Getting Financing
For New York City

FINAL REPORT

OF THE

TEMPORARY COMMISSION ON CITY FINANCES

CITY OF NEW YORK

AUGUST 1966
Temporary Commission on City Finances

The Commission was appointed by the Mayor in December 1963, pursuant to Local Law 60, as an independent group to study the financial problems of the City of New York and to recommend fundamental solutions.

The Commission approached its task comprehensively but nevertheless with particular emphasis on several major subjects—operating expenditures, revenue structure, intergovernmental fiscal relations, the City economy, debt and capital development, transportation finances, municipal personnel costs, and the fiscal aspects of education. The work was done chiefly through six Task Forces and two research groups, coordinated by the Chairman and Secretary.

PUBLICATIONS
Temporary Commission on City Finances

GENERAL REPORTS

First Report
MEETING NEW YORK CITY’S URGENT FISCAL PROBLEMS
November 1964

Second Report
TOWARD FISCAL STRENGTH:
OVERCOMING NEW YORK CITY’S FINANCIAL DILEMMA
November 1965

Third Report
BLUEPRINT FOR FISCAL IMPROVEMENT
June 1966

Final Report*
BETTER FINANCING FOR NEW YORK CITY
August 1966

* Includes First, Second, and Third Reports and Additional Materials.

STAFF PAPERS

Staff Paper 1
FINANCING THE CITY UNIVERSITY
February 1966

Staff Paper 2
CENTRAL PERSONNEL ADMINISTRATION
May 1966

Staff Paper 3
ELECTRONIC DATA PROCESSING
June 1966

Staff Paper 4
PLANNING FOR CAPITAL DEVELOPMENT
June 1966

Staff Paper 5
CAPITAL BUDGET AND PROGRAM
July 1966

Staff Paper 6
STIMULATING INDUSTRIAL DEVELOPMENT
July 1966

Staff Paper 7
TRANSPORTATION AUTHORITIES
July 1966

Staff Paper 8
MUNICIPAL COLLECTIVE BARGAINING
July 1966

Staff Paper 9
GOVERNING THE PUBLIC SCHOOLS
August 1966

Staff Paper 10
Funded Debt and Borrowing Policy
August 1966

Staff Paper 11
FRINGE BENEFITS FOR CITY EMPLOYEES
August 1966

Staff Paper 12
IMPLEMENTING THE CAPITAL BUDGET
August 1966

RELATED REPORT

FINANCING GOVERNMENT IN NEW YORK CITY

Final Research Report to the Commission
Graduate School of Public Administration, New York University

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New York, N. Y. 10007
August 10, 1966

To the Mayor, Board of Estimate, and Council:

This Final Report completes the work of the Temporary Commission on City Finances. It brings together all our general findings and recommendations, first in an introductory statement of our principal conclusions and then in reprints of our earlier general reports. The Commission is also issuing a number of Staff Papers and the report of its New York University research group.

The Commission is pleased to submit this Final Report to you as required by law. We appreciate the assistance and cooperation which we have received from you, from the City government generally, from many other public bodies, and from numerous private groups and individuals. We are happy in the concluding thought that the work of the Commission has helped in some measure to direct urgent attention toward the City's fiscal dilemma and steps to break it.

Earl B. Schwulst, Chairman
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BETTER FINANCING
FOR NEW YORK CITY

FINAL REPORT
OF THE
Temporary Commission on City Finances
City of New York

Including the First, Second, and
Third Reports and Additional Materials

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CONSOLIDATED SUMMARY

Major Findings and Recommendations

Temporary Commission on City Finances, City of New York

This summary covers the three general reports of the Commission as issued in November 1964, November 1965, and June 1966. The presentation is synoptic since the Commission's conclusions on the dimensions, causes, and potential solutions of the City's fiscal problems are set forth in the Introduction.

Commission views, covering many complicated and interrelated matters, can be only roughly delineated in summarization. This synopsis is no more than an approximate map of the terrain explored by the Commission. The full and balanced expression of the Commission's views is presented in the general reports.

Page references are placed after each recommendation in the summary to indicate where the subject is chiefly discussed in the text. The main topics are also referenced in the Contents and the Index.

The recommendations are presented as originally proposed by the Commission. Those prefixed by a star (*) have subsequently been considerably or wholly effectuated.

Findings or recommendations on which individual Commission members have commented or dissented are footnoted to indicate the members involved and the text pages where their views appear.

Despite its great economic strength, New York City has faced recurring fiscal crises1 in recent years. Expenditures have exceeded revenues, not including borrowing and reserve depletion, year after year since 1961, with annual deficits during this period averaging over $100 million. Some improvement has been effected this year but a large deficit looms again in 1967-1968.

The City's difficulties stem chiefly from national economic, social and technological forces placing heavy demands on all large municipalities. These forces include congestion, obsolescence, municipal unionization, rising prices, social flux, and high public expectations for local government services. Managerial deficiencies have aggravated New York's problems, and must be corrected, but they are not at the root of the City's dilemma.

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1 Coleman and Hoffman 53. This footnote and similar ones, as explained above, indicate dissents by the Commission members named at the page(s) referenced.

Summary
II

The Commission recommends solution of the fiscal crises along four main lines. *First*, the City must raise new and additional revenues. *Second*, municipal management must be considerably reformed. *Third*, the City's economy and livability must be strengthened. *Fourth*, the City must get more State and Federal assistance.

**I. LARGER CITY REVENUES**

The Commission proposals aim at closing the revenue gap. They are also directed toward improving the economic impact of municipal taxes, which have been substantially regressive (especially because of heavy real estate taxation).

(A) The City must rely more heavily on non-property taxation, chiefly on personal income, business income, and consumer sales.

*Income Tax.* The City should institute a tax on the income of its residents and on the earnings of commuters within the City. A 2 percent flat rate on State taxable income was recommended, preferably with State collection of the tax. (Pages 107-111)

*Gross Margins Tax.* A gross margins tax, or alternatively a business net income tax, should be substituted for the gross receipts, financial, and commercial occupancy taxes. The rate should be set high enough to produce some additional revenue. (Pages 118-122)

*Sales Tax.* Statewide extension of the sales tax, with State collection and remittance to the City of its share, would be desirable. The tax should be extended to various personal services but be removed from manufacturers' equipment purchases, which are not final consumer transactions. (Pages 48-49, 208)

(B) Higher charges should be levied on many municipal services (now heavily subsidized in operations or debt service) which directly benefit particular users.

*Water Charges.* All City water should be metered, with rates set to cover both operating and debt service costs and to provide some return on the City's water investment. Meantime, the rates on present meters

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*Potofsky 111.*

*Greider and Potofsky 122.*

*Potofsky 49 and 208.*

†The gross margins tax would be combined with a net income tax for financial institutions.

Summary
III

should be increased and water charges on a frontage basis should be
doubled. Sewer rates, set as a percentage of water charges, should be
permitted to rise proportionately. (Pages 40-42, 112-114)

*TRANSIT FARES. Subway and bus fares should be increased to 20 cents,
simultaneous with counterpart increases in motor vehicle charges. This
increase would be in line with the rise in personal income since the last
previous fare boost in 1958, and would hold off escalation of the transit
subsidy. The City should also institute a study to consider more basic
changes in the transit fare structure. (Pages 165-166)

AUTOMOBILE CHARGES. The increase in revenues from motor vehicles,
also heavily subsidized, might be effected through tolls on the East River
bridges and/or higher parking charges, particularly in congested areas.
A citywide auto use tax and larger taxicab revenues, perhaps through
issuing more medallions or reinstating a tax on taxi rides, should also
be considered. (Pages 42-43, 114-116, 167-169)

(C) The real estate tax should be reformed in use and
administration but not substantially increased.

TAX LIMIT. The State Constitution should be amended to raise the
limit from $2 1/2 to 3 percent and to shorten the valuation base period for
the limit from five to three years. The purpose of this liberalization
would not be to increase overall real estate taxation significantly, but to
provide additional capacity within the limit to finance current and
recurring expenses which are now funded and hence supported by real
estate taxes for debt service outside the limit. Another offset against
higher taxes within the limit would be support of water debt by water
charges rather than real estate taxes as at present. (Pages 46-47, 116-118)

TAX ADMINISTRATION. Inequitable and below-value assessments, par-
ticularly characteristic of vacant lots and one-or-two-family houses,
should be reviewed and corrected. Unjustified tax exemptions for com-
mercial “non-profit” properties and veterans should also be reconsidered.
(Pages 209-211)

*IN LIEU PAYMENTS. The City should negotiate with various authori-
ties and governmental bodies for larger in-lieu-of-tax payments. New
agreements might provide the City with a share of net revenues instead
of flat sums alone. (Pages 170-171)

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5 Greidinger 166. Potofsky 43 and 166.

Summary
(D) The City should be alert and receptive to other reasonable revenue possibilities and improvements.

GAMBLING TAXES. The City should press for a fair share of prospective revenues from the projected State lottery, now awaiting statewide vote in November on a prerequisite amendment to the State Constitution. Barring this, off-track betting or a municipal lottery (if constitutional authorization could be obtained) might be tried on an experimental basis. (Pages 206-207)

LIQUOR TAXES. The State should increase liquor taxation statewide by an amount approximately equivalent to the price decline expected eventually to result from the liquor law reforms of 1964. The City should receive that part of the increased revenues which is attributable to liquor sales in the City. (Pages 46, 205-206)

COLLECTION CONSOLIDATION. City taxes identical with or closely parallel to State levies should be collected by the State for remission to the City. Residual collections by the City should be grouped into a single municipal agency concerned primarily with the real estate tax. (Page 211)

II. BETTER MUNICIPAL MANAGEMENT

City affairs have largely been administered piecemeal—item by item, agency by agency, crisis by crisis. The City has not been equipped to focus broadly and continually on major interrelated problems, to permit programs to be flexibly executed on a decentralized basis, or to adjust policies with dispatch to changing fiscal and administrative circumstances. These inadequacies need correction in several main areas—management, procedures, personnel, and debt policies.

