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Budget Options for New York City

IBO

New York City

Independent Budget Office

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Contents

Introduction

For the first time, the Independent Budget Office is presenting public officials, civic leaders, advocates, fiscal and policy analysts, and all concerned New Yorkers with our review of a number of options to close the city's budget gap. We are providing an analysis of nearly three dozen revenue and savings options, many of which are currently being discussed in a variety of venues—from community forums to editorial pages to City Hall.

The options presented here are by no means exhaustive. This volume is the first in what will be an ongoing series of reports assessing a growing list of budget options. The inclusion of an option in this report should not be read as an endorsement by the Independent Budget Office. Our intent is to inform and advance the discussion of budget options for the city.

We are starting this series of budget option reports for several reasons. One reason is that this is the first time since IBO opened its doors in 1996 that the city has faced a large budget shortfall without a sizable surplus from the prior year to help bridge the gap. A second reason is that a broad array of elected officials, civic leaders, and advocates have asked us to estimate the cost-saving or revenue potential of many of the options contained in this volume. A third reason is that the city's $5 billion shortfall does not result solely from the tragic events of September 11 or continued weakness in the economy. A significant portion of the gap stems from an underlying structural imbalance in the city's finances, and will not simply go away when the economy picks up.

The budget options analyzed in this first volume are among those being publicly discussed to close the current gap and help address the underlying imbalance that leads to projections of significant shortfalls in each year through 2006. They include proposals that have been raised by fiscally oriented organizations such as the Citizens Budget Commission and City Project, public policy proponents such as the Working Families Party and Manhattan Institute, as well as by fiscal policy experts and current and former elected officials. Some of these options are fairly new, others have been talked about for a decade or more.

continued on next page

continued from previous page

To help inform the discussion of budget options for the city, IBO has made an objective and independent calculation of the anticipated savings or revenue derived from each of the measures reviewed in this volume. IBO also lists a set of "pros and cons" for each of these measures. Our approach is modeled on a similar volume produced by the nonpartisan Congressional Budget Office, which analyzes but does not endorse various budget options for Congress.

In order to produce this first volume in time to contribute to the debate on the budget that will be adopted this June, we have primarily included options that are among those most commonly discussed and for which sound savings or revenue estimates could be expeditiously made. In no way does inclusion—or omission—of specific options from this report reflect an assessment of their viability or desirability. Like the CBO, our role is to analyze, not endorse.

In subsequent volumes IBO intends to cover many more options. We welcome your suggestions for inclusion in future volumes as well as comments on this first installment.

Savings Options

OPTION:
Eliminate the Subsidy to Private Bus Companies

Savings:
$100 million annually

This option involves terminating the subsidies that the city pays to seven private bus companies that provide local service in Queens and Brooklyn, and express service between the outer boroughs and Manhattan. Alternatives to the current franchise contracts include competitive bidding or a takeover by New York City Transit (NYC Transit). The companies currently receive about $100 million per year in operating assistance from the city, and $50 million from the state. The city's direct subsidy to the private bus companies represents around 40 percent of their roughly $260 million total cost. In addition, the city's Department of Transportation (DOT) incurs expenses of around $2 million per year from administering the subsidies and monitoring the companies' performance.

PROPONENTS ARGUE that in addition to saving the city a substantial amount of money riders would receive better service if NYC Transit were to absorb the private bus routes. Moreover, this would make the bus service eligible for the Metropolitan Transit Authority's (MTA) tax-supported subsidies and surplus bridge and tunnel tolls. Compared to the city's cost of supporting the private service, the state and the MTA would bear a much larger share of the cost of NYC Transit-operated bus service. Advocates also argue that overall savings could be achieved from lower overhead costs and more efficient scheduling, if all city bus routes were part of a single system. Others favor opening the bidding to outside competition under restructured contracts that would reduce or eliminate the need for city subsidies.

OPPONENTS ARGUE that the lost funding would result in drastic service cuts. Because prospects for increased state aid are not good, maintaining service could lead to higher passenger fares. Transferring the routes to NYC Transit, in addition to requiring state legislative action, would mean that the existing pot of MTA subsidies would have to be stretched further, or that the city would have to increase its subsidy to the MTA, thus reducing the total savings to the city. Many favor restructuring the current contracts to provide stronger incentives for better service and greater cost containment efforts by the companies.

OPTION:
Managed Competition for Refuse and Recycling Collection

Savings:
$3 million in 2003, $12.4 million in 2004, $25.6 million in 2005, and $52.7 million in 2006

This proposal would allow the Department of Sanitation (DOS) to do a phased managed competition initiative, where private sector companies and city workers are bidding side by side to provide regular and recycling pickups at the lowest cost. Implementation would be gradual, with 6 of 59 districts implemented in the fourth quarter of 2003 as a 15-month pilot program. In 2005, the program would double to 12 districts, and in 2006 it would stabilize at 24 districts. It is possible that the expansion of the program also would create similar efficiencies eventually in the unaffected districts as labor contracts are renegotiated, but the only savings accounted for here are from the directly participating districts. These districts would be selected by DOS and identified in the bidding process, and might be grouped together so that bidders could capture economies of scale.

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

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

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

OPTION:
Reopen Fresh Kills Landfill

Savings:
$179.5 million in 2003, $183.9 million in 2004, $188.5 million in 2005, and $193.1 million in 2006

In May 1996, former Mayor Giuliani and Governor Pataki announced that the Fresh Kills Landfill would be closed by December 31, 2001—a decision subsequently ratified in New York State law. In place of Fresh Kills, the city's Department of Sanitation (DOS) has been operating under a costly interim export plan that involves trucking most of the city's waste to disposal sites outside of the city. The original plan was for DOS to work under the interim export plan until the infrastructure necessary for implementation of the city's long-term Solid Waste Management Plan had been put into place. Recently, however, the sanitation commissioner stated that the long-term plan's viability is now in question, which means that the city will bear the cost of exporting waste under the interim plan indefinitely.

These factors, plus the city's current financial situation, have sparked discussion of reopening the Fresh Kills landfill. Disposal at Fresh Kills costs roughly 33 percent less per ton than under the current export contracts—in 2003, disposal at Fresh Kills would cost $44 per ton, while export will cost on average $66 per ton. Comparing total collection and disposal costs shows that the export plan is roughly $179.5 million more expensive in 2003 than disposal at Fresh Kills.

PROPONENTS ARGUE that Fresh Kills was closed when it still had 20 years of capacity left. Since there are no disposal facilities within the five boroughs, the city is at the mercy of out-of-state landfill owners and does not have the bargaining power it needs to negotiate tipping fees (per ton dumping fees). Proponents also note the adverse health and environmental impacts of trucking waste through city neighborhoods, as opposed to transporting it by barge to Fresh Kills. Due to the events of September 11, the city was able to use emergency powers to reopen the landfill, indicating that the legal barriers to again using Fresh Kills for waste disposal are not insurmountable.

OPPONENTS ARGUE that reopening Fresh Kills would be in violation of numerous state and federal environmental laws. This is because Fresh Kills is an unlined landfill with substantial leachate problems, and is located in a tidal wetland. Reopening the landfill would require both federal and state approvals. To date, the federal government has never approved the reopening of an unlined landfill like Fresh Kills. As a result, the city would likely have to incur very substantial costs—$200 million by some estimates—in order to bring the site into compliance. Moreover, the state has passed a law prohibiting the siting of a landfill within the city, subject to a fine of $25,000 per day. This law would need to be changed for Fresh Kills to reopen. Opponents would likely take the city to court to avoid reopening the site, and even if the city ultimately was successful, the litigation would result in substantial implementation delays.

OPTION:
Pay-As-You-Throw

Savings:
$212 million annually

Under a so-called "pay-as-you-throw" (PAYT) program, households would be charged for waste collection based on the amount of waste they throw away—in much the same way that they are charged for water, electricity, and other utilities. The city would continue to bear the cost of collection and other sanitation department services funded by city taxes.

PAYT programs are currently in place in over 2,000 communities across the country. PAYT programs, also called unit-based or variable-rate pricing, provide a direct economic incentive for residents to reduce waste: If a household throws away less, it pays less. Experience in other parts of the country suggests that PAYT programs may achieve reductions of 14 percent to 27 percent in the amount of waste put out for collection. There are a variety of different forms of PAYT programs using either bags, tags, or cans in order to measure the amount of waste put out by a resident. The easiest type of program to monitor uses cans, with residents purchasing the use of containers and then having the option of purchasing extra "garbage stickers" at local stores for waste in excess of what could fit in their container.

