Local Sponsor	\$46 million	5
Replace Selected MTA Bus Company Service With Street Hail Liveries (Green Taxis)	\$20 million	6
<i>Revising or Eliminating Programs</i>		
Construct a Waste-to-Energy Plant for a Portion of City Refuse	\$55 million	8
Eliminate the Need for Citywide Run-Off Elections	\$20 million	9
Use Open-Source Software Instead of Licensed Software for Certain Applications	\$14 million	10

Charging for Services

Establish Copayments for the Early Intervention Program	\$19 million	11
Pay-As-You-Throw	\$337 million	12

City Workforce Staffing, Funding, And Work Rule Changes

Alter Staffing Pattern in Emergency Medical Service Advanced Life Support Ambulances	\$7 million	13
Consolidate Building, Fire, Environmental Protection, and Housing Inspections	\$17 million	14
Eliminate City Dollars and Contracts for Excellence Funds for Teacher Coaches	\$21 million	15
Eliminate City Paid Union Release Time	\$26 million	16
Eliminate the 20-Minute “Banking Time” for Certain Education Department Staff	\$1 million	17
Establish a Four-Day Workweek for Some City Employees	\$20 million	18
Have the Metropolitan Transportation Authority Administer Certain Civil Service Exams	\$4 million	19
Increase the Workweek for Municipal Employees to 40 Hours	\$196 million	20
Institute Time Limits for Excessed Teachers in the Absent Teacher Reserve Pool	\$84 million	21
Require Police Officers to Work 10 Additional Tours Annually by Reducing Paid “Muster Time”	\$131 million	22
Share One Parent Coordinator and General Secretary Among Co-located Schools	\$37 million	23
Use E-Learning When High School Teachers Are Absent for Just a Few Days	\$9 million	24

Lowering Wage and Benefit Costs of City Employees

Consolidate the Administration of Supplemental Health and Welfare Benefit Funds	\$16 million	28
Eliminate Reimbursement of Medicare Part B Surcharge to High-Income Retirees	\$13 million	29
Reduce City Reimbursements to Retirees for Standard Medicare Part B Premiums	\$148 million	30
Eliminate Additional Pay for Workers on Two-Person Sanitation Trucks	\$46 million	31
End City Contributions to Union Annuity Funds	\$139 million	32
Increase the Service Requirements for Retiree Health Insurance	\$11 million	33
Merge Separate City Employee Pension Systems	\$19 million	34

Peg Health Insurance Reimbursement to the Lowest Cost Carrier	\$253 million	35
Require a Health Insurance Contribution by City Employees and Retirees	\$557 million	36
Stop Including Overtime Pay When Calculating City Employee Pensions	\$13 million	37

Shifting State and Federal Burdens

Consolidate Federal and State Primary Elections	\$10 million	38
State Reimbursement for Inmates in City Jails Awaiting Trial for More Than One Year	\$140 million	39

Revenue Options

Adjusting the Personal Income Tax

First Year Impact (Revenue)

Cap Personal Income Tax Credit at \$10,000 for Payers of the Unincorporated Business Tax	\$77 million	43
Commuter Tax Restoration	\$900 million	44
Personal Income Tax Increase for High-Income Residents	\$440 million	45
Restructure Personal Income Tax Rates to Create a More Progressive Tax	\$161 million	46

Revising the Property and Related Taxes

Add a Property Tax Surcharge on Vacant Residential Properties	\$29 million	47
Create a New Real Property Transfer Tax Bracket for High-Value Residential Properties	\$54 million	48
Eliminate Commercial Rent Tax Exemptions for Retail Tenants in Lower Manhattan	\$9 million	49
Eliminate the Discount for Paying Property Taxes Early	\$9 million	50
Eliminate J-51 Benefits for Projects That Do Not Include an Affordable Housing Component	\$5 million	51
Eliminate Special Tax Treatment on the Sale of Properties to Real Estate Investment Trusts	\$11 million	52
Extend the Mortgage Recording Tax to Coops	\$80 million	53
Impose a City "Mansion Tax"	\$272 million	54
Make Real Estate Sales Between Nonprofits and For-Profits Subject to the City's Property Transfer Tax	\$10 million	55
Raise the Cap on Property Tax Assessment Increases	\$156 million	56
Tax Vacant Residential Property the Same as Commercial Property	\$21 million	57

Eliminating or Reducing Tax Breaks

Collect PILOTs for Property Tax Exemption for College Student, Faculty, and Hospital Staff Housing	\$128 million	58
Eliminate the School Bus Operation Deduction	\$1 million	59
Eliminate the Property Tax Exemption for Madison Square Garden	\$42 million	60
Eliminate the Manhattan Resident Parking Tax Abatement	\$14 million	61
Establish an Unrelated Business Income Tax	\$12 million	62
Extend the General Corporation Tax to Insurance Company Business Income	\$510 million	63
Repeal the Tax Exemption for Vacant Lots Owned by Nonprofits	\$10 million	64
Revise the Coop/Condo Property Tax Abatement Program	\$117 million	65
Tax Carried Interest Under the Unincorporated Business Tax	\$200 million	66
Tax the Variable Supplemental Funds	\$4 million	67

Broadening the Tax on Sales and Services

Adjust the Current Alcohol Tax to Partially Account for Inflation Since 1980	\$25 million	69
Broaden Alcohol Tax to Include Wine and Liquor with Low Alcohol Content	\$5 million	70
Collect Sales Tax on Capital Improvement Installation Services	\$275 million	71
Extend Sales Tax to Digital Goods, Including Music, E-Books, and Video	\$22 million	72
Extend Tax on Cosmetic Surgical and Nonsurgical Procedures	\$13 million	73
Implement a Carbon Tax and Dividend	\$162 million	74
Impose a 75 Percent Excise Tax on E-Cigarettes	\$38 million	75
Include Live Theatrical Performances, Movie Theater Tickets & Other Amusements in the Sales Tax Base	\$86 million	76
Legalize and Extend Sales Tax to Marijuana	\$25 million	77
Repeal the New York City Sales Tax Exemption on Interior Decorating and Design Services	\$20 million	78
Tax Laundering, Dry Cleaning, and Similar Services	\$48 million	79
Tax Sugar-Sweetened Beverages	\$244 million	80

Raising Fees and Fines

Charge a Fee for the Cost of Collecting Business Improvement District Assessments	\$1 million	82
Convert Multiple Dwelling Registration Flat Fee to Per Unit Fee	\$2 million	83
Expand the Department of Transportation's PARK Smart Program	\$33 million	84
Impose Development Impact Fees on Construction Projects	\$24 million	85
Increase Fees for Birth and Death Certificates to \$45	\$17 million	86
Increase Food Service Permit Fee to \$700	\$10 million	87
Increase Fines for Drivers Who Receive Repeated Speed and Red-Light Camera Violations	\$5 million	88
Increase the Cigarette Retail Dealer License Fee to \$340	\$1 million	89
Institute a Residential Permit Parking Program	\$2 million	90
Institute Competitive Bidding for Mobile Food Vending Permits	\$57 million	91
Modify License Fees and Increase Regulations for Sightseeing Busses	\$2 million	92
Raise the City's Passenger Vehicle Use Tax and Charge More for Heavier Vehicles	\$35 million	93
Start Fining Drivers for Idling Violations Without Warning	\$1 million	94

Fares, Tolls, and Other Revenue Generators

Charge a Fee for Curbside Collection of Nonrecyclable Bulk Items	\$43 million	96
Establish a Franchise System for the Collection of Commercial Waste	\$54 million	97
Establish a Stormwater Utility Fee	\$83 million	98
Establish User Fee for Some Child Support Cases	\$3 million	99
Impose a 50 Cent Surcharge on Hotel Room Nights to Fund NYC & Company	\$15 million	100
Institute a Tourist Fare on the Staten Island Ferry	\$3 million	101
Require All New Education Department Staff to Meet Same Residency and Tax Rules as Other City Workers	\$4 million	102
Require the Economic Development Corporation to Remit Surplus Income to the City	\$95 million	103
Toll the East River and Harlem River Bridges	\$1 billion	104

**IBO's role is to examine
budget options and make
estimates of potential
savings or revenues—not
to make recommendations**

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Savings Options

OPTION:

Divert an Additional 10 Percent of Paratransit Trips to Taxis

Savings: \$13 million annually

The federal Americans with Disabilities Act of 1990 mandates that transit agencies provide “comparable” paratransit service to individuals who are unable to use regular public transportation. New York City’s paratransit program—Access-a-Ride—is administered by NYC Transit, which is the part of the Metropolitan Transportation Authority responsible for subway and bus service in the city. Under the terms of an agreement between the city and NYC Transit, the city pays one-third of paratransit net operating expenses, after subtracting out fare revenues, tax revenues dedicated to paratransit, and the program’s administrative expenses. In addition, the year-to-year increase in the city subsidy is capped at 20 percent. For many years rising expenses resulted in annual subsidy increases that were capped at 20 percent, but more recently the year-over-year changes in the subsidy have been very small or even negative. Assuming this trend continues, each reduction in expenses will lead to an equivalent reduction in the city subsidy.

Access-a-Ride contracts with private transportation companies to deliver paratransit services. Conventional paratransit consists of dedicated wheelchair-accessible vehicles. NYC Transit also uses taxis and livery cars and has found that they can in many cases transport passengers at a lower cost. In 2015 just 4 percent of medallion taxis, 17 percent of green taxis, and a negligible share of livery cars were wheelchair accessible. The TLC provides some financial incentives for owners to use accessible vehicles, and has sold some yellow cab medallions and green taxi permits that are only valid for accessible vehicles. At the same time, however, around 80 percent of current Access-a-Ride users do not require a wheelchair, and can potentially travel in a non-accessible vehicle.

Currently, around 70 percent of Access-a-Ride trips are made on dedicated paratransit vehicles, at an average cost per ride of around \$68. The remaining 30 percent of trips are made using taxi and livery vehicles, at an average price per ride of about \$26. NYC Transit pays providers by the hour, not by the trip, and at the margin there may not be significant savings from diverting one trip to a taxi or livery car. For example, a dedicated Access-a-Ride vehicle that is already making a trip can pick up and discharge an additional passenger along the same route for an additional cost close to zero. However, moving a larger share of paratransit service to taxi and livery vehicles can provide substantial savings. Assuming conservatively that the marginal savings per ride is half of the average per ride savings, IBO estimates that diverting an additional 10 percent of paratransit trips (a little over 600,000 trips annually) to taxis and livery vehicles would lower costs by \$13 million, and therefore reduce the city subsidy by an equivalent amount.

PROPOSERS MIGHT ARGUE that for most paratransit users, taxis and livery vehicles can provide equivalent or even superior service compared with a dedicated vehicle. Taxis and livery cars are available in much greater numbers than dedicated vehicles, and can easily switch back and forth between regular and paratransit service. Giving taxis and livery cars a greater share of the paratransit market would help a sector that has seen the demand for its services decline due to apps such as Uber and Lyft.

OPPONENTS MIGHT ARGUE that although most paratransit users do not require a wheelchair, many do need some extra help getting between the street and building entrances, as well as carrying packages. Dedicated paratransit drivers are expected to provide these services, whereas taxi and livery drivers are not. In general, taxi and livery drivers are not always prepared to meet the challenges of transporting passengers with disabilities.

OPTION:

**Eliminate Public Funding of Transportation
For Private School Students****Savings: \$56 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 second 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. The Department of Education provides several different types of transportation benefits including yellow bus service, and full- and reduced-fare MetroCards.

In the 2014–2015 school year, 39 percent of general education students receiving full- or reduced-fare MetroCards attended private schools (roughly 147,000 children). In the same year, about 39 percent of general education students using yellow bus service attended private schools (approximately 37,000 children). DOE expects to spend more than \$378 million this school year on the MetroCard program and yellow bus services for general education students at public and private schools, combined.

The MetroCard program is financed by the state, the city, and the Metropolitan Transportation Authority (MTA)—the city's contribution is \$45 million and the state's is \$45 million, while the MTA absorbs any remaining costs. Total expenditures in the 2015–2016 school year for yellow bus service are expected to be \$333 million, making the city's portion roughly \$113 million based on a 34 percent share of expenditures. Elimination of the private school benefit, which would require a change in state law, could reduce city funding by roughly \$56 million—\$12 million for MetroCards (27 percent of the city's \$45 million expense) and \$44 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 also 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 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 an alternative to 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 public education-related services. Furthermore, opponents might argue that as public transportation becomes increasingly expensive in New York City all school children have an increased need for this benefit.

OPTION:

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

Savings: \$58 million annually

The Fashion Institute of Technology (FIT) is 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. 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. The city has no financial responsibility for any other SUNY school, even though several are located here.

FIT specializes in fashion and related fashion 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 degree programs along with 6 graduate programs, which account for nearly half its 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.

In New York State, funding for community colleges is shared between state support, student tuition, and payments from a "local sponsor." 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 of this change, the college would have to rely more on tuition, state support, its own endowment, and any operational efficiencies and savings that it can implement. This change in FIT's status would require state legislation.

PROPOSERS 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 college it should be funded like any other SUNY college. 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 note 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 point out that demand for higher education has been growing—especially at affordable, well-regarded institutions like FIT—so tuition will continue to be 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 also point out that the state does not meet its current mandate for funding of community colleges so it is not likely that the state would make up the loss of city funds. They also 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 nor guarantee that the funds would be available for other education department spending. And finally, they could say that other funding sources such as contributions from the business community are too unstable because they can shrink when the economy slows.

OPTION:

Replace Selected MTA Bus Company Service With Street Hail Liveries (Green Taxis)

Savings: \$20 million annually

The MTA Bus Company (MTA Bus) was created in 2004 as a subsidiary of the Metropolitan Transportation Authority (MTA), the public authority responsible for providing subway and bus service within New York City, and commuter rail service into the city. MTA Bus operates local bus service, mostly in the borough of Queens, and express service to and from Manhattan. This bus service was formerly operated by private companies under franchise agreements with New York City. The companies received subsidies administered through the city's Department of Transportation. The MTA agreed to take over the bus routes under the condition that the city would reimburse the MTA for operating expenses net of fare revenues and certain other subsidies. The cost to the city of reimbursing the MTA has grown steadily over time, reaching \$399 million in 2015. MTA Bus reported operating expenses of \$641 million in 2014, equivalent to \$207.33 per vehicle revenue hour (the cost of maintaining one bus in service for one hour). This figure is similar to the \$213.88 cost per vehicle revenue hour for New York City Transit buses.

This option would reduce the city's reimbursement to MTA Bus by instituting a pilot project that would replace service on lightly traveled local bus runs in Queens with taxi service. In conjunction with the MTA, the city would identify 10 percent of bus runs with low passenger counts that could be replaced with taxis that agree to "cruise" the pilot routes. After accounting for administrative costs, including possible payments to both the MTA and taxi owners or operators as an inducement to participate in the pilot, IBO's conservative estimate is that the city could reduce its subsidy payment to the MTA by \$20 million per year.

Specially marked street hail liveries (better-known as green taxis) would pick up and drop off passengers at stops along the bus route, for a cash fare equivalent to the undiscounted subway and bus fare, currently \$2.75 per passenger. Taxis could pick up and discharge multiple passengers along the route, as long as the normal capacity of the vehicle were not exceeded. The fares would go to the driver and taxi owner, not the MTA. Incorporating the MetroCard fare system into taxis would be prohibitively expensive. However, as the MTA moves to new payment systems that use dedicated "smart cards" or bank cards, the payments to taxis could be integrated into the MTA fare system. Until that transition takes place, taxis could partially compensate riders by issuing paper transfers valid for a free bus ride.

According to the city's Taxi and Limousine Commission, the average gross fare revenue per hour (excluding tips) for green taxis was \$20.63 in 2015. Assuming that tips bring the total up to \$25, the driver of a green taxi would need to transport 10 passengers per hour along the bus route at the \$2.75 fare to exceed the current average fare revenue.

PROPOSERS MIGHT ARGUE that replacing buses with taxis on lightly traveled runs represents a more efficient use of public resources. With taxis, service can be provided more frequently, and the hours of service extended. The city's green taxis have been hit hard by the rise of services such as Uber and Lyft, and the proposed pilot would give them a new and important role to play in the transportation system.

OPPONENTS MIGHT ARGUE that the inability to pay with a MetroCard penalizes riders, particularly those with unlimited MetroCards who would be charged a cash fare when the trip would otherwise be covered with their unlimited card. In addition, some users may prefer riding a bus to sharing a taxi with strangers. Others might argue that this change could lead to job losses for the MTA employees currently staffing these bus lines.

OPTION:

Require Landlords of Rental Buildings To Obtain Operating Permits

Savings: \$17 million annually

Under current law, owners of rental buildings with three or more apartments must annually register their contact information with the Department of Housing Preservation and Development (HPD) for a \$13 fee. There is no relationship between registration and ensuring that a building meets health and safety standards under the city's housing maintenance code. It has been decades since the city routinely inspected apartment buildings. Generally, HPD only inspects apartments for violations of the city's housing code if a tenant complains.

This option would require landlords to obtain an annual permit to operate their buildings, modelled after the city's restaurant permitting requirement. The city of Toronto is implementing a similar program in an effort to spur better housing maintenance by building owners, particularly of lower rent housing. Under this option, landlords would be required to hold a permit for each of their buildings and to either be trained or have a managing agent or other employee trained and certified on the housing code. All buildings would be subject to an annual inspection, and, like restaurants, a posted grade rating.

To ensure access to a property, inspections would be scheduled with owners, who would facilitate inspection of common areas and building systems. Owners would also have to post notice of an upcoming inspection and tenants would have the option of having their individual apartments inspected.

The city would charge an annual fee based on a building's apartment count to obtain a permit, which would cover the annual inspection and training costs. The fee would be about \$600 for a 24-unit building (using current inspection costs adjusted for the economies of scale created by performing many inspections in one building at once). Because of these routine inspections, complaint-based inspections would decrease, generating savings for the city. Most of the costs to perform a complaint-based inspection are borne by the city, not the landlord. If complaint-based inspections were to drop by half, the city would save \$17 million annually.

PROPOSERS MIGHT ARGUE that permits are already required to operate a motor vehicle and to open a restaurant, tasks that, if done improperly, pose a public risk. Failure to maintain safe housing poses a similar risk. Permitting would help ensure landlords know health and safety laws. Landlords would also have an incentive to maintain their buildings properly to receive a good rating while also helping to meet the public policy goal of preserving housing, especially more affordable units. Posted grades would be an easy way to inform prospective tenants of building issues. Restaurant permitting does not appear to hurt the restaurant industry or dramatically increase prices—similar results could be expected for rental buildings.

OPPOSERS MIGHT ARGUE that the cost of obtaining a permit and possible increased civil penalties for housing code deficiencies would be passed on to renters. They also might argue that posting ratings publicly might create a stigma for the building's tenants, and that with rent-stabilized tenants often reluctant to give up a lease and limited vacancies at low and moderate rents, it is much harder to move than to choose a restaurant based upon rating information. Additionally, opponents might argue that responsible landlords with few or no housing code violations will now have to shoulder the cost of ensuring that less responsible landlords are maintaining their buildings properly.

OPTION:

**Construct a Waste-to-Energy Plant
For a Portion of City Refuse**

Savings: \$55 million annually (when completed)

Waste-to-energy (WTE) facilities generate electricity from nonrecyclable refuse, mainly through combustion, but also via emerging technologies such as thermal processing and anaerobic digestion. About 12 percent of garbage generated in the U.S. is converted into energy at 86 modern waste-to-energy facilities, although none exist in New York City. Modern plants produce fewer emissions than allowed under federal regulations and can shrink the volume of the waste during processing by up to 90 percent while generating electricity. A city-built WTE combustion facility would reduce the city's long-term waste export costs and reduce pollution caused by exporting much of our waste to out-of-state landfills.

Currently, the city exports about 11,000 tons of waste per day. Most of it goes to landfills as far away as Georgia and North Carolina. In 2015 the city's average cost to export waste to a landfill was \$101 a ton. About 13 percent of the city's exported waste, mostly from Manhattan, is processed in privately owned WTE plants near the city, at a cost of about \$77 per ton. Greater export distances, rising fuel costs, and a decreasing supply of landfill space will continue to drive up the city's future waste disposal costs. Total waste export costs were \$323 million in 2015 and are projected to grow at about 5 percent a year on average.

If the city built its own WTE combustion plant, equivalent to the size and capacity of an existing advanced technology plant, an additional 900,000 tons of refuse, about 28 percent of the city's annual waste exports, could be diverted from export and landfill. The city would save \$55 million annually on waste disposal once the WTE plant is up and running, relative to projections that reflect costs under the long-term contracts.

Site acquisition and securing the required permits from the state are expected to take four years. IBO's estimate assumes that the plant itself would take 3 years to complete, cost \$741 million, and be financed with 30-year bonds at an interest rate of 5 percent. The cost of running the plant is assumed to be in line with comparable plants, while electricity generated is expected to bring in revenues of \$0.13 per kilowatt hour, and the averted export costs are projected to reach approximately \$161 per ton.

PROPOSERS MIGHT ARGUE that advanced technology WTE facilities provide an environmentally friendlier method of waste management than landfill disposal. Furthermore, it has been reported that recycling rates in communities with WTE facilities are 5 percent higher on average than the national recycling rate, which suggests that WTE facilities are compatible with waste management policies that encourage recycling. Also, the plants can be equipped to recover recyclable metals from the waste stream, thereby generating additional revenue.

OPPOSERS MIGHT ARGUE that finding a suitable location in or near the city for the facility will be challenging and that once the plant is built, it will disproportionately affect nearby communities. Some communities might express environmental concerns about WTE facilities, such as issues with ash disposal. They could also argue that the city is already investing in the infrastructure needed to implement its waste export plan, and a change in direction could squander some of that investment. A WTE plant could also discourage ongoing efforts to promote recycling and waste reduction.

OPTION:

Eliminate the Need for Citywide Run-Off Elections

Savings: \$20 million (potential savings every four years, beginning in fiscal year 2022)

Primary elections for citywide offices, which often involve more than two candidates vying for their party's spot on the November general election ballot, currently require that a candidate receive at least 40 percent of votes cast in order to prevail. If no candidate reaches that threshold, a run-off election involving the top two vote getters is required. This most recently occurred in the September 2013 Democratic primary for Public Advocate.

Eligible candidates competing in run-off elections receive an additional allocation of funds from the city's Campaign Finance Board. Even more costly is staffing polling sites for an additional day, printing new ballots, trucking costs associated with transporting voting equipment, and overtime for police officers assigned to polling sites. A run-off election currently costs about \$20 million, depending in part on the amount of matching funds for which candidates are eligible.

This option would save money by eliminating the need for run-off elections through instant run-off voting (IRV), a technique which has been implemented in a number of major American cities such as San Francisco, Portland, Minneapolis, and Oakland. Legislation calling for settling primaries on Primary Day via establishment of instant run-off voting has been introduced in the state Legislature in Albany. In addition, legislation calling for the establishment of instant run-off voting in New York City through referendum was introduced in the City Council in 2014.

Instant run-off voting allows voters to rank multiple candidates for a single office rather than requiring voters to vote solely for the one candidate they most prefer. The IRV algorithm used to determine the winning candidate essentially measures both the depth and breadth of each candidate's support. Perhaps most significantly, the winner will therefore not necessarily be the candidate with the most first choice votes, particularly if he or she is also among the least favored candidates in the eyes of a sufficient number of other voters.

In an election that uses instant run-off voting, primary voters would indicate their top choices of candidates for an office by ranking them first, second, third, etc. If no candidate receives 50 percent of the first choice votes, then the candidate receiving the fewest first choice votes is eliminated. Individuals who voted for the eliminated candidate would have their votes shift to their second choice. This process continues until one candidate has received 50 percent of the vote.

PROPOSERS MIGHT ARGUE that implementation of instant run-off voting would not only yield budgetary savings for the city but also be more democratic. The preference of more voters would be taken into account using instant run-off voting because turnout on Primary Day is usually a good deal higher than turnout for run-off elections two weeks later.

OPPONENTS MIGHT ARGUE that it is unrealistically burdensome to expect voters to not only choose their most desirable candidate in a primary but to also rank other candidates in order of preference. They might also argue that the current system is more desirable in that the voters who make the effort to turn out for run-offs are precisely those most motivated and most informed about candidates' relative merits.

OPTION:**Use Open-Source Software Instead of Licensed Software for Certain Applications****Savings: \$14 million annually**

Each year the city pays fees to maintain a variety of computer software licenses. Many open-source alternatives to traditional software packages are available at no cost for the software. Under this option the city would reduce its use of licensed software by switching to open-source software. In May 2014, legislation was introduced in the City Council to have the city minimize its contracts for licensed software in favor of open-source software.

One of the city's biggest software expenditures is for its Microsoft Enterprise Licensing Agreement, which pays for all of the city's Microsoft software licenses, including email, server technology, and desktop programs for city employees. In 2015 the city spent \$25 million to maintain its Microsoft licenses. Several cities have transitioned to using open-source software for such functions. For example, Munich, Germany switched from Microsoft to use the open-source systems of Linux and LibreOffice, creating its own "LiMux" system.

Initially, the city would need to invest funds to hire developers to create and install the programs, as well as new applications for specialized city programs that would be compatible with the new systems. Staff would need retraining, though some of these costs would be offset by reducing current spending on training for existing software. If the city were to switch from Microsoft to open-source software and reduce what it is now spending on licenses by one-third as it developed the new programs, the savings would be over \$8 million. In several years, as the city completed the development of its open-source system, the savings could increase to the full cost of the Microsoft licenses.

The city also pays for licenses for other software programs that it uses on a smaller scale, which might be more easily transitioned to open-source software, although city savings would also be much less. For example, many city agencies have individual licenses for statistical software such as SAS, SPSS, or Stata. These packages are used for evaluation, policy analysis, and management. One open-source option is R, an alternative that is popular with academic institutions and used at a variety of large corporations. A city agency with 20 licenses for statistical packages would spend about \$25,000 a year to maintain the licenses. If 10 agencies of roughly that size switched from a commercial package to R, the city could achieve savings of about \$250,000 per year.

PROPOSERS MIGHT ARGUE that open-source software has become comparable or superior to licensed software over time and would allow the city more technological flexibility and independence. Moreover, open-source software is constantly being improved by users, unlike improvements to licensed software that are often available through expensive updates. Switching to open-source software would become easier as more employees in other sectors learn to use the software prior to working for the city.

OPPOSERS MIGHT ARGUE that purchasing software from established companies provides the city with access to greater technical support. In addition, city workers have been trained and are experienced using licensed software. Finally, new software may not interact as well with the licensed software used by other government agencies or firms.

OPTION:

Establish Copayments for the Early Intervention Program

Savings: \$19 million annually

The Early Intervention program (EI) provides developmentally disabled children age 3 or younger with services through nonprofit agencies that contract with the state Department of Health. Eligibility does not depend on family income. With about 32,250 children participating at a time and a total cost of \$233.3 million, the program accounted for 15 percent of the total city Department of Health and Mental Hygiene budget in 2015.