(A) The central arrangements for City policy making, program development, and day-to-day supervision are inadequate and dispersed.

CITY ADMINISTRATOR. The role of the Deputy Mayor-City Administrator should be enlarged to make this position the Mayor’s second-in-command for coordinating municipal operations, shaping new programs, handling budget and personnel matters, and seeking out economies. This would free more of the Mayor’s time for policy development and community leadership. (Pages 36, 65, 179-180)

7 Hoffman 65.

Summary
ECONOMIC ADVISOR. The City should establish a small professional office for continuing review of its basic economic and fiscal conditions. This office should be headed by a City Economic Advisor, reporting directly to the Mayor but working in close liaison with the City Administrator, Budget Director, City Planning Commission, and private business organizations. (Page 66)

* DEPARTMENTAL CONSOLIDATION. Interrelated agencies need to be organized more closely and interdependently. Ten “administrations” should be established for this purpose, as planned by the Mayor, each to coordinate the work of several agencies. The number of officials reporting directly to the Mayor would thus be considerably reduced. (Pages 180-181)

* INTERGOVERNMENTAL AFFAIRS. A division should be set up in the Office of the Mayor, perhaps under the City Administrator, to handle the City's non-routine relations with the State and Federal governments and with metropolitan regional groups. This division, with representatives in Washington and Albany, should be the City's chief vehicle for developing new grants-in-aid and straightening out conflicts in intergovernmental undertakings. (Pages 181-182)

(B) The procedures for program operation, work performance, and fiscal review should be improved.

PROGRAM BUDGETING. The prime focus of budgeting should be shifted from line items to programs and performance. Operating agencies should have wider discretion as to expenditures than at present, but within expenditure ceilings. (Pages 68-69)

* WORK PRODUCTIVITY. The use of electronic data processing equipment should be extended to systems improvement and coordination. Various management improvement procedures, including work measurement, program engineering, and systems analysis, should be applied more widely. (Pages 182-184, 197-198)

ECONOMY COMMITTEE. An interagency committee should be established on an ad hoc basis, under the chairmanship of the City Administrator, to make an intensive search for duplicative and unproductive municipal activities, and to oversee their liquidation. Committee inquiries should include the possibility of establishing more homogeneous systems for City accounting and statistical data. (Pages 36-38)

FISCAL REVIEW. The routine bookkeeping tasks of the Comptroller should be transferred to the City Administrator (empowered as herein proposed), thus freeing the Comptroller for more administrative as well as fiscal auditing. The City's legislative bodies, Council and Board of Estimate, should have stronger staffs for legislative fiscal review. (Page 67)

Summary
(C) City personnel machinery badly needs reform to adapt it to mushrooming personnel costs and municipal collective bargaining.

EMPLOYEE RELATIONS. The City should establish an Employee Relations Office to centralize the City's liaison with organized municipal employees. City responsibilities regarding "prevailing rate" employees should be carried by this office rather than being separately handled as at present. The basic impact of collective bargaining on the Career and Salary Plan, now in disarray, needs City attention. (Pages 74-75, 190-192)

COLLECTIVE BARGAINING. An Office of Collective Bargaining, recommended by a panel jointly sponsored by the City and municipal unions, should be established promptly to help resolve municipal labor disputes by mediation and fact-finding. The "public interest", as well as employer and employee interests, should be represented on fact-finding and recommendatory panels. The bargaining schedule should be meshed more closely with the City's budget schedule to reflect agreements in upcoming budgets wherever possible. (Pages 186-190)

FRINGE BENEFITS. The City should undertake a broad review of its fringe benefits, which vary largely from group to group. This review should be directed both at inequities and at keeping future fringe benefit costs within the City's financial capacity. (Pages 192-195)

PENSION MANAGEMENT. A uniform benefit structure should be devised, with new entrants sharing the cost on an equal basis with the City. Actuarial tables should also be updated. Pension funds should be managed as their own interests require, without an overriding priority for investment in City securities. (Pages 195-197)

PERSONNEL LEGISLATION. The City should press for State legislation that would formally legalize municipal collective bargaining. It should also seek legislation amending the State Civil Service Law to facilitate the removal of incompetents. The State legislative practice of mandating local pension requirements, should be abandoned, leaving this matter to home rule. (Pages 75-76)

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8 Potofsky 190.
9 Potofsky 195.
10 Potofsky 76.
(D) The City’s capital financing has generally been sound, with debt well secured. But the City’s credit standing has been impaired by deficit financing, and the constitutional debt limits are outmoded and unduly complicated.

* DEFICIT BORROWING. The practice of bridging annual revenue gaps with deficit borrowing should be stopped. This is important for restoration of the City’s high credit standing. Continued use of serial bonds to obtain operating revenues would threaten the City’s capacity for capital financing. (Pages 78-79)

CURRENT EXPENSES. The practice of funding current and recurring expenses should be curtailed. This will eliminate unnecessary interest cost and preserve borrowing margin for capital needs. (Pages 78-80, 218-219)

ENTERPRISE DEBT. A larger share of the debt service requirements of municipal activities performing utility-type services should be borne by user charges. Such charges should particularly cover water and sewer debt service, as already indicated. (Pages 80-81, 111-116)

CONSOLIDATED LIMIT. A single debt limit of 15 percent of the valuation base should be adopted by constitutional revision to cover all tax-supported debt, both general and housing, including debt presently exempt.\(^{11}\) Such a limit would provide more flexibility in debt management while maintaining a margin for future borrowing similar to that afforded by present limits after present exemptions. (Pages 214-216)

ADDITIONAL DEBT. To meet unforeseen needs without amendment to the State Constitution, the City should be permitted to issue additional debt up to 2 percent of the valuation base, with the approval of the Mayor, the City Council, and the State Comptroller. This would rectify the present situation under which each exemption must be voted by the whole State as part of the constitutional amendment process. (Page 215)

III. PLANNING AND DEVELOPMENT

The City must continue everlastingly to change if it is to survive. The municipality can help constructively to guide community change by municipal assistance to the City’s economy, by planning and capital improvements, and by the direction and quality which it imparts to crucial governmental services. These basic functions contribute to the underlying resources from which the City draws its fiscal strength.

\(^{11}\) Grimm 215.
(A) New York has been losing industrial jobs, with consequent aggravation of the welfare, police, educational, and other problems of poverty. Effective City action on this front is increasingly important.

CENTRAL AGENCY. The Department of Commerce and Industrial Development should be recognized as the central municipal development agency. With an augmented staff, it could supply the business community with better data regarding locational problems and other economic matters. (Page 149)

SELECTIVE CREDIT. Quasi-public credit programs, State or City sponsored, should be utilized for industrial development as essential, but at the lowest effective subsidy and only where directed to specific community benefits. Special federal assistance should be made available to depressed areas in the City through the Federal Economic Development Administration. (Pages 146-148)

LAND AND BUILDINGS. Zoning should be used more forcefully to reserve appropriate areas for industrial use. The Building Code should be changed to take advantage of new, safe, and less costly methods of construction. Numerous other regulations, irksome to business, should be reconsidered. (Pages 148-149)

* DEVELOPMENT ORGANIZATIONS. The formation of strong industrial development groups like the new Public Development Corporation should be encouraged through cooperation of government and business. It is important, however, that these groups work with one another rather than in competition. (Page 149)

(B) Despite a great increase in legal borrowing capacity in recent years, the City has not adequately replaced its obsolescent capital plant nor constructed new facilities. Municipal planning has been immersed in short-run problems and execution of the capital budget has been slow.

MASTER PLAN. The City master plan for physical development should be completed as a matter of high priority. It should serve as the key guide to overall construction in the years ahead. (Pages 153-154)

IMPROVEMENT PLAN. The substance and status of the five-year capital improvement plan should be upgraded. Instead of serving as a tentative allocation of dollars, it should show realistically what projects are to be constructed, when, for how much money, and what the debt service and operating costs will be. The plan should be publicly reviewed and officially adopted. (Page 154)
CAPITAL BUDGET. City procedures should be revised to make the capital budget a true appropriating document. It should include only those amounts that can reasonably be expected to be spent or obligated during the fiscal year. Initiation hearings\(^{12}\) would no longer be held on individual projects. (Pages 154-155)

PLANNING COMMISSION. The members of the Commission, perhaps through a shift of their status from salaried to unsalaried, should become somewhat less involved in staff functions than at present. The Planning Commission and the Budget Bureau should work together more closely in the original preparation of both the capital budget and the five-year plan. (Page 156)

CAPITAL CONSTRUCTION. The time and cost of municipal capital construction should be reduced. Single contract bidding should be permitted as a less costly alternative to the four contracts now required. A new Building Code should be adopted, as mentioned in another connection, in the light of the many changes in the construction industry. (Page 155)

(C) The City's economic health is jeopardized by congestion, overload, and illogicalities of the transportation system. Subsidization and service needs are at cross purposes and administration is fragmented.