Based on current waste disposal costs and volume, IBO estimates that each residential unit would pay an average of $66.50 a year to cover the cost of disposal. A 14 percent reduction in waste would bring the average cost per household down to $57.19, and a 20 percent reduction would lower the average cost to $53.20 per residential unit.

PROPONENTS ARGUE that this option could offset the jump in waste disposal costs since the city closed the Fresh Kills landfill. Environmentalists contend that by making the end-user more cost-conscious, the amount of waste requiring disposal will decrease, and in all likelihood the amount of material recycled would increase. They also point to the city's implementation of metered billing for water and sewer services as evidence that such a program could be successfully implemented. To ease the cost burden own lower income residents, about 10 percent of cities with PAYT programs also have implemented subsidy programs, which partially defray the cost while keeping some incentive to reduce waste. Proponents also suggest that starting implementation with Class 1 residential properties (one-, two-, and three-family homes) would be relatively easy, and could help equalize the disparate tax rates between Class 1 and Class 2 residential buildings. They 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 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, making it more difficult to administer a PAYT system. Increased illegal dumping is another concern, which might require increases in enforcement and thereby offset some of the savings.

OPTION:
Swap Local Medicaid Burden for a Portion of Local Sales Tax

Savings:
$2 billion annually

Only about one-quarter of the states require local sharing of Medicaid obligations. New York is one of these states and the required local share in New York is by far the largest in the country. Under this option, the state would absorb the local Medicaid costs from all counties (the city is treated like a single county for Medicaid purposes) across New York. To help the state fund its much larger obligations, a portion of the county share of the local sales tax would be shifted to the state treasury. (Legislation to shift a portion of the city's sales tax would have to be carefully drawn to avoid interfering with Municipal Assistance Corporation bond covenants.) Thus, the cost of providing medical assistance to low-income residents would be spread across the entire state, rather than concentrated in counties with disproportionate numbers of poor people.

Shifting the burden for all locally financed Medicaid to the state government would add an estimated $5 billion to state expenditures in 2003—a new burden that would grow to over $6 billion by 2006. Shifting half of the city's sales tax revenues to the state and one percentage point of the county sales tax rates elsewhere in the state, would yield the state government $3.5 billion in new revenue in 2003 and over $4 billion by 2006. Thus, the net increase in state expenditures would be $1.5 billion in 2003 and slightly more than $2 billion by 2006. The swap would save the city nearly $2 billion per year. Some counties would benefit immediately, but in the aggregate counties elsewhere in the state would be net losers, meaning that they would give up more in sales tax revenues than they would save by shifting Medicaid costs to the state government. The other counties would have a net loss of nearly $400 million in 2003, although this would narrow to less than $100 million by 2006.

Proponents argue that the nonfederal portion of Medicaid is most properly borne equally across the state. Forcing localities to bear a substantial portion of what in most other states is a state-level burden results in higher local taxes in areas with concentrations of Medicaid-eligible residents, which can result in punishing competitive disadvantages for those counties. Proponents further argue that the localities are forced to support and administer a program with virtually no role in setting policies and priorities that are largely determined in Albany. Conversely, because a significant portion of costs resulting from decisions by policymakers in Albany are automatically shifted to the localities, there is less fiscal discipline on the decisionmakers. Shifting the full nonfederal cost to the state would result in more accountability at the state level. Finally, proponents argue that even the other counties besides New York City will eventually turn out to be net gainers under the option because the long-term growth rate of Medicaid costs is faster than the growth in sales tax revenues.

Opponents argue that it is appropriate that a share of the Medicaid burden be borne by localities because the concentration of eligible residents in particular areas is due, at least in part, to local policies. Further, grabbing a piece of the counties' tax revenues could undermine their fiscal stability. The need to raid the counties could be reduced at the cost of adding to the increased state burden that will have to be funded using general state resources. Finally, opponents argue that with the state government facing significant fiscal difficulties, it may not be in a position to take on any increased Medicaid burden, even if the size of the new burden is reduced by using some of the localities' sales tax revenues.

OPTION:
State Reimbursement For Inmates Awaiting Trial Longer Than One Year

Savings:
$50 million annually

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

Existing state court standards call for no felony cases in New York State to be pending in Supreme Court for more than six months at the time of disposition, with disciplinary action possible for failure to comply with timeliness standards. In 1998, however, (the last year for which statistics are available), over 40 percent of the 12,643 defendants from the city convicted and sent into the state prison system had already spent six or more months in city jail custody as pre-trial detainees, with just under 2,000 having been held locally for one year or more.

If the state reimbursed the city for local jail time in excess of one year at the city's cost of approximately $150 per day, the city would realize annual revenue of approximately $50 million. (The city currently receives about $25 million annually for post-conviction state prisoners, including parole violators and convicted criminals awaiting transfer to state prison. The city is reimbursed at a rate well below its actual cost, and regularly requests that the state raise its reimbursement rate. If the city were reimbursed at the current rate of $34 per day for pre-trial detainees held for over one year, it could anticipate about $11 million annually in additional revenue.)

Proponents argue that the city is unfairly bearing a cost that is properly the state's, and that the city has little ability to effect the speedy adjudication of cases in the state court system. They 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.

Opponents 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 district attorneys bring cases and the availability of defense attorneys, among other things.

OPTION:
Reduce Optional Medicaid Benefits for Dental Care and Transportation

Savings:
$37 million in 2003, $38 million in 2004, $40 million in 2005, and $42 million in 2006

This proposal would reduce the scope of dental care and transportation services provided to Medicaid recipients in New York. Both dental care and transportation are among a wide variety of optional benefits under federal Medicaid law that New York State has chosen to include in its Medicaid program. The federal government funds 50 percent of the cost of these services, with the state and city each responsible for 25 percent. Under this proposal Medicaid administrators would cut the cost of these services in half by reducing the mix of specific dental and transportation services available to Medicaid recipients. Those specific services judged to be the least necessary would be limited or eliminated. Implementation of the proposal would require the approval of state officials and might have to be done on a statewide basis. Both the state and federal governments would share in any savings

PROPONENTS ARGUE that it is critical for the city to begin to limit its Medicaid costs. The 2003 Executive Budget projects that combined city-funded Medicaid expenditures at the Human Resources Administration and the Health and Hospitals Corporation (HHC) will reach $3.8 billion in 2003 and rise each year through 2006. Reducing Medicaid expenditures would require either decreasing Medicaid enrollment or reducing the cost per recipient. Due largely to welfare reform policies, the number of city residents enrolled in Medicaid decreased from 2,008,000 in March 1995 to 1,757,000 in January 2000. Concerns about the rising number of uninsured New Yorkers then led city officials to implement enhanced Medicaid outreach and recruitment efforts, and by September 2001 the number of individuals enrolled in Medicaid had increased to 1,860,000. The implementation of Disaster Relief Medicaid after the September 11 attacks further swelled the Medicaid rolls to 2,104,000 by December 2001, and most of the newest enrollees are expected to switch to regular Medicaid. These recent increases in Medicaid enrollment make it all the more important that the city find ways to decrease its cost per recipient.

OPPONENTS ARGUE that this proposal would deny vital health services to low-income New Yorkers, who would otherwise be unable to afford these services. Medicaid transportation services are generally provided to recipients who are too ill or incapacitated to use public transportation to and from their health care providers. For many, the cost of private car or van services could be prohibitive. Similarly, Medicaid recipients often lack the resources to pay for their own dental care. In addition, the city could end up indirectly paying for dental services as Medicaid enrollees who are denied access to their usual providers begin making use of the dental clinics at HHC.

OPTION:
Wage Deferral for Municipal Workers

Savings:
$197 million in 2003

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

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

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

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

OPTION:
Reduce the Workweek for Municipal Employees by Two Hours

Savings:
$146 million in 2003, $150 million in 2004, $154 million in 2005, and $158 million in 2006

This proposal uses an alternative work schedule in order to reduce payroll costs. Employees would leave early once a week (or once every two weeks for half of the savings). The work week would be reduced by two hours to 33 hours a week. School teachers, emergency workers, or agencies that are facing serious staff shortages would be exempt from the program. For purposes of calculation, we exclude all the uniformed agencies, the Board of Education, and the Administration for Children's Services. The program would produce a 5.7 percent annual reduction in wage costs in affected agencies. This level of savings is equivalent to 3,300 avoided layoffs. Employees would be rotated and scheduled in a manner that would minimize service disruption. The city would have to bargain over the impact and implementation of the program with its unions.