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; just \$10 million came from private insurance in 2010. Medicaid pays the full cost for enrolled children, with \$245 million coming from this source in 2010. The remaining costs are split approximately equally between the city and the state. In recent years, the city successfully increased the share of the program paid by Medicaid. As a result, the net cost of EI to New York City decreased from \$129 million in 2005 to \$116 million in 2010.

Under this option, the city would seek to further reduce these costs through the establishment of a 20 percent copayment for unreimbursed service costs 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 33 percent of EI families that fall into this category, this could increase payments from private insurers by giving participants an incentive to assist providers in submitting claims. The burden of 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 copayment requirement would require approval from the state Legislature; state savings would be somewhat greater than city savings because Medicaid spending on EI services would decrease. (Note that this savings estimate only includes EI services in New York City; there would be additional savings for the state and for counties elsewhere in the state if adopted statewide.)

PROPOSERS MIGHT ARGUE that establishing copayments could alleviate some of the strain the EI program places on the city budget without reducing the range 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 or to providers, public funds are paying for EI services for many children with private health coverage. Instituting copayments would provide these families with the incentive to seek payments from their insurers for EI services. Finally, they might note that cost-sharing is used in many other states.

OPPONENTS MIGHT ARGUE that the institution of a 20 percent copayment 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 services, savings here do relatively little for the city budget. Opponents might also argue that the creation of a copayment 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.

OPTION:

Pay-As-You-Throw

Savings: \$337 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 other than recyclable material in separate containers—in much the same way that they are charged for water, electricity, and other utilities. The city would continue to bear the cost of collection, recycling, and other sanitation department services funded by city taxes.

PAYT programs are currently in place in cities such as San Francisco and Seattle, and more than 7,000 communities across the country—and the de Blasio Administration is reportedly seeking a consultant to consider it here. 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 up to 35 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 sanitation department projections of annual refuse tonnage and waste disposal costs, 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 savings of \$337 million. A 15 percent reduction in waste would bring the average cost per household down to \$82 and a 30 percent reduction would further lower the average cost to \$68 per residential unit.

Alternatively, implementation could begin with Class 1 residential properties (one-, two-, and three-family homes) where administration challenges would be fewer than in large, multifamily buildings. This would provide an opportunity to test the system while achieving estimated savings of \$106 million, assuming no decline in the amount of waste thrown away.

PROPOSERS MIGHT ARGUE that by making the end-user more cost-conscious, the amount of waste requiring disposal will decrease, and the amount of material recycled would likely increase. They may also point to the city’s implementation of metered billing for water and sewer services as evidence that similar programs have been successfully implemented. To ease the cost burden on lower-income residents, about 10 percent of cities with PAYT programs have implemented subsidy programs, which partially defray the cost while keeping some incentive to reduce waste. They might also 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:

Alter Staffing Pattern in Emergency Medical Service Advanced Life Support Ambulances

Savings: \$7 million annually

The fire department's Emergency Medical Service (EMS) currently staffs about 225 Advanced Life Support (ALS) and 450 Basic Life Support (BLS) ambulance tours each day. 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. Budgetary savings would result from lower personnel costs as the number of fire department paramedics is allowed to decline by attrition while hiring additional EMTs to take their place.

New York City is the only jurisdiction in the state where Advanced Life Support ambulances are required to have two paramedics. Regulations governing ambulance staffing in New York State are issued by entities known as regional emergency medical services councils. The membership of each council consists of physicians from public and private hospitals as well as local emergency medical services providers. There is a council with responsibility solely for New York City, the New York City Regional Emergency Medical Advisory Council (NYC-REMSCO).

In 2005, the city unsuccessfully petitioned NYC-REMSCO for permission to staff ALS ambulance units with one paramedic and one EMT, with the city contending "there is no published data that shows improved clinical effectiveness by ALS ambulances that are staffed with two paramedics." In January 2009, the Bloomberg Administration again expressed its intention to approach NYC-REMSCO with a similar request, but thus far the double-paramedic staffing policy applicable to the city remains in place.

PROPOSERS MIGHT ARGUE, as the fire department did in 2005, that staffing ALS ambulances with one paramedic (accompanied by an EMT) would not jeopardize public safety. They might also argue that rather than seeking to attain the full budgetary savings associated with allowing paramedic staffing to decline, the fire department could instead take advantage of having the flexibility to staff ALS ambulances with only one paramedic and thereby boost the total number of ambulances staffed with at least one paramedic without requiring the hiring of additional paramedics. This in turn would enhance the agency's ability to deploy paramedics more widely across the city and improve response times for paramedic-staffed ambulances to ALS incidents. During the first eight months of calendar year 2015 only 56 percent of ALS incidents were responded to within 10 minutes by a paramedic.

OPPONENTS 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. They might also argue that a more appropriate solution to the city's desire to deploy paramedics in a more widespread manner would be to increase their pay and improve working conditions, thereby enhancing the city's ability to recruit and retain such highly skilled emergency medical personnel.

OPTION:**Consolidate Building, Fire, Environmental Protection, and Housing Inspections****Savings: \$17 million annually**

Several agencies are charged with inspecting the safety of city buildings. The Department of Buildings (DOB) inspects building use, construction, boilers, and elevators under its mandate to enforce the city's building, electrical, and zoning codes. The Department of Housing Preservation and Development (HPD) inspects multifamily residences to ensure they meet safety, sanitary, and occupancy standards set forth in the housing code. Fire department (FDNY) inspectors evaluate buildings' standpipe, sprinkler, ventilation, and air-conditioning systems as part of their duties to enforce fire safety requirements. The Department of Environmental Protection (DEP) inspects sites where construction work might disturb asbestos-containing materials to ensure air quality standards are maintained.

All together DOB, HPD, FDNY, and DEP currently employ around 1,300 inspectors at a cost of \$85 million in salaries (excluding fringe benefit and pension expenses) to ensure that building owners and construction crews are meeting safety requirements. In fiscal year 2017, inspectors from these agencies performed more than 1 million inspections. While inspectors at each agency are trained to check for different violations under their respective codes, there are areas—inspections of illegally converted dwelling units or the demolition of buildings with asbestos containing materials, for example—where responsibilities overlap.

Under this option, the city would consolidate the various inspection functions now housed in DOB, HPD, FDNY, and DEP into a new inspection agency while the agencies' other functions would remain unchanged. This option would require legislative changes to the city's Administrative Code and charter.

Because inspectors from each agency currently visit some of the same buildings, there would be efficiency gains by training inspectors to look for violations under multiple codes during the same visit, although some more specialized inspections would still require dedicated inspectors. If the city were to reduce the number of inspections by 15 percent, the annual savings—after accounting for additional executive and management staff required for a new agency—would be about \$17million.

PROPOSERS MIGHT ARGUE that consolidating inspections would streamline city resources and increase the consistency of inspections while allowing DOB, HPD, FDNY, and DEP to focus on the other aspects of their missions. They could point out that other major cities, including Chicago and Philadelphia, centralize building inspections in one agency. They might also argue that public safety may be improved by eliminating the need for cross-agency coordination. Also, most of HPD's inspections are funded through a federal grant, which has been cut repeatedly in recent years. Increasing efficiency, therefore, is especially important as fewer federal dollars are likely to be available for housing code inspections in the future.

OPPONENTS MIGHT ARGUE that inspections and code enforcement are too closely linked with each of the agencies' missions, making separation into a single agency difficult. There is also a limit to efficiency gains because some inspections, such as elevator inspections, are highly technical and would still require specialized staff. Some interagency memoranda of understanding already allow for one agency to issue certain violations for another.

OPTION:

Eliminate City Dollars and Contracts for Excellence Funds for Teacher Coaches

Savings: \$21 million annually

Coaches work to improve teachers' knowledge of academic subjects and help educators become better pedagogues. Instructional expertise is an important goal because research indicates that of all factors under a school's control, teacher quality has the greatest effect on student achievement. When coaches are successful, they give teachers the ability to help students meet challenging academic standards and they also give teachers better classroom management skills. Under this option the Department of Education (DOE) would essentially eliminate city and unrestricted state funding for teacher coaches and rely instead on other professional development programs to help teachers improve their performance.

Coaches are one piece in a large array of ongoing professional development programs in the city's schools. The DOE provides a variety of opportunities to teachers at all levels including "model" and "master" teachers, lead teachers, after school "in-service" courses, and (online) staff development. DOE continues to work to align teacher support and supervision with the demands of the new Common Core curriculum and also to use technology to support teacher effectiveness. Some professional development activities are school-based while others are administered citywide.

In 2016, \$32 million from a variety of funding sources (down from \$39 million in 2015) was expected to be spent on math, literacy, and special education coaches. Sixty-three percent (\$13 million) of these expenditures are funded with city dollars. There is also nearly \$8 million in state Contracts for Excellence money dedicated to coaches which can be redirected for other school needs.

PROPOSERS MIGHT ARGUE that city funding for teacher coaches is not necessary given the DOE's myriad professional development offerings and funding from federal grants like Elementary and Secondary Education Act Title II—Improving Teacher Quality, which is intended for professional development. Similarly, they could point out that although in New York State the federal government has waived the specific set-asides from a school's Title I allocation for teacher development, those funds can still be used to support coaching positions.

OPPOSERS MIGHT ARGUE that if professional development is a priority then it should be supported with adequate city funding. Opponents can also argue that reliance on grants could put these positions in jeopardy if the funding disappears over time. They can also say that the schools are supposed to have a high level of autonomy and should have many options for providing professional development to their teaching staff.

OPTION:**Eliminate City Paid Union Release Time**

Savings: \$26 million in the first year

Most, if not all, of New York City's collective bargaining agreements contain provisions relating to union release time. In most cases they mandate that Executive Order 75, issued in March 1973, governs the conduct of labor relations by union officials and representatives. The Executive Order delineates union activities eligible for paid union leave (such as investigation of grievances and negotiations with the Office of Labor Relations) and other union activities eligible only for unpaid leave. The Office of Labor Relations determines who is eligible for paid union release time. In 2016, approximately 156 employees of city agencies were on paid full-time union release, such as unions' presidents and vice presidents. Another 53 were scheduled for part-time paid union release. In 2015, 2,243 additional employees were approved to take paid union leave on an occasional basis. By far, the New York City Police Department had the most employees on preapproved union leave with 52 on full-time and 14 on part-time city paid union leave.

Under this option, the city would no longer pay for union release time. Union release time will be granted, but without pay. If this option were to be adopted, unions would have to decide whether to compensate their members who take union release time. This option would save the city \$25 million in 2017, with the savings increasing by about \$700,000 each year thereafter. Implementation would require collective bargaining with the municipal unions, an amendment to Executive Order 75, and a change in the Administrative Code. Changes to the state's Taylor Law might also be necessary.

PROPOSERS MIGHT ARGUE that the city should not subsidize work performed by its employees for any private entity, including a labor union. Others might argue that it is inappropriate to ask city taxpayers to fund paid union leave because some activities of those on leave, such as political organizing, may not serve the public interest. Some might argue that forcing unions to bear the costs of their activities would motivate unions to make their operations more efficient, benefitting union members, in addition to the city. Finally, some might argue that it is unfair for the city to pay for union leave time when nonunion employees do not have city-funded individuals to address their grievances and concerns.

OPPOSERS MIGHT ARGUE that the 40-year tradition of granting paid leave to union officials has been an efficient arrangement for addressing union members' concerns and conflicts with management—less costly and less time-consuming than formal grievance arbitration. They might argue that if unions were to compensate those on union leave in lieu of city pay, this option would result in higher costs to union members through increased union dues. Finally, others might argue that eliminating city-paid union leave time would undermine the union's effectiveness in responding to grievances and in bargaining matters, which in turn would hurt worker morale, reduce productivity, and add other costs to unions' operations.

OPTION:

Eliminate the 20-Minute “Banking Time” For Certain Education Department Staff

Savings: \$1 million annually

About 3,500 Department of Education (DOE) nonpedagogical administrative employees covered under collective bargaining agreements receive a 20-minute extension of their lunch period each payday (every two weeks) to transact banking business. Unlike lunch, however, the extra 20 minutes is paid time, whether or not it is devoted, as presumed, to banking transactions. Only administrative employees who work in DOE’s central or district offices and not in specific schools—about a third of the department’s administrative staff—receive this benefit.

By eliminating this benefit to eligible DOE employees, productivity savings would accrue, as these employees would now work seven hours on paydays instead of six hours, 40 minutes. On a yearly basis, eliminating subsidized banking time on paydays would yield approximately 8.7 hours of additional productive labor per employee, saving approximately \$1.1 million annually.

Implementing this option would require a change in the DOE Rules and Regulations Governing Non-pedagogical Administrative Employees (Rule 3.7) and may also require negotiations with the respective unions.

PROPOSERS MIGHT ARGUE that no other city agency grants this benefit, as most city full-time employees work a full seven hours on paydays as on other workdays. Moreover, this benefit is virtually unheard of in the private sector. The availability and increasing popularity in recent years of direct deposit, automated teller machines, online banking, and other forms of electronic funds transfer have minimized the need for city employees to visit banks in order to make banking transactions, making this benefit of banking time obsolete. In most cases the benefit simply extends lunch on payday. Finally, granting a 20-minute extension of the lunch hour to some DOE employees—only those unionized, those in administrative positions, and those who do not work for a specific school—but not others is inherently unfair.

OPPOSERS MIGHT ARGUE that this benefit is needed because not all eligible employees have bank accounts for automated deposits, and thus, some need this time to conduct business at other nonbank locations, such as check cashing stores. Moreover, even for those who have bank accounts, the 20 minutes allotted for banking may be needed for transactions other than check deposits. Cash withdrawals may be needed by the employee, and the extra 20 minutes allows employees to go to their own bank and escape automated teller fees charged by other banks to those without accounts. Finally, it could be argued that this paid time was accrued as an employee benefit and thus, with the consent of the applicable unions, was used as a trade-off for other givebacks. Thus, if one were to eliminate this benefit, it should be offset by providing another city benefit to eligible workers.

OPTION:

Establish a Four-Day Workweek For Some City Employees

Savings: \$20 million in first year

Most of the city's civilian employees work seven hours a day for five days—a total of 35 hours—each week. Under this proposal, city employees in certain agencies would work nine hours a day for four days (a total of 36 hours) each week with no additional compensation, which, in turn, would result in an increase in productivity per employee. As a result, the city would be able to accomplish a reduction in staffing without decreased output, thereby generating savings.

Employees at city agencies involved in public safety, transportation, code enforcement, and other critical operations would retain the current five-day workweek, as would all employees of schools and hospitals. Additionally, this option would not apply to small city agencies, where a reduction in staffing would be extremely difficult to do. Under these assumptions, the change would apply to agencies with a total of about 24,600 employees currently working a 35 hour week. If these employees were required to work one additional hour per week, 663 fewer employees would be needed. We assume that the reduction in staffing would take place over three years through attrition and redeployment of personnel to fill vacancies in other agencies.

This proposed option requires the consent of the affected unions.

PROPOSERS MIGHT ARGUE that workers would welcome the opportunity to work one additional hour per week without additional compensation because of the desirability of commuting to work only four days a week instead of five. Although affected city offices would be closed one weekday, they would be open two hours longer on the remaining four days of the week thereby allowing for more convenient access by the public. Although not factored into our projection of potential savings, keeping city offices open just four days a week is also likely to reduce utility, energy, and other costs. Lower energy consumption would support the sustainability goals of the Mayor's OneNYC initiative.

OPPONENTS MIGHT ARGUE that adding an additional hour to the workweek without additional compensation is equivalent to a 2.8 percent wage cut. They might further note that many employees have commitments, such as parenting, that would make a 10-hour workday difficult (nine work hours plus the customary lunch hour). Opponents might also argue that predicted productivity savings are too optimistic for at least two reasons. First, workers' hourly productivity is likely to be lower when the workday is extended by two hours. Second, when employees are ill and use a sick day, it would cost the city nine hours of lost output as opposed to only seven under the current rules.

OPTION:

Have the Metropolitan Transportation Authority Administer Certain Civil Service Exams

Savings: \$4 million annually

This option, modeled on a recommendation included in the January 2011 report of the NYC Workforce Reform Task Force, involves giving the Metropolitan Transportation Authority (MTA) responsibility for developing and administering their own civil service exams for two affiliates: NYC Transit (NYCT) and MTA Bridges and Tunnels. Currently, the city has responsibility for civil service administration for about 200,000 employees, including around 40,000 who actually work for these two units of the MTA. Transferring responsibility for the civil service exams to the MTA would require a change in state law.

The city's Department of Citywide Administrative Services (DCAS) develops and administers civil service exams for these two units of the MTA, with some assistance from the transportation entities themselves. DCAS has estimated that it costs about \$4 million per year to develop and administer the tests. The MTA is willing to absorb this cost, if given full control over the exams. The New York State Civil Service Commission would continue to have ultimate jurisdiction over these employees.

Before the MTA was created, NYCT and MTA Bridges and Tunnels (then known as the Triborough Bridge & Tunnel Authority) were operated by the city. Both entities became part of the MTA, a state public authority, in 1968. However, state law currently stipulates that the city maintain civil service jurisdiction over these transportation providers because of their original establishment as city agencies.

PROPOSERS MIGHT ARGUE that because NYCT and MTA Bridges and Tunnels are not city agencies, the city should not be in charge of the authority's civil service exams. The MTA is well-equipped to develop and administer the exams, something it already does for its other affiliates.

Proponents could also note that the MTA argues that if it controlled the process, it could fill vacant positions at NYCT and MTA Bridges and Tunnels more quickly because it would have greater incentive to process the exams promptly.

OPPOSERS MIGHT ARGUE that having a third party, in this case the city, develop and administer the civil service exams keeps the process more impartial. Some union representatives and state legislators have expressed support for the current arrangement given the often-contentious state of labor-management relations at the MTA. Opponents are concerned that giving the MTA more administrative responsibility for civil service at these two units could make it easier for the MTA to move titles into "noncompetitive" status, which offers no statutory protection against layoffs.

OPTION:

Increase the Workweek for Municipal Employees to 40 Hours

Savings: \$196 million in the first year, growing to \$664 million in three years

This proposal would increase to 40 the number of hours worked by roughly 66,800 nonmanagerial, nonschool based, full-time civilian employees, currently scheduled to work either 35 hours or 37.5 hours per week. Uniformed employees and school-based employees at the Department of Education and the City University of New York would be excluded. With city employees working a longer week, agencies could generate the same output with fewer employees and thus save on wages, payroll taxes, pension costs, and fringe benefits.

If all employees who currently work 35 hours a week instead work 40 hours, the city would require 12.5 percent fewer workers to cover the same number of hours. Similarly, increasing the hours of all employees who currently work 37.5 hours per week to 40 hours would allow the city to use about 6 percent fewer workers. Controlling for the exclusion of small city agencies as well as work units or locations that would have a hard time producing the same output with fewer employees, IBO estimates that 7,067 positions could be eliminated if this proposal were implemented—or about 11 percent of nonmanagerial, nonschool-based, full-time civilian positions.

Assuming that the city would gradually achieve the potential staff reductions under this proposal by attrition as opposed to layoffs, savings in the first year could be \$196 million, increasing to \$664 million annually by in three years.

This proposal would require collective bargaining.

PROPOSERS MIGHT ARGUE that the fiscal challenges facing the city justify implementation of this proposal calling for increased productivity on the part of thousands of city workers. They might also argue that many private-sector employers require 40 hour work weeks, as does the federal government and numerous other public-sector jurisdictions. They also could point out that, on a smaller scale, there already is precedent in New York City government for this option. Since August 2004, newly hired probation officers work 40 hours per week instead of the previous 37.5 hours per week, with no additional pay—a provision agreed to in collective bargaining with the United Probation Officers Association.

OPPONENTS MIGHT ARGUE that requiring city workers to work an increased number of hours per week without additional compensation—equivalent to reduced pay per hour—would simply be unfair. They might also argue that lower productivity could result from worker fatigue, which, in turn, would keep the city from achieving the full savings projected from implementation of this option.

OPTION:

Institute Time Limits for Excessed Teachers In the Absent Teacher Reserve Pool

Savings: \$84 million

Excessed teachers are educators who have no full-time teaching position in their current school. Teachers in the absent teacher reserve (ATR) pool are teachers who were excessed and did not find a permanent position in any school by the time the new school year began. Current policy dictates that ATR pool members are placed into schools by the Office of Teacher Recruitment and Quality in teaching positions matching their license area. Reserve teachers remain in schools on monthly assignments and can also perform day to day substitute classroom coverage while seeking a permanent assignment. Using teachers in the ATR for short- and long-term vacancies that might otherwise be filled with substitute teachers generates savings for the Department of Education (DOE). Revised provisions concerning the ATR were put in place under a 2009 agreement between the DOE and the United Federation of Teachers; these have been modified at number of times, most recently in 2017. The current agreement is slated to remain in effect through the 2018-2019 school year.

Principals only have to consider up to two candidates from the ATR for any given vacancy in a school term before hiring a substitute teacher from outside the pool. Additionally, there is no minimum amount of time that a teacher from the ATR may remain in an assignment and the principal has the power to remove an ATR teacher at any time. Any further changes to the ATR policy would likely need to be collectively bargained.

Under this option teachers would be dismissed after a year in the ATR pool without obtaining a permanent position. This year, the city is on track to spend \$120 million on 1,210 excessed teachers in the pool; within this group, 837 teachers earning a total of \$83.8 million in salary and fringe benefits had also been in the pool in the prior year.

If teachers are dismissed after a year in the ATR pool, the reserve pool would shrink. Moreover, some teachers in the pool would be more aggressive in seeking permanent positions. The estimated savings account for the extra costs that would be incurred by schools forced to use more per diem substitutes due to fewer teachers in the ATR pool.

PROPOSERS MIGHT ARGUE that the DOE can no longer afford to keep teachers on the payroll who are not assigned to the classroom. They can also argue that an agreement to go on interviews while drawing a paycheck does not create the same urgency to find a permanent position as does the possibility of losing employment if not rehired within a specific time frame.

OPPOSERS MIGHT ARGUE that ATR teachers are no longer sitting idle—they are being used as substitutes. They could also argue that being excessed is not always the individual teacher's fault and they should not be further penalized with time limits because ATR teachers have little control over how quickly they can find a new position. Opponents could also argue that ATR teachers are distracted from seeking permanent positions because they must work as fill-in substitutes and clerks. Additionally, many in the pool are more experienced so they are at a disadvantage in competing for open slots because they earn higher salaries that must be paid out of the principal's school budget.

OPTION:

Require Police Officers to Work 10 Additional Tours Annually by Reducing Paid “Muster Time”

Savings: \$131 million annually

Police officers are contractually required to be scheduled to work a specific number of hours each year before subtracting vacation days, personal leave, and other excused absences. At present, police officers work shifts that are 8 hours and 35 minutes long. The paid 35 minute period added to each otherwise 8-hour shift, often referred to as muster time, essentially provides operational overlap—including time for debriefing and wash up—as officers concluding one tour are relieved by officers coming in to work the next tour.

This budget option proposes that only 15 minutes at the end of each tour be reserved for muster time, thereby allowing the police department to schedule officers for an additional 10 tours of duty per year. This in turn would result in the department being able to preserve existing enforcement strength with roughly 1,050 fewer officers, generating annual budget savings of about \$131 million. This option would require collective bargaining.

PROPOSERS MIGHT ARGUE that the current 35 minutes allotted for muster time is excessive. Scaling this period back to 15 minutes would allow the police department to generate budget savings for the city by requiring police officers to work what would amount to only a relatively small number of additional tours each year.

OPPOSERS MIGHT ARGUE that the current allotment of 35 minutes for debriefing and changing clothes is legitimate. They might also argue that a reduction in this period of paid duty would reduce police force cohesiveness and morale.

OPTION:**Share One Parent Coordinator and General Secretary Among Co-located Schools**

Savings: \$37 million annually

Over the past 13 years, many large public schools in New York City have been closed and multiple smaller schools have opened in their place, often sharing space in the buildings that formerly housed single large schools. In the 2015-2016 school year, there were 1,579 schools located in 1,142 buildings. These schools typically have space sharing arrangements for rooms such as libraries, gymnasiums, and lunch rooms. Under this option, multiple schools located in one physical building would also share certain noninstructional staff, such as secretaries and parent coordinators.

New York State education law 100.2 specifies that each school must have a full-time principal who oversees the appointment and supervision of school staff. However, the law does not specify that an individual school must have its own secretary or parent coordinator.

The city's fiscal year 2016 budget allocated about \$93 million for almost 1,600 parent coordinator positions. The average salary plus fringe benefits is about \$58,400. If the city hired only one parent coordinator per school building, about 452 positions would be reduced, saving about \$26.3 million. In the 2014-2015 school year, schools employed approximately 1,300 secretaries who perform general services. Schools also employ additional secretaries who perform payroll, timekeeping, and purchasing duties. General services secretaries have an average salary plus fringe benefits of \$71,893, so if each school building employed only one, savings would add up to more than \$10 million. Together, savings from sharing these noninstructional staff among schools in shared facilities could save the city \$37 million.

PROPOSERS MIGHT ARGUE that many new small schools have opened in large school buildings that previously housed only one school and in most cases was served by only one general services secretary and one parent coordinator. They could also point out that some co-located schools already share other staff such as librarians and that the Department of Education has allowed the elimination of parent coordinators at certain schools in the past. In addition, they might also argue that because other types of secretaries employed by individual schools also perform various administrative duties, more than one general services secretary per building is redundant.

OPPONENTS MIGHT ARGUE that maintaining these positions for each school in a building helps those schools maintain their own identity. Sharing positions would also create uncertainty in terms of the supervisory chain of command and might undermine the DOE's mandate that each Principal be the "CEO" of their school. It would also result in schools being treated differently, with those not sharing facilities having an advantage over schools that are co-located since they would not be sharing personnel.

OPTION:**Use E-Learning When High School Teachers Are Absent for Just a Few Days****Savings: \$9 million annually**

Under this option, high schools with a teacher who is absent fewer than three consecutive days would no longer use per diem substitutes but rather assign students an “e-learning” period for the affected class session. Use of per diem substitutes would decline, producing savings for the education department. While teachers from the absent teacher reserve pool are used for longer-term absences, schools continue to use and pay for per-diem substitutes for short-term and unplanned absences. In the 2015 school year, high school budgets included a total of \$23.7 million for per-diem teacher absence coverage, \$15.5 million of which was funded with city funds.

Over the course of the 2015 school year, teachers in city high schools missed a total of 96,000 school days due to absences of three days or less. Such short-term absences account for 97 percent of all classroom teacher absences; 84 percent of absences were for a single day. Currently, the Department of Education is required to cover every teacher absence with an appropriate substitute. Under this option, rather than a school calling in substitutes who are paid on a per diem basis, students would instead be directed to online assignments. Online lessons during teacher absences would ideally be related to the current class syllabus, credit recovery, or extra credit. The material could also be a way to improve software and programming skills. Implementation would probably require collective bargaining with the teachers union.

If this option were fully implemented, the only high school per diem substitutes needed would be those engaged for a full term. Based on a per diem rate of \$155 per day, the total cost of covering one-, two-, and three-day absences in high schools was \$17.4 million. We estimate that up to half of the savings associated with eliminating these hires would be offset by costs for technology such as connectivity, broadband/bandwidth requirements, software licensing, and hardware. Given that there is much to learn about the effectiveness of such instructional material and the logistics of having students using it on a regular basis, the program could be run as a pilot in a subset of high schools to gain experience and assess its viability. If the option were implemented as a pilot, the estimated savings would be lower.

