



**THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE**

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Local Law 1 of 2004: Explanation of Budgeted Costs

The 2005 Adopted Budget included \$84.7 million in expense budget funds to implement the city’s new lead paint hazard reduction law, Local Law 1 of 2004, which took effect August 2. The Financial Plan includes about \$50 million per year in 2006 and beyond. These figures include spending by the Department of Housing Preservation and Development (HPD), the Department of Health and Mental Hygiene (DOHMH), the Department of Homeless Services (DHS), and the Administration for Children’s Services (ACS) (in addition to funds budgeted centrally for fringe benefits).

Projected Spending on Local Law 1				
<i>Millions of Dollars</i>				
	2005	2006	2007	2008
HPD	\$51.8	\$39.6	\$39.6	\$39.6
DOHMH	9.0	4.0	4.0	4.0
DHS	17.2	1.5	1.5	1.5
ACS	2.5	1.8	0.6	0.6
Fringe Benefits	4.3	4.3	4.3	4.3
TOTAL	\$84.7	\$51.2	\$50.0	\$50.0
SOURCES: IBO; Office of Management and Budget.				

The budget for implementation of Local Law 1 is above and beyond existing spending for lead paint hazard reduction. In 2003, the latest year for which complete data are available, HPD and DOHMH spent an estimated \$15 million on lead poisoning prevention and remediation.

The higher projected spending in 2005 reflects the city’s interpretation of the law to require most of the work to be completed in the first year of implementation. For example, DHS expects to remediate all homeless shelters in fiscal year 2005, after which the agency will require only minimal funds to ensure compliance in any new shelter units. Most of the costs after 2005 will be for these new units.

In what follows we provide detail on the budgeted costs of implementing Local Law 1. It is important to emphasize that these are preliminary city estimates that relied on conservative assumptions and cost estimates to ensure that adequate funding was available. Budgeted spending will change over time as the agencies’ operational experiences with implementing the law lead to firmer estimates of the ongoing cost.

HOUSING PRESERVATION AND DEVELOPMENT

Spending by the Department of Housing Preservation and Development is the largest share of the cost of implementing Local Law 1. The \$51.8 million allocated to HPD in 2005 represents almost a doubling of the city-funded portion of the HPD budget. The department expects to hire 337 new personnel—a 13 percent increase in total agency headcount.

Approximately \$25 million of the 2005 budgeted costs may be capital-eligible and thus eventually transferred to the capital budget. In addition, the Bloomberg Administration anticipates \$20 million in annual capital costs for Local Law 1, primarily to fund HPD's housing preservation loan programs, such as the Participation Loan Program, to allow landlords to complete repairs under the requirements established by Local Law 1.

HPD's ongoing operating costs are largely driven by the increase in the number of housing inspectors and the greater number and expense of lead-paint remediation work the department expects. The department will also expand training and education programs. HPD's inspection and repair programs are operationally very complex, and the Bloomberg Administration's estimates of the cost of Local Law 1 for HPD rest upon the agency's experience of implementing prior lead legislation. We have outlined many of HPD's assumptions below, and where available, have provided detail on the basis for these estimates.

Enforcement Services. About 41 percent of HPD's Local Law 1 funding will be used for enforcement services, including inspectors (15 percent of the total) and emergency repairs (24 percent of the total).

Administration Estimates of HPD's 2005 Costs for LL1 of 2004				
<i>Dollars in thousands</i>				
	Personnel	Non-Personnel	Total	Headcount
Complaint Squad	\$6,791	\$850	\$7,641	145
Repair Work	3,978	8,678	12,656	94
Commissioner's Order to Abate	516	102	618	11
Statistical Reporting	85	-	85	2
Enforcement Services Subtotal	\$11,370	\$9,630	\$21,000	252
Training and Education	1,269	2,072	3,341	31
General Support	1,152	20,627	21,779	31
City-Owned Housing	578	4,632	5,210	15
Housing Litigation Division	438	-	438	8
TOTAL	\$14,807	\$36,961	\$51,768	337
SOURCES: IBO, Office of Management and Budget, Department of Housing Preservation and Development.				
NOTE: as of April 30, 2004. Figures are still subject to change.				