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

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

OPTION:
Health Insurance Co-Payment by City Employees

Savings:
$160 million in 2003, $174 million in 2004, $188 million in 2005, and $203 million in 2006

The city's health insurance costs have increased sharply over the past decade. Savings could be achieved by renegotiating municipal workers' health benefit package to shift a portion of health insurance premium costs to active employees and retirees. Specifically, employees and retirees would contribute 10 percent towards their health insurance premiums for individual and family coverage. Implementation of this proposal would have to be negotiated with municipal unions.

The majority of public and private sector employers require some co-payment towards health insurance premiums. New York State employees are required to pay 10 percent towards the cost of individual coverage and 25 percent of the additional costs of family coverage.

PROPONENTS ARGUE that this proposal generates recurring savings for the city and the potential for additional savings by giving city employees the incentive to become more cost conscious and work with the city to seek lower premiums. Proponents also say that given the dramatic increase in health insurance costs, premium cost sharing could prevent a reduction in the level of benefits. Additionally, proponents argue that contributing a share of the costs in a defined-benefit plan would be preferable to shifting to a defined contribution plan where the city gives the employee a fixed amount of money to purchase health insurance plans. Finally, they note that employee co-payment of health insurance premiums is common practice in the private sector, and increasingly in public employment as well.

OPPONENTS ARGUE that requiring employee contributions for health insurance would be a burden, particularly for low-wage employees. Critics argue that cost sharing would merely shift the burden of rising premiums onto employees, with no guarantee that slower premium growth would result. Also, opponents fear that once cost sharing is in place, the city would be more likely to ask employees to take up an ever bigger share of the costs if health insurance premiums continue to rise. Finally, critics say that cost-shifting measures could impact the city's effort to attract or retain talented employees in the long run.

OPTION:
Eliminate Paid Sabbaticals for Public School Teachers

**Savings:
$74 million annually**

This proposal involves reaching an agreement with the United Federation of Teachers (UFT) to eliminate paid sabbaticals for public school teachers. Teachers currently are entitled to a one-year sabbatical for study or "restoration of health" after every 14 years of service. Teachers with between 7 and 14 years of service may apply for a six-month sabbatical for restoration of health. Teachers on one-year sabbaticals receive 70 percent of their regular pay plus their regular benefits. Teachers on six-month sabbaticals receive 60 percent of their pay plus benefits

The Board of Education (BOE) spent $86 million in 2001 to provide paid sabbaticals to about 1,600 teachers. Because nearly one-fifth of sabbatical expenditures were reimbursed through federal and state categorical grants, the net cost to BOE was $70 million. IBO's savings estimates assume that teachers will receive raises for the 2001-2003 round of collective bargaining comparable to the pattern settlement reached with members of District Council 37 and other civilian unions. The estimates do not include raises for the 2003-2006 round of collective bargaining.

PROPONENTS ARGUE that the school system should deploy more experienced teachers in the classroom and therefore cannot afford to have veteran teachers take sabbatical leaves. They also emphasize that teachers receive 12 weeks paid vacation per year, which should provide sufficient opportunity for staff to upgrade their skills and restore their health. Proponents also question the degree to which coursework during sabbaticals actually enhances instructional skills, since teachers have wide latitude in designing their course of study.

OPPONENTS ARGUE that eliminating sabbaticals would weaken the Board of Education's position in the labor market for teachers, making it more difficult to attract and retain qualified pedagogues. BOE already faces a major challenge in complying with state and federal mandates to upgrade staff quality. Roughly one-sixth of all BOE teachers lack certification, including one-half of the teachers hired this year. Effective September 2003, state regulations prohibit the hiring of uncertified teachers. A new federal mandate requires school districts to employ "highly qualified" teachers in all classes supported by Title I funding. The challenge of adequately staffing classrooms is exacerbated by the expected retirement of thousands of teachers this summer after a pension enhancement takes effect on June 30, 2002. Opponents also emphasize that sabbaticals allow teachers to improve their skills and acquire deeper understanding of their subject areas, and serve as a preventative measure against burnout.

OPTION:
Increase Workload for Public School Teachers by One Classroom Period Per Day

Savings:
$484 million annually

This proposal involves reaching an agreement with the United Federation of Teachers (UFT) to increase teacher workload in the public schools by one classroom period per day. Under the current teachers' contract, classroom instructors officially work 6.33 hours per day, including a lunch break and a preparation period. This proposal would eliminate the preparation period, effectively increasing the number of daily periods each teacher spends instructing students from five to six. Having teachers spend six periods per day in the classroom would enable the Board of Education (BOE) to sharply reduce headcount by decreasing the number of "coverage teachers" assigned to cover classes for colleagues during their prep periods. In exchange for a heavier workload, the city could return 30 percent of the gross savings to the teachers through a pay increase.

The board spent $4.9 billion in 2001 to compensate classroom instructors. Because nearly one-fifth of these teaching positions was reimbursed through federal and state categorical grants, the estimated net cost to BOE was $4 billion. IBO estimates that increasing teacher workload by one period per day would eliminate the need for nearly 10,000 positions (excluding reimbursable programs) and generate $691 million in gross savings, less $207 million that would fund additional teacher compensation. IBO's savings estimate assumes that teachers will receive increases in salaries and benefits for the 2001-2003 round of collective bargaining comparable to the pattern settlement reached with other municipal unions. The estimate does not reflect raises for the 2003-2006 round of collective bargaining; the more teacher salaries rise, the greater the savings attributable to increasing teacher workloads.

Proponents argue that it is reasonable to expect the city's public school teachers to prepare lesson plans and grade papers on their own time since teachers have shorter workdays than other municipal employees and shorter workdays than teachers in some surrounding districts. They emphasize that the burden of a having a heavy teaching load is mitigated by the benefit of having 12 weeks paid vacation per year. Proponents also point out that the proposal would finance annual raises of $3,200 per teacher.

Opponents argue that increasing teacher workloads would weaken the Board of Education's position in the labor market for teachers, making it more difficult to attract and retain qualified pedagogues. BOE already faces a major challenge in complying with state and federal mandates to upgrade staff quality. Roughly one-sixth of all BOE teachers lack certification, including one-half of the teachers hired this year. Effective September 2003, state regulations prohibit the hiring of uncertified teachers. A new federal mandate requires that school districts employ "highly qualified" teachers in all classes supported by Title I funding. The challenge of adequately staffing classrooms is exacerbated by the expected retirement of thousands of BOE teachers this summer after a pension enhancement takes effect on June 30, 2002. Opponents also emphasize that teaching five periods per day is arduous and that many teachers already spend extra hours preparing lesson plans and grading papers outside the official workday. Finally, opponents also are concerned about the potential for a heavier teaching load to cause burnout.

OPTION:
Reduce FDNY Personnel by 1,600 Through Attrition and Flexible Staffing

Savings:
$7 million in 2003, $25 million in 2004, $44 million in 2005, and $65 million in 2006

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

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

Staff attrition could be absorbed through the substitution of new equipment that requires smaller crew size. Some cities have implemented the use of quints, fire trucks that are multipurpose and enable reductions in staffing without apparent harm to firefighting ability. FDNY has seriously considered the use of quints on a limited basis in the past, and they are heavily used in some cities. Crew size for quints varies, but reductions in staffing seem possible under scenarios where they replace engine and ladder functions.

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

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

OPTION:
Reduce Police Staffing by Using One-Person Patrol Cars

Savings:
$20 million in 2003, $73 million in 2004, $131 million in 2005, and $196 million in 2006

This proposal envisions a phase in of one-person patrol cars in lower crime precincts. Over the next four years, the New York Police Department (NYPD) is expected to lose annually about 2,200 to 2,400 of its 38,000 police officers through attrition. Under this option, 1,250 police officers of those leaving NYPD each year would not be replaced; instead, remaining officers would be redeployed in one-person patrol units. Since the department is fielding approximately 6,000 posts on the day shift, and three times that many across each full day, ample opportunity would exist to choose specific shifts and locations for this program. Over four years, 5,000 police officers would participate in the program, or about 15 percent of the entire police officer headcount by 2006 under this scenario. Police officers could ask for additional assistance in responding to any call for service, similar to their current discretion while on patrol. In addition, police officers participating in one-person patrols would be eligible to receive a substantial bonus for every shift worked. This would create a financial incentive in general to participate in the program and provide some additional incentive to reduce the use of unlimited sick leave.

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

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

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

OPTION:
Do Not Provide New 10- and 20-Year 421-A Tax Exemptions

Savings:
$13.0 million in 2003, $25.2 million in 2004, $35.6 million in 2005, and $45.3 million in 2006

New residential construction in Manhattan south of 110th Street is eligible for a 10- or 20-year property tax exemption. Developers who purchase certificates from affordable housing developers receive 10-year exemptions; 20-year exemptions are granted to projects in which 20 percent of the units are affordable. Over the last four years, there have been an average of 679 units with 10-year exemptions and 948 units with 20-year exemptions added annually.