*TRANSPORTATION ADMINISTRATION. The City should bring the municipal transportation agencies together in a new administration, and close liaison should be established between these agencies and the Transit and Triborough Authority. The Mayor, on advice of the Transportation Administrator and Transportation Council, should have review and veto power over new transportation undertakings importantly affecting the City's development. Operationally, however, the two authorities would continue to function semi-autonomously of the City. (Pages 162-164)

*TRANSPORTATION FINANCING. Subsidies should be reduced, or at least checked from further increase, both for transit and motor vehicles. Charges should be set in reference to the overall transportation situation, including the benefits accruing to various groups (not only the riders). The immediate steps toward better transportation financing—higher rates for both transit and motor vehicles—have been outlined above under "Revenues." (Pages 114-115, 164-169)

TRIBOROUGH REVENUES. The first claim of TBTA bondholders on the net revenues from the authority's facilities is guaranteed in its current bond indentures and must, of course, be observed. However, Triborough should be discouraged from making new commitments which will tie up the authority's net revenues indefinitely. TBTA should eventually

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\(^{12}\) Grimm 155.

Summary
become a more flexible instrument in pursuit of the City's overall transportation needs. (Pages 160-162)

FULLER UTILIZATION. Experimentation with methods of increasing both road and rail capacity should be further encouraged. Possibilities include reverse flow streets and bridges, utilization of rail lines for transit service, and longer subway trains during rush hours. (Page 171)

(D) The public schools, the City's most costly service, are challenged to provide high-quality education simultaneously with educational uplift for the poor.

*SCHOOL INDEPENDENCE. Full fiscal independence for New York's public schools would gain nothing in financial support for the schools—and it would certainly not help to relate school problems to other community goals. The Commission concluded that the school system needs not more independence, but closer policy relations with the City. (Pages 82-84, 173-174)

*SCHOOL PLANNING. The Mayor should shift from non-involvement to active, friendly interest in school policies. School planning should be strengthened and active liaison established with the Mayor's education advisers. (Pages 173-174)

SCHOOL BUDGETING. The Board of Education should shift from line-item to program budgeting. Activities can then be evaluated across the board, rather than only in respect to increases over previous years. (Pages 174-175)

SCHOOL DECENTRALIZATION. Substantial power should be moved from the headquarters school bureaucracy to regional school superintendents. The decentralization\(^\text{18}\) might take the form of local school districts, educational parks, borough-wide systems, or some other regional grouping. (Pages 175-177)

IV. LARGER INTERGOVERNMENTAL ASSISTANCE

The City's fiscal health cannot be fully or lastingly restored without much larger assistance from the State and Federal governments. The problems are too deeply rooted in economic forces beyond City control and municipal resources are too restricted for a purely local solution. In some areas, however, the City does need larger and clearer home rule.

\(^{18}\) Gulick and Potofsky 177.
(A) The State can assist the City both by larger grants-in-aid and by taking full financial responsibility for certain State-oriented functions.

PUBLIC WELFARE. The State should take over public assistance, which is already heavily supervised by the State. It should also, with Federal assistance, supply larger aid for child welfare. (Pages 90-93, 200-201)

CITY UNIVERSITY. While keeping its own governing board, the City University should become a second State-supported university, subject to budgetary review by the State Board of Regents. The substance of free tuition¹⁴ could be continued through a City scholarship program geared especially to low-income students. (Pages 93-95)

SCHOOL AID. The ceiling on school aid should be permitted to escalate automatically with rising school costs rather than at the discretion of the Legislature. The formula for determining aid should be based upon average school costs per pupil, not on costs in the median school district, and should allow for special programs geared to the City's problems. (Pages 88-90, 200)

OTHER FUNCTIONS. The State should set up some State Parks within the City limits. The custody of long-term prisoners should be taken over entirely by the State. The City transit system should receive State aid analogous to that now supplied the Long Island Rail Road through the Metropolitan Commuter Transportation Authority. (Pages 170, 202-203)

(B) New York and the other large cities urgently need continued enlargement of Federal aid to meet city-focused national problems.

GENERAL GRANTS. The City should take the lead with the State in pressing for Federal general-purpose grants through the states to the cities.¹⁵ In New York State such grants might appropriately be distributed between the State and its localities on the same basis as the State's own general revenues. General Federal grants would complement special-purpose aid and not substitute for it. (Pages 96-98)

DISCRIMINATORY PROVISIONS. Aid restrictions that discriminate against large urban areas should be repealed. Restrictions on the amount of aid going to one state or to a particular project should be liberalized. (Pages 203-204)

¹⁴ Greiding, Hoffman, Potofsky 95.
¹⁵ Hoffman and Potofsky 98.
POVERTY PROGRAM. The current formula for anti-poverty financing should be maintained. At present the Federal share is scheduled to go down eventually to 50 percent. The negative income tax should be intensively considered as a possible substitute for much public assistance. (Pages 200-202)

HIGHWAY REIMBURSEMENT. New York and several other states should be reimbursed for their early participation in the Interstate Highway Program. Equitable treatment would bring the State more than $800 million, of which half might appropriately be used for transportation capital improvements in the City. (Pages 169-170)

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In sum, the Commission believes that the City must raise more money, improve its management, strengthen its economy, and obtain enlarged intergovernmental aid. This in essence is the prescription for returning the City to full fiscal health. Some progress has been made; more is expected. The City’s financial outlook is somber but yet hopeful.
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In addition, each major section is paged internally with secondary numbers at the bottom of the pages. The secondary numbers for the Second and Third Reports retain the original paging. The First Report, which has been reset for this printing, does not conform to the original paging in its secondary numbers.

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BETTER FINANCING
FOR NEW YORK CITY
Introduction

THE CONTINUING FISCAL DILEMMA

Three years ago, when this Commission was conceived and then created, the City of New York was in the throes of a fiscal crisis. Expenditures were rising at an accelerating rate. Revenues were not keeping pace. Reserves were being depleted. Municipal employees were demanding higher wages and fringe benefits. Diverse interest groups were seeking greater service. National social problems were manifesting themselves locally with increasing severity.

Today the City still faces essentially the same situation but from a better current fiscal stance. Two-and-a-half years of study have clarified the problems, identified reasons for them, and developed proposals for improvement. Further, concrete steps were taken in 1965-1966 and are in prospect for 1966-1967 to deal with expenditure pressures without increasing current expense borrowing.

Even with these important steps toward fiscal reform, the fundamental problems have continued to grow. Since 1962 the annual gaps between established revenues and expenditure needs in projected budgets have ranged from $150 million to $500 million, requiring a harsher struggle year after year to find new monies.

Does this dilemma, still severe despite progress against it, mean that New York is ungovernable and in permanent decline? The answer is No. We feel instead that New York is now beginning to achieve some fiscal improvement. The magnitude and urgency of the situation are widely recognized. The Mayor advocates economy, greater revenue, and the elimination of current expense borrowing. Some new revenues have been authorized. The groundwork has been laid, too, for better personnel practices, improved transportation coordination, larger intergovernmental aid, and more effective municipal management. The Administration can move forward from these hopeful beginnings during the next three years.

This Final Report of the Commission recapitulates what we have said in our three general reports, issued in 1964, 1965, and 1966. These reports—First, Second, and Third—are presented here intact.* As a preliminary, we set forth our concluding observations on the size and severity of the City's fiscal dilemma, the reasons for it, and the approaches to its solu-

* The first two reports were originally designated as the [first] Interim Report and the Second Interim Report.
tion. We are optimistic about New York long run, and encouraged by its recent progress, but clearly the City must for several years go through a time of trouble before its fiscal problems are mastered.

**Crisis Financing Perspectives**

The seriousness of the City's troubles is evidenced by numerous facts. Since 1962, only five years ago, City expenses have gone up over 75 percent and their rate of increase has nearly trebled. The natural growth of real estate taxes, business and sales taxes, and other established City revenues, leaving aside the new taxes (or higher rates) now added almost every year, has been only one-third that of expenditures. The problems which require special City services—poverty, pollution, traffic, housing, crime, crowding, and many others—are daily becoming more severe. The economic base on which the City draws—its employment, business activity, and capital plant—is expanding more slowly than that of surrounding areas or of the nation as a whole.

**Heavy Budget Pressures**

All these facts take focus in the City's expense budget. Table 1, covering the budget since 1961-1962, shows how expenditures are surging upwards, how revenues are increasing more gradually (except for the major step-up achieved this year), and how each year now brings a new deficit. Appendix Table 1 indicates how these deficits have been covered year after year by expense borrowing and reserve withdrawals.*

The unfortunate salient fact is that City expenses are increasing at more than $50 per resident per year, a rate proportionately larger than the increase in per capita personal income in the City. Six years ago municipal expenditures per $100 of personal income were about $7.50; today they are well over $10. Even New York, with its great accumulated wealth, cannot long endure this trend with financing drawn largely from the City's own resources.

A look at current budgetary developments—1965-1966, 1966-1967, and 1967-1968—shows how these facts unfold. This appraisal also casts light on the extent to which the City guides its own fiscal destinies, on the short-term improvements this year and last, and on the major budget gap looming again immediately ahead.

---

* The accelerating nature of the expenditure increase is demonstrable within the Commission's own work by comparing our earlier projections for 1966-1967 and 1967-1968, based on earlier base years then available, with what is now actually happening or about to happen in those years. Cf. Table 1, page 3, with Chart 3 of the Second Report, page 127.