PROPOSERS MIGHT ARGUE that online learning is effective and flexible for instruction in many subjects. Moreover, given that in many cases of unanticipated short-term absences, there are few lesson plans available for substitutes to use in preparing to teach a class on short notice, the e-learning alternative may be pedagogically equal or even superior. Providing a choice of online learning topics might increase student satisfaction, attention, participation, and attendance. Schools would not have to worry about getting substitutes to come in to cover unscheduled absences, reducing stress on school administrators and other school staff who scramble to work out class coverage. Independent e-learning can also teach students life skills such as time management.

OPPOSERS MIGHT ARGUE that the logistics of such a policy would have to be well thought out. Schools would need a monitored common space or other appropriate setting to implement independent e-learning. There could also be collateral costs to maintain infrastructure to support e-learning over the longer term. Finally, the need to ensure student safety and attendance would likely require assigning school staff to the e-learning space, which could leave other school functions short-staffed.

OPTION:

Double the Incentive Payments for the Health Benefit Waiver Program

Savings: \$3 million in 2019, growing annually in the following years

New York City has experienced a dramatic rise in the cost of providing health care to its workforce. From 2007 through 2017, individual and family premiums have increased over 100 percent, from \$3,740 to \$7,669 and \$9,163 to \$18,789, respectively. One strategy the city employs to reduce medical expenses is the Medical Spending Conversion Health Benefits Buy-Out Waiver Program. Employees who are covered by another health plan (either through their spouse/partner, parents, or outside employment) are eligible to receive an annual buyout from the city—\$500 for waiving individual coverage and \$1,000 for family coverage.

With one exception, the buyout waivers have remained at \$500 and \$1,000 since they doubled in 2008. With waiver payments remaining constant in nominal terms and declining in inflation-adjusted terms, participation in the waiver program gradually declined from 2010 through 2015. In 2016 the city briefly tripled the waiver payments, increasing the number of participants by over 1,000, or 24 percent. Even after payments reverted to \$500 and \$1,000 in 2017, however, the number of employees participating in the buyout program barely declined, dropping by approximately 170 (2.6 percent). In 2017 the number of takers for the waivers remained 20.6 percent higher than it was in 2015.

Under this option the city would double the health waiver benefit payments to roughly reflect the increase in premium costs over the last decade, providing a greater incentive for employees to join the program. Assuming a modest increase in the waiver participation rate rather than the declines seen in past years where payments stayed flat, IBO estimates that doubling the current payment levels would save the city an additional \$3.3 million in the first year. Savings will continue to grow as health insurance premium costs continue to rise, outpacing the impact of possible future declines in waiver program participation.

PROPOSERS MIGHT ARGUE that the amount of the waiver has not been permanently increased in 10 years while the city's premium costs have doubled. Moreover, proponents could argue that an increase need not be as large as in 2016 when the city tripled the waiver payments and program signups spiked, but the net savings grew by a relatively modest 9.2 percent. Even a more modest increase would be sufficient to generate savings. Proponents also might contend that a regular calibration of the real value of the waiver payment to the increase in health care premium costs would enable the city to achieve a more balanced incentive and attract a greater pool of participants.

OPPONENTS MIGHT ARGUE that in years when the waiver amounts have remained steady the net number of waiver takers has barely declined despite the drop in the real value of the waiver amounts, and thus each year the city has accrued greater annual savings per participant. So long as participation does not precipitously drop, the city should not further subsidize waiver takers who already have outside coverage in order to attract new waiver beneficiaries. They may also argue that increased participation in the waiver program would reduce the number of employees in the city's pool of health insurance recipients. At some point, if too many employees opt out of the city's health insurance program, the city's bargaining power with the health insurance companies may diminish, leading to higher premium costs.

OPTION:

Shift Payment of All WageWorks Fees for Commuter Benefit Plans to Employees**Savings: \$1 million annually**

New York City employees have access to a variety of pre-tax benefit plans. Among the options available to employees are plans providing pre-tax benefits for the cost of commuting. The city contracts with WageWorks to manage the provision of these commuter benefits on a per-user fee. The fees currently range from \$1.77 to \$3.05 for each user per month.

Prior to contracting with WageWorks to provide the commuter benefit programs in 2010, the city directly managed the pre-tax commuter benefit program with the administrative costs paid for by the city. The change to WageWorks management allowed the city to offer a wider variety of options to the plan participants. The city and its labor unions agreed that going forward, the city rather than employees would pay the WageWorks administrative fee for those participating in commuter benefit plans that had existed prior to the shift to WageWorks. Employees who enroll in the Transit Pass program, the Park-n-Ride program or the Unrestricted Commuter Card program—all programs newly available to city workers following the shift to WageWorks—are required to pay the WageWorks administrative fee out of their post-tax income.

Over the past six years the city's fee payment to WageWorks has averaged \$858,000 annually; in calendar year 2016 the city paid the fee for over 49,000 participating city employees. As usage grows, IBO estimates that the city's payment to WageWorks will eventually exceed \$1 million a year. Because the Internal Revenue Service treats the payment of these city-subsidized fees as a fringe benefit, this arrangement increases the employees' taxable income, thus reducing the benefit of the payment. In 2016 nearly 22,000 other city employees participated in commuter plans in which the employee paid the WageWorks fee, paying a total of nearly \$270,000.

This option would shift the monthly payment of the WageWorks fee for all of the commuter benefit programs to employees, ending the distinction between participants in different plans. The elimination of this fee would have to be done as a part of a collective bargaining agreement between the city and its labor unions.

PROPOSERS MIGHT ARGUE that the city is treating the variety of pre-tax commuter plans differently in subsidizing users of certain plans while not subsidizing those who opt for other plans. They could point out that the fees employees would now have to pay are relatively small compared with benefits received and that they would no longer be taxed on the fee since the city is no longer paying it.

OPPONENTS MIGHT ARGUE that city employees have never had to pay the fee for these pre-tax commuter plans and this change would result in a reduction in benefits provided to employees. They might also point out that for at least some of the lowest paid city employees, the extra burden of paying the fee could deter them from taking advantage of the program.

OPTION:

Switch to Auto-Loading Garbage Pick-Up in Low-Density Neighborhoods

Savings: \$30 million annually

The Department of Sanitation (DSNY) currently uses single or dual bin rear-loading trucks to pick up the majority of curbside refuse in New York City. These trucks require two DSNY workers—one to drive while the other manually loads curbside refuse onto the truck. Alternatively, the city could shift to using automatic side loading sanitation trucks in some areas. These trucks use mechanical arms to pick up standardized plastic garbage cans curbside and dump them overhead into the truck before replacing the empty can on the curb. If use of these auto-loading trucks were expanded in low-density neighborhoods, only one sanitation worker would be required per route, lowering DSNY labor costs. Additionally, eliminating the requirement to repeatedly lift heavy bags or cans on these routes could reduce injuries and worker compensation costs.

Many municipalities across the country have switched to automatic loading sanitation trucks and have successfully lowered waste collection costs. However, these trucks are usually deployed in low- to moderate-density areas because high density areas lack the requisite curbside space for them to operate. In New York City, this would mean restricting the use of auto-loader trucks to Staten Island and outlying areas of Brooklyn, the Bronx, and Queens. Rear auto-loading sanitation trucks could be used in high-density neighborhoods, but these trucks would still require a second sanitation worker to move the garbage cans onto the lifting platform, which eliminates much of the savings on labor. Parking and street cleaning regulations would need to be coordinated to facilitate the auto-loaders, especially in areas that do not have alternate side of the street parking rules.

If neighborhoods with a density of under 30,000 residents per square mile were converted to auto-loading pickup, about 32 percent of city refuse, or 815,000 tons per year, could be collected on single-worker routes, achieving annual savings of about \$30 million. This would require purchasing around 700 new side-loading trucks, which cost around \$50,000 more per truck than regular sanitation trucks, and supplying participating households with truck-compatible bins at \$50 apiece. The new trucks would be expected to last roughly as long as the city's current trucks, but would likely have higher maintenance costs, estimated at \$7.4 million per year. The estimated \$30 million in annual savings is net of these costs.

PROPOSERS MIGHT ARGUE that New York is currently behind in taking advantage of new collection truck technology, and by using auto-loaders in neighborhoods where it is feasible, substantial savings on labor costs could be realized. In addition, it would create a safer work environment for DSNY workers. Switching to the uniform hard plastic garbage cans that are required for auto-loaders could make streets cleaner by containing leaks and smells and making it more difficult for rodents to rummage in the trash.

OPPONENTS MIGHT ARGUE that reducing the number of sanitation workers per route could involve difficult union negotiations that could reduce savings. In addition, the new trucks cost more to purchase and maintain. Residents may also be opposed to increased parking regulations, especially if they do not see the benefit of cleaner streets.

OPTION:

Consolidate the Administration of Supplemental Health and Welfare Benefit Funds

Savings: \$16 million annually

New York City is expected to spend approximately \$1.1 billion annually on supplemental employee benefits. These expenditures take the form of city contributions to numerous union administered welfare funds that supplement benefits provided by the city to employees and retirees. Dental care, optical care, and prescription drug coverage are examples of supplemental benefits.

Consolidating these supplemental health and welfare benefit funds into a single fund serving all union members would yield savings from economies of scale in administration and, perhaps, enhanced bargaining power when negotiating prices for services with benefit providers and/or administrative contractors. Many small funds currently represent fewer than 5,000 members. In contrast, District Council 37's welfare fund membership exceeds 150,000. Although the specific benefit packages offered to some members may change, IBO assumes no overall benefit reduction would be required because of consolidation of the funds.

Using data from the December 2014 Comptroller's audit of the union benefit funds, IBO estimates that fund consolidation could save about \$16 million annually. Our main assumption is that fund consolidation could allow annual administrative expenses for 64 welfare funds to be reduced from their current average of almost \$145 per member to \$135 per member, the cost of administering the District Council 37 fund, in 2011 dollars. IBO also assumes some savings from third party insurance providers through enhanced bargaining power.

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

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

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

OPTION:

Eliminate Reimbursement of Medicare Part B Surcharge to High-Income Retirees

Savings: \$13 million annually

In 2007, the federal government began imposing additional Medicare Part B premiums on higher-income enrollees. The additional premiums, which are added on to the standard monthly premium, are referred to as Income Related Medicare Adjustment Amounts, or IRMAA premiums. Single retirees with annual incomes above \$85,000 and married couples with incomes above \$170,000 are required to make monthly IRMAA premium payments ranging from \$42 to \$231 per enrollee, depending upon total income.

Only about 4 percent of city retirees currently enrolled in Medicare Part B have incomes high enough to be required to make IRMAA premium payments. However, the City of New York fully reimburses all Medicare Part B premium costs, including IRMAA premiums, for city retirees, with a lag of about one year. Under this option, the city would no longer reimburse its retirees enrolled in Medicare Part B for any IRMAA premium payments they are required to make. The annual savings are estimated to be about \$13 million.

Implementation of this option would require neither state legislation nor collective bargaining, but could instead be implemented directly through City Council legislation.

PROPOSERS MIGHT ARGUE that the federal government has seen fit since 2007 to require relatively high income Medicare Part B enrollees to contribute more for their coverage than standard enrollees. Therefore, it is inappropriate for the city to essentially shield relatively well-off municipal retirees from that decision by continuing to reimburse their IRMAA premium payments. They would also argue that the financial impact on higher-income retirees would be relatively small, particularly given that the city would continue to reimburse their standard monthly premiums for Medicare Part B coverage.

OPPOSERS MIGHT ARGUE that a single retiree in New York City with an annual income of \$85,000 (or a couple with an annual income of \$170,000) should hardly be considered wealthy. Therefore, it is not unreasonable for all their Medicare Part B premium costs to be fully reimbursed. They might also argue that if any reduction in reimbursement of Medicare Part B premiums is to take place, it should not impact current retirees, but instead only future retirees who would at least have more time to make adjustments to their plans for financing retirement.

OPTION:

Reduce City Reimbursements to Retirees For Standard Medicare Part B Premiums

Savings: \$148 million in the first year

Eligible city retirees and their spouses/domestic partners are currently entitled to three types of retiree health benefits: retiree health insurance, retiree welfare fund benefits, and reimbursement of Medicare Part B premiums. Medicare Part B covers approved doctors' services, outpatient care, home health services, and some preventive services.

As of 2016, the standard Part B premium paid to Medicare by enrolled city retirees was about \$105 per month, which translates to \$1,259 per year or \$2,518 per year for couples. The city at present fully reimburses all such premium payments, with a lag of about one year. Under this option, New York City would reduce standard Medicare Part B premium reimbursements by 50 percent, which would affect all enrolled city retirees and save the city \$148 million in the first year.

Implementation of this option would require neither state legislation nor collective bargaining, but could instead be implemented directly through City Council legislation.

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

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

OPTION:

Eliminate Additional Pay for Workers On Two-Person Sanitation Trucks

Savings: \$46 million in the first year

Currently, Department of Sanitation employees receive additional pay for productivity enhancing work, including the operation of two-person sanitation trucks. Two-person productivity pay began approximately 30 years ago when the number of workers assigned to sanitation trucks was reduced from three to two and the Uniformed Sanitationmen's Association negotiated additional pay to compensate workers for their greater productivity and increased work effort.

In addition, certain Department of Sanitation employees also receive additional pay for operating the roll-on/roll-off container vehicles. These container vehicles are operated by a single person instead of two people. These container vehicles are used primarily at large residential complexes, such as Lefrak City and New York City Housing Authority developments

Under this option, two-person productivity payments would cease, as assigning two workers to sanitation trucks is now considered the norm. Moreover, the one person roll-on/roll-off container differential would be eliminated.

In 2015, 5,997 sanitation workers earned a total of \$38.9 million in two-person productivity pay—\$6,482 per worker on average. In 2015, 213 sanitation workers accrued \$1.7 million in one person roll-on/roll-off container differential pay, averaging out to \$7,986 per sanitation worker. Eliminating these types of productivity pay would reduce salaries and associated payroll taxes in the sanitation department by about \$46 million in the first year. Because productivity pay is included in the final average salary calculation for pension purposes, the city would also begin to save from reduced pension costs two years after implementation (the delay is due to the lag methodology used in pension valuation), and the estimated savings jumps to nearly \$53 million.

This option would require the consent of the Uniformed Sanitationmen's Association.

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

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

OPTION:

End City Contributions to Union Annuity Funds

Savings: \$139 million annually

In addition to a city pension, some city employees are eligible to receive an annuity payment from their union, or in the case of teachers through the Teacher's Retirement System (TRS), upon retirement, death, termination of employment, or other eligible types of exit from city service. Virtually all of these unions offer lump-sum payments, though some also offer the choice of periodic payments, the form of payment available to eligible TRS members. Aside from members of United Federation of Teachers and Council of Supervisors and Administrators enrolled in TRS, most eligible employees are members of either the uniformed service unions or Section 220 craft unions representing skilled-trade workers (such as electricians, plumbers, and carpenters). The city makes monthly contributions to unions' or TRS annuity funds, with per member contributions varying by union, hours worked during the month, and in some cases, tenure. The value of these annuity payments depends on the total amount of city contributions and the investment performance of the annuity funds.

This option would end the city's contributions on behalf of current workers to union annuity funds and the TRS. If adopted, this option would effectively eliminate the benefit for future employees and limit it for current employees. Current eligible employees would receive their annuity upon retirement, but its value would be limited to the city's contributions prior to enactment of this option plus investment returns. The annuities of current retirees would not be affected. In fiscal year 2015, the city made approximately \$114 million in union annuity contributions and \$25 million to TRS. Annual savings from this option would be comparable. Implementation of this option would require the consent of the affected unions.

PROPOSERS MIGHT ARGUE that pension amounts should not be based on overtime pay because unlike other types of pay that regularly add to the base salary, such as longevity and differential pay, overtime compensation varies widely and should not be considered a part of regular wages. Others might also argue that the current situation, in which only some city personnel are subject to an overtime ceiling, is inherently unfair. Additionally, if overtime pay were not a factor in pension costs, managers would have more flexibility to assign overtime to city workers without incurring associated pension costs.

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

OPTION:

Increase the Service Requirements For Retiree Health Insurance

Savings: \$11 million in 2027, growing to \$35 million in 2029

Most city employees receive subsidized retiree health insurance if they collect a pension from one of the city-maintained retirement systems. Employees hired on or before December 27, 2001 become eligible after completing a minimum of 5 years of credited service while those hired after that date are required to complete 10 years. Under this option, all new employees would need to have at least 15 years of credited service, in addition to the other current requirements, before becoming eligible for subsidized retiree health insurance. This option is modeled after the agreement between the city and the United Federation of Teachers to increase from 10 to 15 the number of years of service required for retiree health insurance.

Adopting this option would generate savings only after 10 years, since it would affect new employees who would otherwise retire with more than 10 years but less than 15 years of service under the current system. If the option were to take effect at the start of 2017, the savings would begin in 2027—an estimated \$11.4 million in the first year—and increase to \$35.2 million in 2029. The savings come from workers no longer being eligible for retiree health insurance, a reduction in certain Retiree Welfare Fund and Medicare Part B benefits contingent on eligibility for retiree health insurance, and from employees delaying their retirement to qualify for retiree health insurance.

This option can only be adopted through collective bargaining.

PROPOSERS MIGHT ARGUE that since retiree health insurance is an extraordinary fringe benefit to former employees, it is not unreasonable to ask that this benefit be reserved only for those who have served the city for a long period of time. This option would help reduce pension costs because it would induce some employees to defer retirement, increasing the length of time some retirees would make pension contributions. This option could also boost the city's creditworthiness because it would reduce its reported liabilities for post-employment benefits..

OPPONENTS MIGHT ARGUE that this option would make it harder to attract highly qualified people to city government, particularly for certain hard-to-fill titles—such as engineers, architects, finance analysts, and others—where nonpecuniary fringe benefits such as retiree health insurance substitute for the city's less competitive pay. If the reduction in retiree benefits increases turnover, costs associated with attracting and retaining personnel will increase. They might also point out that this option would especially affect some of the city's lowest-paid workers, such as school crossing guards and school lunch aides, who rely on this untaxed fringe benefit as a significant part of their retirement package. Finally, the option could also increase the city's Medicaid spending if some employees who otherwise would have been eligible for retiree health insurance instead enroll in Medicaid.

OPTION:**Merge Separate City Employee Pension Systems**

Savings: \$19 million in the first year, growing to \$39 million in two years

New York City currently maintains five retirement systems: the New York City Employees' Retirement System (NYCERS), the New York City Teachers' Retirement System (TRS), the Board of Education Retirement System (BERS), the Police Pension Fund, and the Fire Pension Fund. This option would reduce the number of retirement systems to three—the same number that New York State maintains—by merging the city's Police and Fire Pension Funds into one system for uniformed police and fire personnel, and by transferring employees currently covered by BERS to either NYCERS or TRS.

The Police and Fire Pension Funds have very similar retirement plans making a merger of these two systems quite feasible. BERS covers civilian, nonpedagogical personnel employed by the Department of Education and the School Construction Authority, plus a small cohort of other personnel, such as education analysts, therapists, and substitute teachers, represented by the United Federation of Teachers (UFT). Under this option, the UFT-represented employees who are eligible for BERS would be merged into TRS, while the rest of BERS would be merged into NYCERS.

The estimated savings from merging pension systems, which would require state legislation, would come from reduced staffing made possible by greater administrative efficiencies, lower fees for investment fund advisors and program managers due to better bargaining power, interagency savings, and real estate savings. The city could also realize additional annual savings as a result of fewer audits by the Comptroller, and greater efficiencies in the Office of Actuary and other oversight agencies. There would be significant one-time costs of moving, training, portfolio rebalancing, and other transition expenses if this option were implemented. Allowing for these first year costs, the option would realize \$19 million in savings in the first year, increasing to \$39 million two years later.

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

OPPOSERS MIGHT ARGUE that some differences between plans would complicate implementation of the option. Non-UFT members of the Board of Education Retirement System transferred to NYCERS would lose an attractive tax-deferred annuity benefit. Future school-based, part-time employees now in BERS would have to work about 25 percent more hours to obtain one year of credited service if their pensions were transferred to NYCERS. Some would argue that there are occupational and cultural differences between the police and fire departments that warrant separate pension systems. Opponents might also note that the city recently proposed merging BERS into TRS, but that the proposal was dropped due to union opposition.

OPTION:

Peg Health Insurance Reimbursement To the Lowest Cost Carrier

Savings: \$253 million in the first year

The city is obligated to pay the cost of health insurance for active and retired city employees at a rate equal to premiums for the Health Insurance Plan's (HIP) health maintenance organization. Additionally, collective bargaining has established the Health Insurance Premium Stabilization Fund (HIPSF) in part to allow city employees and retirees who are not yet eligible for Medicare to select the Group Health Incorporated's (GHI) comprehensive benefit plan at no cost. When GHI's premiums are higher than HIP's, money in the fund is used to cover the difference. When the GHI rate is lower than the HIP rate, as it has been in recent years, including the current year, the city budgets for health insurance at the HIP rate and contributes the excess over the cost of GHI-enrolled employees to the fund. In addition, under a labor agreement the city contributes \$35 million annually to HIPSF.

Under this option, the city would tie its budget for employee health insurance to the lowest cost provider for active employees. Employees selecting health insurance whose cost exceeds the rate charged by the lowest-cost carrier would either pay the difference themselves or, if the city and unions choose, have the premium differential paid in full or in part by the HIPSF, assuming there is enough money in the fund. To sustain HIPSF, the city would continue its annual \$35 million contribution. Funding for health insurance of current and future retirees would not be affected, and the city would continue to peg funding to the HIP rate. It also would continue contributing to HIPSF to the extent the current non-Medicare retirees' GHI premium is below the HIP rate.

This option would save the city an estimated \$253 million next fiscal year and slightly smaller amounts in following years. IBO's estimates reflect projected headcounts and an expected narrowing of the difference between GHI and HIP premiums in the coming years. Note that this option is among those that will be considered as part of the agreement between the city's Office of Labor Relations and the Municipal Labor Coalition to find health insurance savings to help cover the cost of the current round of collective bargaining and would require changes to the city's Administrative Code and union contracts.

PROPOSERS MIGHT ARGUE that this option allows the city to slow the growth in health insurance obligations without bringing hardship to city employees who would still have the opportunity to maintain a premium-free health insurance plan. Moreover, the overwhelming majority of city employees (74.4 percent, excluding those with insurance waivers) now choose GHI, the current lowest cost carrier. Should HIP become the lowest-cost provider, current HIPSF balances could cover in part or in whole any premium shortfalls for employees who select a different carrier. Finally, this option would allow other carriers to revise their health insurance package to become viable competitors with the lowest-cost carrier.

OPPONENTS MIGHT ARGUE that removing the requirement to offer the HIP option would allow the city to offer a very low-cost health insurance plan without regard to quality. This proposal would reduce city contributions to HIPSF, which could quickly deplete the fund if the city maintains other HIPSF-funded benefits, such as the mental health/substance abuse rider or welfare benefits for line-of-duty survivors. If HIP becomes the lowest-cost provider and HIPSF funding is not available, obtaining premium-free health insurance would become more difficult for employees who reside in New Jersey, where health care through HIP is limited. Additionally, this option could significantly increase health insurance costs of employees selecting plans other than GHI or HIP by widening the difference between their plan and the premium-free plan.

OPTION:**Require a Health Insurance Contribution by City Employees and Retirees**

Savings: \$557 million in 2019, \$590 million in 2020

City expenditures on employee and retiree health insurance have increased sharply over the past decade, and IBO expects these costs will continue to increase at a fast rate. The Health Insurance Plan of New York (HIP) base rate has increased by 6.5 percent for 2018, and IBO projects that the HIP base rate will increase by an estimated 5.9 percent and 5.8 percent annually in 2019 and 2020, respectively. About 96 percent of active city employees are enrolled either in General Health Incorporated (GHI) or HIP health plans, with the city bearing the entire cost of premiums for these workers. Savings could be achieved by requiring all city workers and those retirees not yet on Medicare to contribute 10 percent of the cost now borne by the city for their health insurance, with the city contributing 90 percent of the HIP rate.

IBO anticipates that the employee contributions would be deducted from their salaries on a pretax basis. This would reduce the amount of federal income and Social Security taxes owed and therefore partially offset the cost to employees of the premium contributions. The city would also avoid some of its share of payroll taxes.

Implementation of this proposal would need to be negotiated with the municipal unions and the applicable provisions of the city's Administrative Code would require amendment. Under an agreement between the city's Office of Labor Relations and the Municipal Labor Coalition to find health insurance savings to help offset the cost of salary increases in the current round of collective bargaining, a similar proposal could be considered if agreement cannot be reached on achieving the necessary savings through other options.

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

OPPONENTS MIGHT ARGUE that requiring employees and retirees to contribute more for primary health insurance would be a burden, particularly for low-wage employees and fixed-income retirees. Critics could argue that cost sharing would merely shift some of the burden onto employees, with no guarantee that slower premium growth would result. Additionally, critics could argue that many city employees, particularly professional employees, are willing to work for the city despite higher private-sector salaries because of the attractive benefits package. Thus, the proposed change could hinder the city's effort to attract or retain talented employees, especially in positions that are hard to fill. Finally, critics could argue that free retiree health insurance was part of the social contract between the employee and the city, and that it would be unfair to break this implied contract, particularly for retired workers who have few options to adjust if a benefit they were counting on becomes more expensive.

OPTION:

Stop Including Overtime Pay When Calculating City Employee Pensions

Savings: \$13 million in 2020, and continuing to grow annually

A key factor in determining the monthly pension received by a retiring city employee is his or her final average salary (FAS). Based on legislation enacted in 2012, for city personnel joining one of the five city-maintained retirement systems on or after April 1, 2012, final average salary in most cases equals average pensionable earnings in the last five credited years before retirement. Among the other pension reforms was a limit on the amount of pensionable overtime pay allowed in the FAS calculation for almost all civilian employees: \$15,000 a year, adjusted annually for inflation. Overtime for police, fire, and other uniformed service employees, as well as a small group of civilian employees, remains fully pensionable.

Under this option all overtime pay for all city employees would be eliminated in the calculation of FAS for pension purposes. Based on the current lag methodology, if this option took effect at the beginning of 2018, pension savings would start to accrue to the city in 2020 when they would equal \$13 million. In subsequent years, the savings would increase by a comparable amount each year as the city replaces personnel leaving city employment with new hires whose overtime would not be pensionable. A significant share of these savings would come from the reduced costs of uniformed employees' pensions, as these workers typically accrue a considerable amount of overtime in their final years of employment, boosting their final average salaries and therefore their pensions.

This option would need state legislative approval.

PROPOSERS MIGHT ARGUE that pension amounts should not be based on overtime pay because unlike other types of pay that regularly add to the base salary, such as longevity and differential pay, overtime compensation varies widely and should not be considered a part of regular wages. Others might also argue that the current situation, in which only some city personnel are subject to an overtime ceiling, is inherently unfair. Additionally, if overtime pay were not a factor in pension costs, managers would have more flexibility to assign overtime to city workers without incurring associated pension costs.