PROPONENTS ARGUE that these tax exemptions constitute a give-away to developers of high-end luxury housing in Manhattan that does not require a subsidy. These exemptions in Manhattan south of 110th Street are very expensive. The full cost of a 10-year exemption is about $43,000 per unit; for a 20-year exemption the full cost per unit is about $75,000. These exemptions may not be necessary to ensure new construction of high-end housing, or at least may cost more than can be justified. Many new residential projects have been built without 421-A exemptions, usually because they do not meet the eligibility requirements. Furthermore, the production of affordable housing built through the 421-A program is inefficient. The 10-year program housing certificates sell for roughly $12,000 each, although the exemption is worth $43,000 to developers of market-rate housing.

OPPONENTS ARGUE that without these exemptions the production of housing affordable to low- and moderate-income households would be curtailed, and remaining production would occur mostly outside of Manhattan or above 110th Street. There are likely some market-rate residential developments in Manhattan that would not be built without 421-A exemptions. To the extent that this is true, these exemptions are important for stimulating residential construction and providing jobs. The 421-A program also provides financing to affordable housing developers through the sale of housing certificates, and ensures the construction of some mixed-income developments south of 110th Street.

Revenue Options

OPTION:
Restore the Commuter Tax

Revenue:
$413 million in 2003; $504 million by 2006

One option to increase city revenues would be to restore the nonresident earnings component of the personal income tax, known more commonly as the commuter tax. Since 1971 the tax had equaled 0.45 percent of wages and salary earned in the city by commuters and 0.65 percent of self-employment income. Three years ago the New York State Legislature repealed the tax, effective July 1, 1999. Reinstating the commuter tax at the rates which existed when it was eliminated would increase the city's personal income tax (PIT) collections significantly.

If a restored commuter tax became effective on July 1 of this year, PIT collections would increase by $413 million in 2003, $448 million in 2004, $472 million in 2005, and $504 million in 2006. The commuter tax could also be reinstated at rates different from the ones prior to its repeal. For example, the tax would generate $371 million in 2003 (10 percent lower than the above estimate at the current rates) if the tax were reestablished at rates 10 percent lower than before repeal. Revenue from the tax could also be dedicated to specific uses that are likely to benefit commuters, such as transportation infrastructure or police, fire, and sanitation in business districts.

PROPONENTS ARGUE that in addition to providing the city revenue to help close a substantial portion of projected budget gaps, there are a number of economic reasons for reinstating the commuter tax. People who work in the city, whether residents or not, rely on police, fire, sanitation, transportation, and other city services, so it is appropriate that commuters bear some portion of the cost of providing these services. Moreover, the tax, with rates between roughly one-fourth and one-eighth of that paid by residents, would not unduly burden most commuters. Sample data for calendar year 1998 indicates that average New York taxable income of filers paying the commuter tax was $99,400, compared with $37,300 for full-time city residents filing tax returns. Also, by lessening the disparity of the respective income tax burdens facing residents and nonresidents, reestablishing the commuter tax reduces the incentive for current residents working in the city to move out. Finally, some have argued for reinstating the commuter tax on the grounds that the political process that led to its elimination was inherently unfair in spite of various court rulings upholding the legality of the elimination. By repealing the tax without input from either the City Council or then-Mayor Giuliani the state legislature created an unexpected shortfall of tax revenue that the city can now ill afford.

OPPONENTS ARGUE that reinstating the commuter tax would adversely affect business location decisions because the city would become a less competitive place to work and do business both within the region and with respect to other regions. By creating disincentives to work in the city, the commuter tax would cause more nonresidents to prefer holding jobs outside of the city. If, in turn, businesses find it difficult to attract the best employees for city-based jobs or self-employed commuters (including those holding lucrative financial, legal, advertising and other partnerships) are induced to leave the city, the employment base and number of businesses would shrink. The tax would also make the New York region a relatively less attractive place for businesses to locate, thus dampening the city's economic growth and tax base. Another argument against the commuter tax is that the companies that commuters work for already pay relatively high business income taxes, which should provide the city enough revenue to pay for the services that commuters use. Finally, at the time that state legislature repealed the commuter tax, suburban legislators argued that city residents have benefited greatly from the elimination of the 12.5 percent ("criminal justice") surcharge.

OPTION:
Increase Base Personal Income Tax Rate by 1 Percentage Point for High-Income Filers

Revenue:
$563 million in 2003; $687 million by 2006

Another proposal for increasing tax receipts would increase the nonsurcharge or "base" rates of the personal income tax (PIT) of high-income filers, defined here as taxpayers with taxable incomes exceeding $250,000 a year. The current structure of PIT base rates is progressive, meaning that incomes in higher tax brackets are taxed at higher rates. There are four taxable income brackets, with base rates ranging from 2.55 percent in the lowest bracket to 3.2 percent in the highest bracket; the added impact of the existing 14 percent surcharge creates total marginal PIT rates that range from 2.91 percent to 3.65 percent. The top bracket now begins at $50,000 of taxable income for single filers (including married persons filing separately), $60,000 for heads of household (single parents), and $90,000 for married couples filing jointly. If a fifth bracket for all filers with incomes above $250,000 was created and its base rate set at 4.2 percent—one percentage point higher than the current top base rate—PIT collections would increase by $563 million in 2003, $611 million in 2004, $643 million in 2005, and $687 million in 2006. For filers whose income reaches the highest tax bracket under this option, the marginal tax rate, including the 14 percent surcharge, would be 4.79 percent. (See Appendix for chart comparing PIT options.)

PROPONENTS ARGUE that in addition to providing considerable additional revenue to the city, this option would limit its impact to a relatively small number of filers, the most affluent city residents who can most afford tax increases. Almost 80 percent of the additional tax collections would be received from filers with gross incomes above $1,000,000 and another 13.8 percent would be received from those with incomes between $500,000 and $1,000,000—two groups which account for an estimated 1 percent of city filers. The PIT burdens of the vast majority of all city residents would not be effected. Moreover, the tax structure would be made more progressive, meaning that those with higher incomes would face a higher marginal tax rate. Finally, in itemizing deductions for federal tax purposes, high-income New Yorkers generally deduct city taxes paid, so increased city PIT burden paid by taxpayers under this option would be partially offset by reductions in federal income taxes.

OPPONENTS ARGUE that the very features which make this option attractive—that is raises a large amount of revenue while burdening only a small group of city residents—are also the features that could make the option self-defeating. This option sharply increases the marginal tax rates facing affected taxpayers, as the 1 percentage-point increase in the base rate amounts to a 31.25 percent increase in the marginal tax rate on income exceeding $250,000 (1.0 percent divided by 3.2 percent). Filers with gross incomes above $1,000,000 would see their PIT liabilities increase by an estimated $34,700 in 2003. If the large tax hikes produced by this option were to induce even a small number of the wealthiest residents to leave the city, or were to dissuade others from moving in, the revenue-raising benefits of this option would be largely offset. For example, if 5 percent (about 670) of "average" millionaire filers were to leave the city in 2003, the city would loose an estimated $211 million under this option, offsetting almost one-fifth of how much revenue would be raised if no one were to move. Over time the revenue loss would be further compounded by reductions in other city tax sources, such as business income taxes, the sales tax, and the property tax.

OPTION:
Levy a Temporary, 10-Percent Personal Income Tax Surcharge

Revenue:
$542 million in 2003; $665 million by 2006

Another option for increasing personal income tax (PIT) revenues would be to institute a second surcharge on resident tax liabilities, scheduled to expire in a few years. The current surcharge, which began in calendar year 1991, equals 14 percent of base rate (nonsurcharge) liability, and under current law will expire at the end of calendar year 2003. A second surcharge equal simply to 10 percent of PIT liability under current law would increase residents' marginal tax rates from 2.91 percent to 3.20 percent for income in the lowest tax bracket, from 3.65 percent to 4.01 percent for income in the highest bracket, and by proportional amounts for rates in the middle brackets. If such a surcharge became effective by July 1, 2002 and remained in effect for four years, PIT collections would rise by $542 million in 2003, $585 million in 2004, $623 million in 2005, and $665 million in 2006. This surcharge would increase taxes by an average of $180 per filer in calendar year 2003. (See Appendix for chart comparing PIT options.)