2

*Introduction*
### Table 1

**EXPENDITURES, REVENUES, DEFICITS**


(in millions of dollars)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Expenditures</th>
<th>Revenues</th>
<th>Deficits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Increase</td>
<td>Amount</td>
</tr>
<tr>
<td>1961-1962</td>
<td>$2,542</td>
<td>—</td>
<td>$2,542</td>
</tr>
<tr>
<td>Adopted</td>
<td>2,552</td>
<td>—</td>
<td>2,507</td>
</tr>
<tr>
<td>Adjusted</td>
<td></td>
<td></td>
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<tr>
<td>1962-1963</td>
<td>2,785</td>
<td>243</td>
<td>2,785</td>
</tr>
<tr>
<td>Adopted</td>
<td>2,812</td>
<td>260</td>
<td>2,725</td>
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<tr>
<td>Adjusted</td>
<td></td>
<td></td>
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<tr>
<td>1963-1964</td>
<td>3,083</td>
<td>298</td>
<td>3,083</td>
</tr>
<tr>
<td>Adopted</td>
<td>3,113</td>
<td>301</td>
<td>2,998</td>
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<tr>
<td>Adjusted</td>
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<tr>
<td>1964-1965</td>
<td>3,355</td>
<td>272</td>
<td>3,355</td>
</tr>
<tr>
<td>Adopted</td>
<td>3,394</td>
<td>281</td>
<td>3,293</td>
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<tr>
<td>Adjusted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965-1966</td>
<td>3,875</td>
<td>520</td>
<td>3,563</td>
</tr>
<tr>
<td>Adopted</td>
<td>3,965</td>
<td>571</td>
<td>3,664</td>
</tr>
<tr>
<td>Adjusted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966-1967</td>
<td>4,554</td>
<td>679</td>
<td>4,509</td>
</tr>
<tr>
<td>Adopted</td>
<td>4,500</td>
<td>535</td>
<td>4,465</td>
</tr>
<tr>
<td>Adjusted</td>
<td></td>
<td></td>
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<tr>
<td>1967-1968</td>
<td>5,100</td>
<td>600</td>
<td>4,700</td>
</tr>
<tr>
<td>Projected</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Note:** For each fiscal year, 1961-1962 through 1964-1965, the table shows both budget as adopted at beginning of the year, July 1, and as adjusted during the year. The adjustments have been made yearly by adding budget notes (expenditure overruns) to expenditures as adopted and by subtracting reserve depletion and (for 1964-1965) revenue anticipation borrowing from revenues as adopted.

For 1965-1966 and 1966-1967, the Commission has estimated “adjusted” by correcting the “budget as adopted” for probable net expenditure and net revenue changes. Tentative end-of-year figures, but not final, were available as the basis for the 1965-1966 adjustment.

For 1967-1968, the expenditure figure has been projected statistically (and then rounded), based on the trend of increases over the previous four years as confirmed by separate analysis of the major expenditure components. Revenues for 1967-1968 are the Commission’s estimate of returns from present taxes and sources at current rates.

The deficits in each year are the difference between expenditures and revenues. The way in which the deficits have been covered from borrowings and reserve withdrawals is shown in Appendix Table 1, page 229.

---

*Introduction*
1965-1966. This was the year of "borrow now pay later," through both $256 million in five-year serial bonds and $56 million in revenue anticipation notes.* Beyond this, 1965-1966 was the year of a prospective major overrun of budgeted expenditures, as we noted in our Second Report. Mayor Wagner confirmed this situation November 15, 1965 when he listed fifteen items totaling $51 millions which had already been mandated or approved since July 1.

By January the new City Administration was confronted with an overrun of $62 million. The Mayor thereupon instituted strict control over the filling of vacancies (the "job freeze") as an essential step toward restoration of the City's credit. As a result of this freeze and other economy measures, the budget year closed with several encouraging achievements:

(1) Despite the substantial overage of expenditures, the year was completed without the issuance of budget notes—a feat not previously accomplished for 20 years.

(2) The accumulation of outstanding budget notes, which had reached an all time high of $68.8 million on June 30, 1965, was reduced by $48.1 million to $20.7 million by June 30, 1966.

(3) For the first time in four years, the general fund estimate was achieved without resort to transfers from reserve funds.

(4) The reserves, very nearly exhausted in 1965, were replenished to the extent that the Tax Appropriation and General Fund Stabilization Reserve had a balance of $65 million on July 1, 1966 compared with $28 million on July 1, 1965, a gain of $37 million.

(5) Revenue anticipation borrowing was reduced from $56 million in 1964-1965 to $45 million in 1965-1966.

In short, the new Administration managed to compensate for the overruns of the first half year, to reduce its floating debt, and modestly to replenish its reserves, an overall improvement of about $96 million in the City's basic fiscal position. The budget deficit as planned, $312 million to be covered by borrowing, was reduced by $11 million. Thus, the job freeze achieved the limited objectives set for it—though it should be noted that personnel accrual savings could not be indefinitely sustained at the job-freeze level and would in fact in time lead to cumulative inefficiencies in municipal services.

* See Appendices B and C, pages 232 and 234, for Commission statements in general opposition to the "borrow now pay later" plan.
1966-1967. Mayor Lindsay's fiscal proposals last winter and spring, brought together in the Executive Budget presented April 15, confirmed the prediction of this Commission in our Second Report that the budget "gap next year [would] be at least $500 million." The Mayor requested new and increased taxes and charges to bring in $520 million, enough to cover the revenue deficit projected by the Mayor against proposed expenditures of $4.6 billion. Again unrelenting expenditure pressures were in evidence, reflecting not only service needs but also acceleration of personnel costs and debt service. Again the natural increase in established City revenues fell far short of recommended expenditure growth, which had been mandated by earlier commitments.

After prolonged discussion and delay, the Mayor's proposals for bridging the budget gap were approved in part by the State Legislature. The program as finally voted emerged from a three-day conference of State and City officials at Albany June 13 to 15. New and increased taxes were authorized—to bring the City, by estimate of the conference, an additional $253 million in revenues in 1966-1967. With the $30 million water-charge increase subsequently effected by the City itself, the new revenue package was deemed to total $283 million.

Beyond this, the gap as originally projected by the Mayor was bridged, in plans at least, by raising the estimated returns from some established taxes, by enlarging certain State payments on a one-shot basis, by a nominal $60 million reduction in authorized expenditures, and by accepting continued revenue accrual borrowing. In approximate terms, the tax package gave the City the larger revenue which it should have had one year earlier, in 1965-1966, in place of the "borrow now pay later" arrangement.

The budget thus supported, though very far from ideal, is bearable as a fiscal plan for 1966-1967. While overestimates of revenues and understatements of expense are involved, as well as continued borrowing (though at a much reduced rate), these unfavorable factors are offset, as things have turned out, by the fact that the proposed $84 million direct subsidy to the Transit Authority cannot be spent for that purpose and thus constitutes a cushion against over-optimistic revenue and expenditure plans.

As we show later, in Table 2, the Commission considers the revenue estimates to be over $40 million too high and the expenditure projections (after subtraction of the $84 million in the unexpendable transit authorization) to be some $30 million too low. It is, however, difficult to make firm estimates since the new taxes are untried and volatile and the expenditure pressures from

5

Introduction
collective bargaining and service needs are great. Certainly the current situation does not permit either a reduction of the recently enacted taxes or the use of the $84 million transit cushion for new items of expense.

The major gain in the 1966-1967 budget is the elimination of serial bond borrowing, the $256 million five-year bonds of the 1965-1966 budget. Further, the current budget provides for the first installment, $55 million, in repaying that borrowing. It is regrettable that the City Council (and hence the Legislature) did not support the Mayor’s efforts to put the budget fully on a current cash basis by (1) eliminating revenue anticipation borrowing, (2) replenishing the reserves, and (3) creating a Budget Note Replacement Fund—proposals which the Commission strongly supported. But the failure to achieve these reforms did not result in a seriously unbalanced budget. A near balance, only $35 million in the red compared with $301 million last year, has been achieved with the new taxes, State assistance, and substantially larger Federal aid.

1967-1968. All recent City experience, for overall City expenditures and for the outlays on particular major functions, suggests that City expenses will again go up massively next year. The increases labelled in the 1966-1967 budget as “mandatory and inescapable,” leaving aside the $84 million proposed for transit subsidization, totalled $472 million—and there is every likelihood that these increases will be at least as large in 1967-1968. The big items of “mandatory and inescapable” increase in 1966-1967 were: (1) public assistance and related welfare costs, $129 million; (2) larger personnel costs in wages and salaries, pensions, and health and welfare payments as determined in collective bargaining, prevailing rate, and other employee agreements, $99 million; and (3) debt service, $69 million.

No budget (certainly none in recent years) has been held down to the mandatory and inescapable increases alone. There must be some allowance for new programs and the improvement of old ones. The 1966-1967 budget, as originally proposed, provided $56 million for new and improved services—an amount, as the Mayor indicated, which “represents only slightly more than 1 per cent of the entire operating budget.” Again it is highly probable that the counterpart figure for 1967-1968 will be at least that large—and something larger seems likely in view of service needs and Administration commitments to meet them.

If both the “mandatory and inescapable” increases and the “new and improved” programs are as costly in 1967-1968 as in 1966-1967, but no larger, next year’s budget would go up by at least $525 million. But both an analysis of individual items and a statistical projection of general expenditure experience over the last four years, showing an average annual growth
of 13 percent, indicate that the actual increase will be larger, i.e., about $600 million. We believe that the upward expenditure trends are still running strong and deep—and consequently have accepted $600 million as our growth estimate. In short, we foresee a total budget of $5.1 billion in 1967-1968.

What revenues will the City have to support such a budget? By how much will these fall short? How could a sizable gap be bridged? These are the crucial immediate fiscal questions to which the Mayor and his advisers must now give their attention. The outlines of next year’s budget and the revenue plans for sustaining it must in fact be largely drawn by December. By then, to mesh its fiscal requirements with the State’s own fiscal program (as must be done), the City must be prepared to request such additional revenue authority and State aid as it will need for 1967-1968. If this timetable is not observed, the City will almost certainly be driven again to heavy current expense borrowing—something which should be avoided at all costs.