Complaint Squad. Based on a series of "dry run" inspections, HPD estimates that under Local Law 1, any inspection where a child under 7 is present will take twice as long as it did under Local Law 38 (the previous lead law). It appears that this productivity drop includes not only inspections in response to lead complaints, but also other inspections when there is a child living in the unit, because the inspectors will need to conduct detailed "line of sight" inspection for lead hazards.

As a result of this drop in productivity, the agency will require about 100 new inspectors, a roughly 33 percent increase in its inspector squad, along with an average of one support person for every four inspectors. In addition, HPD anticipates opening several community offices to deal specifically with lead complaints, which will require complete administrative staffing.

Repair Work. Landlord correction of lead-paint violations is expected to fall because of the stricter requirements imposed by Local Law 1. Under Local Law 38, HPD found that building owners certified the correction of about 23 percent of lead jobs. In developing its budget estimates for Local Law 1, HPD assumed that this figure will fall to 15 percent, with the department responsible for correcting the remaining 85 percent.

HPD will hire 94 lead abatement workers, construction managers, and other personnel to do roughly 60 percent of the repair jobs mandated by Local Law 1 and oversee the remaining 40 percent of jobs that are contracted out. The non-personnel budget for repair work is primarily funding for the Emergency Repair Program, including these contracts. HPD anticipates that the average cost of a repair job will rise to \$5,068 (up from \$3,515 in 2002). As a result, the agency needs additional funding to handle repair costs. The budget for emergency repair is expected to grow in 2006 to \$10.5 million because the amount planned for 2005 does not represent a full year's worth of costs.

Commissioner's Order to Abate. When the Department of Health identifies a lead poisoned child, the Health Commissioner issues an "order to abate." As is the case with other violations, HPD is responsible for doing the work if the owner fails to do so. Local Law 1 lowers the threshold for intervention, and as a result, the Department of Health expects to identify an additional 500 lead-poisoned children as defined in the statute, leading to more remediation work for HPD.

Training and Education. HPD is planning to spend \$3.3 million in 2005 to train both HPD staff and the private sector—landlords, contractors, and others—on the requirements of Local Law 1. This cost rises slightly in 2006 and beyond (to \$3.5 million); HPD anticipates ongoing training needs for new city employees, and the landlords and contractors responsible for adhering to the law.

General Support. HPD will hire 31 support people to assist with the implementation of Local Law 1. These include clerical, budget, and other administrative positions. The general support line also includes some of the start-up costs, such as equipment purchases, that will not recur annually.

In addition, this program area also includes about \$20 million in 2005-only funding for remediation work in units that are currently in the process of moving from city to private ownership through the Tenant Interim Lease Program, the Neighborhood Entrepreneur Program, or the Neighborhood Redevelopment Program. These units are still technically under city ownership, so HPD is responsible for costs associated with the broader scope of work required under Local Law 1. It is possible that these costs are capital-eligible; HPD is still reviewing this.

City-Owned Housing. HPD plans to spend \$5.2 million on rehabilitation in the current city-owned housing stock. The bulk of this funding is for non-personnel costs, and may be capital-eligible. Again, HPD is reviewing the specifics.

DEPARTMENT OF HOMELESS SERVICES

The total budget for DHS compliance with Local Law 1 is \$17.2 million in 2005, or 2.4 percent of the agency's \$707.8 million budget. Budgeted costs fall to \$1.5 million per year in 2006 and thereafter.

The bulk of the cost in 2005 arises from inspecting the entire family shelter system and, where necessary, remediating any lead hazards. The fiscal year 2005 Message of the Mayor states that there are 9,283 family shelter units, including Tier IIs, hotels, scatter site apartments, and units for adult-only families. DHS assumes that all of these will require an inspection in 2005, at an average cost of \$358.

The city estimates that 30 percent of the shelter units will require remediation. DHS will pay for all remediation work. The city feels that it has responsibility for the shelter units, which operate under contract with DHS. In addition, the contract agencies are generally dependent on DHS for repair work. The average repair job is expected to cost \$4,940.