Proponents argue that if there was confidence that the measure would be temporary, a second surcharge would be a relatively attractive means of generating additional PIT revenue. City residents would be far more likely to accept a temporary surcharge, designed to address the city's near-term budget gap (created in part by the September 11 attack) than a permanent tax increase; as a result, few taxpayers would be likely to move outside of the city to avoid the tax. A second PIT surcharge defined simply as a certain percentage of existing PIT liability also has the advantage of being easy to comprehend, which would add to its acceptability. Because it would increase the tax burden of all taxpayers in proportion to their current liabilities, a simple surcharge would neither alter the existing distribution of liability among residents of different incomes nor affect the progressiveness of the tax. The distribution of the tax burden is very skewed toward upper income filers, so the surcharge would be born largely by those residents who can most afford a tax increase. About 29 percent of the additional surcharge revenue would be paid by filers with annual incomes above $1,000,000, with another 30 percent borne by filers with incomes between $125,000 and $1,000,000. Finally, because middle- and high-income New Yorkers tend to itemize deductions

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Opponents argue generally that New York City taxpayers are already among the most heavily taxed in the nation and further increases in their tax burden are likely to induce movement out of the city. New York is one of only three of the largest U.S. cities to levy a personal income tax, and its PIT burden is second only to Philadelphia's; further increases in the tax would only exacerbate the city's competitive disadvantage with respect to other areas of the country. It also would increase the incentive for city residents to move outside of the city and avoid the tax. Designating the surcharge as temporary may not lessen the adverse impact on taxpayers location decisions because of the city's recent experience with PIT surcharges. In the past decade the city repeatedly renewed both the current surcharge and another PIT surcharge that had been in effect from 1990 to 1998 in spite of both increases being labeled as "temporary," making it difficult for taxpayers to believe that a new tax increase would truly be short-lived. A new surcharge would deliver particularly large tax increases to the high-income taxpayers who account for a very large portion of the city's PIT receipts. Even if only a small number of these taxpayers leave the city in response to a tax increase, the base of taxable income in the city could significantly shrink, thus reducing—

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Levy a Temporary, 10-Percent Personal Income Tax Surcharge (Continued)

PROPONENTS (CONTINUED)

for federal tax purposes and thus deduct city taxes paid, for many taxpayers increases in their city PIT burdens under this option would be partially offset by reductions in federal income tax liability.

OPPONENTS (CONTINUED)

rather than raising—PIT collections. Over time the revenue loss would be further compounded by reductions in other city tax sources, such as business income taxes, the sales tax, and the property tax.

OPTION:
Create a More Progressive Personal Income Tax

Revenue:
$204 million in 2003; $249 million by 2006

Another option for raising revenues would be to create a more progressive structure of personal income tax (PIT) base (nonsurcharge) rates by simultaneously reducing marginal rates in the bottom income brackets and raising marginal rates at the top. This would both provide tax cuts to many taxpayers and increase revenues overall. The specific version of this option estimated by IBO for its revenue-raising potential would replace the current four brackets as follows: Base rates in the bottom two tax brackets would be reduced by 0.25 percentage points, to 2.30 percent and 2.85 percent respectively. The rates and income range of the third bracket would remain the same but the current fourth and top bracket would now become divided into three groups. A new fourth bracket with a slightly increased base rate (from 3.2 percent to 3.35 percent) would end at $90,000 income for single filers, $152,000 income for joint filers, and $108,000 income for heads of households (single parents). The next bracket would have a marginal rate of 3.5 percent for incomes up to $150,000, $270,000, and $180,000 for single, joint, and head of household filers, respectively. The marginal rate in the new top bracket would be 3.7 percent, a 0.5 percentage point increase over the current top rate. If such a restructuring took effect by July 1, 2002, PIT revenues would increase by $204 million in 2003, $221 million in 2004, $233 million in 2005, and $249 million in 2006. (See Appendix for chart comparing PIT options.)

Proponents argue that a progressive restructuring of PIT base rates would simultaneously achieve several desirable outcomes: an increase in city tax revenues, a tax cut for the majority of filers, and a more progressive tax structure (one in which taxes paid as a percentage of income increases as income rises). Under the option, most filers with gross incomes below $100,000, who account for an estimated 88.9 percent of all filers, would receive a tax cut. The cuts would remove about 10,000 filers from the city tax rolls, out of an estimated 153,000 filers who, under current law, would be expected to pay some PIT in 2003 despite being too poor to incur state income tax liability. Households with lower incomes generally spend a larger portion of their income than do more affluent households, so the $114 total tax cut received by filers with incomes under $100,000 is likely to result in more spending that will help stimulate the local economy. While restructuring would not add as much to PIT receipts as an option that solely increases tax rates on the very wealthy, it would raise revenues from a broader range of relatively affluent taxpayers. Moreover, because middle- and high-income New

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Opponents argue that if the principal goal of altering the PIT at this point in time is to help address looming budget gaps, this option is somewhat inefficient. The reductions in base rates in the bottom two tax brackets decrease the revenue-raising potential of the accompanying increases by at least $120 million, roughly one-third of what additional collections would be if rates were only increased. Furthermore, while the provision of tax cuts to the many nonaffluent filers makes the average tax cut for all filers much lower than in the other base rate options, these cuts do not significantly lessen the average tax increase that would be borne by the most affluent taxpayers. Filers with incomes above $1,000,000 would still see their PIT liabilities rise on average by an estimated $17,700 in 2003, and an increase of this magnitude is likely to have an adverse impact on the city's tax base by causing at least some of the most affluent to leave the city. If only 5 percent of "average" millionaires (about 670 filers) were to leave the city, the city would lose $94 million in personal income tax revenues in 2003, thus gutting the revenue-raising potential of this option almost in half.

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Create a More Progressive Personal Income Tax (Continued)

PROPONENTS (CONTINUED)

Yorkers tend to itemize deductions for federal tax purposes and thus deduct city taxes paid, for many taxpayers increases in their city PIT burdens under this option would be partially offset by reductions in federal income tax liability. Furthermore, because even the wealthiest taxpayers would pay less tax on income falling in the bottom tax brackets, the overall tax increases generated by restructuring would not be as steep as simple increases in taxes for high-income New Yorkers, lessening disincentives for the most affluent to remain city residents. Finally, restructuring would significantly heighten the progressiveness of the PIT, which had been made less progressive in 1996 when the number of tax brackets was reduced.

OPPONENTS (CONTINUED)

Over time the revenue loss would be further compounded by reductions in other city tax sources, such as business income, sales, and property taxes.

OPTION:
Increase the Property Tax Rate by 5 Percent

Revenue:
$487 million in 2003, $510 million in 2004, $531 million in 2005, and $550 million in 2006

Since 1992, the City Council and the Mayor have observed an informal freeze in the overall property tax rate. Thus the property tax levy—the single tax revenue figure totally under control of the Council—has been determined each year simply by multiplying the total assessed value for tax purposes in the city by the frozen rate. Tax rates for each of the four property classes in the city are then set by formulas prescribed in state law. Although the overall rate is frozen, rates for each class typically change each year to reflect shifts in each class' share of property values.

A 5 percent increase in the overall rate to 10.8843 would raise approximately $500 million per year based on IBO's latest property tax forecast. For 2003, the average increase in Tax Class 1 (one-, two-, and three-family homes, and other small properties) would be $95 per parcel above the increases already anticipated under the frozen overall rate. The increases would be larger in apartment buildings, particularly those with greater than 10 units (Tax Class 2). Condo apartments would have an average property tax increase of $219 and coop apartments would see an increase of $134 per apartment. Class 2 rental buildings would have an average increase of $82 per unit. For commercial buildings (Tax Class 4), which includes everything from gas stations to midtown office towers, the average increase would be $2,756 for each property.

Some proponents have recommended presenting the increase as a temporary surcharge to help close a budget gap due in part to the extraordinary effects of the September 11 attacks. After one or two years, the rate would be scheduled to revert to the old frozen rate. Because the rate is set each year, it may be difficult to legislate a multi-year commitment to return to a specific rate.

PROPONENTS ARGUE that these increases are relatively modest, particularly for Class 1 owners. More important, given the constraints imposed by the state on the city in setting tax policy, the property tax is the city's only major revenue source that can be increased (or decreased) without Albany's approval.

OPPONENTS ARGUE that property tax burdens are already too high. Indeed, the freeze was initially put in place after a series of annual rate increases in the late 1980s and early 1990s resulted in discontent among property owners. Another problem is that a rate increase would compound the existing inequities in the city's property tax system. Thus, while the increase in Class 1 would be relatively modest, the larger absolute increases in Class 2 and 4 could threaten the city's position when competing with other localities for jobs and investment.