In our opinion, as shown in Table 1, the gap next year after taking account of normal revenue growth will be about $400 million. We foresee net additional income from current revenues (after repayment of this year’s revenue anticipation borrowing) of approximately $200 million. Our estimate is conservative, in comparison with actual enlargement of revenues from last year to this, but with good reason. There is upwards of $100 million of non-recurring revenue in the 1966-1967 program, including $49 million in school aid, $28 million in stock transfer tax revenues, and several other miscellaneous amounts. Apart from this, we consider the budgeted 1966-1967 revenue estimates as over $40 million too high. We are hopeful that further major increases will occur in State and Federal aid, but we cannot prudentially project more than scheduled growth at this time.

**Revenues Still Inadequate**

The new revenue structure of the City, as augmented by the State legislation passed this summer, rests in roughly equal measure on three bases—slightly more than one third on real estate taxes ($1.6 billion) and slightly less than one third each on general fund revenues ($1.4 billion) and intergovernmental aid ($1.4 billion). Even with the new and higher general fund revenues—from levies on personal income, business income, water use, and stock transfers—the relative positions of the general fund and real estate taxes have diminished in recent years in comparison with intergovernmental assistance.

The larger outside aid is encouraging, not only as help in meeting immediate service needs but as a precursor of the much larger assistance

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*Introduction*
which must be forthcoming soon. Aid of this sort must not, however, be viewed oversimply as "free money," for local matching in some measure is ordinarily required, and local individuals and businesses help support the needed Federal and State funds. Further, new grants are almost always for new activities, not for established ones.

The detailed composition of the City's current revenue structure is shown in Table 2 with comparative data on last year and our projections for next. The additional monies brought in by the new taxes and by large intergovernmental aid stand out clearly there. So does the very substantial increase in real estate taxes, due partly to growing valuations and partly to the heavy debt service paid from real estate taxation outside the constitutional tax limit.*

The unfortunate consequence of the State Legislature's cutback of the City's tax proposals is likewise unmistakably evident in Table 2.** The City's program, as submitted by the Mayor in March, would have given the City a fully balanced budget for the first time in six years. And in this budget provision was made, as we have already noted, not only for essential municipal operations but also for rebuilding the City's depleted reserves and ending revenue anticipation borrowing. Now the reserves will not be substantially rebuilt, revenue anticipation borrowing will not be stopped, and revenues will again fall short of expenditures—though by much less than in recent years.

The new revenue program is the barest of minimums mainly because the Legislature was unwilling to grant the City the full tax package it had requested. But the program is also minimal, in the Commission's opinion, because probable revenue yields have in most instances been overstated in the plan finally adopted. Considerable escapage will be almost unavoidable in the first year of the commuter-earnings and business-income taxes, especially since the City has to establish its own collection machinery for those and other levies. Also, we feel that the stock transfer tax estimate somewhat optimistically assumes continuance of above-average activity in stock sales.***

---

* The growth of City revenues since 1954-1955 is shown in Appendix Table 2, page 230. Detail on the composition of the real estate tax in that period is presented in Appendix Table 3, page 231.

** See Appendices D and E, pages 235 and 239, for Commission statements in general support of the City's tax proposals.

*** The revenue overestimates not only jeopardize the current budget balance but mean also that revenue growth demonstrated by the new taxes, next year over this, is likely to appear small or nonexistent. The latter point stands out on Table 2 in comparing 1966-1967, as authorized, with 1967-1968 as estimated by the Commission.
# Table 2

**Sources of City Revenues**

(in millions of dollars)

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<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Authorized</td>
<td>Adjusted~</td>
<td>Proposed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>By City</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Authorized</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>By Legislature and Council</td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Tax</td>
<td>$1,408</td>
<td>$1,408</td>
<td>$1,573</td>
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<tr>
<td>General Fund:</td>
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<tr>
<td>Sales Tax</td>
<td>396</td>
<td>389</td>
<td>370</td>
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<td>Business and Financial Taxes~</td>
<td>211</td>
<td>214</td>
<td>292</td>
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<tr>
<td>Income and Earnings Taxes</td>
<td>—</td>
<td>—</td>
<td>385</td>
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<tr>
<td>Stock Transfer Tax</td>
<td>80</td>
<td>90~</td>
<td>150</td>
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<tr>
<td>Water Charges</td>
<td>54</td>
<td>50</td>
<td>83</td>
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<tr>
<td>Commercial Occupancy Tax</td>
<td>71</td>
<td>72</td>
<td>73</td>
</tr>
<tr>
<td>Cigarette Tax</td>
<td>40</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Other General Fund Revenues~</td>
<td>223</td>
<td>222</td>
<td>225</td>
</tr>
<tr>
<td><strong>Less: Revenue Anticipation Notes</strong></td>
<td>56</td>
<td>45</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,075</td>
<td>$1,070</td>
<td>$1,611</td>
</tr>
<tr>
<td>Grants and Aid:</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>State Per Capita Aid~</td>
<td>$ 98</td>
<td>$ 99</td>
<td>$ 99</td>
</tr>
<tr>
<td>State Functional Grants~</td>
<td>700</td>
<td>710</td>
<td>782</td>
</tr>
<tr>
<td>Federal Aid (Some via State)</td>
<td>264</td>
<td>347</td>
<td>508</td>
</tr>
<tr>
<td><strong>Miscellaneous Revenues</strong></td>
<td>$ 74</td>
<td>$ 75</td>
<td>$ 98</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$3,563</td>
<td>$3,664</td>
<td>$4,615</td>
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<tr>
<td><strong>Deficit</strong></td>
<td>312</td>
<td>301</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$3,875</td>
<td>$3,965</td>
<td>$4,615</td>
</tr>
</tbody>
</table>

~ Estimated by the Commission from tentative end-of-year figures. Final data not yet available.


~ Stock transfer tax revenues of $20 million, actually received by the City from the State in 1965-1966, were not taken up in the general fund until 1966-1967. Hence, this $20 million is here excluded from 1965-1966 but included in 1966-1967.

~ Per capita aid is included in the General Fund in City accounting but is shown here under Grants and Aid. In addition to State assistance shown under Grants and Aid, the State makes other payments to the City from shared taxes and for special purposes, mostly taken up in the General Fund. The figures for Total State Assistance, including these payments for the years shown in the table, are: $943 authorized and $967 adjusted for 1965-1966; $1,098 proposed, $1,186 authorized, and $1,176 estimated for 1966-1967; $1,186 estimated for 1967-1968.
In making these criticisms, we do not overlook the important steps forward that were taken in establishing the new and larger taxes. The income and earnings taxes bring the City into a revenue field with strong growth potential. The substitution of the business income tax (with alternate levies on insurance and utility companies) for the gross receipts and financial taxes is a significant improvement in business taxation. The increase in water charges is generally in line with the Commission's own recommendations. We are less cordial toward the stock transfer tax increase—but nevertheless recognize the need for the added revenues it will provide (though we would prefer to raise them otherwise).

Without the new taxes, the City's situation would have been very difficult. With the program enacted, the situation is still serious but offers reasonable prospect that the fiscal storm will be weathered for 1966-1967. We would like to see the State and City move at an early date to finish the tax job that began with adoption of the truncated program this summer. An important part of finishing the job should be to centralize the collection of the personal and business income taxes in State hands. It is senseless to have duplicate collection machinery for State and City taxes which are essentially the same.

**Ameliorating the Crisis**

In sum, the fiscal situation of the City continues to be serious, but with improved attitudes and approaches toward meeting the recurring yearly crises. Yet, basically and fundamentally, how can the City year after year manage gaps of $400 to $500 million, such as it faces now for 1967-1968 and has faced in the past two budgets?

Borrowing of that magnitude will not be possible for long, if at all. And borrowing for current expenses, except briefly to even cash flow and meet emergencies, is self-defeating anyway. The borrowed monies have to be paid back, with interest, and future expenditures are thus inflated. Yet what other course will be open? The answer must lie in greater efficiency and tightened expenditure control, in extension of the new municipal taxes, and above all in larger State and Federal aid.

The City must no longer be in the position of receiving inequitable outside assistance for meeting social and physical problems which are essentially regional and national in character. More than anything else, that elemental fact must be driven home in Albany and Washington to bring New York and other cities through this persistent fiscal dilemma.
Realistically, the City cannot hope to flatten much the expenditure trend revealed by Table 1, though it must everlastingly try. Realistically, so long as the evident needs for municipal services continue strong (and every indicator says they will), the budget gaps must be closed mainly on the revenue side. Realistically, the further uplift of revenues must come chiefly in assistance from the State and Federal governments; they are the only feasible places it can come from at this time.

Behind the Dilemma

Looking at the current dilemma in wider perspective, the question "Why" strongly and persistently presents itself. Why is a city with New York's vast wealth and premier world position in such a situation—living from hand to mouth, borrowing to survive from year to year, increasingly pressed by unmet needs for municipal service? Wherein lies the disconnection between the City's economic power and its municipal capacity? Those questions need answers to provide the bases for proposals on what should be done to break the dilemma.

In its three reports, the Commission has provided various interrelated answers to this persistent and fundamental "Why". Some of the answers are economic, some inherent in City services, and some organizational. The most important answers, indicating the reasons for the City's fiscal dilemma as we see them, concern national, social, and technological forces that bear with particular weight on New York and other large cities. More specifically, the Commission believes that the City's fiscal difficulties are attributable to three groups of factors related to the New York community, to municipal services and their support, and to municipal leadership and management.