DHS Local Law 1 Costs, 2005	
Family Shelter Units	9,283
Inspection Cost	\$358
Total Inspection Cost (millions)	\$3.3
Percent of Units with Lead	30%
Number of Units with Lead	2,785
Per Unit Remediation Cost	\$4,940
Total Remediation Cost (millions)	\$13.8
Personnel Costs (millions)	\$0.1
TOTAL COST (millions)	\$17.2
SOURCES: IBO, Office of Management and Budget, 2005 Message of the Mayor.	

Finally, DHS will hire two people to oversee the inspection and remediation process, for a total cost of \$120,000.

The expected DHS budget for implementation of Local Law 1 is predominately funded with state and federal funds. City tax levy accounts for \$6.7 million, or 39 percent of the spending planned for 2005.

DEPARTMENT OF HEALTH AND MENTAL HYGIENE

DOHMH has three primary areas of responsibility under Local Law 1: performing environmental interventions when a lead-poisoned child is identified, monitoring work practices, and assessing all privately-owned day care centers for lead paint hazards. According to the Adopted Budget for fiscal year 2005, DOHMH expects to spend \$9.0 million on all new lead-related initiatives in 2005. This figure represents 0.6 percent of the agency's \$1.4 billion budget. OMB estimates that DOHMH will spend \$9.6 million on implementation of Local Law 1 including the cost of fringe benefits. In this section of the report, we discuss the first two components of DOHMH responsibility. Costs pertaining to day care centers—including expenditures for both DOHMH and ACS—are discussed separately below. All figures in the following sections include estimated fringe benefit costs.

Lead Poisoning Prevention Program (LPPP). Local Law 1 reduces the Elevated Blood Lead Level (EBLL) at which intervention is required from 20 mg/dL to 15 mg/dL. The department expects that this change will result in 500 additional children being identified as lead poisoned in 2005. DOHMH will hire 21 new employees—including six inspectors—to identify sources of lead poisoning and provide case management services,

at an estimated cost of \$1.8 million in 2005 (including additional equipment and other non-labor costs).

DOHMH Local Law 1 Costs, 2005		
<i>Dollars in millions</i>	Adopted Budget	OMB Estimate (incl. fringe)
Lead Poisoning Prevention Program	NA	\$1.8
Monitoring Work Practices	NA	1.2
Inspections of Private Day cares	NA	2.1
Support for Day care Inspections	NA	1.1
Day care Remediation (net)	NA	3.5
Total	\$9.0	\$9.6
SOURCES: IBO; Office of Management and Budget.		
NOTE: Rows may not add to total due to rounding.		

Monitoring Work Practices. OMB estimates that it will cost \$1.2 million in 2005 to monitor work practices in accordance with Local Law 1. Monitoring work practices will include receiving notification of work from landlords, responding to complaints, and tenant notification. DOHMH will hire 13 new staff for this function, including five inspectors.

The department assumes it will receive 35,000 notices of work commencement in pre-1960 dwellings as well as 7,734 notices of violation from HPD, for a total of 42,734 notices. DOHMH estimates it will conduct a total of 3,291 inspections in fiscal year 2005, approximately 1,155 of which would be in response to complaints about work practices. Audits would account for the rest of the inspections. According to the Mayor's Management Report for fiscal year 2004, DOHMH received 121 complaints relating to lead abatement in fiscal year 2004.

Capital. Currently, DOHMH has requested about \$1.25 million in capital funds for the implementation of Local Law 1, \$565,000 of which would be used for the Lead Poisoning Prevention Program and \$688,000 of which would be used for the day care assessment program. The day care assessment capital funds would be used to alter the current database to track center responses on the annual survey.

Funding. About \$2 million of the DOHMH funding for implementation of Local Law 1 will come from the state. This \$2 million, which results from the requirement of Article VI of the State Public Health Law that the state provide 36 percent of the support for all "core" local public health activities, will be used for all aspects of DOHMH's implementation of Local Law 1 of 2004 except the abatement of day care centers.

Day Care Assessments and Remediation. DOHMH is responsible for identifying lead paint hazards when inspecting any day care center and when necessary, issuing an ordering to remediate. DOHMH will conduct an initial lead assessment at all privately-operated day care centers; day care centers under contract with ACS will be assessed by ACS. Family day care located in private homes will fall under HPD's purview.