OPPOSERS MIGHT ARGUE that if managers employ overtime instead of the often more expensive option of hiring new employees, current employees should be allowed to share in the savings by having overtime pay included in the pension calculation. They also might argue that within some work units, overtime earnings are so typical that they should be considered a portion of regular, pensionable pay. Some could also argue that for civilian employees, increasing overtime pay at the end of one's career is a needed hedge against inflation, since current cost-of-living adjustments for civilians—applied only to the first \$18,000 of one's pension at 50 percent of the consumer price index, with a maximum annual adjustment of 3 percent—will not keep up with inflation. Furthermore, the impact of eliminating overtime as pensionable pay is compounded for uniformed personnel because when these workers become eligible for Social Security, at age 62 or earlier in some cases, their pensions are reduced by 50 percent of their Social Security benefits attributable to city employment—benefits derived from total pay regardless of whether it is pensionable.

OPTION:

Consolidate Federal and State Primary Elections

Savings: \$10 million in even-numbered years

Prior to 2012, primary elections in New York State for both state and federal offices were held in September of even-numbered years. But a federal judge ruled in 2012 that New York State's scheduling of its Congressional primaries in September did not leave enough time to get absentee ballots to military personnel overseas before the general election in November. All federal primaries in New York State were therefore moved up to June, but elected officials in Albany have thus far refused calls to shift primaries for state offices to June as well.

As a result, New York City is now required to cover the cost of staging primary elections in both June and September of even-numbered years. In staging an election, the main costs to the city's Board of Elections—which is funded from the city's budget but outside the city's control—are per diem payments to poll workers, printing ballots, and transporting equipment to and from polling sites across the city.

The cost of primary elections varies based on the number of federal and state offices with contested primaries; the Board of Elections estimates that the cost of holding the June 2016 federal and September 2016 state primary elections was about \$9 million and \$11 million, respectively. There are also police overtime costs associated with elections, with the most recent figures available from the police department indicating that these costs average about \$450,000 per primary election.

To implement this option the city would need the New York State Legislature to shift the biennial state primaries to the same dates as the federal primaries. This would allow the city to save about \$10 million every other year.

PROPOSERS MIGHT ARGUE that the staging of state and federal primaries on separate dates every two years is wasteful. They might also argue that expecting voters to trek to the polls for multiple primaries in the same year is unrealistic. This is particularly true in even-numbered years, which are also presidential election years, when yet another primary is held in the spring.

OPPONENTS MIGHT ARGUE that holding primaries for state legislative offices in June would be unfair to those incumbents facing primary challenges because the Legislature usually remains in session in Albany until near the end of that month. Incumbents facing primary challenges would therefore be at a disadvantage because they would have little time to campaign in their districts.

OPTION:

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

Savings: \$140 million annually

At any given time 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. Consequently, 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 felony cases in New York State to be pending in Supreme Court for no more than six months at the time of disposition. In calendar year 2014, however, 1,660 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 \$260 per day, the city would realize annual revenue of about \$140 million. It should be stressed that the reimbursement being proposed in this option is separate from what the city has been seeking for several years from the state for other categories of already-convicted state inmates, such as parole violators, temporarily held in city jails. The reimbursement sought with this option is associated with excessive pretrial detention time served by inmates who are later convicted and sentenced to multiyear terms in the state prison system

PROPOSERS MIGHT ARGUE that the city is unfairly bearing a cost that should be the state's, and that the city has little ability to affect 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 under the existing arrangement 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.

Revenue Options

OPTION:

Cap Personal Income Tax Credit at \$10,000 for Payers of the Unincorporated Business Tax

Revenue: \$77 million annually

In 1966, New York City established the Unincorporated Business Tax (UBT) to tax business income from unincorporated sole proprietorships and partnerships. Since fiscal year 1997 New York City residents with positive UBT liability have been able to claim a credit against their city personal income tax (PIT) liability for some or all of the UBT they pay. The credit was created to minimize double taxation of the same income to the same individual. This option would cap the credit at \$10,000 and would require state legislation.

The current PIT credit for UBT paid is designed to be progressive. New York City residents with taxable personal income of \$42,000 or less receive a credit equal to 100 percent of their UBT liability. This percentage decreases gradually for taxpayers with higher incomes until it reaches 23 percent for taxpayers with incomes of \$142,000 or more. Data from the city's Department of Finance on receipt of the credit by income groups shows that in 2012, more than 5,600 city resident taxpayers with federal adjusted gross income (AGI) above \$1 million received an average credit of approximately \$18,000. Capping the UBT credit at \$10,000 would increase PIT revenue by an estimated \$77 million annually. This option would not affect commuters, as they do not pay city personal income tax. Since the elimination of the commuter PIT in 1999, the UBT has been the only city tax on commuters' unincorporated business incomes earned in the city.

PROPOSERS MIGHT ARGUE that the progressive scale of the PIT credit for UBT paid is not sufficiently steep, especially at the higher income levels, and that capping the credit is a good way to control the cost of the credit to the city. They might also argue that the cap would only affect a relatively small number of taxpayers (11 percent of all UBT credit recipients), with 78 percent of those with more than \$2 million in New York AGI, who would be able to afford the tax increase. There would be no reduction in the personal income tax credit provided to the other unincorporated business owners.

OPPONENTS MIGHT ARGUE that the progressive scale of the PIT credit for UBT paid means that resident taxpayers with taxable incomes over \$42,000 already face some double taxation of the same income, and that double taxation would increase under the proposal. They might also argue that a better alternative would be to increase the rate on the UBT while simultaneously increasing the PIT credit for city residents' UBT liability, thereby having more of the tax increase fall on nonresidents who are not subject to double taxation on the same income by the city. As with any option to increase the effective tax on city businesses, there is some risk that proprietors and partners will move their businesses out of the city in response to the credit cap.

OPTION:

Commuter Tax Restoration

Revenue: Over \$900 million annually

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. From the time it was established in 1971, the tax had equaled 0.45 percent of wages and salaries earned in the city by commuters and 0.65 percent of income from self-employment. Sixteen 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, 2016, the Mayor's Office of Management and Budget estimated that the city's PIT collections would have increased by \$922 million in 2017.

PROPOSERS MIGHT ARGUE that people who work in the city, whether residents or not, rely on police, fire, sanitation, transportation, and other city services and thus should assume some of the cost of providing these services. 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 for 2014 indicate that among those working full-time in the city, the median earnings of commuters was \$80,000, compared with \$48,000 for city residents. Also, by lessening the disparity of the respective income tax burdens facing residents and nonresidents, reestablishing the commuter tax would reduce the incentive for current residents working in the city to move to surrounding jurisdictions. Finally, some might argue for reinstating the commuter tax on the grounds that the political process which led to its elimination was inherently unfair despite 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 that find it difficult to attract the best employees for city-based jobs or self-employed commuters (including those holding lucrative financial, legal, 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 constraining growth of the city's economy 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, with the advent of the mobility payroll tax to support the Metropolitan Transportation Authority, suburban legislators could argue that suburban households (and firms) are already helping to finance the city's transportation infrastructure.

OPTION:

Personal Income Tax Increase For High-Income Residents

Revenue: \$440 million in 2019, growing annually in the following years

Under this option the marginal personal income tax (PIT) rates of high-income New Yorkers would be increased. With the state STAR program no longer providing city residents PIT credits and rate reductions, the city personal income tax now has four tax brackets. The top bracket 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, and its effective marginal tax rate is 3.876 percent (the 3.4 percent base rate plus a 14 percent surcharge).

This option would add three higher income brackets with higher rates. A fifth bracket with a marginal tax rate of 4.0 percent would be levied on taxable incomes ranging from: \$250,000 to \$500,000 for single filers; \$350,000 to \$700,000 for joint filers; and \$300,000 to \$600,000 for heads of household. A sixth bracket would tax incomes up to \$1 million, \$1.5 million, and \$1.25 million for single, joint, and head of household filers, respectively, at a marginal rate of 4.128 percent. A top marginal rate of 4.264 percent would be levied on higher incomes. The proposed top rate is 10 percent higher than the current top rate, although lower than 4.45 percent marginal rate for New Yorkers' with incomes over \$500,000 that was in effect from 2003 through 2005. Unlike the state's personal income tax, there would be no "recapture provisions" under which some or all of taxable income not in the highest brackets were taxed at the highest marginal rates.

If this option were in effect for fiscal year 2019, PIT revenue would have increased by \$440 million. This tax change would require approval by the state Legislature.

PROPOSERS MIGHT ARGUE that a PIT increase for high-income households would provide a substantial boost to city revenues without affecting the vast majority of city residents. Only 4 percent of all city resident taxpayers in calendar year 2018 would pay more under this proposal, all of whom with adjusted gross incomes above \$250,000. Almost all of the additional tax burden (95 percent) would be borne by the roughly 30,000 taxpayers whose incomes are above \$1 million. Finally, they could claim that there is no evidence that many affluent New Yorkers left the city in response to the 2003-2005 tax increase, even with a larger state income tax increase also enacted at the same time.

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 now more likely to induce movement out of the city. Tax increases only exacerbate the city's competitive disadvantage with respect to other areas of the country. Taxpayers who do not pay the federal alternative minimum tax but would be affected by the proposed increase will no longer be able to claim the entire amount of their state and local tax liability as an itemized deduction for the federal tax, so the burden of city tax increase is greater than it would have been in the past. Even if less burdensome than the 2003-2005 increase, city residents earning more than \$5 million would pay, on average, an additional \$69,900 in income taxes in calendar year 2018. With this option, these taxpayers are projected to account for 29 percent of the city's PIT revenue in 2019. If 6 percent of them were to leave the city in response to higher taxes, this option would yield \$213 million less PIT revenue per year (assuming those moving had average tax liabilities for the group).

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

Revenue: \$161 million in 2019, growing annually in the following years

This option would create a more progressive rate structure for the city's personal income tax (PIT) by reducing marginal rates in the bottom income brackets and raising marginal rates for high-income filers. This option would provide tax cuts to most resident tax filers and a lasting boost to city tax collections.

Seven tax brackets would replace the current four brackets, with the following effective marginal rates (including the 14 percent surcharge). The income ranges of the three lowest brackets would remain the same but their marginal rates would be reduced—from 3.08 percent, 3.76 percent, and 3.81 percent to, respectively, 2.91 percent, 3.31 percent, and 3.65 percent. The marginal rate of the fourth bracket would remain the same (3.88 percent), but would end at taxable income levels of \$250,000, \$350,000, and \$300,000, respectively, for single, joint, and head of household filers. A fifth bracket with a marginal tax rate of 4.0 percent would be levied on taxable incomes from \$250,000 to \$500,000 for single filers; \$350,000 to \$700,000 for joint filers; and \$300,000 to \$600,000 for heads of household. A sixth bracket would tax incomes up to \$1 million, \$1.5 million, and \$1.25 million for single, joint, and head of household filers, respectively, at a marginal rate of 4.128 percent. Finally, a top marginal rate of 4.264 percent would be levied on incomes above the top of the sixth bracket. This option, which requires state approval, does not include “recapture provisions,” so taxpayers in the top brackets would continue to benefit from the marginal rates in the lower brackets of the tax table. If the new rates were in effect for fiscal year 2019, the city would receive an additional \$161 million in PIT revenue.

PROPOSERS 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. Under this restructuring option, about 69 percent of all city resident tax filers would receive a tax cut in calendar year 2018. Only 4.4 percent of all city resident taxpayers (1.4 percent of all filers) in calendar year 2018 would pay more under this proposal, all with adjusted gross incomes above \$350,000. Restructuring would significantly heighten the progressivity of the PIT. Under this option, the difference between the highest and lowest marginal rates increases from 0.8 percentage points to 1.4 percentage points.

OPPONENTS MIGHT ARGUE that the principal goal of altering the PIT is to raise revenue, this option is inefficient. For 2018, the reductions in marginal rates in the bottom three tax brackets decrease the revenue-raising potential of the option by about \$276 million. Filers with incomes above \$1 million would see their PIT liabilities rise on average by an estimated \$14,200 in calendar year 2018, and might be spurred to move to a lower tax state, particularly given the new cap on federal deductibility of state and local taxes. If only 10 percent of “average” millionaires (about 3,000 filers) were to leave town, this option would yield \$43 million less in PIT revenue per year, and over time this revenue loss would be further compounded by reductions in other city tax sources.

OPTION:**Add a Property Tax Surcharge on Vacant Residential Property**

Revenue: \$29 million in the first year

Over the last 10 years, concerns over the scarcity of housing have led city and state policymakers to propose a variety of additional taxes on housing not serving as owner-occupied primary residences, including a recently proposed a pied-à-terre surcharge on nonprimary residences selling for \$5 million or more as well as a surcharge on one-, two-, and three-family homes (Class 1 properties) where the owner does not use it as a primary residence.

Another option would be for the city to levy an annual property tax surcharge on vacant residences regardless of the property's value, its use as rental property, or the owner's residency status. The surcharge, which requires state approval, would be added to the property's tax rate and prorated monthly for residences unoccupied for less than the full year. Policymakers could adjust the surcharge to exempt residences that are vacant for specific reasons such as those pending demolition.

Based on data from the 2014 Housing and Vacancy Survey, IBO estimates that 5.2 percent of the city's 3.2 million residences would be subject to such a tax. If the city imposed an annual 5.0 percentage point surcharge on each of these properties, IBO estimates the tax would raise about \$29 million, or roughly \$175 per vacant residence. (These estimates include an allowance for prorating the surcharge for properties that are vacant only part of the year.) About half of this would be paid by landlords of Class 2 rentals, a third by other Class 2 apartment owners, and the balance by Class 1 property owners.

PROPOSERS MIGHT ARGUE that a tax on vacant residences could increase the availability of housing by providing an incentive to more quickly rent or sell and by discouraging property owners from keeping residences vacant. In addition, since it is levied against residential properties' already low taxable assessed value, at the proposed rate the tax would have little impact on residences' effective tax rates, thereby ensuring their tax burdens are kept low relative to nonresidential property.

OPPONENTS MIGHT ARGUE that the tax would add an undue burden on property owners. At current rates, with homes taking on average about eight months to sell citywide, the additional tax would increase a vacant Class 1 property's statutory tax rate by 17 percent and a Class 2 residence's rate by almost 26 percent. Moreover, for owners of rental properties, the tax would increase a building's operating cost, thereby reducing the incentive to build or maintain housing in difficult to sell neighborhoods where it takes longer to find buyers and renters.

OPTION:

Create a New Real Property Transfer Tax Bracket for High-Value Residential Properties

Revenue: Over \$50 million annually

The real property transfer tax (RPTT) is levied on the sale of real property. The city's residential RPTT rate is 1.0 percent on transactions valued at \$500,000 or less, and 1.425 percent on transactions valued at over \$500,000. In addition, there is a New York State RPTT of 0.4 percent on residential sales under \$1 million, and 1.4 percent on sales valued at \$1 million or more. Residential sales involving a mortgage are also subject to combined city and state mortgage recording taxes of 2.050 percent on the value of mortgages under \$500,000, and 2.175 percent on mortgages of \$500,000 or more.

This proposal, which would require state legislative approval, would add another bracket to the city RPTT on residential properties. Under the proposal, sales of residential properties valued at \$5 million or more would be subject to an additional 0.5 percent levy. IBO estimates that the city would have gained \$54 million in revenue if this tax increase was implemented at the start of 2017 and would increase gradually in subsequent years.

PROPOSERS MIGHT ARGUE that this option complements the state's higher rate on residential sales of \$1 million or more. Economic distortions should be less than in the case of the state tax, however, due to the smaller increase and higher threshold for the city tax. They might also note that many sales in the over \$5 million market do not involve mortgage financing and hence generate no mortgage tax, so that even with the higher RPTT rate the combined transfer tax burden is lower than for sales of less expensive properties that typically use conventional financing. The tax also has a low cost of administration and is difficult to avoid, which makes it an efficient means for the city to raise revenue.

OPPONENTS MIGHT ARGUE that in New York City, buyers and sellers of residential property in the price range of \$5 million and above already face a high tax burden. Currently, the combined city and state RPTT on residential transactions valued at \$1 million and above is 2.825 percent. While the RPTT is nominally paid by the seller, economic theory suggests that the burden of the tax will ultimately be shared between buyers and sellers. They might also note evidence that some purchasers will find ways to avoid paying the new, higher rate. Finance department data show a concentration of residential sales just below the \$1 million mark, which is likely the result of a strategy to avoid the higher state RPTT on sales of \$1 million and above. A similar concentration just under \$5 million might emerge if this option were adopted.

OPTION:

Eliminate Commercial Rent Tax Exemptions For Retail Tenants in Lower Manhattan

Revenue: \$9 million annually

The commercial rent tax (CRT) is imposed on tenants who lease commercial space in buildings south of 96th Street in Manhattan. The tax only applies to leases worth more than \$250,000 per year. Nonprofit organizations, government agencies, and many theatrical productions are exempt.

The state Legislature created two additional CRT exemptions in 2005 as part of a bill to stimulate commercial recovery in Lower Manhattan. The new exemptions apply to all retailers located south of City Hall between South Street and West Street, as well as all tenants in the new World Trade Center buildings and most of those in the new Fulton Transit Center. According to data from city planning's PLUTO database, this exemption area includes 3.5 million gross square feet of retail space. Now that several of the buildings at the World Trade Center and the Fulton Transit Center have largely been completed, there is additional retail space of almost 400,000 square feet in the area. This option, which would require state legislation, would repeal the CRT exemptions for retailers in lower Manhattan.

The Mayor's Office of Management and Budget estimates that the Lower Manhattan retail CRT exemptions will cost the city approximately \$4 million in fiscal year 2018 and grow by about \$300,000 annually. This estimate does not include the new retail space coming on-line at the Fulton Center and at the World Trade Center which will substantially increase the cost of the incentive. Assuming that the new space is rented for \$400 per square foot and that 10 percent of the space will be vacant or exempt, the Fulton Center and World Trade Center retail exemptions could cost the city an additional \$5 million per year, for a total cost of the Lower Manhattan exemption of about \$9 million.

PROPOSERS MIGHT ARGUE that subsidizing retailers is an unwise use of taxpayer money given their history of creating low-wage jobs. They might also argue that the CRT exemptions disproportionately benefit large retailers and national chains because most small retailers in Lower Manhattan are already exempt from the tax. Finally, they might argue that incentives are not necessary to attract new retailers. The owners of Brookfield Place and Pier 17, for example, are redeveloping their retail spaces even though both sites fall outside of the CRT exemption zones. New retailers are also attracted to the neighborhood's affluent and growing residential population, as well as its improving office market and record levels of tourism.

OPPONENTS MIGHT ARGUE that the incentives are needed to help Lower Manhattan recover from the effects of both September 11th and Hurricane Sandy. They might also argue that the neighborhood is underserved by retail, and that additional incentives are needed to attract retailers that will support Lower Manhattan's transformation into a mixed-use community. They might also note that the savings from the CRT exemption help overcome the disadvantage of trying to lure shoppers in a neighborhood still burdened by large construction sites and street disruptions.

OPTION:

Eliminate the Discount for Paying Property Taxes Early

Revenue: \$9 million annually

Since the 1970s the city has offered property owners a discount on their property taxes if they remitted their outstanding liability early. At the time the discount was adopted the city was enduring a fiscal crisis and facing the prospect of having insufficient cash to meet its immediate financial obligations. The discount was created as a cash management tool allowing the city to raise cash quickly by incentivizing early payment.

Each year the Banking Commission recommends to the City Council what discount percentage would be most fiscally prudent given the city's current and expected cash position. If the City Council does not act on the Banking Commission's recommendation, the default discount rate is 1.5 percent as stipulated in the City Charter. For 2016, the Council adopted a 0.5 percent discount rate. Property owners that pay the year's liability by July 1 will receive the full 0.5 percent discount, a 0.33 percent discount if the year's balance is paid by October 1 (for quarterly payers), or a 0.25 percent discount if the year's balance is paid by January 1.

From 2011 through 2015, the city rebated \$180.3 million to 1.8 million property owners for an average tax savings of \$103. During this period, residential property owners (Class 1 and Class 2) saved \$40.7 million while nonresidential property owners (Class 3 and Class 4) saved \$139.8 million.

Under this proposal, the city would eliminate the early payment discount, which can be accomplished in one of two ways: removing the provision from the City Charter or reducing the discount rate to zero percent. The latter would require an annual City Council resolution because the City Charter prescribes a discount rate of 1.5 percent if the Council does not act. If the discount had been eliminated for 2016, the net effect on city revenue would have been \$9.3 million, assuming no taxpayer would have made early payments without the discount incentive. The city would have taken in an additional \$11.2 million in property tax revenue on the portion of property tax liability paid early, but it also would have forgone \$1.9 million in accrued interest income that would have been earned had the city received the early payments. Unlike most other features of the city's property tax system, eliminating the discount would not require approval from the state Legislature; it can be done through local law.

PROPOSERS MIGHT ARGUE that the policy rationale for the discount no longer applies. The discount was adopted when the city faced cash shortages, but since the late 1970s the city has been required to end each year with a balanced budget according to generally accepted accounting principles and to publish quarterly budget updates that help reduce the risk of unanticipated budget shortfalls. These and other financial management controls adopted after the 1970s fiscal crisis have been sufficient to avert short-term cash flow problems, and therefore the discount is unnecessary.

OPPOSERS MIGHT ARGUE that the discount is an important tool to have available in case of a cash shortfall. If cash was immediately needed, the discount could also take too long to restore if it were eliminated. In addition, the discount provides some tax relief for businesses, which carry a disproportionate share of the city's property tax burden.

OPTION:

Eliminate J-51 Benefits for Projects That Do Not Include an Affordable Housing Component

Revenue: \$5 million annually

The J-51 program encourages the rehabilitation of residential buildings by providing the owner with both a property tax exemption and an abatement for approved improvements. Property owners receive the exemption on the increase in assessed value due to the improvement while the abatement partially refunds property owners for the cost of the improvement. Exemption periods can be either 34 years or 14 years—the former applies if the project also receives government support through an affordable housing program. In both instances, the exemption phases out in the final four years of the benefit period. Generally speaking, projects receiving government assistance can have up to 150 percent of the rehabilitation costs abated compared with 90 percent for all other projects. The total amount abated is spread over a 20-year period regardless of project type. In exchange for the benefit, apartments in rental properties become rent stabilized.

In 2016, the program will cost the city \$265.5 million in forgone revenue—\$84.9 million from the abatement and \$180.6 million from the exemption. Roughly 90 percent of the aggregate benefit is distributed evenly between Manhattan, the Bronx, and Brooklyn. Benefits to property owners in Queens and Staten Island comprise 9.2% and 1.1% of the citywide total, respectively. Citywide, rental properties receive two-thirds of the total J-51 benefit awarded in 2016.

This option, which would require Albany approval, proposes eliminating future J-51 benefits for projects that do not have an affordable housing component. In effect, only projects receiving other government support under a program requiring low- or moderate-income housing would be eligible for J-51. Were this proposal in effect in 2016, the city would have raised an additional \$4.7 million in property tax revenue in 2016.

PROPOSERS MIGHT ARGUE that awarding J-51 benefits without requiring an affordable housing component is an inefficient use of public funds. In addition, the city no longer needs to incentivize residential rehabilitation for higher income tenants because the current tight housing market provides a sufficient incentive by itself. Also, the program is not responsible for adding much to the city's stock of stabilized housing. Many residential units that receive J-51 benefits are already rent stabilized because they were built before 1974 and have yet to be deregulated. The additional revenue could be reinvested into more worthwhile affordable housing programs.

OPPOSERS MIGHT ARGUE that J-51 is responsible for higher quality residences in areas of the city that would otherwise be dilapidated, having been ignored by the housing market. In addition, the J-51 program serves families that make too much money to qualify for affordable housing but not enough to live comfortably in market-rate housing. Thus, eliminating the 14-year program would also eliminate housing options for middle-income families.

OPTION:

Eliminate Special Tax Treatment on the Sale of Properties to Real Estate Investment Trusts

Revenue: \$11 million annually

This option would eliminate New York City's special real property transfer tax (RPTT) treatment of real estate investment trust (REIT) transfers. The city's residential and commercial RPTT tax rates range from 1.0 percent to 2.625 percent of the sales price, depending on the value and type of property, and New York State levies its own real estate transfer tax at 0.4 percent to 1.4 percent. Designed to lower the expense associated with transferring property to a REIT structure, state legislation enacted in 1994 provided (among other benefits) 50 percent reductions in both city and state RPTT rates during a two-year period for qualifying property transfers made in connection with the formation of REITs.

In 1996, legislation made the RPTT benefit for new REITs permanent and temporarily expanded the 50 percent rate reduction to cover some property transfers to already established REITs. State legislation has repeatedly extended the reduced RPTT rates for property transfers to already established REITs, most recently to August 2017. Ending RPTT rate reductions for all REITs would provide the city with an estimated \$2 million annually in additional revenue.

Eliminating the city's RPTT rate reduction for new REITs would require state legislation.

PROPOSERS MIGHT ARGUE that REITs already receive a number of tax benefits from New York City, including deductibility of income that is distributed to shareholders and corporate income tax liability that is determined using only two of the four alternate tax bases that other firms are subject to: net income and a fixed minimum tax. The state also provides a 50 percent reduction in its own RPTT and an exemption from the capital gains tax for property transfers to REITs. Given these benefits, they might argue that the advantages from converting to a REIT would outweigh the cost even in the absence of the city's RPTT break. Proponents might also question why the city would want to promote the formation of REITs and create a preference for one form of property ownership over another.

OPPONENTS MIGHT ARGUE that that the formation of a REIT, which is a change in structure rather than a change in ownership, should not be subject to the same level of transfer tax as the transfer of property from one owner to another. They might also argue that without the tax incentive, transferring ownership to a REIT structure is more costly and would reduce the number of REIT formations, thereby limiting real estate investment opportunities for smaller investors. Moreover, the revenue gain associated with making the RPTT rate whole would be partially negated—and may even result in a net loss in RPTT revenue—depending on the extent to which property transfers to REITs decrease in response to a doubling of the RPTT rate.

OPTION:

Extend the Mortgage Recording Tax to Coops

Revenue: Over \$80 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 city's 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. In addition, mortgages recorded in New York City are subject to a state MRT, of which a portion, equal to 0.5 percent of the value of the mortgage, is deposited into the city's general fund. Currently, loans to finance the sales of coop apartments are not subject to either the city or state MRT, since such 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. In January 2010, then-Governor Paterson proposed extending the state MRT to include coops, and Mayor Bloomberg subsequently included in his preliminary budget for 2011 the additional revenue that would have flowed into the city's general fund had the proposal been enacted; ultimately, it was not adopted. IBO estimates that extending the city MRT to coops would have raised \$86 million in 2018. If the state MRT were also extended to coops, the additional revenue to the city would be around 50 percent greater.

PROPOSERS MIGHT ARGUE that this option serves the dual purpose of increasing revenue and ending the inequity that allows cooperative apartment buyers 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, driving down sales prices and ultimately reducing market values.