Community Problems

The fundamental difficulties which beset City finances rest in social and physical changes in the City as a place to live and work. New York has always been a place of change—with a middle class gradually moving out, with poor immigrants coming in and growing more numerous, with older buildings becoming obsolescent and being gradually replaced. But never have the rate, scale, and complexity of change been as great as they are today, with the City swept and tumbled by nationwide developments in American life.

The whirlpools of urban evolution—slums, traffic jams, labor strife, racial tension, delinquency, unemployment—are here in abundance, as in the other great cities, along with industry, trade, and wealth. In New York,
annually, the streets absorb 13 billion miles of driving; the public schools educate a million pupils, many from disadvantaged homes; the citizenry suffers a half million crimes against persons and property; and 250 thousand able bodied adults are on an average out of work. In these elements, all with deep roots outside New York, lie the basic causes of the City's fiscal crisis. The municipal system, as now designed and financed, is grossly overloaded, despite New York's great wealth.

- **The shifting population mix requires expensive services.** The ultimate cost of long-continued imbalance in the economic opportunities of different groups is beginning now to fall full force on New York and other large metropolitan centers. Undertrained adults, angry youth, crowded housing, street riots, family disorganization, middle-class flight to suburbia, and the other bitter fruits of this imbalance are a massive drag on the City's economy. Direct municipal costs (a) of police, health, welfare, and other services to ameliorate the worst offshoots of urban poverty and (b) of educational, housing, cultural, and regulatory activities to rectify this illness itself, almost on a crash basis, are tremendous.

As a rough estimate, some $500 million of the City's current budget, over 10 percent, is attributable to activities connected closely with the poor and undereducated. Yet the community income base on which the City must draw to support undertakings of this sort, along with its normal municipal activities, is substantially lower than it might have been. This is because more than a million middle-and-upper-income people have been replaced in the City's population since 1950 by a like number of people of less education and lower income. Further, as more is of necessity done for the poor, the tax burden on people of means becomes heavier and the incentive on them to leave the City becomes greater.

- **Urban congestion is slowing the economy and increasing municipal costs.** Better highways to the City and more bridges within it attract more and more cars to midtown Manhattan and other business centers. In these areas, too, both office buildings and apartments, and consequently population density (at least in the daytime) are becoming larger. In slum areas, similarly, despite building and housing regulations, some poverty families are continuing to double up even as others spread out to new publicly supported housing. All this makes New York, in some respects and some locations, a seriously overcrowded city.

Density means concentrated business demand and high property values, but it also means large expense, personal and group tensions, transportation
blockages, and extreme interdependence among public services. At some point, unless costs are kept in check and interdependence of services is recognized, density becomes a massive burden—and in important parts of New York that point has certainly been reached. Without coordination of transportation to and within the City, without tight but imaginative controls over land use, without rehabilitation of old buildings as well as the building of new, in short without an overall plan and policy of City development, congestion can make both private and public costs intolerable.

- *Capital development has not kept pace with capital needs.* With capital expenditures corrected for price level changes, the City today is spending considerably less in gross and per capita than it was in both the late twenties and late thirties. In fact, municipal capital investment when the Great Depression began was running about $1 billion per year (in 1965 dollars) compared with $500 million today. The subways, parks, and municipal buildings, in various degrees, physically reflect undermaintenance and under-replacement. The capital situation in the private sector of the New York economy appears to be better but even there, despite new show places like midtown, there are major problem areas.

Obsolescence leads to relatively high operating costs for some activities. In the competition among cities as to services and visual attractiveness, it puts New York at a disadvantage alongside centers which are newer or more updated. Further, the hold-back in municipal capital development is really worse than it appears. A considerable portion of the capital budget, perhaps as much as one quarter, covers current or recurring expenses which would be better classified as operational rather than developmental. The roots of this practice, and more generally of capital underinvestment, lie in the extreme tightness of operating revenues. Amidst all the pressures upon them, these revenues have not been sufficient beyond regular ongoing expenses to take up adequately the new operating costs which flow from capital development or to finance recurring capital-related expenditures which properly should be currently supported.

- *Trouble spots in the City economy are costly to City government.* The chief difficulties are the decline in manufacturing and the related decrease in blue-collar employment. The number of industrial establishments in New York has gone down considerably since 1950, with a consequent drop of 15 percent in industrial employment. Some segments of the wholesale and construction trades have also declined. Unfortunately, this diminution in job openings in New York for the unskilled and semi-skilled has taken

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place during a period when the labor force for work of this sort has substantially increased.

The growth of financial and service businesses, while adding to overall employment, has not provided new blue-collar jobs to counterbalance those lost in manufacturing. Further, in relation to business volume, manufacturing has been taxed quite heavily by the City, while the financial and service businesses have gotten off more easily.* Unfortunately, the City may be in the vise of aggravating the industrial decline by levying heavier taxes to support municipal services needed in part because of that decline.

OVEREXTENSION AND UNDERSUPPORT

Partly because of the several problems just described, but also because of special political traditions and the strength of some interest groups, New York offers particularly generous municipal services in certain areas. Yet, at the same time, the City is tightly limited in the resources to which it can turn for support of its services, limited both in authority over its own finances and in assistance from outside sources. In short, the City is overextended in relation to available fiscal support.

* Some favored services are a heavy drag on local revenues. Higher education, hospital care, municipal employee pensions, water supply, and transportation, both mass transit and motor vehicles, have been supported more heavily from municipal taxation in New York than in most cities. The City provides about twice as many hospital beds (proportionate to all hospital beds) as other large cities, spends about three times more per capita than they do on higher education, is nationally unique in the size of its transit subsidy (even with the five-cent fare raise just effected), and until very recently has had lower water charges relative to cost than most urban centers. These special levels of local support for favored functions are especially burdensome because of the heavy and growing cost of activities, like police and health, which are routinely municipal.

The effect of sizable subsidies for services which are supported elsewhere largely from their own fees is to dilute City revenues available for general municipal undertakings and to increase pressures for heavier general taxation. Clearly neither of these consequences is desirable, a factor which ought to be weighed with others in determining City tax and subsidy policies. The struggle over the 15-cent subway fare, now replaced, has illuminated the

* This imbalance in tax load, between manufacturing and finance and service, has been corrected by the recent shift from gross-receipts to net-income taxation of business, now including banks.

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issue here with classic force. If $84 million in additional subsidy were to go to the Transit Authority, as had been budgeted, the funds would have to be found either in holding down other municipal activities or in additional taxation.

- **State control over City finances is too tight.** Under the State Constitution, the finances of local governments are placed under State supervision. Through the General Municipal and Local Finance Laws this supervision is exercised via legislative permission, requirements, and restrictions. The overall effect of this control is that the City must have the State’s approval for any municipal taxation and that the maximum rates of taxation are set by the State. Similar restrictions, constitutional and statutory, govern City borrowing power and debt repayment from real estate taxes.

The City has wider discretion over how its monies are spent—but of course State control over local revenues governs the total volume of expenditures. Specific State actions on expenditures are more likely to require certain local activities and outlays—for example, pension levels for particular groups of employees—than to limit what the City may do. Basically, the State looks to the City to carry out a wide range of services, roughly whatever must be done to maintain order, education, and welfare locally, but is very restrictive in the financial powers which it grants for the support of those responsibilities.

This is the arrangement which leads to the almost annual drama, so bitterly enacted this year, of the City’s pleading with the State not only for additional grants but for wider power to tax City residents and earnings from employment within the City. That a great metropolis should yearly have to go through this performance, with its destiny hanging on the decisions of legislators not close to its problems, is not sensible either financially or constitutionally.

- **Intergovernmental aid to New York is not adequate to the City’s role in handling national and regional problems.** We have already noted that the City’s most severe and rapidly growing needs are national in origin. It is likewise clear within the metropolitan area that difficulties which are really regional—welfare, traffic, crime—have nevertheless clustered in New York itself. Yet the City gets less in grants from the Federal and State governments, relative to either population or community income, than do less urbanized areas. Also, while nearly one third of the City’s budget is currently financed with State and Federal aid, more than half its expenditures go to welfare, police, educational, and other services directly concerned

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with national and regional problems. State and Federal assistance is rising, both in amount and proportion, but has a long way to go to put the City in an equitable position.

Unless New York and other metropolitan centers are to receive greatly increased taxing power, reaching beyond their own boundaries to the regions which the centers serve, their costs must now be much more extensively spread through State and Federal grants and through outright State or Federal assumption of some activities now locally conducted, for example public assistance and other welfare services. The "full home rule" solution is attractive philosophically but it seems highly unlikely that the superior governments will give up sufficient taxing powers fast enough to bring it actually to pass, though the upcoming State Constitutional Convention will provide an opportunity for constructive review of this matter next year in New York. In any case, inter-area competition among the metropolitan regions makes it hard for the metropolitan centers individually to raise necessary revenues for fear of disadvantaging themselves relative to other centers. Thus, grossly inadequate assistance is the critical problem.

* The City is handling regional problems with little regional help. New York City is but one of 1400 units of local government in the New York metropolitan region, which includes parts of northeastern New Jersey and southwestern Connecticut as well as suburban counties in New York State. These local units are highly disparate in size and function but they have at least one common quality—strong attachment to their own powers and survival as independent governmental entities. Most of them are able to exert their identity in some measure because they have been granted taxing powers or are able to raise monies through service charges. Hence, even though New York in population is larger than all the rest of the region, and is the hub of the region's commercial and cultural life, there is fierce resistance to the City's reaching outside its boundaries for financial support. The recent legislative struggle over taxing nonresident income earned in the City is indicative of that resistance.