OPTION:
Raise Cap on Property Tax Assessment Increases

Revenue:
$10 million in first year and $75 million-$100 million in fifth year

Under current law, property tax assessments for Class 1 properties (one-, two-, and three-family homes) may not increase by more than 6 percent per year or 20 percent over five years. For apartment buildings with four to ten units, assessment increases are limited to 8 percent in one year and 30 percent over five years. This option would raise the annual assessment caps to 8 percent and 30 percent for five years for Class 1 properties and to 10 percent annually and 40 percent over five years for small apartment units. State legislation would be need 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 $10 million in 2004 (with the assessment roll for 2003 already largely complete, 2004 is the first year the option could be in effect) and $75 million to $100 million annually after five years. These revenue estimates are highly sensitive to assumptions about changes in market values. The average increase in the first year for Class 1 properties would be approximately $1 and would grow to $15 by the fifth year.

The assessment caps for Class 1 were established in the 1981 legislation creating the city's current property tax system (S7000a) and first took effect for fiscal year 1983. The limits on small apartment buildings in Class 2 were added several years later. The caps are one of a number of features in the city's property tax system that keep the tax burden on Class 1 properties very low in order to promote homeownership. Assessment caps are one way to provide protection from rapid increases in taxes driven by appreciation in the overall property market that may outstrip the ability of individual owners to pay, particularly those who are retired or on fixed incomes.

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

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

OPPONENTS ARGUE that increasing the burden on homeowners would undermine the city's goals of encouraging homeownership and discouraging the flight of middle class taxpayers to the suburbs. Other opponents argue that given the equity and revenue shortcomings of assessment caps they should be eliminated entirely rather than merely raised.

OPTION:
Extend Mortgage Recording Tax to Coops

Revenue:
$71 million in 2003; $97 million in 2006

The mortgage recording tax (MRT) is levied on the amount of the mortgages used to finance the purchase of houses, condo apartments and all commercial property. It is also levied when mortgages on these properties are refinanced. The MRT tax rate is 1.5 percent of the value of the mortgage if the amount of the loan is under $500,000, and 1.625 percent for larger mortgages. Currently, sales of coop apartments are not subject to the MRT, since coop financing loans are not technically mortgages. Extending the MRT to coops was initially proposed by the city in 1989 when the real property transfer tax was amended to cover coop apartment sales, but the necessary state legislation was never enacted.

The change would require broadening the definition of financing subject to the MRT to include not only traditional mortgages but also loans used to finance the purchase of shares in residential cooperatives. IBO estimates that extending the MRT would raise $71 million in 2003, $78 million in 2004, $86 million in 2005, and $97 million in 2006.

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

Opponents argue that the proposal will increase the cost of purchasing coop apartments, depressing sales prices and ultimately decreasing market values.

OPTION:
Revise Coop/Condo Property Tax Abatement Program

Revenue:
$25 million-$35 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. A problem with this stopgap measure, which has subsequently been renewed twice, is that some apartment owners—particularly those residing east and west of Central Park—already had low property tax burdens. A 1998 IBO study found that 13 percent of the abatement program's benefits went to apartment owners whose tax burdens were already as low or lower than that of Class 1 homeowners. Another 7 percent gave other apartment owners benefits beyond the Class 1 level.

Under the option proposed here, the city could reduce the inefficiency in the abatement by restricting it either geographically or by value. For example, certain neighborhoods where tax burdens on coops and condos are already low could be denied eligibility for the program, or buildings with high average assessed value per apartment could be prohibited from participating. Another option would be to exclude very high valued apartments in particular neighborhoods from the program.

The additional revenue would vary depending on precisely how the exclusion was defined. Assuming that the 20 percent inefficiency that IBO found still holds, the current waste in the program is $42 million for 2003 and will grow to $51 million by 2006. 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.

Proponents argue that such inefficiency in the tax system should never be tolerated, particularly at a time when the city faces large budget gaps. Furthermore, these unnecessary expenditures are concentrated in neighborhoods where average household incomes are among the highest in the city. At a time when many city services are being cut, it is particularly appropriate to avoid giving benefits that are greater than were intended to some of the city's wealthiest residents.

Opponents argue that even if the abatement were changed in the name of efficiency, the result would be to increase some apartment owners' property taxes at a time when the city faces pressure to reduce or at least constrain its very high overall tax burden. In addition, those who are benefiting did nothing wrong by participating in the program and should not be "punished" by having their taxes raised. The abatement was supposed to be a stopgap and had acknowledged flaws from the beginning. The city has had over five years to come up with a program to replace the stopgap abatement, but so far has failed to do so.

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

Revenue:
$41 million annually

Under New York State law, real property owned by colleges and universities used in supporting their educational purpose is exempt from the city's real property tax. In 2002, this exemption cost the city $165.7 million in forgone property tax revenue (known as a "tax expenditure").[1] Exemptions for student dormitories and additional student and faculty housing represented 22.6 percent ($37.4 million) of this total. Under this option, private colleges and universities in the city would make payments in lieu of taxes (PILOTs), either voluntarily or through legislation. A PILOT of 25 percent of the total tax expenditure would equal $41.4 million.

As an alternative, New York State could make the PILOT payments to New York City for the colleges and universities. The exempt institutions would continue to pay nothing. In 2001, the state of Connecticut reimbursed local governments for 77 percent of the tax revenue foregone on tax-exempt property owned by colleges, universities, and hospitals. Rhode Island also reimburses local governments, though at a lower percentage.

Proponents argue that colleges and universities consume valuable city services, including police and fire protection, without paying their share of the property tax burden, while for-profit employers and residents must pay the bill. They also contend that private colleges and universities generally serve a wider community beyond the city and that it is appropriate to shift some of the burden of city services supporting universities and colleges to that broader community. Finally, they point to several other cities with large private educational institutions that collect PILOT payments, either directly from the institutions or from their state governments. These include large cities (such as Boston, Philadelphia, Providence, New Haven, and Hartford) and smaller cities (such as Cambridge and Ithaca).

Opponents 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 argue that the tax exemption on faculty housing encourages faculty to live in the city, pay income taxes, and consume local goods and services.

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

OPTION:
Eliminate Property Tax Exemption for Madison Square Garden

Revenue:
$9.6 million in 2003

This option would eliminate the real property tax exemption for Madison Square Garden (MSG). For nearly two decades, Madison Square Garden has enjoyed a full exemption from its property tax liability. In 2003, this tax expenditure, or amount of forgone taxes, is projected to be $9.6 million. Under Article 4, Section 429 of the Real Property Tax law, the exemption is contingent upon the continued use of Madison Square Garden by professional major league hockey and basketball teams for their home games.

When enacted in 1982, the exemption was intended to ensure the viability of professional major league sports teams in New York City. Legislators determined that "operating expenses of sports arenas serving as the home of such teams have made it economically disadvantageous for said teams to continue their operations; that unless action is taken, including real property tax relief and the provision of economical power and energy, the loss of the teams is likely…" (Section 1 of L.1982, c.459, effective July 7, 1982).

PROPONENTS ARGUE that property tax incentives are now unnecessary because the operation of Madison Square Garden is almost certainly profitable. Because Madison Square Garden owns the Knicks and Rangers teams and the MSG cable network, it receives all game-related revenue from tickets, concessions, and cable broadcast advertising. In addition, Madison Square Garden hosts concerts, theatrical productions, ice shows, the circus, and much more in its arena and theater, and it collects both rent and concession revenue on these events. Overall, it claims to host over 500 events annually. Proponents also note that privately owned sports arenas built in recent years such as the Fleet Center in Boston and the United Center in Chicago, generally do pay real property taxes—as did MSG from 1968 when it opened until 1982—although some have received other government subsidies such as access to tax exempt financing and public investment in related infrastructure projects. In the case of MSG, the continuing subsidy, long after the construction costs have been recouped, is at odds with the philosophy guiding economic development tax expenditure policy.

OPPONENTS ARGUE that presence of the teams continues to economically benefit the city and that forgoing $9.6 million in property tax is reasonable compared to the risk that the teams might leave the city.

OPTION:
Toll the East River Bridges

Revenue:
$160 million in 2004; $320 million in 2005

This proposal involves placing a toll ($7 cash, $6 with E-ZPass) on vehicles that cross the Brooklyn, Manhattan, Williamsburg, and Queensboro Bridges into Manhattan. These crossings are maintained by the city's Department of Transportation (DOT), and are currently not tolled. Two other East River crossings, the Brooklyn-Battery Tunnel and the Queens-Midtown Tunnel, are operated by MTA Bridges and Tunnels. Tolls on the tunnels are $3.50 in each direction for automobiles ($3.00 using E-ZPass). The proposed bridge toll would equal the toll charged to automobiles that use the tunnels. However, in order to minimize backups and avoid the expense of installing toll booths at both ends of the bridges, only vehicles entering Manhattan would be charged, while vehicles leaving Manhattan would not be. Bridge tolls on trucks would also be set at the same level as existing tunnel tolls. In contrast, buses would be exempt from bridge tolls. Tolls would be instituted at the beginning of calendar year 2004, i.e., midway through city fiscal year 2004.