OPTION:

Impose a City “Mansion Tax”

Revenue: \$272 million annually

Sales of real property in New York City are subject to a Real Property Transfer Tax (RPTT). The combined city and state tax rates for residential properties are 1.4 percent when the sales price is \$500,000 or less, and 1.825 percent when the price is above \$500,000 but less than \$1 million. Residential properties that sell for more than \$1 million are subject to an additional state tax of 1.0 percent (often referred to as a “mansion tax”), for a total tax rate of 2.825 percent. While technically the RPTT is paid by the seller, economic theory suggests that the burden of the tax will be shared (not necessarily equally) between buyers and sellers.

Under this option a city version of the mansion tax would be levied on residential properties selling for more than \$1.75 million. The tax would have two rates: 1.0 percent on the first \$5 million of the transaction, and 1.5 percent on any additional amount. This tax would be in addition to the existing city and state rates, and IBO estimates that the tax would generate \$272 million in annual revenue. As proposed, the tax would apply to the entire value of the property. If the tax were applied only to the value over \$1.75 million (with a higher rate of 1.5 percent above \$5 million), IBO estimates that revenue from the tax would be around \$173 million.

This option, which would require state legislative approval, follows a proposal that the de Blasio Administration presented as part of the 2016 Executive Budget, but the state Legislature did not act on it.

PROPOSERS MIGHT ARGUE that the tax would raise a significant amount of revenue while affecting a relatively small number of buyers and sellers. (Only 10 percent of residential sales in fiscal year 2017 would have been subject to the new tax.) The burden of the tax would be shared by sellers and buyers. Many buyers of luxury residences in New York City do not pay the mortgage recording tax (MRT), because they make all-cash purchases, or because they obtain financing overseas, or because they are purchasing a coop, which is not subject to the tax. Even with an increase in the RPTT for high-valued properties, these buyers would face a lower tax burden than purchasers of lower-priced residences who pay both RPTT and MRT.

OPPONENTS MIGHT ARGUE that luxury residential real estate is already subject to a high RPTT rate, 2.825 percent. The proposed additions would bring the total RPTT on residences sold for between \$1.75 million and \$5.0 million to 3.825 percent, and the total rate for sales over \$5 million to 4.325 percent. These rates are well above the 3.025 percent RPTT imposed on commercial sales over \$500,000. Opponents might also point out that taxes on economic activity reduce the level of that activity, meaning that the new tax would lead to fewer residential sales. This downward pressure on housing prices would come at the same time that recent changes to federal tax law, including the increase in the standard deduction, the limit on itemized deductions for state and local taxes, and the lower cap on the mortgage interest deduction, will reduce the tax advantages of home ownership, and likely depress the market. Opponents might also note a market distortion under this proposal because the higher tax rate would apply to the entire value of the property. As soon as the sales price exceeded \$1.75 million, there would be a jump of \$17,500 in RPTT liability. As a result of this cliff, we would expect a “bunching” of sales at or just below \$1.75 million.

OPTION:

Make Real Estate Sales Between Nonprofits and For-Profits Subject to the City's Property Transfer Tax

Revenue: \$10 million annually

This option would modify the city tax treatment of real property transfers between nonprofit and for-profit entities, making them conform to state tax practice. Both New York City and the Metropolitan Transportation Authority (MTA) would receive new revenue from this change.

Property sales in New York City are subject to both a city and state real property transfer tax (RPTT). There are some exceptions, including transfers between two nonprofit entities, which are exempt from both city and state RPTT. Currently, transfers of real property between not-for-profit and for-profit entities are subject to the state RPTT, but not the city RPTT. The RPTT is normally paid by the seller, but in the case of a nonprofit entity selling to a for-profit concern, the buyer pays the (state) tax.

The city's RPTT rates range from 1.0 percent to 2.625 percent, depending on the property's value and type. Included in the highest rate is a 1.0 percent "urban tax" that is dedicated to the MTA. Based on sales data for fiscal years 2011-2014, IBO estimates that eliminating the exemption in the city RPTT for nonprofit transfers to or from for-profit entities would raise about \$19 million annually for the city, and an additional \$11 million in urban tax revenue dedicated to the MTA. This change would require state legislation.

PROPOSERS MIGHT ARGUE for-profit entities that sell real property should not receive a tax break solely by virtue of the type of buyer. Conversely, if the not-for-profit entity is the seller, it will continue to be exempt from the tax, which would instead be paid by the for-profit buyer. In addition, proponents might argue that conforming city taxation to state practice increases the transparency of the tax system.

OPPONENTS MIGHT ARGUE that while the proposed tax would formally be paid by the for-profit entity, economic theory posits that buyer and seller would each bear part of the burden. As a result, the proposed extension of the city RPTT would increase the costs incurred by nonprofits, thereby diminishing their ability to provide the services that are their mission.

OPTION:**Raise the Cap on Property Tax Assessment Increases**

Revenue: \$156 million in first year and at least \$500 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 4 units 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 \$156 million in the first fiscal year and \$500 million to \$633 million annually by the fifth year. 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 about \$177. With the assessment roll for fiscal year 2019 nearly complete, 2020 is the first year the option could be in effect.

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 (which includes all multifamily buildings) 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 home ownership. 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 Class 1 property owners, assessment caps nevertheless 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.

PROPOSERS MIGHT ARGUE that an increase in the caps would eventually yield significant new revenue for the city. Further, by allowing the assessments on more properties to grow proportionately with their market values, intra-class inequities would be lessened. Finally, by allowing the overall level of assessment in Class 1 and in part of Class 2 to grow faster, the 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 home ownership and discouraging the flight of middle-class taxpayers to the suburbs. Other opponents could 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

Revenue: \$21 million in the first year, rising to \$125 million annually when fully phased in

Under New York State law, a residentially zoned vacant lot or a commercially zoned lot that 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. All other vacant land is taxed as commercial property. In fiscal year 2016, there are 16,123 vacant properties not owned by government. 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 2016, the median ratio of assessed value to full market value was 2.7 percent for these properties.

Under this option, which would require state approval, vacant lots not owned by a government entity 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; 8,120 lots would be reclassified. Phasing in the assessment increase evenly over five years would generate \$20.5 million in additional property tax revenue in the first year, and the total increment would grow by \$26.5 million in each of the next four years. Assuming that tax rates remain at their 2015 levels, the annual property tax revenue generated by the reclassification once the phase-in is complete would be \$125.1 million.

PROPOSERS MIGHT ARGUE that vacant property could be better utilized, and awarding it preferential treatment further encourages its underdevelopment. An important justification for the lower assessment rate for Class 1, they could argue, is to incentivize development of one-, two-, and three-family homes. Reducing the cost of holding vacant land zoned for residential use at a time in which the city is experiencing a shortage of affordable housing is unwise. Proponents might further note that the lot size restriction of 2,500 square feet (the median lot size for Class 1 properties with buildings on them 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 might also argue that zoning policies are less effective at restricting development in residential areas than the preferential tax treatment because the latter is codified in real property tax law. Furthermore, opponents might also point out that the 8,120 vacant lots have a median land area of 4,000 square feet while the median area of existing Class 1A, 1C, and Class 2 property with at least 2,500 square feet is 10,200 square feet. Thus, many of the vacant residential lots are too small to be developed for the multifamily housing that is most needed to address the city's affordable housing needs.

OPTION:

Collect PILOTs for Property Tax Exemption for College Student, Faculty, and Hospital Staff Housing

Revenue: \$128 million annually if applied to student, faculty, and hospital staff housing

Under New York state law, real property owned or used by private higher education institutions and hospitals is exempt from the city's real property tax. In fiscal year 2016, these exemptions cost the city \$1 billion—a \$483 million tax expenditure for higher education and a \$599 million one for hospitals.¹ At universities and hospitals, exemptions for student, faculty, or staff housing represented 18 percent (\$194.6 million) of the total. Under this option, private colleges and universities in the city would make payments in lieu of taxes (PILOTs), either voluntarily or through legislation.

There are various ways a PILOT system could be structured based on experiences in other jurisdictions. In Boston, private universities and hospitals make voluntary PILOTs. In contrast, Connecticut law mandates that the state provide PILOTs to municipalities up to 77 percent of private universities' and hospitals' exempt value. A third alternative is a "reverse PILOT," which the Connecticut legislature debated in 2014 but did not implement. Under this proposal, the organizations' property tax exemptions would be eliminated, and they would have to apply to the state for reimbursement. If universities and hospitals made PILOTs equal to 66 percent of their liability, the city would receive \$714 million for all exemptions, or \$128 million if applied only to housing for students, faculty, and staff.

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

OPPONENTS MIGHT ARGUE that colleges and universities 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 and staff housing encourages residence and consumption of local goods and services, thereby generating income tax and sales tax revenue.

¹There is little incentive to assess exempt properties as accurately as possible. If these options are implemented and payments are based on assessed value, the estimated PILOTs might change significantly.

OPTION:

Eliminate the School Bus Operation Deduction

Revenue: \$1 million annually

Income derived from the operation of school buses serving public schools and nonprofit religious, charitable, and educational organizations, either in or outside the city, is not currently taxable for general corporation tax (GCT) purposes. This option would make this income taxable, thereby increasing GCT revenue by an estimated \$1 million a year. Eliminating this tax break requires state legislation.

PROPOSERS MIGHT ARGUE that in addition to raising revenue that would offset a small part of the city's costly bill for school bus services, this option would eliminate an unfair tax break to school bus contractors. They would point out that the majority of private companies providing goods and services to public schools and nonprofits pay taxes on the income derived from sales to these entities. They might also argue that the number of school bus companies providing services would not be adversely affected by the elimination of the tax break because New York City's demand for school buses is strong enough to attract multiple competitors when contracts are bid. Finally, they might argue that there is no need for New York City to provide a tax break to companies serving public school districts and nonprofits outside of the city.

OPPONENTS MIGHT ARGUE that school buses are required by many schools and nonprofits to conduct their operations and, therefore, companies providing bus service should be treated like a government entity or nonprofit for tax purposes. They might also argue that the tax placed on this income will be paid, at least in part, by the government or nonprofit customer depending on the extent to which school bus operators are able to pass the tax onto their customers in the form of higher prices. If the city has to pay more for bus service, this option might have only a minimal effect on net city revenue (tax revenue less government spending). Operating costs for nonprofits may also increase, which would work against the public policy of supporting these entities through their tax-exempt status.

OPTION:

Eliminate the Property Tax Exemption For Madison Square Garden

Revenue: \$42 million in 2019

This option would eliminate the property tax exemption for Madison Square Garden (MSG or the Garden). Since 1982, the Garden has received a full exemption from property tax liability for its sports, entertainment, and exposition property. Under Article 4, Section 429 of New York State Real Property Tax law, the exemption is contingent upon the continued use of MSG by professional major league hockey and basketball teams for their home games. In 2013, the Garden's owners completed a \$1 billion renovation of the facility, and as a result the tax expenditure for the exemption increased from \$17.3 million in fiscal year 2014 to \$41.5 million for 2019.

When enacted, the exemption was intended to ensure the viability of professional major league sports teams in New York City. Legislators determined that the "operating expenses of sports arenas serving as the home of such teams have made it economically disadvantageous for the 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.

PROPOSERS MIGHT ARGUE that the city has many fiscal needs that are more pressing than sports and entertainment, and thus the exemption is a poor allocation of scarce public dollars. Moreover, proponents could argue that the historical motivation for the exemption likely no longer applies. According to *Forbes*, the Knicks' market value in 2017 was \$3.3 billion, while the Rangers' value in 2017 was \$1.5 billion. For fiscal year 2016, MSG Company reported revenue of \$1.1 billion. They could also argue that the threat of relocation is much less creditable today than in 1982, not only because of the arena's recent renovation, but also because team revenue is boosted from operating in the nation's largest media market. Thus, relocating would likely cost the Garden more in revenue than it saves through the tax exemption.

OPPONENTS MIGHT ARGUE that the presence of the teams continues to benefit the city economically and that foregoing \$42 million is reasonable compared with the risk that the teams might leave the city. Some also might contend that reneging 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 Madison Square Garden would be unfair.

OPTION:

Eliminate the Manhattan Resident Parking Tax Abatement

Revenue: \$14 million annually

The city imposes a tax of 18.375 percent on garage parking in Manhattan. Manhattan residents who park a car long term are eligible to have a portion of this tax abated, effectively reducing their tax to 10.375 percent. By eliminating this abatement, which requires state approval, the city would generate an additional \$14 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. Car owners contribute to the city's congestion, poor air quality, and wear and tear on streets. Elimination of the parking tax abatement would force Manhattan car owners to pay a greater share of the costs of their choice to drive.

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 \$533 in downtown Manhattan, and \$562 in midtown. The tax increase would be about \$43 a month in downtown, \$45 a month in midtown, and lower 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. Finally, they could argue that, at least in certain neighborhoods, residents are already paying premium rates charged to commuters from outside the city, which are higher than those charged in predominantly residential areas.

OPTION:

Establish an Unrelated Business Income Tax

Revenue: \$12 million annually

This option would tax the “unrelated business income” of tax-exempt organizations in New York City—income from the regularly conducted business of a tax-exempt organization that is not substantially related to the principal purpose of the organization which qualified it to receive the exemption. For example, a tax-exempt child care provider that rents its parking lot every weekend to a nearby sports stadium would be taxed on this rental income because it is regularly earned but unrelated to the organization’s primary mission of providing child care.

Unrelated business income has been taxed for over two decades by both the federal government and New York State, but it is not taxed by New York City. Based on Internal Revenue Service (IRS) data on federal unrelated business income tax revenue in 2013 and local nonprofit earnings data, an unrelated business income tax (UBIT) for tax-exempt entities in New York City at the same 8.85 percent tax rate as the city’s general corporation tax would generate an additional \$12 million annually. Establishing a city UBIT would require the approval of the state legislature in Albany.

PROPOSERS MIGHT ARGUE that a UBIT would create a more level playing field when nonprofits earning income from untaxed ancillary activities compete with taxpaying businesses. Also, because a UBIT would apply only to income from ancillary activities, its burden on tax-exempt organizations is limited. Finally, because unrelated business income is already taxed at the federal and state levels, there would be few additional administrative costs incurred by either the city or the organizations subject to a city UBIT. The city would be able to use the same definition of unrelated business income as the IRS and offer many of the same deductions and credits.

OPPOSERS MIGHT ARGUE that many nonprofit organizations are exempt from taxes in recognition that the services they provide would otherwise need to be provided by the federal, state, or local government. Taxes paid on unrelated business income would reduce the amount of money that nonprofits can spend on the provision of services—an outcome at odds with the intent of supporting a group’s services through tax-exempt status. Reducing the amount of money spent on the services provided by tax-exempt groups is particularly unwise given how many New Yorkers have been left behind in the economic recovery from the Great Recession.

OPTION:

Extend the General Corporation Tax to Insurance Company Business Income

Revenue: \$510 million annually

Since the city's insurance corporation tax was eliminated in 1974 as part of state insurance tax reform, insurance companies are the only large category of businesses that are currently exempt from New York City business taxes. New York City had taxed insurance companies at a rate of 0.4 percent on premiums received in the insurance of risks located in the city. This option would restore the taxation of insurance companies in a different form, by simply extending the jurisdiction of the general corporation tax, a tax on corporate profits, to include these companies.

Using past estimates from the Department of Finance and taking into account recent trends in the collection of the city's other corporate taxes as well as the effect of recent federal tax changes that include several provisions expected to increase the taxable profits of insurance corporations, IBO estimates that the insurance company exemption will cost the city \$510 million in fiscal year 2018. The impact of the federal changes is fairly limited in 2018 but expected to grow larger over time, meaning the potential revenue from the taxation of insurance companies could be even greater in the future.

Insurance companies are subject to federal and state taxation. In New York State, life and health insurers pay a net income-based tax. In addition, life insurers pay a 0.7 percent tax on premiums, nonlife insurers covering accident and health premiums pay a 1.75 percent tax, and all other nonlife insurers pay a 2.0 percent tax on premiums. Almost all states with insurance taxes provide for retaliatory taxation. For example, an increase in New York's tax on business conducted in New York by insurance companies headquartered in Connecticut may trigger an increase in Connecticut's tax on the business conducted in Connecticut by companies headquartered in New York. This option assumes that by extending the city's general corporation tax to include insurance premium income rather than creating a new and separate insurance tax in the city, at least some of these retaliatory taxes would not be triggered, although that would likely be determined on a case-by-case basis. Extending the corporate tax to insurance companies would require approval in Albany.

PROPOSERS MIGHT ARGUE that much of the tax benefit resulting from the insurance company exemption is exported to out-of-city insurance companies that collect health and life insurance premiums from New York City residents and businesses. They might claim this tax would put the insurance industry on a more equal footing with other industries in New York City, removing its unfair advantage over businesses in other sectors. Insurance companies located here avail themselves of public goods provided by the city and thus should pay city taxes to offset these costs. Finally, if other states impose retaliatory taxes, the city could adopt a credit against insurance firms' general corporation tax liability, although this would reduce the revenue raised under the option.

OPPONENTS MIGHT ARGUE that with one of the highest tax rates (combined city and state) in the country, plus other states' retaliatory taxes that might be triggered if the city reinstituted the taxation of insurance companies, the additional burden could be enough to drive insurance firms with large offices and staffs here out of New York City. Moreover, the incidence of the insurance corporation tax is unclear. To the extent that insurance companies can pass the additional tax on to their customers in the form of higher premiums, this tax would indirectly increase the tax burden borne by New York City residents.

OPTION:**Repeal the Tax Exemption for Vacant Lots Owned by Nonprofits**

Revenue: \$10 million annually

Sections 420-a and 420-b of the New York State Real Property Tax Law provide for full property tax exemptions for religious, charitable, medical, educational, and cultural institutions. In fiscal year 2016, the city issued exemptions for 11,763 parcels owned by nonprofits with a total market value of \$49.2 billion. Of these parcels, 55.6 percent were owned by religious organizations; 21.2 percent by charitable organizations; 9.4 percent by medical organizations; 9.6 percent by educational institutions; 2.6 percent were being considered for nonprofit use; and the remaining 1.7 percent were owned by benevolent, cultural, or historical organizations.

Included among the exemptions were around 776 vacant lots with a total market value of \$632.9 million. The cost to the city for exempting the vacant lots was \$11.2 million in 2016 and the median tax savings was \$3,158 per parcel. Three-quarters of all vacant lots held by nonprofits were owned by charitable and religious organizations. Just under a third of the vacant lots were small, less than 2,500 square feet. The median tax expenditure (amount of taxes forgone) for small vacant lots was \$1,034 and \$4,537 for larger ones.

This option, which would require a change in state law, would repeal the exemption under Sections 420-a and 420-b for vacant land. Since small parcels may be unsuitable for development, the exemption would be retained for vacant lots less than 2,500 square feet. Ending the exemption for vacant lots 2,500 square feet or larger owned by organizations that qualify under the existing law would generate \$10.0 million for the city.

PROPOSERS MIGHT ARGUE that since vacant land is undeveloped, it is not being actively used to support the organizations' mission, which is the rationale for providing the exemption. The tax would provide nonprofits with an incentive to develop their lots—expanding the services and benefits they bring to their communities. Additionally, because liability would increase with lot value, the incentive to develop would be larger for those properties with better alternative uses. By excluding small lots, the option would not penalize organizations for owning difficult-to-develop parcels. Lastly, to ensure eliminating the exemption is not deleterious to small nonprofits, lots owned by organizations with annual revenues below a threshold could remain exempt.

OPPONENTS MIGHT ARGUE that repealing the exemption would place additional financial strain on nonprofits that are already stretched to provide critical services in their communities. Organizations may be holding on to the land with the goal of developing or selling it later. Thus, eliminating the exemption could force many organizations to forgo the lots' future community or fiscal benefits. Additionally, opponents might argue that while the lots are underutilized from a development standpoint, they may nonetheless serve useful community purposes such as hosting playgrounds or gardens.

OPTION:

Revise the Coop/Condo Property Tax Abatement Program

Revenue: \$117 million annually

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. But some apartment owners—particularly those residing east and west of Central Park and in northern Brooklyn—already had low property tax burdens. IBO has found that 45 percent of the abatement program’s benefits are going to apartment owners whose tax burdens were already as low, or lower, than that of Class 1 homeowners.

The abatement has been renewed five times, most recently in June 2015 and extended through 2019. The prior extension, covering 2013 through 2015, included a provision to phase-out the abatement for nonprimary residences by 2015. The change did not alter the overall inefficiency of the abatement, with \$196 million still being “wasted” in 2016.

Under the option outlined here, the city could reduce the inefficiency that remains in the abatement program even after the latest changes 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. State approval is necessary for any of these options.

The additional revenue would vary depending on precisely how the exclusion was defined. 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 times when the city faces 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 about 20 years to come up with reforms to the underlying assessment system, but so far has failed to do so. The change this year will reduce the dollar amount being wasted, but is not the comprehensive reform that the city committed to implement.

OPTION:

Tax Carried Interest Under the Unincorporated Business Tax

Revenue: \$200 million annually

New York City's unincorporated business tax (UBT) distinguishes between ordinary business income, which is taxable, and income or gains from assets held for investment purposes, which are not taxable. Some have proposed reclassifying the portion of gains allocated to investment fund managers—also known as “carried interest”—as taxable business income.

New York City currently reaps a substantial amount of tax revenue from managing partners of investment funds—perhaps upward of \$500 million a year, including both UBT and personal income tax (PIT) revenue from managing partner fees (which are based on the size of the assets under management rather than investment gains) and additional PIT from carried interest earned by city residents.

Were the city to reclassify all carried interest as ordinary business income (exempting only businesses with less than \$10 million in assets under management), IBO estimates that annual UBT revenues would rise by approximately \$217 million and PIT revenues fall by around \$17 million (personal income taxes already being paid on carried interest would be reduced by the PIT credit for UBT taxes paid by residents), yielding a net revenue gain of about \$200 million. This is an average of what we could expect to be a highly volatile flow of revenue. The reclassification of carried interest would require a change in state law.

PROPOSERS MIGHT ARGUE that because carried interest payments often far exceed the return on the managing partner's own (generally small) capital stake in the investment fund, the income in question is better characterized as a payment for services—which should be taxed as ordinary income—than as a return to ownership. Inducement to avoid the tax would be much smaller than under reclassification for federal income tax purposes. (The latter would raise the federal tax rate on carried interest from 20.0 percent to 39.6 percent for most managing partners. The city UBT rate is 4.0 percent, but personal income tax deductibility would lower the average impact closer to 2.2 percent.)

OPPONENTS MIGHT ARGUE that it is the riskiness of the income (meaning how directly it is tied to changes in asset value) that determines whether it is taxed as ordinary income or as capital gains, not whether the income is from capital or labor services. Thus we have income from capital (most dividends, interest, and rent) that is taxed as ordinary income, as well as income from labor services (for example, labor put into renovating a house) that is taxed as gains. By this criterion, most carried interest should continue to be taxed (or in the case of the UBT, exempted) as capital gains when it is a distribution from long-term investment fund gains. It may also be objected that New York City is already an outlier in its entity-level taxation of partnerships (neither the state nor the federal government do this), and any move to further enlarge the city business tax base ought to be offset by a reduction in the overall UBT rate. In this way, negative impacts on the scale of future investment company activity in the city might be mitigated by positive impacts on the scale of other business activities.

OPTION:

Tax the Variable Supplemental Funds

Revenue: \$4 million annually

Variable Supplemental Funds (VSFs) originated in contract negotiations between the city and the uniformed police and fire unions. In 1968, management and labor jointly proposed legislation allowing the Police and Fire Pension Funds, whose investments were limited at the time to fixed-income instruments, to place some resources in riskier assets, such as common stock, with the expectation that investment earnings would increase. The city hoped that the higher returns could offset some of its pension fund obligations, and if returns were sufficient, some of the gains were to be shared with retired police and firefighters.

The VSFs—which no longer vary—are currently fixed at \$12,000 per annum payable on or about December 15 of each year. This amount is reduced by any cost-of-living adjustment received in the same calendar year until age 62. Members of the Police and Fire Pension Funds are eligible for VSF payments if they retire after 20 or more years of service and are not going out on any type of disability retirement. The New York City Employees Retirement System (NYCERS) administers the VSFs for retired housing and transit police officers. Correction officers also have a VSF administered by NYCERS. Until recently, there were not sufficient funds to allow payment of the annual \$12,000 VSF to otherwise eligible uniformed correction officer retirees; however, these retirees received their full VSF payment last year and will again receive it this year. Beginning in 2019, VSF payments to correction officers will be guaranteed regardless of fund performance.

Currently, VSF payments are exempt from state and local income taxes much as regular public pensions. Since the applicable provisions of the city's Administrative Code specifically states that VSF payments are not a pension, and the respective VSF funds are not considered pension funds, taxing these funds would not violate the state Constitution. Under this option, which would require state approval, VSF payments would be taxed and treated as any other earnings. Regular pension payments would not be affected by this option. Based on data through December 31, 2014, 29.4 percent, 25.8 percent, and 45.6 percent of the VSF recipients in the Police, Fire, and NYCERS (uniformed correction) Pension Funds, respectively, were city residents who thus would pay more local personal income tax under this option.

PROPOSERS MIGHT ARGUE that since the Administrative Code plainly states that these payments are not pension payments, it is inconsistent to give VSF payments the same tax treatment as municipal pensions. Additionally, since these payments are only offered to uniformed service workers who typically enter city service in their 20s and leave city service while still in their 40s, most of these employees work at other jobs once they retire from the city and thus, any taxation of these benefits would have only a small impact on the retirees' after-tax income. Finally, while some may argue that the estimated tax revenue is not that big now, it would grow as current employees retire and live longer, and as annual VSF payments for uniformed correction officers become guaranteed in 2019.

OPPOSERS MIGHT ARGUE that the taxation of these benefits could encourage retirees to move out of the city or state. Others may argue that since the uniformed unions allowed the city to invest in riskier, but higher yielding asset classes, that they should be able to enjoy a share of the resulting higher rates of returns without being subject to taxation, which would reduce the extent of gain sharing. They might also argue that for those retirees who do not get other jobs the tax could have a significant impact on their retiree income.

OPTION:

Tax Single-Use Disposable Plastic Bags

Revenue: \$80 million annually

Single-use disposable plastic bags (such as those used in supermarkets and drug stores) are made of thin, lightweight film, typically from polyethylene, a petroleum-based material. Although convenient, plastic bags represent the largest share of plastic in the city's waste stream. Plastic bags make up about 2.3 percent, or 67,000 tons, of New York City's residential waste, according to the Department of Sanitation. In 2015, the city spent approximately \$7 million to export and landfill plastic bags. Once in a landfill, plastic bags can take 10 years to fully break down—and for some plastics it can take much longer.

Even if disposed of properly, single-use bags are often a source of litter in the city. Due to their light weight, plastic bags are carried by the wind into the surrounding environment where they litter streets, roads, and parks; pollute waterways; and harm marine life. The city devotes considerable resources to collecting plastic bags, as well as cleaning up streets, catch basins, and surrounding waters. Retailers purchase plastic bags in bulk for about 2 cents to 5 cents per bag, a cost that is passed on to consumers.