Efforts to bridge the gaps among the region's local governments, particularly the gap between the City and its neighbors, have thus far done little more than make a good start. For more than 35 years, the Regional Plan Association has sought to develop a regional consciousness and to identify the region's needs and goals. For a much shorter period, 10 years, a Metropolitan Regional Council of governmental officials has served as a center for exchange of information among local governments and occasionally for the development of cooperation in dealing with particular regional problems.
These efforts and others need to be pushed. New York's problems will be eased and its future will look brighter when the stake of the whole region in the City's economic and fiscal health is widely accepted as a basis for governmental action. The suburbs must come to see that they cannot prosper if the region's heart, the central city, is overloaded and underfinanced.

POLICIES AND ADMINISTRATION

A third set of reasons for New York's financial distress has to do with the way in which the City plans and conducts its business and with some of the general conditions of the public service here. While these matters do not have as pervasive, long-term an impact on City finances as the social forces and intergovernmental arrangements already discussed, they do directly and greatly affect the capacity of the City to live with its fundamental problems and to move toward their solution. Fortunately, some (but not all) of these policy and administrative matters lie within the City's own discretion, but probably none of them can be remedied painlessly.

- City administration has had a short focus on policies and a detail orientation toward controls. Despite repeated contrary recommendations by City study groups, including this Commission, the City still does not have a unified, professional second-in-command to the Mayor for program development and execution. Partly because of this, program planning is still done largely agency by agency on a catch-as-catch-can basis with little ongoing coordination among separate but related plans.* Further, central expenditure control, exercised by the Budget Bureau, has been oriented more toward item-by-item economy than toward program performance. Reflecting these factors, City programs have developed by fits and starts, impelled by crises and held back by inertia, with little deliberate, continuing meshing of related activities in broad interdependent areas of municipal activity.

This condition of dispersed semi-independent activity on many separate fronts, but with tight central control of details, is manifest in the City's departmental organization, which has involved a great many separate agencies reporting directly to the Mayor. Steps are now under way, however, to bring together the major agencies, except Police and Fire (which would retain independent departmental status), into ten major "administrations". Until this reorganization is fully effected and (even more important)

* Late word from the City Administration indicates that a Policy Planning Council is now being established by the Mayor through Executive Order 26, August 3, 1966, to deal with this problem. The Council will be headed by the Mayor and will be composed additionally of the Deputy Mayor, Deputy Mayor-City Administrator, Chairman of the City Planning Commission, and Budget Director. The Council will have a small staff of its own.
until the City’s top administrative command is unified, preferably by enlarging the role of the City administrator, City operations will continue, for lack of program coordination centrally and subcentrally, to have a dispersed and crisis-to-crisis tone. Fragmented operations of this sort cost considerable in false starts, waste motion, duplication, and poorly designed services. The City’s poverty program, to cite a current example, has doubtless suffered substantially from difficulties of this kind.

- *City personnel costs, determined more and more by collective bargaining, are rising rapidly.* While this is true also in other cities and may well be justified by comparisons between public and private employment, the financial impact on New York is heavy. If the municipal unions in general get settlements this year and next which are comparable to what the Transit Workers obtained last January—and events thus far all point in that direction—the additional annual cost to the City is apt to be near $200 million. Escalation of this sort seems certain to continue with or without strikes—and thus is a separate issue, though a related one, from the question of what to do about strikes of public employees. Unfortunately, both for settlements favorable to the City and for heading off strikes, the City until very recently (when a Director of City Labor Relations was named) had no regular office fully concerned with handling the City’s case in collective bargaining.

The problems posed by the rise of municipal collective bargaining are not only increasing cost, but the outmoding of the City’s Career and Salary Plan—which was supposed to be the basis for providing employees with “equal pay for equal work.” Now wages and benefits move upwards unevenly, with the stronger unions getting favorable settlements and the unorganized or weakly organized lagging behind. It is probable that some new approach to equity in public service pay will develop before long within the framework of collective bargaining, but for now the old system has been made ineffective without full replacement. The impact of bargaining, both as to cost and equity, is of course not merely on pay, but at least as much on fringe benefits, including pensions.

- *The City has relied, partly perforce, on borrowing and other expedients to cover operating deficits.* As we show in Appendix Table 1, and had earlier indicated in our Second Report,* City reserves were drained almost to exhaustion from 1961 to 1965, while temporary borrowing through budget, tax anticipation, and revenue anticipation notes increased more than five times over the same period. Even worse, substantial current and

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* See particularly pages 57 to 59.
recurring expenses, including ongoing planning, judgments and claims, and pension contributions, are being financed through funded debt. The $256 million borrowed last year on five-year bonds under the “borrow now pay later” plan was a particularly unfortunate manifestation of this policy.

As a result of these practices, to which the City has resorted in the squeeze between inexorable expenditure pressures and severely limited revenues, the City’s credit rating has been impaired and current operating budgets must now absorb the costs of repaying, with interest, what was previously borrowed for operations.* The Commission warned vigorously against the extension of this practice at the time “borrow now pay later” was under consideration, but to no avail. Now the City is caught in the years-of-reckoning for that decision and at the same time must deal with the new deficit looming in 1967-1968. The City real estate tax rate is at an all-time high, nearly $5 per $100 of valuation, in considerable measure because of the funding of current expenses—for debt service is paid from the real estate tax.

* The “public interest” is obscured by the welter of interest groups. In no city, it seems, are special interests of all kinds—liberal and conservative, business and labor, social and economic—as widely and powerfully organized as in New York. Experienced observers from elsewhere, with whom the Commission has consulted in various aspects of its studies, have been unanimous in reporting this impression. Since many of these groups want some service or emolument from the City, one result of this strong role for interest groups is exceptionally heavy upward pressure on City expenditures. Another consequence is that almost every general reform meets determined resistance from particular groups, usually well financed and well organized. The Mayor’s fight for better transportation coordination, a struggle only partly successful thus far, is a clear example.

With a community thus organized, fiscal reform—which requires among other things that most residents and workers in New York City pay somewhat more for municipal services, to the ultimate good of all—is going to be especially difficult to accomplish. Winning through on this financial front, on which all others eventually depend, will require of the Administration and its allies great skill in community leadership. Somehow the separate groups within the New York community must be persuaded that they have it.

* Despite these difficulties, the immediate situation and basic approach has improved considerably since 1965, as is documented on pages 4 to 6 above. Consequently, the recent downgrading of the City’s credit by Standard and Poor’s, which had not joined the other rating agencies in a similar change last year, seems unfortunately timed and hardly warranted.
prime stake in the welfare of the whole City. It is encouraging that the Mayor, with the general support of the City Council, has moved strongly to secure the larger revenues that the City needs.

Avenues for Improvement

The long-run solutions to New York’s fiscal crisis must be geared to basic causes. These solutions are proposed throughout the Commission’s three reports and brought together in the Consolidated Summary at the beginning of this volume. Here our purpose is to identify the fundamental views, at least the main ones, underlying the Commission’s specific recommendations.

These views are essentially directed toward four prime questions. First, how should the City raise the money essential for its current needs? Second, how can the City improve its management for maximum service from each dollar spent? Third, how can the City strengthen the community economy, which supports municipal finances? Fourth, how should the national and regional stake in the City’s problems be expressed? Thus stated, the questions are in order of urgency (What must be done first for City fiscal recovery?) and in inverse order of long-run importance (What will prevent the recurrence of fiscal crises?).

Larger Revenues

Municipal services are growing fast. So are municipal costs. Largely, this growth results from problems, pressures, and popular demands in the City community. Inefficiencies do exist, as does bureaucratic pushing to do more, simply to be doing it. But basic forces far beyond internal municipal contrivance and manipulation are working on New York and other cities.

These forces—changing citizen attitudes, mushrooming service needs, growing employee organization, rapidly rising costs, and others—are impelling revolutionary changes in municipal affairs. If urban local government is not to collapse, and be replaced by direct federal action to a degree sharply at variance with American political traditions, the cities must have larger current revenues. In the first instance, though not entirely, these must come from the cities’ own resources. In New York, several prime considerations should guide the development of additional municipal income.

• Greater reliance should be placed on user charges. New York has gone further than most cities in socializing the cost of various services whose most direct benefits accrue to individual users, not to the whole body politic. Water, transit, and highways provide prime illustrations of subsidized user
services. But many other areas—in which the City undercharges for permits, privileges, and the like—could be cited. With overall funds limited, the general effect of this practice is to lessen the monies available for broader public services such as education, police, sanitation, and fire protection.

Of course many municipal activities, indeed most of them, provide benefits to particular individuals as well as to the public generally, but on a spectrum between these two poles some are particularly identified with individual benefits. The Commission believes, especially with the general tightness of municipal revenues, that these user services should have fees and charges more nearly covering their costs than at present, in some cases at a level sufficient to provide the City a net return to be applied to other activities. This was the basis of our recommendations for higher water and sewer charges, for higher transit and motor vehicle fees, and for a regular review of permits and privileges. We are pleased that action has already been taken on some of these matters.

- **Taxes must be closely related to economic capacity.** Many factors should be considered in choosing among revenue possibilities, including such matters as productivity, potential growth, ease of collection, and impact on business. The Commission weighed all these considerations, and more, in appraising the existing taxes and proposing new ones. We have been especially concerned, however, that the whole tax structure, old and new components combined, mesh as well as possible with the City's economic development and that it be equitably related to ongoing capacity to pay.