Gross toll revenue is adjusted downward to take account of collection costs, enforcement costs, and fare-beating, but fine revenue is assumed to offset these losses.

PROPONENTS ARGUE that the tolls would provide a stable revenue source for the operating and capital budgets of DOT. 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 revenues, but also as a tool to reduce traffic congestion and encourage greater transit use. If more drivers switch to public transit, people who continue to drive would benefit from reduced congestion and shorter travel times. Finally, a portion of the toll revenues could potentially be used to support improved public transportation alternatives.

OPPONENTS ARGUE that it is unfair to charge motorists to travel between Manhattan and the other boroughs. Toll opponents draw a parallel with transit pricing policy. With the advent of free MetroCard transfers between buses and subways, and the abolition 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 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, and Queens would be more adversely affected by tolls than residents of Manhattan. An additional concern is the impact on small businesses. Finally, opponents are concerned that even with E-ZPass technology, tolling could lead to traffic backups on local streets and increased air pollution.

OPTION:
Restore the Stock Transfer Tax at One-Tenth of Its Original Rate

Revenue:
$825 million annually

New York State instituted a tax on transfers of shares or certificates of stock in 1909, and shifted the tax to New York City in 1966. The stock transfer tax (STT) was imposed at a graduated rate rising to five cents per share on stocks selling for $20 or more, up to a maximum of $350 per sale. The STT was phased out between 1979 and 1981, although it is still nominally "paid" to the state on paper; in actuality the money is immediately credited back to the payer. To partially compensate the city for the revenue lost when the tax was phased out, the state instituted a new state aid payment to the city, usually fixed at $114 million per year. This payment was never adjusted for inflation and was discontinued in the 2001 state fiscal year, widening the city's budget gap.

When phaseout of the STT began in 1978, collections were $290 million. Over the past two decades there has been an explosion in the volume of trading activity on the New York exchanges. For state fiscal year 2001, the tax's revenue potential is reported as $7.6 billion. By conservative estimate, this flow will reach nearly $10 billion by 2006. But collecting this amount would place a substantial burden on the securities industry. Back in 1980, full STT collections would have absorbed 8.0 percent of commission revenues and reduced the overall security industry profit rate from 14.1 percent to 11.3 percent. Following deregulation in the early 1980s, however, increased competition has sliced prices and profit margins in the securities industry so that in 2001 STT collections would have absorbed 28.4 percent of commission revenues and cut the overall security industry profit rate from 5.3 percent to 1.4 percent.

Several proposals for reinstating the stock transfer tax have been floated recently, including restoring the tax at one-tenth of its original rate. However, even under the optimistic assumption that the imposition of the tax would not trigger a flight of trading activity from the New York exchanges, a significant share of the new STT revenues would be offset by declines in other city tax revenues.

Proponents argue that a fractional rate would lighten the burden of the tax enough to enable brokerages to still operate competitively in New York City, while generating $825 million on average each year in new STT revenues for the city budget.

Opponents argue that the STT would force the city's securities industry to retrench to remain competitive, and after reverberating through the city's economy these adjustments would lead to significant losses in other city tax revenues. The proposed stock transfer tax would result in the loss of 2,800 jobs in the securities industry and nearly 9,000 additional jobs in the rest of the city's economy. This contraction would decrease collections of other city tax revenues by an estimated $170 million, offsetting about 20 percent of the gains from reinstating the STT. These secondary tax effects reflect the dependence of much of the city's economy on the securities industry and the strong competitive pressures on brokerage prices and costs. If industry belt-tightening does not forestall an exodus of trading activity from the New York exchanges, the secondary tax effects would be significantly larger and offset a bigger share of the STT.

OPTION:
Initiate the Sale of Radio Cab Medallions

Revenue:
$216 million annually

This proposal envisions the sale of one thousand radio cab medallions per year over the next three fiscal years. Radio cabs would be a new class of service, similar to the black car industry in quality of vehicles, but with metered service and the ability to respond to both street hails and telephoned requests for pickup from customers. The cars used would provide a higher level of comfort (including substituting security cameras for plastic partitions) than current city taxicabs. In providing more comfort, they would probably be somewhat more expensive than the estimated $24,000 purchase price of new Ford cabs. Allowable fares would be higher than the yellow cab fare structure by a predetermined amount, and the cars would be identifiable in a color other than yellow, with a lighted sign on the roof indicating whether the vehicle is available for street hail. Revenues are based on a current average sale price of $216,000 per medallion; the exact price is likely to vary from this amount. Although the sale of additional medallions would tend to drive down the price, the higher level of revenues per vehicle would tend to have the opposite effect. Ease of implementation of the sale might require that purchasers buy a set minimum number of medallions, which could then be leased to qualified drivers licensed by the Taxi and Limousine Commission.

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

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

OPTION:
Restore the Fare on the Staten Island Ferry

Revenue:
$4 million annually

This option would restore the fare charged to passengers who board the Staten Island Ferry as pedestrians, beginning in July 2003. Until July 4, 1997, pedestrians paid a round-trip fare of 50 cents. As part of the state and city's efforts to promote a "one city, one fare" policy, fares were abolished at the same time that free MetroCard subway and bus transfers were instituted. Fares are still in place for vehicles ($3 regular fare, $2 for carpools, and $1.50 for senior citizen drivers, all collected each way), but vehicle service has been suspended since the attacks of September 11, 2001.

The Staten Island Ferry is operated by the city Department of Transportation, and in 2000 had 19 million riders. If and when vehicles are allowed back on the ferry, pedestrians will still make up the vast majority of passengers—probably over 95 percent. Gross revenues from a 50 cent round-trip fare would be about $4.5 million per year. Assuming collection costs equal to 10 percent of fares, net revenue would be roughly $4 million annually.

Staten Island residents who use the Verrazano Narrows Bridge pay a toll of $3.20 (charged going into the borough only) using E-ZPass. Residents traveling in vehicles with three or more occupants have the option of using prepaid tokens costing $1.25 per crossing (also paid only going into Staten Island). Express bus riders traveling from Staten Island to Manhattan pay a $3.00 fare each way. Finally, travelers who take local buses over the Verrazano Narrows Bridge to Brooklyn pay a cash or MetroCard fare. While these riders can then transfer free of charge to a bus or subway, for travel to Manhattan this is a very time-consuming option.

PROPONENTS ARGUE that ferry riders should be expected to pay at least a nominal share of the service costs. According to data submitted by the city's transportation department to the Federal Transit Administration, in 2000 the total operating expenses of the ferry were around $43 million. This implies a cost per passenger of $2.25. If the 25 cent fare was restored, passengers would still be paying less than 10 percent of the cost of a ride. In contrast, fares on NYC Transit subways and buses cover over half of operating expenses. In addition, tourists and visitors would also pay a portion of their ride.

OPPONENTS ARGUE that charging ferry riders would contradict the "one city, one fare" policy started by the Giuliani Administration. Until 1997, riders who had to use more than one bus or a combination of bus and subway to get to their destination had to pay multiple fares. With the advent of MetroCard, free transfers between buses and subways were instituted, and the fare for pedestrians on the Staten Island Ferry was eliminated. As a result, the vast majority of transit users in New York City can now make their trips with only one fare. If passengers were once again charged to use the ferry, most of them would have to pay two fares to travel between home and work or school.

OPTION:
Dedicated Property Tax for Parks

Revenue:
$100 million per year

Several cities and regions use a dedicated property tax, sometimes through the structure of a parks taxing district, to help fund local parks. The Minneapolis Park Board, for example, raises over two-thirds of its total parks budget from a dedicated property tax. The Chicago Parks District levies a property tax that generates over $225 million a year. California's East Bay Regional Park District levies a tax of 3 cents for every $100 of assessed value to fund the majority of its $122.1 million budget. Los Angeles County also levies a tax based on assessed value.

To generate $100 million, about half of the Department of Parks and Recreation's yearly budget, property taxes would have to increase by 1.03 percent—from the average current rate of 10.366 percent to 10.473 percent of assessed value. This translates into a yearly increase of $19 for the average one-family house, $17 for apartments in large rental buildings, and $27 for the average coop apartment in a large building.