This option, which would institute a tax of 6 cents per bag, would generate \$80 million in revenue in the first year, including \$1.6 million in averted waste export costs due to fewer bags being thrown out. Institution of this tax would require state approval.

IBO's estimate assumes that the tax would be collected along with the general sales tax at grocery, liquor, and drug stores throughout the city. Of the 6 cents, 4 cents would go to the city while 2 cents would be transferred to the retailer as an incentive for compliance. This estimate assumes that the use of plastic bags would drop by 20 percent in the short term in response to the tax and that administrative and enforcement costs would amount to 10 percent of total revenue generated. Over time, as consumers further reduce their use of plastic bags, annual revenue would decline. City revenue from the tax would drop to \$62 million a year if the use of plastic bags declined by a total of 40 percent.

In 2016, the City Council passed legislation to charge customers a 5 cent fee for disposable shopping bags. Albany legislators, however, enacted roadblocks to its implementation that would still need to be overturned for any plastic tax or fee to be established in the city.

PROPOSERS MIGHT ARGUE that charging a tax on each plastic bag would force consumers to acknowledge the cost of the product's disposal and therefore influence consumer behavior. They could point to the recently instituted tax in Washington, D.C., as well as results from several cities in Europe that have reduced bag consumption by 80 percent to 90 percent over time while generating revenue for local governments.

OPPONENTS MIGHT ARGUE that the tax may encourage city residents to switch to single-use paper bags or shop in surrounding communities. Some could also argue that the tax is regressive, having the greatest impact on the poorest New Yorkers. Opponents also might be concerned about increased costs more broadly to consumers and potential effects on customer convenience.

OPTION:

Adjust the Alcohol Tax to Partially Account for Inflation Since 1980

Revenue: \$25 million annually

Since 1980, New York City has taxed wholesale distributors of beer at a rate of 12 cents per gallon and of liquor (with alcohol content greater than 24 percent) at 26.4 cents per liter, or a dollar per gallon. Because this tax is based on volume and the rates have remained unchanged, revenue from the tax has been declining when adjusted for inflation and is now about a third of what it was in 1980. To address the erosion of tax revenue, this option—which requires state approval—would double the current alcohol excise tax to 24 cents per gallon of beer and \$2 per gallon of liquor with alcohol content greater than 24 percent, resulting in additional tax revenue of \$25 million. If this option were adopted in conjunction with the option to extend the excise tax to wine and other liquor with less than 24 percent alcohol (see page 70), they together would bring in \$35 million in additional tax revenue annually—\$25 million from doubling the rate on alcohol currently subject to the tax and \$10 million from the higher rate extended to wine and other alcohol not currently taxed.

PROPOSERS MIGHT ARGUE that since the tax has eroded in real terms over the last 30 years, the city should restore at least a portion of the real value of the tax. On a per serving basis, this would amount to about 1 cent per 12 ounce beer and 1.5 ounce serving of liquor. They might also argue that in addition to boosting city revenue, doubling the rate would make it more effective at reducing consumption and mitigating some of the negative social costs associated with excessive drinking such as drunk driving. Moreover, additional revenue from a tax increase could be used to fund treatment and prevention programs to directly address these problems. Finally, doubling the rate would result in a tax that is still not as onerous as it was in 1980.

OPPONENTS MIGHT ARGUE that given that alcohol taxes account for a small proportion of the price of alcohol, even doubling the tax is unlikely to substantially reduce alcohol consumption. They might also argue that a one-time increase does not address the loss in the real value of the tax going forward, as prices rise but the tax rate remains constant in per gallon terms. Further, they would point out that the proposed tax rate on beer—24 cents per gallon—would be higher than the state's own excise tax of 14 cents per gallon. Finally, opponents might also argue that the alcohol tax is very regressive compared with the city's other revenue sources, for two reasons. First, alcohol expenditures, like consumption expenditures generally, are a larger share of income for low-income consumers. Second, since the tax is levied on quantity, instead of price, the tax paid (as a percent of price) is higher for the less costly products lower-income New Yorkers are most likely to purchase.

OPTION:**Broaden Alcohol Tax to Include Wine and Liquor with Low Alcohol Content**

Revenue: \$5 million annually

Since 1980, New York City has taxed distributors of beer at a rate of 12 cents per gallon and of liquor (with alcohol content greater than 24 percent) at 26.4 cents per liter, or a dollar per gallon. Wine and liquor with less than 24 percent alcohol are currently exempt from the alcohol excise tax. To address the disparity in taxation between wine and other forms of alcohol, this option would extend the beer tax rate of 12 cents per gallon to wine and other liquor with less than 24 percent alcohol, leaving the combined state and local tax rate on wine well below the state tax rate in New Jersey and Connecticut. This measure—which would require state legislation—would generate an additional \$5 million in revenue each year.

PROPOSERS MIGHT ARGUE that the exemption of wine and liquor with lower alcohol content from the city's alcohol tax is arbitrary and that similar goods should be treated the same under tax law. They could also argue that in addition to boosting city revenue, broadening the alcohol excise tax base might reduce consumption and mitigate some of the negative social costs associated with excessive drinking such as drunk driving. Moreover, additional revenue from a tax increase could be used to fund treatment and prevention programs to directly address these problems. Finally, they might point out that because New York State's Department of Taxation and Finance already collects both city and state taxes on alcohol, and because the state already levies its own tax on wine and liquor with lower alcohol content, the additional cost of administering the new tax would be very low.

OPPOSERS MIGHT ARGUE that given that alcohol taxes account for a small proportion of the price of alcohol, a tax increase is unlikely to change consumption patterns significantly and thus substantially reduce alcohol consumption. Opponents might also point out that excise taxes like the alcohol tax are very regressive compared with the city's other revenue sources, making a relatively bigger dent in the budgets of low- and moderate-income New Yorkers. This regressiveness stems from two sources. First, alcohol expenditures, like consumption expenditures generally, are a larger share of income for low-income citizens. Second, since the tax is levied on quantity of the alcoholic beverage, not price, the tax rate (as a percent of price) is higher for less costly products which lower-income New Yorkers are more likely to purchase.

OPTION:

Collect Sales Tax on Capital Improvement Installation Services

Revenue: \$275 million annually

Currently both the city and state sales taxes in New York exclude charges for improvements that constitute a permanent addition or alteration to real property, substantially increasing its value or prolonging its useful life. Examples include installation or replacement of central air systems, heating systems, windows, and electrical wiring, and planting trees, lawns, and perennials. Property repair, maintenance, and more minor installation services (including installations of items, such as window air conditioners, that do not constitute permanent additions to real property) are currently subject to the sales tax. By broadening the sales tax base to include capital improvement installation services, this option, which would require state approval, would increase city revenues by an estimated \$275 million.

A sales tax exception would be retained for replacements necessitated by property casualties such as storms or fires. Note that the above revenue estimate does not incorporate an estimate for a casualty exception. Nor does it factor in the possibility that imposing the sales tax could reduce the scale of installation services, or lead to substantial tax evasion by the providers and purchasers of these services.

PROPOSERS MIGHT ARGUE that there is no economic distinction between real property improvements and other services that are currently taxed; broadening the sales tax base would ensure a more neutral tax structure and decrease differential tax treatment. Others might argue that base-broadening could allow a reduction in the overall city sales tax rate, strengthening the city's competitiveness and diminishing the economic burden imposed by the sales tax.

OPPOSERS MIGHT ARGUE that capital improvement installation services, unlike other services, are intermediary inputs whose benefits are not exhausted when they are purchased, but only over a long period of time. Thus a tax on installation services would run afoul of the principle that sales taxes fall on final household consumption. In addition, improvement installation services increase property values. They are therefore already a source of revenue through the city's real property tax and real estate transaction taxes, and to the extent that taxing installation services curtails improvements, it will have a negative impact on revenues from these other taxes. Finally, the tax would hit employment in—and in some cases possibly the existence of—many small firms and subcontractors providing improvement services.

OPTION:**Extend Sales Tax to Digital Goods,
Including Music, E-Books, and Video**

Revenue: \$22 million annually

Currently, receipts from the sale of digital goods, including music, video, and e-books, are excluded from New York State and New York City sales taxes. (However, sales of digital software are taxed.) This option would extend the local sales tax to digital goods and broaden the sales tax base, consistent with the recommendation of the New York State Tax Reform and Fairness Commission. As the demand for physical goods like CDs, DVDs, and books decline in favor of their electronic substitutes, many states have adapted their tax laws to include digital goods in their sales tax bases, either by including them in their definition of tangible personal property or by explicitly listing digital goods in the delineation of tax base components. If New York State were to extend the New York sales tax base to include digital goods—either for both the city and state or the city alone—this option would result in additional city sales tax revenue of approximately \$22 million.

PROPOSERS MIGHT ARGUE that digital goods should be taxed in the same way as their physical substitutes so that government tax policy does not distort the consumption decisions of households. They might point out that households that opt for digital goods are relatively wealthier than those that purchase the physical substitutes, so eliminating the current tax exemption for digital goods would lessen the general regressivity of the sales tax. Proponents might further argue that tax law should be responsive to changing markets, so that as the market for physical goods erodes, the tax on its more popular substitute at least partially offsets the loss in revenue. Finally, they might argue that although the litigation surrounding the ability to tax out-of-state vendors applies to both shipped physical goods and digital goods, this is less of a concern in New York State because most of the major vendors, such as Amazon and Apple, have a physical presence in the state.

OPPONENTS MIGHT ARGUE that digital goods are inherently different from their physical analogues, especially given that digital goods cannot easily be resold. They might also argue that sourcing is not straightforward for sales of digital goods, since the location of the business selling the good is not as relevant, and there is no physical shipment address in the sale of digital goods. They also might point out that while the delivery of physical goods to stores or customers does impose costs to the city—wear and tear on city streets, air pollution from trucks, police and fire services to protect store property, garbage pick-up of packaging, etc.—the delivery of digital goods makes no such demands on city services and thus there is no justification for subjecting them to the sales tax. Finally, unless the state also adopts this option, extending the city sales tax to digital goods would add to the compliance burden on sellers by significantly undermining the conformity between the city's and state's sales tax bases.

OPTION:

Extend Tax on Cosmetic Surgical And Nonsurgical Procedures

Revenue: \$13 million annually

A March 2012 ruling by the New York State Department of Taxation and Finance narrowed the exemption of Botox and dermal filler products from the sales tax; this exemption now applies only to instances where these products are being used for clearly medical rather than cosmetic purposes. However, there is still a broad range of cosmetic surgical and nonsurgical procedures that remain exempt from city and state sales taxes. IBO estimated that close to \$300 million would be spent on currently exempt cosmetic procedures in New York City in 2016. Assuming some impact of taxation on baseline expenditures, extending the sales tax to cover all cosmetic procedures would generate an average of about \$13 million per year for New York City. This change requires state approval.

PROPOSERS MIGHT ARGUE that all of the reasons for taxing cosmetic articles, such as facial creams or lip balms, and (now) selected cosmetic compounds and applications, apply as well to cosmetic surgery and related procedures. 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—a distinction noted in the American Medical Association’s recommendations as to what to exclude from and include in standard health benefits packages. For tax purposes, there is thus no reason to treat cosmetic enhancements differently than cosmetic products: the exemption should apply only to cases where medical conditions or abnormalities are being treated. Insofar as there is an economic return to physical attractiveness, cosmetic procedures may increasingly reallocate income to those who can spend the most on enhancements.

OPPONENTS MIGHT ARGUE that rather than seeing cosmetic procedures as luxuries, people increasingly regard them as vital to improving self-esteem and general quality of life. Moreover, they may even be seen as investments that augment professional status and income, which are positively correlated with physical attractiveness. Furthermore, 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. 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.

OPTION:**Implement a Carbon Tax and Dividend**

Revenue: \$162 million annually

New York City has made some progress in reducing carbon emissions: city residents, businesses, and visitors were responsible for the emission of 48 million tons of carbon in 2013, 19 percent below the baseline metric established in 2005. Despite this progress, additional action will be required to meet the city's goal of an 80 percent reduction by 2050. Fees or taxes on the emission of greenhouse gases are regarded by economists as an economically efficient way to reduce emissions, which can help to slow the pace of global warming and rising sea-levels, while also providing revenue.

Under this option, a tax would be collected by electric, gas, and heating oil companies and would be assessed on energy from each provider according to the carbon intensity of their energy mix. Customers could lower their tax by using less energy or choosing a less socially costly source of energy. The city's ability to collect the tax from a few points in the energy delivery chain with existing collection processes would reduce overhead costs and simplify compliance.

This option, which would institute an initial charge equivalent to \$2 per ton, rising to \$10 per ton over five years, would generate \$307 million annually at the full rate, and cover emissions associated with electricity, natural gas, steam, and heating oil use. In New York, a \$10 per ton carbon tax would add approximately 0.3 cents per kilowatt hour, or around 2 percent, to the residential cost of electricity, less than half the rate of some recently imposed local carbon taxes. IBO's estimate assumes that emissions would decline 10 percent in the short run. In the long run, these declines would likely be larger, as building efficiency increases and the market demands cleaner sources of electricity.

In order to alleviate equity issues if the city, with state approval, imposed such a tax, consideration would have to be given to how to protect low-income households. As an alternative to exempting low-income households, a carbon dividend credit could be refunded based on the revenue generated from the carbon tax. IBO assumes that each household—regardless of income—would receive an equal share of the dividend, which would ensure that families are not unduly burdened, but leave in place incentives to reduce energy use. Instituting a dividend would reduce the new revenue from \$307 million to \$162 million per year, with the balance refunded to households.

PROPOSERS MIGHT ARGUE that charging a tax on each ton of carbon emitted would force consumers to acknowledge the cost of energy use and therefore influence consumer behavior. The revenue could be used to prepare New York City for the costs of climate change or other priorities including reductions in other taxes. They could point to popular carbon taxes in Boulder, Colorado and British Columbia that have led to emission reductions and stable revenue streams while appropriately pricing a resource with large social costs.

OPPOSERS MIGHT ARGUE that the fee may encourage businesses to relocate to jurisdictions with lower energy prices or that carbon intensive power would still be generated due to demand outside the city. They also might be concerned about costs to low-income families that are nonetheless high energy consumers. Opponents could argue that eventual regulation on the state or federal level could affect New York City's tax as emissions would be subject to multiple regulatory authorities.

OPTION:

Impose a 75 Percent Excise Tax on E-Cigarettes

Revenue: \$38 million annually

Sales of electronic nicotine delivery systems (ENDS)—often sold as electronic cigarettes or vaporizers—have ballooned since their introduction to the U.S. market in 2007. ENDS devices heat liquid nicotine to allow users to ingest it through vapor, rather than smoke. ENDS products come in two major categories: small disposable and reusable e-cigarettes that look very similar to conventional combustible cigarettes and larger vaporizers that come in many shapes and sizes and are filled with liquid nicotine. The use of e-cigarettes is increasing rapidly, driven by their perceived lower health risk as compared with combustible cigarettes, their declining price, and their convenience. While the long-term health impact of e-cigarette use is not known, they are currently seen as safer than conventional cigarettes.

The federal government does not yet regulate e-cigarettes, but over 40 states have implemented various policies governing their sale and use. New York State bans retailers from selling e-cigarettes to minors and New York City bans e-cigarette use in all public spaces in which conventional cigarette use is also banned. In 2013, Minnesota became the first state to tax e-cigarettes, with North Carolina following in 2014. At least 22 states and numerous municipalities have proposed legislation to tax ENDS products in 2015. Unlike conventional cigarettes, which come in a standard form of 20 cigarettes to a pack and are subject to an excise (unit) tax on each pack, ENDS products are not sold in a consistent form. Most ENDS excise tax proposals take one of two forms: a tax proportional to either the wholesale or retail product price or a tax proportional to the amount of nicotine in the product, with the former the most common. Minnesota law defines e-cigarettes and liquid nicotine as tobacco products and taxes them at 95 percent of their wholesale price; estimated revenue from this levy was \$5.3 million in Minnesota's 2014 fiscal year. North Carolina taxes ENDS products by the amount of liquid nicotine they contain at a rate of 5 cents per milliliter. Given the variety of nicotine concentrations and products for sale, a tax proportional to price would be much simpler to implement.

In 2013, a proposal was introduced in the New York State legislature to define “electronic cigarette cartridges” and liquid nicotine as “other tobacco products” and impose a tax on them at rates of 75 percent of the wholesale price; a 2014 proposal would have imposed a 95 percent tax. If New York City were to implement a 75 percent wholesale tax on ENDS products, which requires state approval, revenue could amount to \$38 million annually. This figure takes into account forecast growth in the ENDS market, a decline in consumption attributable to the increased cost, and a relatively low rate of compliance given the large number of ENDS sales online.

PROPOSERS MIGHT ARGUE that excise taxes on combustible cigarettes have long functioned to both dissuade people from smoking and to generate revenue. A tax on ENDS would function to further discourage people from ingesting nicotine and would offset a small part of the continuing decline in cigarette tax revenue. They might further argue that the safety of ENDS remains unknown and that we should discourage their use until they are proven safe.

OPPONENTS MIGHT ARGUE that ENDS are helping people to quit smoking combustible cigarettes and their use should be encouraged. They could also say that an excise tax would more heavily impact in-person sales and that it would not fully capture online sales, placing a greater burden on small convenience stores and “vape shops.” Opponents could also point out the inconsistency of taxing ENDS while not taxing nicotine patches and gums, which are also nicotine delivery systems, albeit solely used for quitting smoking.

OPTION:

Include Live Theatrical Performances, Movie Theater Tickets, & Other Amusements in the Sales Tax Base

Revenue: \$86 million annually

Currently, state and local sales taxes are levied on ticket sales to amusement parks featuring rides and games and to spectator sports such as professional baseball and basketball games. But sales of tickets to live dramatic or musical performances, movies, and admission to sports recreation facilities where the patron is a participant (such as bowling alleys and pool halls) are exempt from New York City's 4.5 percent sales tax, New York State's 4.0 percent sales tax, and the 0.375 percent Metropolitan Commuter Transportation District sales tax. IBO estimates that in 2014 these businesses generated just under \$2.0 billion in revenue, nearly \$1.4 billion of which was attributable to Broadway ticket sales.

If the sales of tickets to live theatrical performances, movies, and other amusements were added to the city's tax base, the city would gain an estimated \$86 million in sales tax revenue, assuming that Broadway ticket sales—by far the largest contributor to the estimated revenue generated by amusements in New York City—do not decline significantly in future years. Because New York City's sales tax base is established in state law, such a change would require legislation by Albany.

PROPOSERS MIGHT ARGUE that the current sales tax exemptions provide an unfair advantage to some forms of entertainment over others, such as untaxed opera tickets over taxed admissions to hockey games. In addition, they may argue that a large share of the additional sales tax would be paid by tourists, who make up the majority of Broadway show theatergoers, as opposed to New York City residents. Proponents may also contend that the tax will have relatively little impact on the quantity and price of theater tickets sold to visitors because Broadway shows are a major tourist attraction for which there are few substitutes.

OPPONENTS MIGHT ARGUE that that subjecting currently exempt amusements to the sales tax would hurt sales of some local amusements more than others. For example, while sales of Broadway tickets may be relatively unaffected by the introduction of a sales tax on ticket sales, sales of movie theater tickets may decline as more residents substitute a movie streamed over the Internet for a night out at the cinema. In addition, fewer ticket sales for live musical and theatrical performances as well as movies may also reduce demand for complementary goods and services such as meals at city restaurants and shopping at retail stores. Opponents may also point out that this option would break conformity with the state in terms of sales tax base, unless Albany also adds these activities to the state sales tax base (as well as the tax base for the Metropolitan Commuter Transportation District tax).

OPTION:

Legalize and Extend Sales Tax to Marijuana

Revenue: \$25 million in the first year

Currently, marijuana use in the state of New York is legal only for medicinal purposes, with a strict set of health conditions—including cancer, multiple sclerosis, and spinal cord injuries—for which medical professionals can prescribe its use. Prescribed medical marijuana is subject to a 7 percent New York State excise tax, but consistent with the tax treatment of other medicinal products (both prescribed and over the counter) it is not subject to either the city or state sales tax.

This option would legalize the sale and use of marijuana for recreational use and extend the city's 4.5 percent sales tax to recreational sales. Implementation would require that the state Legislature first legalize recreational marijuana sales and then permit New York City to tax local retail sales. Such legislation was introduced in January 2015 which would 1) legalize the possession and consumption of marijuana for those ages 18 and up in New York State, 2) establish a state excise tax, and 3) authorize localities to impose a sales tax of up to 5 percent of retail sales.

Since January 1, 2014, when marijuana sales for recreational purposes became legal in Colorado, the volume of recreational sales in the state and the resulting excise and sales tax revenue have increased steadily, as cultivation, processing, and retailing capacity expanded. Using data on that state's tax revenue from marijuana sales and adjusting it for the size of the New York market and for price differences, IBO estimates that a 4.5 percent tax on legal retail sales would bring in approximately \$25 million in the first year of legalization and \$40 million in the second year, with the potential for revenue to increase in future years.

PROPOSERS MIGHT ARGUE that in addition to expanding the sales tax base and increasing revenue, the legalization of marijuana for recreational use would avoid stigmatizing as criminals individuals arrested for marijuana, which can hurt their employment potential for many years into the future. They might also argue that the legalization will save the city on the costs of arresting, prosecuting, and incarcerating those who possess or distribute marijuana. They might advocate dedicating a portion of the additional tax revenue to substance abuse programs, which in turn would lower health costs and crime rates and have other positive spillover effects. Proponents may also argue that legalization would stimulate the city's economy by boosting tourism, particularly if nearby states do not follow New York's lead. They might contend that cannabis sold through legal means would be less risky in terms of its potential to contain other harmful ingredients and have augmented THC content. They could also note that a total of eight states and Washington, D.C., have approved legalization.

OPPOSERS MIGHT ARGUE that given the well-established black market that exists in the city, much of the distribution of recreational marijuana would likely remain untaxed after legalization, limiting the potential for new city revenue. They might also argue that since marijuana sales remain unlawful at the federal level, breaking from conformity would create barriers to implementation. Opponents might further argue that the legalization of marijuana would have social costs, including an increase in traffic accidents and fatalities. Finally, they might argue that with legalization, it will be hard to limit permitted recreational use to adults, risking greater drug use among young people.

OPTION:

Repeal the New York City Sales Tax Exemption On Interior Decorating and Design Services

Revenue: \$20 million annually

Unlike other localities in New York State and the state itself, New York City exempts the interior design services industry from the sales tax. The definition of decorating and design services includes the preparation of layout drawings, furniture arranging, staging, lighting and sound design, and interior floral design. The decorating and design industry is highly concentrated in the city, with annual sales totaling \$720 million in 2015, more than half (55 percent) of sales in the state as a whole. By way of comparison, 48 percent of all sales tax collections statewide in 2015 were attributable to sales in New York City.

Opportunities for businesses to assign the interior decorating and design services performed in the rest of the state to the city might contribute to the industry's concentration in the city. New York State Department of Taxation and Finance guidelines state that the geographical location of the services' delivery determines the sales tax rate to be applied. For example, an owner of a second home in Washington County, which levies a 3 percent sales tax on interior design services, can hire a design firm in the same county to develop plans for that home and yet avoid the local tax if the firm mails the plans to the owner's home or office in New York City.

Using detailed industry-level data on New York State's sales tax collections both within and outside the city, IBO estimates that repealing the city sales tax exemption for interior design services could add \$20 million in revenue to the city budget annually. This estimate is conservative, because it incorporates both a decline in the volume of decorating services rendered in New York City and a drop in the volume of services actually performed outside the city but currently reported as within the five boroughs in response to the differences in tax rates.

Repealing the tax exemption for interior decorating services would require approval from the New York State Legislature.

PROPOSERS MIGHT ARGUE that by making the city's taxation of interior design services conform to the tax treatment elsewhere in the state, repealing this exemption would simplify the tax code, reducing compliance costs for both businesses and taxing authorities. They could also point out that services such as painting and repair of real property (but not capital improvements) that involve some aspects of interior decorating services are currently subject to sales tax. As a result, applying the sales tax to interior decorating services would reduce opportunities for tax avoidance.

OPPOSERS MIGHT ARGUE that taxing interior design services, which are often an input for other goods and services rather than a final product, is economically inefficient. New York City may lose some firms currently registered within the city due to the exemption. The repeal may also negatively affect consumer expenditures on taxable goods and services such as furniture, fixtures, and floral arrangements that are frequently purchased as part of projects involving interior design work, therefore, reducing the sales tax base.

OPTION:

Tax Laundering, Dry Cleaning, and Similar Services

Revenue: \$48 million annually

Receipts from dry cleaning, laundering, tailoring, shoe repairing, and shoe shining services are not currently subject to city and state sales taxes. This option would lift the city exemption, broadening the sales tax base to include these services. It would result in additional New York City sales tax revenue of approximately \$48 million annually and would require state legislation.

PROPOSERS 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. They might further argue that services make up a growing share of total consumption. Broadening the sales tax base to include more services would help the city maintain sales tax revenue and also decrease the economic inefficiency created by differences in tax treatment. In addition, the bulk of the new taxes would be paid by more affluent consumers who use such services more frequently and have a greater ability to pay. 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 generally provided by the self-employed and small businesses, and these operators may not have the facility to record, collect, and transmit the tax. They could also argue that bringing those services into the sales tax base would increase the incentive for hotels and restaurants—which together account for a sizable portion of the demand for laundering and dry cleaning services—to do their own laundry and dry cleaning (vertical integration), in turn reducing the revenue of the small businesses that formerly provided these services. Finally, they might also point out that, even without vertical integration, a portion of the additional cost associated with the tax may be shifted to the consumer through an increase in the price of the service.

OPTION:**Tax Sugar-Sweetened Beverages**

Revenue: \$244 million annually

New York City residents consume over 404 million gallons of sugar-sweetened beverages each year. These products—including soda, energy drinks and fruit beverages—have little nutritional value, but extensive marketing and low costs have made them popular consumer choices. Scientific evidence suggests that drinking such beverages can increase the risk of obesity and related conditions like diabetes, heart disease, stroke, arthritis, and cancer. Many New Yorkers already suffer from these conditions: 33 percent of adults are overweight and another 23 percent are obese.

A tax on sugar-sweetened beverages, which would require state approval, could discourage consumption of high calorie drinks and raise revenue. An excise tax of half a cent per ounce levied on beverages with any added caloric sweetener could generate \$244.2 million in revenue for the city, equivalent to 16 percent of the Department of Health and Mental Hygiene's total budget. Diet beverages or those sweetened with noncaloric sugar substitutes would not be subject to the tax.

Unlike many other food and beverage items, soft drinks are already subject to the combined New York State and local sales tax of 8.875 percent, or about 13 cents per 20-ounce bottle. That amount may be too low to affect consumption. The proposed excise tax would increase the cost of beverages by an additional 7 percent on average, providing more of an incentive for consumers to choose water, milk, or another unsweetened drink for refreshment. In addition, the excise tax would discourage consumers from choosing larger portions to maximize value, as the tax would be proportional to the size rather than the price of a drink.

IBO's revenue estimate is based on the assumption that the excise tax will decrease consumption by approximately 6 percent. If the consumption of sugar-sweetened beverages were to decline further, then the revenue generated by this option would also decrease.