Non-ACS Day care. Of the \$9.6 million appropriated for DOHMH for Local Law 1 programs (including fringe benefit costs), about \$6.7 million is for work in day care centers. DOHMH will hire six inspectors, plus 10 supervisory, clerical and information systems staff for this initiative. Lead inspections conducted by DOHMH employees will be folded into the duties of current accreditation inspections conducted by the Bureau of Day Care.

There are 1,405 pre-1978, non-ACS contracted day care centers. DOHMH estimates that each initial day care assessment will cost \$1,500, for a total cost of \$2.1 million. In addition, DOHMH has budgeted \$1.1 million for implementation of the new annual survey of day care centers, enhanced inspections, and other support functions, bringing the total for DOHMH day care assessments to \$3.2 million in the first year. Ongoing costs are expected to be \$1 million.

The city estimates that 20 percent of the day care centers inspected will require remediation. Each remediation job is expected to cost \$25,000. The city will perform all the remediation work not completed by the owner within 45 days, and bill the owners of the day care centers for the cost. The department estimates that the city will be able to recoup half of the total \$7 million remediation costs. As a result, the department estimates it will cost the city \$3.5 million to remediate privately owned and operated day care centers in 2005, net of recoupments.

Although DOHMH is currently carrying the cost of performing the abatements in its budget, the abatement will actually be performed, as per the law, by another city agency to be named by DOHMH. Once that agency is named, the funding will be moved to that agency's budget.

In 2006 and beyond, DOHMH assumes that 25 percent of the original 20 percent of day care centers requiring abatement will need to be revisited, resulting in ongoing remediation costs of \$0.9 million annually.

ACS-Contracted Day Care Centers. ACS estimates new lead-related expenditures of \$2.5 million in 2005. This figure accounts for 0.1 percent of the agency's \$2.2 billion budget.

There are about 574 day care and Head Start centers that operate through contracts with the city. ACS will assess and document lead-based paint hazards in all of these built prior to 1978, and the city will be responsible for all costs associated with lead testing and remediation in these subsidized day care centers. ACS will hire two staff to manage the inspection and remediation process, and DOHMH will continue to conduct inspections for license renewal and in response to complaints.

ACS estimates that 25 percent of city-contracted centers were constructed after 1978. The remaining 75 percent—435 sites—will require assessment at a cost of \$1,500 per site. Of the 435 sites inspected, ACS estimates 30 percent—131—will require remediation. The city does not anticipate recouping costs associated with remediation of these centers, as

the subsidized day care system is operated by nonprofits that will not be able to cover the remediation costs on their own.

ACS Local Law 1 Costs, 2005	
ACS-contracted daycare centers assessed	435
Cost per assessment	\$1,500
Total Cost of Assessment	\$652,500
Number of sites requiring remediation	131
Number remediated in 2005	66
Cost of remediation (per center)	\$25,000
Total Cost of Remediation	\$1,640,000
Personnel Costs	\$219,000
TOTAL	\$2,511,500
SOURCES: IBO; Office of Management and Budget.	

The amount budgeted for ACS Local Law 1 remediation work in 2005 is \$1.6 million, which at an average cost of \$25,000 per job, reflects that ACS expects to complete remediation of 66 centers, or 50 percent in the first year. The remaining centers requiring remediation will be completed in 2006.

Costs are expected to decrease beginning in 2006 since all assessments will be conducted in 2005. In 2007 and beyond, budgeted figures reflect the need to inspect any new day care centers coming into the system and to deal with any remaining problems at those abated in the first two years of the program.

The Mayor's budget office expects that of the total \$2.5 million in ACS funding for Local Law 1, 48 percent will be city tax levy, 33 percent will be state funds, and the remaining 18 percent will be federal. These relative shares hold constant when the total budget falls in 2006 and 2007.

TAX INCENTIVES

The Adopted Budget did not include any estimate of foregone property tax revenue from J-51 property tax exemptions and abatements, which were expanded under Local Law 1. IBO's last estimate of the cost of these tax benefits was about \$1 million, while the Mayor's budget office last estimated the cost at \$2.5 million. It is likely that the actual cost will be in this range.