PROPONENTS ARGUE that dedicating a portion of the property tax would generate a stable revenue source for the parks department and help protect the parks budget from further cuts. Advocates also cite surveys that show that voters are more likely to embrace a tax increase if it is dedicated toward a particular use, such as open space.

OPPONENTS ARGUE that a dedicated tax is inflexible. In an economic downturn, it is more difficult to shift resources to where elected officials, and the general public, believe they are most needed. Moreover, a dedicated tax protects one agency at the expense of others when budgets must be cut.

OPTION:
Hotel Tax Increase Dedicated for Cultural Affairs

Revenue:
$33 million in 2003, $36 million in 2004, $40 million in 2005, and $42 million in 2006

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

Currently, guests at New York City's hotels pay $2 per room per night, 8.25 percent sales tax, plus a 5 percent hotel tax. Altogether, this is projected to generate $194 million in 2003. An increase to 6 percent would raise $33 million in 2003. This revenue could be earmarked toward funding members of the Cultural Institutions Group (34 museums, theaters, zoos, and botanical gardens with historic ties to the city, including being based in city-owned buildings), or to cultural organizations not part of the group.

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

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

OPTION:
Create Dedicated Library Property Tax Districts

Revenue:
$234.6 million

Many library systems around the country are financed by their own tax revenue sources. Recently, for example, residents on the North Shore of Long Island voted to create a separate library system. To finance their libraries, those homeowners each now pay about $69 per year. New York City is home to four library systems: the New York Public Library, Brooklyn Public Library, Queens Borough Public Library, and the New York Research Libraries. Currently, these libraries operate on a mix of city, state, and federal revenue as well as private contributions.

The creation of dedicated library tax districts assumes that each district individually funds its library through a property tax on residential units. This tax would come on top of the existing general property tax. The following estimates assume that the tax would be levied on the market value of residential units at a uniform rate. The New York Research Library is assumed to continue to be funded through the city's general fund.

To reach its 2001 city-funded level of $95.9 million, the New York Public Library counties—the Bronx, Manhattan, and Staten Island—must incur a 0.08 percent property tax on assessed value. This would raise the effective rate—the tax bill as a percentage of market value—from 0.6597 percent to 0.6858 percent, or the equivalent of about $66 for a single-family home, or $223 for an average Manhattan condo apartment. Queens would incur a 0.07 percent property tax to fund its library at the current level of $68.1 million. Single-family homeowners would pay an extra $64 per year. Brooklyn residents would incur a 0.09 percent tax, or about $55 for a typical condo, to fund their library at $70.6 million.

As can be seen by the discrepancy in tax rates, this method would place the highest tax rate increase on Brooklyn residents. Another possible way to use the property tax as a revenue source would be to levy the same tax among all boroughs in the city and then distribute revenues according to need or formula. In this case, to keep funding levels the same, the property tax levy across boroughs would total 0.08 percent of assessed value.

PROPONENTS ARGUE that public libraries have historically been especially vulnerable to budget cuts during economic downturns. A dedicated tax would protect library funding. Moreover, they argue that a dedicated tax may be more appropriate than funding from the general fund in the case of libraries, which are not technically city agencies.

OPPONENTS ARGUE that the inflexibility of any dedicated revenue source, however, can hinder political decisionmaking when the city budget must be cut, and shifts the burden of any cuts onto other agencies that may provide services equally deserving of funding. Others note that property tax revenues—particularly the residential component—tend to rise more slowly than the overall growth in city spending. Over time, therefore, relying on this revenue source could tend to diminish the level of funding the libraries would get relative to other city spending.

OPTION:
Convert Recreation Center Donations into Mandatory Fees

Revenue:
$2.45 million annually

The Department of Parks and Recreation runs 35 recreation centers around the city. For the privilege of using the facilities, which include indoor pools, weight rooms, and gymnasiums, New York City residents pay a suggested donation of about $25 per year (in a few cases, recreation donations can range from $5 to $65). This donation is earmarked to the City Parks Foundation, a private parks organization, and is redistributed to city parks. Under this proposal, the fee would be converted into a mandatory annual city fee of $35.

Currently, the recreation centers have about 70,000 members, mostly adults who use the weight rooms. At $35 per year, the recreation fees would raise $2.45 million for the city's general fund, assuming no loss of membership.

PROPONENTS ARGUE that the parks department has already suffered significant cuts to its budget since the early 1990s, and that increasing the city's overall revenue base would help free up additional budgetary resources for parks in the future. They argue that the current system, with donations channeled to the City Parks Foundation, provides less public accountability than a system entirely funded directly by taxpayers and users. Proponents also point out that the fees are low, compared to private gym or pool memberships, and that it is appropriate that users of the facilities bear some of the burden of their operation and upkeep.

OPPONENTS ARGUE that the revenue currently generated—which is returned to city parks through the foundation—would be lost to the parks system if it went instead into the city's general fund. They fear that diverting these resources into the general fund could result in lower total resources for parks. Another argument against making the currently voluntary fees mandatory is that even modest fees would exclude some low-income users from the facilities.

Appendix

Comparing Options for Increasing City Residents' Personal Income Tax

Impacts in Tax Year 2003

PIT Under Current Law

Income Groups	Current PIT Liability	% of Total	Number of Filers	% of Total	PIT per Filer
Under $5,001	$0.185	0.00%	226,355	7.10%	$1
$5,001 to $10,000	$2.359	0.04%	310,452	9.73%	$8
$10,001 to $20,000	$46.358	0.84%	580,238	18.19%	$80
$20,001 to $30,000	$146.184	2.65%	438,302	13.74%	$334
$30,001 to $40,000	$248.299	4.49%	374,302	11.74%	$663
$40,001 to $50,000	$234.356	4.24%	235,712	7.39%	$994
$50,001 to $60,000	$272.147	4.92%	213,317	6.69%	$1,276
$60,001 to $75,000	$378.591	6.85%	227,264	7.13%	$1,666
$75,000 to $100,000	$514.233	9.31%	227,922	7.15%	$2,256
$100,000 to $125,000	$354.468	6.41%	115,635	3.63%	$3,065
$125,001 to $250,000	$781.810	14.15%	160,353	5.03%	$4,876
$250,000 to $500,000	$503.094	9.10%	47,698	1.50%	$10,547
$500,000 to $1,000,000	$415.225	7.51%	18,324	0.57%	$22,661
Over $1,000,000	$1,628.577	29.47%	13,408	0.42%	$121,464
Sum	**$5,525.886**	**100.00%**	**3,189,280**	**100.00%**	

PIT Under Three Options

	Temporary Surcharge		*Increase Above $250K of 1 Percentage Point*		*Progressive Restructuring*	
Income Groups	Change in PIT Liability	% of Total	Change in PIT Liability	% of Total	Change in PIT Liability	% of Total
Under $5,001	$0.021	0.00%	$0.032	0.01%	$0.011	0.00%
$5,001 to $10,000	$0.601	0.10%	$0.000	0.00%	($0.525)	-0.03%
$10,001 to $20,000	$6.883	1.20%	$0.012	0.00%	($6.588)	-0.38%
$20,001 to $30,000	$17.589	3.06%	$0.000	0.00%	($16.499)	-0.95%
$30,001 to $40,000	$27.413	4.77%	$0.000	0.00%	($22.777)	-1.31%
$40,001 to $50,000	$25.013	4.35%	$0.000	0.00%	($16.922)	-0.98%
$50,001 to $60,000	$28.820	5.01%	$0.000	0.00%	($16.510)	-0.95%
$60,001 to $75,000	$39.733	6.91%	$0.000	0.00%	($17.780)	-1.03%
$75,000 to $100,000	$53.642	9.33%	$0.000	0.00%	($16.673)	-0.96%
$100,000 to $125,000	$36.731	6.39%	$0.000	0.00%	($6.156)	-0.36%
$125,001 to $250,000	$80.084	13.93%	$0.028	0.00%	$13.159	0.76%
$250,000 to $500,000	$51.251	8.92%	$38.395	6.39%	$37.768	2.18%
$500,000 to $1,000,000	$42.123	7.33%	$83.205	13.84%	$48.833	2.82%
Over $1,000,000	$164.918	28.69%	$479.387	79.76%	$244.743	14.13%
Sum	**$574.824**	**100.00%**	**$601.060**	**100.00%**	**$224.083**	

SOURCE: IBO, based on 1999 PIT Sample File, Office of Tax Policy Analysis, New York State Department of Taxation and Finance.

NOTES: Tax liability defined in terms of millions, except PIT per filer.
Income groups defined in terms of real ($2001) federal adjusted gross income.

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