PROPOSERS MIGHT ARGUE that soda is not necessary for survival and offers no nutritional value. A tax-induced price increase would encourage consumers to substitute other beverages that have few if any negative health consequences such as milk or water. Mexico implemented a national tax on sugar-sweetened beverages beginning in January 2014 and initial data has shown that consumption of these drinks declined by 6 percent from 2014 to 2015. Additionally, soda is associated with costly conditions like obesity and diabetes that are often treated with public funds through Medicaid. A 2008 poll of New York State residents showed that 72 percent of those surveyed were in favor of a tax on sugary beverages if the revenue is used for obesity prevention and health promotion programs.

OPPONENTS MIGHT ARGUE that a tax on sugar-sweetened beverages would disproportionately affect some consumers and may not lead to weight reduction. Such a tax is regressive, falling more heavily on low-income consumers. In addition, soft drink consumption is a relatively small part of the diet for overweight people and food and drinks that serve as substitutes for sugar-sweetened sodas may also be highly caloric, reducing the tax's impact on weight loss. Furthermore, it would adversely affect local retailers and producers who will see sales and/or profits fall as consumption declines. In March 2015, Berkeley, California implemented a one cent per ounce tax on sugar-sweetened beverages and initial reports show that only a portion of the tax has been passed along to consumers.

OPTION:

Increase Parks Marina Dockage Rates to Mirror Market Rates

Revenue: \$1 million annually

The Department of Parks and Recreation owns and operates three marinas in the city—the West 79th Street Boat Basin in Manhattan, the World’s Fair Marina in Queens, and the Sheepshead Bay Piers in Brooklyn—where boat owners can rent docking slips to park their boats. There are waitlists to obtain docking permits—notably there are over 700 boats on the waitlist for the 79th Street Boat Basin. Six-month “summer” (May-October) docking permits from the parks department currently range from \$75 to \$120 per linear foot, rates that have not been changed since 2012. There are numerous privately owned marinas, as well as boat basins affiliated with park trusts, such as Brooklyn Bridge Park and the Hudson River Park, within the city or on the New Jersey side of the Hudson River that offer similar services, but charge rates that vary from \$180 to \$295 per linear foot for the same six-month period.

Under this option, the dockage rates at the municipally operated marinas would be raised to mirror the rates charged by the privately owned marinas, which could be done through a parks department rule change. IBO estimates that this could generate an additional \$1 million annually. There is the potential for additional revenue if rates for services such as cleaning, winter dry storage, and towing at city marinas were also increased to mirror market rates.

PROPOSERS MIGHT ARGUE that the parks department is providing the same service as other marinas and should charge comparable rates. Charging below-market rates hurts the competitiveness of private businesses. Current revenue does not cover the capital investment required to maintain the marinas, so the city is subsidizing those who use them, including permit holders who are not city residents.

OPPOSERS MIGHT ARGUE that holding dockage fees low allows for more New York residents and visitors to participate in boating by making it more affordable to dock a boat. If prices were to rise, some current permit-holders might become priced out due to the increase.

OPTION:

Charge a Fee for the Cost of Collecting Business Improvement District Assessments

Revenue: \$1 million annually

New York City has 72 Business Improvement Districts (BIDs)—organizations of property and business owners that provide services (primarily sanitation, security, and marketing) in defined commercial districts. These organizations receive a combination of public and private financing, with the majority of their revenue (75 percent in 2015) coming from additional assessments levied on property owners in the districts and typically passed on to tenants.

This assessment is billed and collected by the Department of Finance, which disburses funds to the District Management Associations, which in turn deliver the services. (The city also provides some additional services such as assistance forming BIDs and liaison and reporting services from the Department of Small Business Services.) The city does not currently charge or collect any fee for providing this administrative service. In fiscal year 2015, the city billed \$101.7 million on behalf of BIDs. Under this option, the city would levy a 1 percent fee for the collection and distribution of BID charges by the Department of Finance, resulting in about \$1 million in revenue. BID assessments vary greatly, so that the fee would range from about \$500 for a small BID in Queens to more than \$160,000 for the largest BIDs in Manhattan.

About one-third of BIDs reporting to the city had revenues of less than \$300,000 and were especially dependent on assessments for their revenue. The effect of an administrative fee would be relatively greater for these BIDs, where assessments constitute an average of 95 percent of revenue, as compared with 75 percent of revenue for all BIDs. BIDs also differ in the share of administrative costs in their budgets, accounting for 45 percent at smaller BIDs and only 15 percent at larger ones, on average. One option to address this problem would be to exempt some BIDs based on criteria such as low annual revenue or eligibility for the new BID Express program, which targets smaller neighborhoods in the city. Such a change would lower the potential revenue to the city.

PROPOSERS MIGHT ARGUE that the city is providing a free service to private organizations that provide services in limited geographic areas, rather than benefiting the city as a whole. As a general rule the city does not collect revenue on behalf of private organizations. Additionally, the fee would be easy to collect either as an additional charge on the property owners as part of the BID assessment billing, or a reduction in the distributions to the BIDs themselves.

OPPONENTS MIGHT ARGUE that that BIDs are important contributors to the economic health of the city and deserving of this small, but important support that the city provides. Furthermore, having the city administer the BID charges is efficient because the BID assessments are easily added to the existing property tax bills that the city prepares each year. Opponents could also argue that while a handful of BIDs—mostly in Manhattan—are well funded, the majority of BIDs are fairly small with limited budgets that have little room to incur additional fees.

OPTION:

Convert Multiple Dwelling Registration Flat Fee to Per Unit Fee

Revenue: \$2 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 2015, the city collected about \$2 million in multiple dwelling registration fees. Converting the flat fee to a \$2 per unit fee would increase the revenue collected by the city by \$2.3 million annually (assuming around a 90 percent collection rate). This would require City Council approval.

PROPOSERS MIGHT ARGUE that much of HPD's regulatory and enforcement activities take place at the unit rather than the 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 from a 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. The cost of registering a building should not vary with the number of units in the building. They also might express concern about adding further financial burdens on building owners, particularly in light of the rising property tax liabilities faced by many of the properties subject to the fee.

OPTION:

Expand the Department of Transportation's PARK Smart Program

Revenue: \$33 million annually

This option would expand a program that prices certain New York City parking spaces at variable rates depending on the time of day. After successful pilots, the city permanently implemented variable parking rates in Greenwich Village, Park Slope, Cobble Hill, and Jackson Heights.

Under this option, the program would be expanded to 24,900 additional spaces in Manhattan below 96th Street, including new spaces created in lower Manhattan following the conversion of loading zones into parking spots. Based on the recent increase in parking fees, the implementation of variable-rate pricing would raise an additional \$33 million annually.

Hourly rates for these spaces would be set at \$5 between noon and 4 p.m., Monday through Saturday—the period identified as the peak usage period in each of the pilot programs. At other times of day the current base rate of \$3.50 an hour would be charged. In 2010, after consultation with the community, the Greenwich Village program was adjusted, with 6 p.m. to 10 p.m. now being the higher-rate period. Similar adjustments may be made in other neighborhoods, but for now we assume a uniform initial time period. The occupancy rate for the spaces is assumed to be 70 percent, roughly the peak period occupancy in the Greenwich Village study area following program implementation.

In the past, Department of Transportation officials have proposed introducing a sensor-based variable-rate parking system, akin to San Francisco's SFPark system. This more sophisticated program could replace the PARK Smart program as currently implemented, and potentially preclude expansion of the program proposed in this option.

PROPOSERS MIGHT ARGUE that inexpensive on-street parking encourages additional driving, with the related environmental costs and economic costs of lost productivity caused by congestion. They may also argue that efficiencies can be gained by promoting greater parking turnover, affording more motorists throughout the day the chance to park at high-demand destinations (albeit for shorter periods), as seen in evaluations of the Park Slope and Greenwich Village pilots. They could also argue that there are safety benefits from reducing the number of drivers circling for parking. Finally, proponents may argue that raising the cost of on-street parking would mean that drivers pay a higher share of the social costs of their choice to drive.

OPPONENTS MIGHT ARGUE that drivers will change their shopping habits, preferring shopping venues that provide free or less expensive parking, such as large supermarkets, big box retailers, and department stores. Although some of the venues are in the city, others are in suburban shopping malls, decreasing sales (and sales tax revenue) at small neighborhood retailers and promoting even more driving. Finally, opponents may argue that drivers are already paying their share of the cost of the choice to drive through tolls, car registration fees, and fuel taxes.

OPTION:

Impose Development Impact Fees On Construction Projects

Revenue: \$24 million to \$59 million annually

In recent years, the city has increasingly looked to extract benefits from real estate developers for a variety of public purposes, ranging from transportation improvements, to local hiring and living wage pledges, to affordable housing and open space. Currently, the city negotiates with each developer on a case by case basis, resulting in a variety of approaches, including a district improvement fund as part of the Hudson Yards rezoning, community benefit agreements as part of the Atlantic Yards redevelopment and Columbia University's expansion in Upper Manhattan, and a \$210 million commitment for transportation improvements from the developer of One Vanderbilt in exchange for rezoning the site for additional density.

Under this option, the city would introduce development fees that would impose a standard fee schedule on all projects to mitigate their impacts on city services and infrastructure. Development fees in other cities are usually limited to specific types of development or to specific geographic areas. Based on the Department of City Planning's PLUTO database, from 2000 through 2013, developers constructed an average of 8.2 million square feet a year of new buildings in Manhattan south of 96th Street, of which about 59 percent was residential and the remainder commercial. Some of those buildings include affordable housing, community facilities, and other uses that would presumably be exempt from the fee. Imposing additional costs might also prevent some marginally feasible projects from going forward. Recognizing these issues, IBO has assumed that 80 percent of the projects would have been required to pay a development fee and that 90 percent of those projects would have gone forward despite the imposition of the fee. If the city imposed a fee of \$10 per square foot, it would have raised an average of about \$59 million a year. If it imposed the same fee only on commercial developments, revenue would have averaged \$24 million a year. This revenue would be offset in part by the cost to administer the fee and to track its use. Depending upon how the impact fees are structured, state approval may be needed.

There would likely be legal restrictions on how and where the city can spend the proceeds, but in general, the revenue could be spent on anything that is reasonably connected to the impacts of the project in question.

PROPOSERS MIGHT ARGUE that development impact fees force new development projects to pay for their marginal impacts on the public realm and public services. Impact fees would also formalize and standardize exactions that are already occurring on an ad-hoc basis. Adding impact fees to projects going through the Uniform Land Use Review Procedure, for example, would increase transparency for community members and increase certainty for developers and lenders. It would also raise substantial amounts of money for public improvements in neighborhoods directly affected by development projects.

OPPONENTS MIGHT ARGUE that construction costs in New York City are already among the highest in the world, and that new fees will either be passed through to end users or will discourage development. They would also argue that the use of impact fees could make the city overly reliant on real estate development to pay for city services and capital projects. They would argue that on-going city services and bond-financed capital projects should be funded by stable revenue sources like property taxes, not by volatile, nonrecurring sources of revenue like development fees. The use of impact fees also unfairly forces new developments to bear the cost of projects and services that benefit nearby property owners and future generations.

OPTION:

Increase Fees for Birth and Death Certificates to \$45

Revenue: \$17 million annually

Residents of New York State are entitled to original birth certificates at no cost, but both the state and the city charge a fee for duplicate copies of birth certificates and for all death certificates. The city's Department of Health and Mental Hygiene issued over 610,000 paid birth and death certificates in 2015.

A provision of the state public health law sets the fee New York City charges for birth and death certificates at \$15. Municipalities elsewhere in the state are subject to different limits; some are required to charge \$10, while in others the local health department is free to set any fee equal to or less than the \$45 fee charged by the New York State Department of Health.

Raising the city fee to the state level would presumably have little effect on the number of certificates purchased, since people require them for legal or employment reasons. IBO assumes that increasing the charge to \$45 would reduce the number of certificates requested by 5 percent, yielding a net revenue increase of \$16.9 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, even doubling the price will have little impact on the number of certificates purchased.

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 tripled. 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:

Increase Food Service Permit Fee to \$700

Revenue: \$10 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. Fees for these licenses are currently set at \$280, plus \$25 if the establishment serves frozen desserts. In 2012, the department processed 4,699 new food service establishment applications and 21,758 renewals, for a total of 26,457 permits. About 9 percent of these permits were for school cafeterias and other noncommercial establishments, which are exempt from fees.

In fiscal year 2013, the cost for processing these permits including the cost of inspections was budgeted at approximately \$14.5 million for commercial establishments. When enforcement costs from the Office of Administrative Trials and Hearings' budget are added in, the total cost is \$18.5 million. But the department collected only between \$6.8 million and \$7.4 million from restaurant permits during 2012. Thus, fees cover less than half of the full costs associated with restaurant permits. Increasing the application fee from \$280 to \$700 (leaving the frozen dessert charge unchanged) would bring permit fees closer in line with permit costs and raise \$10.2 million in revenue.

However, New York City is unable to raise permit fees under current New York State law, which holds that only the costs incurred in issuing the permit and the cost of an initial inspection can be included in the fee. Increasing the fee to cover the cost of subsequent inspections and enforcement would therefore require action by the state Legislature.

PROPOSERS MIGHT ARGUE that it is established city policy that the fees charged for services like restaurant permits should cover the full associated costs. They might further 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.

OPPONENTS MIGHT ARGUE that while while paying an additional \$420 would be trivial for a large restaurant, many restaurants are very small and operate on thin profit margins. In addition, they might argue that if the real goal of the option is simply to raise revenue, economists generally agree that broad-based taxes are preferable to charges focused on particular industries.

OPTION:**Increase Fines for Drivers Who Receive Repeated Speed and Red-Light Camera Violations**

Revenue: \$5 million annually

New York City gave out just over 1.7 million tickets for speed and red-light camera violations to around 1.2 million drivers (as measured by unique license plates) in fiscal year 2016. That same year the city received \$85 million in speed and red-light camera ticket revenue. While the majority of penalized drivers received only one ticket during the year, a small group of drivers received multiple tickets for the same offense. For example, of the nearly 800,000 drivers who received speed camera tickets—issued for speeding within a quarter mile of a school zone—nearly a third received more than one. A smaller share (13 percent) of the roughly 400,000 drivers who were photographed failing to stop at a red light received more than one ticket for doing so.

Tickets for speed and red-light camera violations carry \$50 fines. Unlike many other fines given out by the city—especially those meant to discourage behavior that impacts New Yorkers' health and safety—these fines do not increase after multiple offenses. For example, repeat violations of the same building code within three years trigger “aggravated penalties” that are most often more than twice the initial penalty. Similarly, the state increases fines for drivers who repeatedly text while driving; the maximum fine is \$200 for the first offense, \$250 for the second offense, and then \$450 for the third and any subsequent offenses within 18 months.

If the city were to increase the fines for multiple speed and red-light camera tickets in the same year—for example \$100 for the second offense, \$200 for the third, and \$400 for the fourth and each subsequent offense—the city could increase revenue from speed and red-light camera fines by about \$5 million annually. This estimate assumes that in response to the increase in fines, some drivers will change their behavior, reducing the number of multiple violations by roughly a third. It also assumes that about 25 percent of the fines would go uncollected in any given year. This option requires changes to the state laws governing New York City's speed and red-light cameras.

PROPOSERS MIGHT ARGUE that the city has prioritized traffic safety through its Vision Zero initiative and that the increase in the number of speed and red-light cameras has been a critical part of the program. A driver who receives multiple tickets for the same offense in one year is likely to be a more careless and dangerous driver than one who receives a single ticket. Higher fines for repeat violators can reduce the total number of violations without more harshly penalizing other drivers. Additionally, graduated fines do not create an administrative burden as the city already compiles electronic databases of tickets and could easily use license plate data to assign higher fines to repeat offenders.

OPPONENTS MIGHT ARGUE that increasing fines for multiple speed and red-light camera ticket violations unfairly targets certain parts of the city's population, specifically those who live or work near schools and areas targeted for red-light cameras. Moreover, increasing fines would have a disproportionate impact on low-income households. Lastly, research on the impact of financial penalties on driver behavior is mixed and it is not certain that higher fines for repeat offenders would result in substantially fewer violations.

OPTION:

Increase the Cigarette Retail Dealer License Fee to \$340

Revenue: \$1 million annually

The Department of Consumer Affairs (DCA) currently regulates and issues licenses to 55 different categories of business operating in New York City. The fees associated with obtaining a license vary widely, and range from \$20 every two years for a locksmith apprentice to up to \$5,010 every year for a commercial lessor of space for bingo or games of chance. One of the most commonly issued licenses, with 5,241 given out in 2015, is for retail dealers of cigarettes. However, the fee for this license, at \$110 every two years, is lower than the fees for many other, similar business categories. For example, electronics store, gaming café, and laundry licenses all require biennial fees of \$340 (or more in the case of laundries with more than five employees). A general vendor license is even more costly at \$200 per year.

Increasing the cigarette retail dealer license fee to \$340 every two years would bring it in line with licensing fees charged for other, comparable business categories. This would also raise \$1.2 million in new revenue annually to support DCA's enforcement activities, assuming the number of licenses requested stays constant. If the number of licenses declines as a result of the \$230 hike in fees, this would lower the amount of additional revenue generated.

PROPOSERS MIGHT ARGUE that cigarette retail dealers should pay DCA licensing fees that are comparable to those charged to other, similar businesses. Furthermore, given the carcinogenic nature of the product sold and its impact on public health care costs, these vendors are generating significant negative externalities for which they are not adequately compensating tax payers. For example, the New York State Department of Health estimates that tobacco use is responsible for \$3.3 billion in annual Medicaid costs statewide. Finally, they might argue that if an increased licensing fee causes some vendors to either stop selling cigarettes or increase their prices this could positively impact public health by making cigarettes more difficult or costly to obtain.

OPPONENTS MIGHT ARGUE that cigarette retail dealers are more highly regulated than other business categories and incur a number of additional fees that justify a lower DCA licensing fee. Unlike electronics stores, general secondhand dealers, gaming cafés, laundries, and general vendors, retail vendors selling cigarettes must also pay a \$300 annual fee to register with the New York State Department of Taxation and Finance. In addition, they might argue that a fee increase would have a disproportionate effect on small business owners, who sell fewer cigarettes per license than large chains. Finally, the purpose of licensing fees is to fund DCA's enforcement activities—if the true goal of a higher fee is to raise revenue or even decrease the consumption of cigarettes, there are other, more appropriate, mechanisms policymakers can utilize to do so, such as increasing cigarette excise taxes.

OPTION:**Institute a Residential Permit Parking Program**

Revenue: \$2 million in the first year

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. In November 2011, the City Council approved a home-rule message in support of a bill introduced in the State Legislature that would have allowed the city to establish residential parking permits in certain neighborhoods; the legislation was never enacted, however. The bill has been reintroduced in subsequent sessions, though it has never advanced out of committee.

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 nonmetered 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.

PROPOSERS MIGHT ARGUE that residential permit parking has a proven track record in other cities, and that the benefits to neighborhood residents of easier parking would far outweigh the fees. Neighborhoods chosen for the program would be those with ample public transportation options and, in many cases, paid off-street parking 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 for drivers by ensuring turnover in parking spaces.

OPPOSERS MIGHT ARGUE that it is 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 near permit zones may experience a loss of clientele, particularly from outside the neighborhood, because residents would take more of the on-street parking. The Department of Transportation's report on parking conditions around Yankee Stadium and Atlantic Yards found that much of the demand for parking on game days is absorbed by off-street lots and garages, with much of the on-street parking supply remaining available for residents and other visitors. 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:

Institute Competitive Bidding for Mobile Food Vending Permits

Revenue: \$57 million annually

Food carts and trucks operating in New York City must obtain a Mobile Food Vending Unit permit from the Department of Health and Mental Hygiene (DOHMH). DOHMH collects fees from the vendors for the initial permit and for renewals—every two years for year-round permits and every year for seasonal permits. Local law limits the number of mobile food vending permits that may be issued for use on public space to 3,100 for year-round permits; 1,000 for seasonal permits, and there are an additional 1,000 permits available for vendors selling fresh fruit and vegetables. Demand for permits greatly exceeds the number available, so much so that DOHMH has closed the permit application wait list. In 2012, DOHMH issued 3,546 permits, 85 percent of them renewals, and raised \$399,450 in revenue.

Food carts or trucks that operate on private, commercially zoned property, or in city parks, are exempt from limits placed on the number of DOHMH permits. Vendors wishing to operate on park land must enter into a separate concession agreement with the parks department through a competitive bidding process. These concessions are valid year-round for five years; in 2015, they ranged in price from \$175 to \$883,478, depending on location. In 2014, 248 parks department mobile food vending concessions generated a total of \$5 million in revenues for the city, or an average of \$20,117 per concession. In contrast, health department-issued permits on average brought in only \$113 per permit.

If DOHMH were to institute a competitive bidding process for its food cart permits, it could increase revenues by \$63.8 million, assuming it was able to command prices somewhat lower than those obtained by the parks department. Based on data from the bidding for taxi medallions, the bidding process would raise administrative costs to about 12 percent of revenues, reducing net revenue to \$56.6 million. Because city and state law require that permit fees be set in accordance with administrative costs, implementing this option may also require DOHMH to reclassify their mobile food vending permits as concessions.

PROPOSERS MIGHT ARGUE that competitive bidding is successfully used in other city programs, such as the parks department food concessions and taxicab medallions. They might also argue that the current system of flat fees undervalues the true worth of permits to vendors, as evidenced by the long waiting lists. Further, allocating permits via a waiting list does not actually shield vendors from high costs, as it has encouraged the development of a black market in which permits are resold or rented out at a considerable mark up. In 2009, the Department of Investigation uncovered what it described as a “lucrative underground market” in which two-year mobile food vending permits were being resold for up to \$15,000 apiece. It recommended that DOHMH move to a competitive sealed bidding process.

OPPOSERS MIGHT ARGUE that competitive bidding would price some small vendors out of the mobile food vending market. If permit costs were to rise from the current maximum of \$200 to tens of thousands of dollars every two years, only large scale operators would be able to afford them. If a credit market were to form to provide financing for food vending permits, such as for taxicab medallions, this could enable small business owners to obtain permits, but it would increase their overall operating costs. In addition, critics might note that a competitive bidding system may lead to greater than anticipated increases in administrative costs or less revenue than expected. For example, a 2011 audit by the city Comptroller found that delays in the awarding of parks department mobile food vending concessions resulted in \$3 million in forgone revenue over three years.

OPTION:

Modify License Fees and Increase Regulations for Sightseeing Buses

Revenue: \$2 million annually

The sightseeing bus industry has grown rapidly in the last decade. There are currently eight bus companies with a total of 234 buses operating in New York City. In 2003 just 57 buses provided sightseeing tours. Despite their contribution to the tourism industry, their hop-on hop-off service and large size pose inconveniences. Local policymakers, as well as city residents, have complained about excessive congestion, pollution, and accidents caused by these buses, as well as too-frequent violations of traffic laws.

This option would modify the fees for sightseeing bus licenses from a flat, per bus fee to include a variable component that takes into account their level of activity as a proxy for their impact. It is modeled after fees for intercity buses. The fee for intercity buses, which are similar in size and create similar concerns in terms of congestion and violation of traffic laws, depends on the number of destinations the buses stop at each week. Currently, sightseeing buses make stops at from 30 to 50 destinations in the city. The new pricing system would maintain the current average of a \$70 fee per bus per year, which would cover up to 30 bus destinations. There would also be a premium of \$10 dollars for each additional stop after 30 stops, up to a maximum fee per bus of \$275 a year—the same \$275 maximum established under state law for intercity buses.

The second aspect of the option gives the Department of Transportation (DOT) additional regulatory authority over sightseeing buses. Again this would be modeled after intercity bus policy. In 2013, the City Council passed legislation that allowed DOT to create regulations specifically for intercity buses. In fiscal year 2016, there were 2,401 violations of these rules, of which 1,084 were violations that increase with the level of activity, such as unauthorized passenger pick up/discharge or stopping or standing in locations other than when actively engaged in the pick up or discharge of passengers. (The remaining violations were for failure to display permits or identification.) Based on the greater number of stops made by sightseeing buses relative to intercity buses, IBO estimates that applying similar rules for sightseeing buses could give rise to more than 4,000 violations a year. Assuming a 75 percent annual collection rate for fines associated with these violations, these additional regulations coupled with the new fee system could generate annual revenue of nearly \$2 million. This option would require City Council legislation.

PROPOSERS MIGHT ARGUE that additional regulations would encourage more responsible driving behavior and control excessive congestion, especially in places where multiple buses stop for extended periods of time. Others might argue that a variable price system dependent on the number of stops is a fairer measure than a fixed rate, as tour companies with more stops create an additional burden for the city. Finally, they might argue that regulations similar to those governing intercity buses are a better alternative than establishing an arbitrary cap on the number of sightseeing buses, as has been proposed in the past.

OPPONENTS MIGHT ARGUE that sightseeing buses are key to the city's tourism industry and additional regulations coupled with higher fees would raise the cost of entering the industry, thereby benefiting larger players and limiting competition. Others might argue that higher costs might discourage the inclusion of less traditional points of interest and contribute to the congestion of more traditional ones. Finally, they might argue that creating more regulations would require increased enforcement, offsetting some of the additional revenue.

OPTION:

Raise the City's Passenger Vehicle Use Tax And Charge More for Heavier Vehicles

Revenue: \$35 million annually

New York City residents and businesses that own or lease passenger vehicles kept, stored, or garaged in the city currently pay a biennial \$30 use tax for each registered vehicle (there are a few exemptions to the tax). Although New York City charges a flat rate for registered passenger vehicles, a majority of counties elsewhere in the state have an auto use tax that is based on weight—a lower fee for vehicles that weigh up to 3,500 pounds and a higher fee for vehicles that weigh more. Except for Westchester, counties that base their vehicle use tax on weight charge \$20 every two years for vehicles weighing more than 3,500 pounds; Westchester's use tax is \$60 every two years for these heavier vehicles. This type of county-level passenger vehicle use tax mirrors the weight-based differences in New York State's biennial vehicle registration fee. In New York City and its neighboring counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester that make up the Metropolitan Commuter Transportation District, there is also a supplemental biennial fee of \$50 for each registered vehicle.

Under this option, which would require state approval, a city resident or business that has a passenger vehicle registered in New York State would pay a higher, weight-based vehicle use tax to New York City. Owners of vehicles that weigh less than 3,500 pounds would pay \$40 and owners of vehicles that weigh more would pay \$100, which are roughly equivalent to the average vehicle registration fees imposed by New York State.

Since residents register their passenger vehicles every two years, it is assumed that half of the 1.8 million registered vehicles would renew each year. Under the current \$30 biennial auto use tax, New York City collected \$28.9 million in revenue in 2014. Based on registration data by vehicle weight for New York City, 49 percent of city auto use payers would pay the \$40 fee and 51 percent would pay the \$100 fee, resulting in \$35 million in additional annual revenue.

PROPOSERS MIGHT ARGUE that a change to a weight-based passenger vehicle use tax is consistent with similar taxes in much of the state. They could also point out that charging by weight reflects the greater social impact of heavier cars on road surfaces, accident fatality rates, and carbon emissions.

OPPONENTS MIGHT ARGUE that much of the negative consequences of automobile use in the city stems from commuters and visitors rather than city residents and that raising registration fees for local residents would do little to discourage driving in the city. They could also argue that in parts of the city poorly served by public transportation, a car remains a necessity for getting to work and that adding to the tax burden of residents in those areas is discriminatory.

OPTION:**Start Fining Drivers for Idling Violations Without Warnings**

Revenue: \$1 million annually

New York City has some of the highest rates of asthma in the country and air pollution is a known risk factor for the condition. Reducing air pollutant emissions from vehicles and using fuel more efficiently are important goals for the city. But as an active, growing city, New York depends on cars and trucks to keep the city functioning. Yet vehicles parked with their engines running are emitting dangerous pollutants and are a substantial contributor to local air pollution in the city and pose risks to public health, particularly when idling occurs near schools or health facilities. Other than during very cold weather, there is usually no necessity to keep a vehicle running while parked.

The city currently has two laws that impose penalties for excessive idling of motor vehicles 1) traffic rules promulgated by the Department of Transportation and enforced by police department traffic enforcement agents, and 2) the city's air pollution control code, which is enforced by the Department of Environmental Protection (DEP). According to both regulations, no vehicle may idle for more than three minutes while parked, standing, or stopping, excepting emergency vehicles and vehicles that use the engine to operate another device. If the vehicle is in front of a school, the time limit is reduced to one minute. Currently, traffic enforcement agents who find cars idling ask drivers to turn off their engines twice before issuing tickets, which resulted in 3,284 violations in fiscal year 2016. These agents issue a \$100 parking summons or a criminal summons. Alternatively, DEP agents respond to idling complaints and monitor select areas where idling is an issue. These agents can issue notices of violations that are adjudicated through the city's Environmental Control Board with penalties ranging from \$200 to \$2,000 per violation, although in 2015 the average penalty was \$441.

This option would instruct traffic enforcement agents to no longer give drivers warnings before issuing a ticket and for DEP to be more aggressive in looking for idling drivers and in responding to complaints. IBO estimates that using existing resources, traffic enforcement agents could issue many more tickets to raise an additional \$985,000, while DEP agents could raise an additional \$80,000 through increased enforcement, resulting in just over \$1 million in new revenue. This total takes into account that about 25 percent of the penalties typically go uncollected in any given year. These actions would require only a change in enforcement policy from DEP and the police department.

PROPOSERS MIGHT ARGUE that asking drivers to turn off their engines has not meaningfully reduced the amount of idling that occurs and more aggressive enforcement will cause many drivers to turn off their vehicles when stopped. More vigorous enforcement will decrease the amount of air pollution in New York City, improving public health and fuel efficiency for drivers.

OPPOSERS MIGHT ARGUE that drivers will be upset about being ticketed without warning, which could reduce trust between law enforcement and citizens, while the difficult-to-prove nature of the infraction could increase administrative burdens as drivers contest citations, offsetting some of the new revenue. They might say this policy encourages drivers to circle the block instead, especially in the winter to keep the vehicle warm, which would actually increase air pollution. They might also point out that if the policy is successful and drivers no longer idle their vehicles, the new revenue stream from fines would diminish in future years.

OPTION:

Sell Biogas Produced as a Byproduct Of Wastewater Treatment

Revenue: \$2 million annually

New York City's 14 wastewater treatment plants process 1.3 billion gallons of wastewater per year. As a byproduct, these facilities produce biogas during the anaerobic digestion stage of treatment. Currently, much of this biogas is flared (burned) off, although some treatment plants use a portion of this biogas to run boilers that provide heat to the treatment processes or to generate electricity. This unused gas represents a renewable source of energy that could instead generate revenue and reduce greenhouse gas emissions.

Biogas is mostly methane, which is the primary component in natural gas and can be used to heat homes and generate electricity. While biogas cannot be directly fed into city gas pipelines, a relatively simple process can make it suitable for sale as a renewable energy source. At the Newtown Creek Wastewater Treatment Plant, National Grid is currently building a \$30 million system to capture and process the excess gas that was previously flared off. Under the terms of the deal, the city will receive half the profits from the gas sale. Use of biogas for heating or electricity generation at wastewater treatment plants is common and New York City's large wastewater treatment plants produce large amounts of valuable biogas.

Assuming the capital cost of installing a biogas processing and capture system is the same across the city as at Newtown Creek, three plants (Hunts Point, Wards Island and North River) have the potential to produce enough excess biogas to make the investment worthwhile. North River currently has a cogeneration system that produces both heat and electricity for the facility, which leaves little gas left over to be flared. At the other two facilities, an estimated 2.2 million cubic feet of gas is produced daily with local market value of about \$6 million per year. Factoring in the capital cost of constructing two processing facilities, the city could generate \$2 million per year by processing and selling the gas itself at market rates. If the city were to persuade National Grid to build facilities similar to the one planned at Newtown Creek at the other two plants with excess biogas with a similar split of the profit, the city would realize an estimated \$1 million in revenue with no additional capital cost. In addition to the new revenue source, by expanding the use of the gas and limiting flaring, the city could reduce use of nonrenewable natural gas, benefiting the environment through saving an estimated 44,000 metric tons of CO₂ per year.

PROPOSERS MIGHT ARGUE that New York City is currently wasting a renewable energy source and could simultaneously reduce greenhouse gas emissions and generate revenue. Because National Grid already believes that gas capture and processing is profitable and is willing to cover the capital cost in exchange for half the profits, the city would bear little risk if it funded the systems on its own or no risk if it expanded its Newtown Creek agreement with National Grid to cover other wastewater treatment plants.

OPPONENTS MIGHT ARGUE that capturing and processing the waste will take up valuable space at wastewater treatment plants and a better use of the gas might be to expand cogeneration instead of processing the gas for public sale. They might also be concerned that if gas prices continue to fall, the capture systems may become unprofitable.

OPTION:**Charge a Fee for Curbside Collection
Of Nonrecyclable Bulk Items**

Revenue: \$43 million annually

The Department of Sanitation (DSNY) currently provides free removal of large items that do not fit in a bag or container as part of its residential curbside collection service. Bulk items that are predominantly or entirely metal, including washers, dryers, refrigerators, and air conditioners are collected as recycling, while all other bulk items are collected as refuse. Nonrecyclable bulk items, including mattresses, couches, carpet, and wood furniture, make up about 3.2 percent, or 93,000 tons, of New York City's residential refuse stream (61 bulk items per ton, in an average year). In 2015, the city spent \$9.6 million to export and landfill these items.

This option would have DSNY institute a \$15 fee for every nonrecyclable bulk item that they collect, generating around \$43 million in revenue in the first year. The fee could be paid through the purchase of a sticker or tag at various retailers, such as grocery and convenience stores, or directly from DSNY's website. The sticker or tag would be attached to the bulk item, once it is placed at the curb, making proof of payment easy for sanitation workers to see. Items would continue to be collected on regular trash days.

This option assumes a 20 percent reduction in the number of bulk items thrown out for DSNY to collect in response to the fee, which itself would lead to a \$2.2 million reduction in waste export costs due to fewer bulk items being sent to landfills. Administrative and enforcement costs are assumed to equal 20 percent of total revenue. Ten percent of the bulk items are assumed to be picked up erroneously, not having paid the fee and an additional 15 percent, representing bulk items weighing less than 15 pounds, are assumed to be shifted into the bagged refuse stream. Under this option, the collection of recyclable metal bulk items would continue to be provided without a fee. This estimate does not include fees for electronic bulk items, such as computers or televisions, which are banned from disposal and are handled through legally mandated free manufacturer take-back programs.

PROPOSERS MIGHT ARGUE that exporting waste to out-of-state landfills is expensive and having residents pay directly for their largest and heaviest items more directly aligns use of the service to the cost of providing the service. They could note that many other cities charge for bulk collection or limit the number of bulk items a property may have collected each year. Additionally, charging a fee for large refuse items would give residents some incentive to send less of their waste to landfills, either by donating their items for reuse or simply by throwing out fewer bulk items. Proponents could point to the city's NYC Stuff Exchange, which could help residents get rid of items they do not want without throwing them away and at no cost. They could also argue that any needed increases in enforcement for illegal dumping would be covered by the revenue generated by the collection fees and the summonses issued to violating properties.

OPPOSERS MIGHT ARGUE that this fee would be difficult to implement and enforce in a large, dense city such as New York. Instituting a fee for what was previously a free service could increase illegal dumping of bulk items, which could require increased spending on enforcement and be a nuisance to nearby residents. Multifamily buildings, which often gather all residents' garbage in common areas, could face more difficulties with this new charge, as the building owners would be responsible for their tenants' behavior. They could be burdened with untraceable items and forced to pay the fee on their tenants' behalf. Opponents could also argue that the flat fee is particularly burdensome for low-income residents. Lastly, they could argue that this fee would not reduce DSNY's tonnage very much because certain items, such as broken or heavily used furniture will have no potential for reuse and will have to go to a landfill eventually.

OPTION:

Establish a Franchise System for the Collection of Commercial Waste

Revenue: \$54 million annually

Offices, restaurants, and other city businesses generate over 3 million tons of waste annually, which is collected by roughly 250 private carting companies using nearly 4,300 trucks.

The city's Business Integrity Commission (BIC) licenses the commercial carters and establishes a maximum rate that they can charge. Under the current system, a single block can be serviced by multiple collection trucks from different companies on varied schedules, while individual collection routes can have pickups dispersed throughout the city. The trucks then unload the waste at a variety of transfer stations both inside and outside the city. These overlapping routes generate excess truck traffic, affecting the city's roadways, air quality, public safety, and noise levels.

A franchise system for commercial waste collection would divide the city into zones, each served exclusively by one carter. This would shorten routes, eliminate overlap, and result in reduced truck mileage. Carters for each zone would be selected through competitive bidding. The selection criteria could include the carter's ability to meet city goals such as lower vehicle emissions, higher recycling rates, and improved safety standards. Similar systems exist in many other cities where franchise rights are usually awarded for a period of 5 years to 10 years. It is common under franchise systems for carters to pay a franchise fee to the city based on a share of their gross receipts, ranging from 2 percent to over 20 percent.

If New York City established a franchise system for the collection of commercial waste with a fee equal to 10 percent of each carter's gross receipts, it could raise \$54 million in new revenue annually. This estimate assumes that carters would charge commercial establishments an average of \$192 per ton, slightly less than the current maximum charge allowed by BIC. It also takes into account the loss of approximately \$2 million the city currently collects through carter, vehicle, and broker registration fees, which it would no longer receive under a franchise system. The city could also recoup savings in addition to the new revenue if they required private carters to unload their refuse from nearby zones at city-owned marine transfer stations. This would increase the usage of these stations and would allow operating and export costs to be shared between the Department of Sanitation and the private carters. This option requires City Council legislation and excludes construction and demolition waste, which is hauled by separately licensed carters and is subject to different regulations.

PROPOSERS MIGHT ARGUE that a more efficient commercial waste collection system would reduce truck traffic, resulting in various quality of life improvements, less pollution, and potential city savings from fewer road repairs. The competitive bidding process could encourage the selection of companies with the ability to advance the city's waste reduction and environmental justice goals. The system could create economies of scale for the carting companies, which would lower their operating costs. Supporters could also note that certain franchise zones could be reserved for smaller companies to avoid a transition that disproportionately benefits the largest carters.

OPPONENTS MIGHT ARGUE that the current system allows commercial establishments to choose carters that meet their individual needs and that eliminating this choice could force them into a less satisfactory arrangement. They might argue that private carters already go through a regulatory process with BIC and that additional restrictions on the industry would be burdensome, particularly for small carting companies. They could also argue that the addition of a franchise fee could negate any benefit carters would receive from exclusive franchise rights, and that it could increase total operating costs, which would be passed on to their customers.

OPTION:**Establish a Stormwater Utility Fee**

Revenue: \$83 million annually

New York City's sewer system consists of 6,000 miles of pipes and 14 treatment plants that process 1.3 billion gallons of stormwater and wastewater daily. The city's sewers are old and often underfunded, and the majority mix stormwater and wastewater into the same channel. During heavy rain or snow storms, the system becomes overloaded and a mix of stormwater and wastewater is discharged directly into local waterways—billions of gallons of untreated sewerage and stormwater each year. A primary reason for this is the expanse of impermeable surfaces in the city, where water cannot soak into the ground and instead runs off into the sewers. Currently, 72 percent of the city's area is impermeable, although the city is developing a green infrastructure plan to reduce that number.

With a growing population, more frequent heavy precipitation, and increasingly stringent regulatory standards, New York's investment in green infrastructure and stormwater management will continue to grow, putting upward pressure on water rates. Facing similar challenges, over 500 U.S. municipalities have created stormwater utilities and designed a fee structure to provide a stable source of revenue and encourage development of green infrastructure.

In New York City, stormwater expenses are largely paid out of charges levied on the volume of water consumed. However, there is little or no correlation between consumption of water and the quantity of stormwater generated by a property. This raises equity concerns, as the properties consuming a substantial amount of the city's stormwater capacity are not necessarily the properties funding the maintenance of the system.

DEP currently devotes around \$350 million per year to stormwater management. Under a stormwater fee system this expense would be funded directly from use of the stormwater infrastructure. IBO estimates that fees similar to those charged in other large cities (\$8 per month per thousand square feet of impermeable area) would roughly cover the current spending. As a result, water rates, no longer driven by stormwater costs, would fall or rise more slowly. Properties with limited impermeable area would pay less, while properties with large impermeable areas would see their overall costs rise. Properties that do not currently pay water costs, such as garages, parking lots, and vacant lots, would pay the stormwater fee generating \$83 million in new revenue each year. Although there are several methods to calculating the fee, a system that accurately measures surface permeability offers the strongest incentives for property owners to adopt green infrastructure and mitigate runoff.

PROPOSERS MIGHT ARGUE that by sending a price signal, property owners will have an incentive to reduce runoff, saving the city money and reducing pollution in local waterways. Implementing a fee would also generate revenue from properties that are heavy users of stormwater infrastructure but do not pay for it and provide a more stable revenue stream for necessary water infrastructure improvements. They may also point to how similar programs have been successfully implemented in other cities.

OPPONENTS MIGHT ARGUE that a stormwater fee could favor high-density areas, where the stormwater fee would be spread over more units in a single footprint, while facilities with large, low-density paved areas could see costs substantially increase. They also might be concerned about the cost of administering the utility and maintaining a complex property database using multiple data sources. Excluding roadways and sidewalks, as this option does, could require action at the state level.

OPTION:**Establish User Fee for Some Child Support Cases**

Revenue: \$3 million annually

The New York City Office of Child Support Enforcement (OCSE) offers a wide spectrum of services to custodial parents of children under 21 looking to collect child support, including locating the noncustodial parent and serving a summons, establishing paternity, securing child support orders, and collecting child support payments. In fiscal year 2014, OCSE collected \$742 million from noncustodial parents, continuing a significant upward trend in child support collections. Over 90 percent of the funds collected went to families, providing a vital source of financial support to thousands of custodial parents and children. The remainder went to reimburse the city for some of the cost of public assistance grants paid to OCSE clients who were also receiving cash assistance.

The increase in child support payments reflects, in part, improvements in collecting payments from noncustodial parents with child support orders. However, the biggest factor driving increases in child support payments has been a shift in the composition of the child support caseload. As a result of the welfare reform policies of the 1990s, the number of families with minor children who are current or former public assistance recipients continues to shrink. At the same time, expanded outreach efforts by OCSE have increased demand for child support services from custodial parents who have never been on cash assistance. Families in this category are generally better off financially, which makes it more likely that noncustodial parents can be located and a court order established, have higher compliance rates, and make much higher average payments. In 2012 the average annual payment for cases in which the custodial parent was never on cash assistance was \$7,425 compared with \$2,718 for current cash assistance cases and \$4,824 for former cash assistance cases.

OCSE does not currently charge its clients for the child support services it provides. (New York State charges a fee of \$25 per year to custodial parents who have never been on cash assistance and receive over \$500 per year in child support.) Under this option, OCSE would charge custodial parents who have never been on cash assistance an annual fee equal to 1 percent of the child support collections they actually receive. IBO assumes that such a modest fee would not reduce the number of child support cases. Annual revenue from the new fee would total \$3.4 million. This option would require state legislation.

PROPOSERS MIGHT ARGUE that OCSE provides these families with valuable services while saving them the cost of hiring a lawyer and other expenses they would likely incur if they sought child support payments on their own. The fee would only be charged in cases where OCSE succeeds in collecting court-ordered payments. Since the fee would be set as a share of actual collections, it would be paid primarily by higher income families.

OPPOSERS MIGHT ARGUE that the fee could discourage custodial parents from requesting help from OCSE, which could have negative consequences for their children. Opponents might also argue that the child support program already helps to pay for itself. A portion of collections from cash assistance cases is withheld by the city, providing a significant offset to public assistance grant costs. They might also contend that since child support collections likely keep many families off of social services programs by increasing their income, a change that discouraged families from using OCSE risks increasing caseloads and costs.

OPTION:**Impose a 50 Cent Surcharge on Hotel Room Nights to Fund NYC & Company**

Revenue: \$15 million annually

NYC & Company is a nonprofit organization tasked with marketing the city as a business and leisure tourist destination. The organization operates as a partnership between the city and the private sector, and its operations are funded by a mix of city tax revenue and private sources.

In recent years, the city's contribution to NYC & Company has been repeatedly cut to help close gaps in the city's operating budget. City funding has fallen from a high of \$21 million in fiscal year 2007 to a low of \$12 million in 2014. This uncertainty has made it difficult for NYC & Company to plan its budget from year to year. The de Blasio Administration increased the city's contribution to nearly \$18 million in 2016 but budgeted lesser amounts for subsequent years. To offset declining support from the city, NYC & Company sought out additional funding from the private sector. Private sources now account for 65 percent of NYC & Company's annual revenue, up from 50 percent in 2008.

This option would replace the city's annual contribution with a new \$0.50 surcharge on hotel room nights. Revenue generated from the surcharge would be dedicated to NYC & Company. In 2014, visitors booked over 32 million hotel room nights throughout the city. Assuming the new surcharge is too small to have an impact on the volume of hotel stays, an additional \$0.50 charge would raise \$15 million annually to support NYC & Company's operations—the average level of city funding over the past decade. Currently, visitors pay a total of 14.75 percent in sales and hotel occupancy taxes, plus a tax of \$2.00 per room per night for rooms charging more than \$40 per night and \$1.50 per room per night to help finance the renovation of the Jacob Javits Convention Center. The surcharge would require an act of the state Legislature.

PROPOSERS MIGHT ARGUE that funding NYC & Company through a hotel surcharge instead of through the city's general fund frees up revenue for other initiatives or to help balance the city's budget. It also allows NYC & Company to plan its future budgets free from the politics of the city's annual budget process. Basing the city's contribution on hotel room nights would also tie NYC & Company's funding directly to the success of its marketing efforts. Others might argue that the city's hotels directly benefit from NYC & Company and therefore it is appropriate to use revenue generated by visitors to help pay for the organization's operations.

OPPOSERS MIGHT ARGUE that hotel guests already pay a high tax rate on hotel stays, and that an additional surcharge could discourage some visitors from staying in the city. Others might argue that it would be fairer to fund NYC & Company through the city's general fund. A broad base of city taxpayers—including both businesses and workers—benefit from the tourist market, and so it is unfair to single out hotel operators and their overnight visitors to fund NYC & Company. Finally, some might argue that moving the city's contribution to NYC & Company off of the city's budget would reduce transparency and diminish the organization's accountability to the City Council and the public at large.

OPTION:

Institute a Tourist Fare on the Staten Island Ferry

Revenue: \$3 million annually

This option, based on a [2014 analysis](#) conducted by IBO at the request of Borough President James Oddo, would reinstitute a fare for certain passengers on the Staten Island Ferry.

Passenger fares on the Staten Island Ferry were abolished in 1997, as part of New York City's "One City, One Fare" initiative that also introduced free MetroCard subway and bus transfers. Prior to the initiative, the round-trip fare on the ferry was 50 cents. Under this option the city would charge a \$4 round-trip fare, with exemptions for residents of Staten Island, as well as for other New York City residents who document the need to travel to Staten Island for work or study. This would require legislation to amend the city's Administrative Code. City residents who are exempt from the fare would receive a special fare card allowing them to go through the ferry turnstiles without charge.

IBO estimates that annual gross revenues from a \$4 "tourist" fare would be \$6.8 million. After subtracting out the annualized cost of building and maintaining the fare collection system, and issuing and distributing passes to exempt passengers, net revenues would be \$3.2 million a year. Viewed from a different perspective, more than half of the gross revenues from a \$4 tourist fare would be used to cover the cost of building and maintaining the system. Looking ahead, several new development projects are planned near the Staten Island ferry terminal, including a giant Ferris wheel and outlet shopping complex. According to studies commissioned by the developers, the projects would increase ferry ridership by 1.0 million annually. If this forecast proves correct, net revenue from this option could grow by an additional \$1.6 million once the projects are complete.

PROPOSERS MIGHT ARGUE that ferry riders should be expected to pay at least a nominal share of the cost of the service. The Staten Island Ferry's operating expenses have increased dramatically in recent years, due in part to increased safety and security measures, as well as expanded service. According to the Mayor's Management Report for fiscal year 2015, the operating expense per passenger trip for the Staten Island Ferry was \$5.87 one way or \$11.74 round trip. Passengers subject to the \$4 round-trip fare would be paying about one-third of the cost of a ride. In contrast, fares on New York City Transit subways and buses cover more than half of operating expenses. IBO estimates that around 80 percent of current ferry riders are Staten Island residents or residents of other boroughs who regularly use the ferry for work or school trips, and therefore would be exempt from the fare.

OPPOSERS MIGHT ARGUE that charging even a subset of ferry riders violates the spirit of the "one city, one fare" policy. Opponents might also object to singling out visitors to the city and occasional riders from the other boroughs for the charge. Having free attractions such as the Staten Island Ferry creates good will among visitors to the city, and may encourage more tourism. As Staten Island proceeds with plans to develop tourist destinations such as the New York Wheel and Empire Outlets, the availability of free transportation from Manhattan enhances their appeal. Finally, the fare is a relatively inefficient way to raise revenue, as the annual capital and operating costs of the fare system would equal more than half of the gross fare revenue.

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

Revenue: \$4 million in the first year

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

Under this option, new DOE employees starting work after June 30, 2016 would be subject to the same residency requirements that other city workers face and be required to make Section 1127 payments if they move out of the city. IBO estimates that imposing residency restrictions and Section 1127 payments on new DOE employees would have generated \$4.4 million in 2017. Revenue from this option would continue growing as newly hired employees, some of whom would choose to live outside the city, replace current nonresident employees who retire. Also, as these new employees move up the wage ladder, revenue from Section 1127 payments would increase. Enacting this option would require state legislation and a change in the city's Administrative Code.

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

OPPONENTS MIGHT ARGUE that this option would restrict DOE's ability to recruit and retain highly educated and skilled teachers, administrators, and other professionals. They would point out that the majority of major U.S. cities do not have residency requirements for their public school employees. They could also argue that it would be unfair to impose residency restrictions or payments in lieu of taxes as a condition of employment when similarly situated private-sector employees face none. Additionally, they might argue that requiring Section 1127 payments would create an undesired financial burden for affected personnel, many of whom are paid less than similarly skilled counterparts in the private sector or the more affluent suburbs.

OPTION:

Require the Economic Development Corporation To Remit Surplus Income to the City

Revenue: \$95 million per year for three years, \$30 million annually in subsequent years

Economic development programs in New York City are administered by the Economic Development Corporation (EDC), a nonprofit organization, under contract with the city. EDC operates and maintains city-owned real estate and can retain surplus revenue to fund its own initiatives, in addition to grant money that it receives from the city and other sources.

EDC's real estate operations are extremely profitable. Since 2012, EDC has earned an average of \$275 million annually in gross operating revenue from sources such as rental income from city-owned properties, income from the sale of city-owned assets, and developer and tenant fees. Related expenses have averaged about \$107 million per year, leaving an average annual net operating income of \$169 million—a 61 percent profit margin.

EDC must remit some of this net income to the city, though the amount is subject to annual negotiations with the Mayor and the Comptroller. Over the past three years, EDC has paid the city an average of \$117 million a year. EDC is allowed to retain the rest of its net operating income—\$52 million on average—to pay for its own activities. These funds are in addition to grants it receives from the city and other sources, such as federal community development grants and capital project funds.

EDC retains surpluses and over time has built up substantial cash reserves. At the end of 2014, EDC held \$144 million in unrestricted cash and investments. The Industrial Development Agency and Build NYC, two affiliated organizations staffed by EDC employees, had additional unrestricted investments worth \$52 million.

This option would require EDC and its affiliates to remit their net operating income from real estate asset management activities to the city at the end of each fiscal year. Based on a recent three-year period, this net income transfer would be approximately \$52 million each year. Assuming EDC's recent staffing levels and programmatic spending are maintained, the transfers would net about \$30 million in city revenue, in addition to the funds the city currently receives from EDC. If the city were to sweep EDC's current unrestricted cash and investments over a three-year period, this would result in the transfer of another \$65 million per year for three years.

PROPOSERS MIGHT ARGUE that EDC should not fund its policy agenda using revenue from city-owned property. They could contend that it would be more transparent if the city directly appropriated money for economic development in the context of competing needs, rather than allow EDC to retain revenue that would otherwise flow to the city. This would treat EDC like other revenue-generating city agencies, which are required to remit the revenue they raise to the city budget. They might also argue that the proposal would not compromise EDC's ability to manage city-owned properties, and that EDC could retain its policy functions—though paid for from the city budget.

OPPONENTS MIGHT ARGUE that in addition to maintaining and investing in city-owned real estate, EDC already contributes hundreds of millions of dollars to the city's budget each year. They could also argue that EDC funds its own operations without any assistance from the city's general fund, which frees up funds for other needs. Finally, they could contend that EDC's expense spending is already monitored by the Mayor, the Office of Management and Budget, the Comptroller, and the corporation's independent board of directors.

OPTION:

Toll the East River and Harlem River Bridges

Revenue: More than \$1 billion 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 \$11.52, equal to twice the one-way E-ZPass toll for the MTA-owned Hugh L. Carey (formerly Brooklyn-Battery) and Queens-Midtown tunnels. The automobile toll on the eight Harlem River bridges would be \$5.28, 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.

Estimated annual toll revenue would be \$760 million for the East River bridges and \$290 million for the Harlem River bridges, for a total of \$1.05 billion. 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 \$475 million. Proposals to toll the East River and Harlem River bridges have also been suggested as part of congestion pricing plans to raise funds for public transit, which, if approved, would not raise revenue for the city.

PROPOSONENTS 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 nonusers 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 other 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.

OPPOSONENTS MIGHT ARGUE that motorists who drive to Manhattan already pay steep parking fees, and that many drivers who use the free bridges already pay tolls on other bridges and tunnels. Drawing a parallel with transit pricing policy, some toll opponents may believe that it is particularly unfair to charge motorists to travel between Manhattan and the other boroughs. 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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