These concerns have led us generally to favor taxes which draw on the economic productivity of individuals and businesses. Thus, for individuals, we advocated a personal income tax as the best way of raising large additional sums for the City. Similarly, for business, we proposed a gross margins (or value added) tax, or a net business income tax as a close second choice, as a substitute for the gross receipts tax. Finally, looking at the whole range of State and Federal as well as City taxation, we felt that the consumer sales tax, with suitable exemptions for necessities, should be extended state-wide, with an extra levy in the City for its special needs. Again we are gratified that the State and City have moved along each of these lines.

The Commission was disappointed, however, that the income tax was not applied to commuters (on their City earnings) in the same fashion as to City residents. The commuter earnings tax, as adopted, is a very weak substitute for what the Commission proposed. If the differential between this tax and the income levy on residents is not eliminated, or at least greatly
reduced, it may seriously accelerate the outmigration of people of means from the City.

- *The real estate tax falls very heavily on business and apartment dwellers.* Our research indicates that real estate taxation on business properties is heavier in New York than in most other large cities. Furthermore New York is unusual in levying a commercial occupancy tax, which also falls on business property. Private multiple dwelling properties are likewise very heavily taxed in New York, partly because assessment traditions discriminate in favor of one-family and two-family homes.

Real estate taxes are high not only because of current operations supported therefrom but also because most of the City's heavy debt service is borne by real estate. The magnitude of the tax is indicated by the fact that revenues from real estate in recent years have accounted for nearly three-fifths of the City's income from business taxation (two-thirds if the commercial occupancy tax is added) and nearly 70 percent of its income from taxes primarily on individuals.*

While the real estate tax is basic and stable as a source of City revenue, the Commission has been cautious about any extension. The tax is already large and is not directly related to taxpayer income. Consequently, we have stressed reform of the use and administration of this tax rather than increase of its effective rate. Thus we favor a constitutional change to raise the limit on the real estate tax rate, not so much for additional overall revenue as to enable the City to move certain operating expenses (now improperly in the capital budget) *from* financing through borrowing and subsequent debt service *to* financing from current revenues.** Similarly, we believe that the City should give earnest attention to improving its assessment procedures and to tightening up on real estate tax exemptions.

**Better Management**

Parallel with increasing its revenues, the City must improve its management. The returns from this improvement cannot be large sums freed quickly from unnecessary or low-priority expenditures and made available to undertakings of greater importance. While economies can and must be achieved, they will come slowly and steadily if they are to be lasting and not damaging

*With the new taxes on personal income and commuter earnings, effective this year, the real estate tax will constitute a somewhat smaller (though still major) part of City taxes on individuals.*

**The Commission supported a proposed constitutional amendment to effect this change. However, this amendment was not given the required second passage by the 1965-1966 Legislature and consequently is dead. The matter would now be best handled by consideration of the City tax limit in the forthcoming Constitutional Convention.*

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to essential municipal services. The real returns from better management will be sounder policies, more effective operations, improved personnel practices, and hence better public service. The Commission believes that there are several main avenues for improving the City’s management—and that improvements of this sort must take place if revenues are to be properly used and services are to be effective.

- **Top management for policy making and program execution must be restructured.** The Commission has felt strongly, from its first review of the City’s problems and from all subsequent evidence, that the Mayor needs a broadly empowered, top-flight professional administrator as his executive officer for developing and coordinating municipal programs. In short, he needs a reoriented and more powerful City Administrator—an approach apparently not yet adopted by City Hall in its top-management arrangements.

At the next level of administration, the day-to-day operation of municipal programs, two interrelated improvements are needed—(a) wider discretion in operating agencies for carrying out programs and (b) more effective liaison across departmental lines among agencies in the same fields. The first of these changes requires that central budget control be less detail-oriented. The second calls for intermediate points of coordination between the present operating agencies and City Hall, specifically for the ten “administrations” projected by the Major and now in process of creation. We are encouraged by the progress in the organizational area and hopeful about incipient changes in budgetary control.

- **Better machinery must be established for planning community, physical, and fiscal development.** This machinery should go beyond the arrangements for more effective program development and execution through a reconstituted City Administrator and coordinating administrations.

The Commission has focused at this top-planning level on what should be done to provide the Mayor, legislative bodies, and general public with fuller and more farsighted advice on the main lines of City development. Among other things we feel that this calls for strengthening the City Planning Commission by augmenting its staff and providing a better working relationship between it and the Budget Bureau.

We also advocate as a parallel top-planning measure that a permanent City Economic Advisor be established by the Mayor to provide both the municipality and the community with continuing information and counsel on the City’s fiscal situation, prospects, and relations with the local and national economy. Further, municipal budgeting should be oriented more
toward programs and performance, less toward line items. Some significant steps are now being taken, or contemplated, along these general lines, including (a) the very recent creation of a Policy Planning Council under the Mayor's chairmanship and (b) spadework by City Hall toward establishing a City-related economic advisory agency.*

- The City personnel system must be reorganized for a better fit to municipal collective bargaining. In reality the Career and Salary Plan is no longer the determining framework of who gets paid how much for what, at least not for most employees. Instead, the Career and Salary Plan has become simply a part of the process, along with Mayoral Personnel Orders, through which collective bargaining decisions are implemented. It is time that this situation was faced directly.

Two recent steps, appointment by the Mayor of a City Director of Labor Relations and endorsement by the Mayor of the plan for an Office of Collective Bargaining (jointly sponsored by the City and the municipal unions), are promising indications of progress. But these steps need to be complemented by others, including review of fringe benefit policies and integration of "prevailing rate employees" into the regular municipal personnel system.

Stronger Community

More fundamental, even, than getting its own administrative house in order and getting more funds with which to operate the municipal establishment, the City should and must do whatever it feasibly can to strengthen the economic life of the New York community. For one thing, the City's general fiscal policies, the overall level of expenditures, and the basic tax structure should be attuned to the community's commercial, industrial, and general business needs. In addition, the City should act positively and directly to make New York a more prosperous and attractive place in which to live and work. Municipal well-being and economic well-being clearly have a reciprocal relationship.

- Direct municipal and quasi-municipal action to encourage industrial development needs to be stepped up. This will require better business information, business-oriented land-use and building regulations, and selective provision of special credit for critically needed new industries.

* See page 17, footnote, regarding the Policy Planning Council. As to economic advice, a new urban research institute, under City auspices, has been incorporated (but not yet activated) as one possible approach.
The City already has in being, or in process of creation, the necessary agencies and special authorities to handle larger industrial development activities. The key to success will lie in skillful and flexible cooperation among the municipal agencies and with State, Federal, and business groups also working in this field.

- **City services must be improved in various areas to make the City more productive.** The public schools, for example, must solve the massive problem of simultaneously effectuating integration, maintaining high-quality education, and keeping middle-class white children in attendance.

Similarly, the transportation system must be better coordinated, more realistically priced, and more effective in its services. Again, the streets, subways, and homes of the City must be made more secure against crime and riot and less fouled by dirt and noise.

The list could be considerably extended. Fortunately, the City leadership is well aware of these needs. The basic point here, financially, is that the City must spend more on its fundamental services, not less, if it is to remain a viable economic entity.

- **The City's physical plant, both municipal and private, must be reexamined and enlarged.** The building rate for new schools, new housing, new transit facilities, new parks—indeed for the whole range of municipal physical facilities—must be increased if New York is not to fall behind in the never-ending competition with other communities. And the City must do what it can to encourage private renewal not only in the prime locations, like midtown Manhattan, but throughout New York.

For its own municipal capital development, the City needs more effective procedures for translating capital authorizations into actual physical facilities. It also needs to turn its capital borrowing margin, which is substantial, more purely to real capital needs—with less dilution of capital indebtedness for operational purposes. In sum, the City needs another major forward thrust of physical development such as characterized earlier great creative periods in its history.

**INTERGOVERNMENTAL ASSISTANCE**

Most important of all, to head off continuing fiscal crises, the City must have greatly increased State, Federal, and regional participation in financing its major programs. We have pointed out in this Introduction
and throughout the Commission’s reports that New York and the other great central cities are not struggling with locally generated problems alone, but with basic national and regional difficulties which cluster physically in the cities.

If the cities are to be sustained and improved as the creative centers of American life, and are to retain their separate municipal personalities in the process, the wider governmental and community entities must recognize and support much more fully than at present their share of the burden of what is happening in the cities. New York has the responsibility of being a constructive unit in the American commonwealth—but the rest of the nation for its part has a responsibility, too, for what happens in New York and its sister cities around the country.

- **State support for major cities must be greatly increased.** This larger support should be provided along several lines—more assistance for particular functions like education and highways, more general aid through larger per capita grants for large cities, and more direct State assumption of certain functions, for example in the fields of public assistance and higher education.* The Commission recognizes of course that the State is pressed for funds for its own present activities and that to provide additional monies for the cities without a comparable increase for other local governments will be an extremely difficult political feat.

Yet the State, with basic constitutional responsibility for what happens throughout all its territory, cities included, is an obvious and proper vehicle for accomplishing an important part of the necessary larger intergovernmental sharing of urban governmental expenditures. It is not a perfect vehicle nor the only vehicle, of course, but it is one that has long been used and must be used more. That course will not lower the place of New York State in the American governmental system, but enhance it. All the people of the State—those in the Scarsdales and Manhasset, even in the Adirondack hamlets, as well as those in the Harlem ghetto—must come to see, and soon, the crucial responsibility that they bear for what happens in and to New York, Buffalo, Rochester, and the State’s other major cities.

- **Federal aid for the cities, direct and through the states, must be massively enlarged.** There need be no choice between special-purpose and general-purpose grants as the way to do this. Both are urgently needed—for

* Our Second Report detailed how this might be done, pages 90 to 95, noting that both public assistance and the City University are already substantially governed by State standards and considerably financed with State monies. Other prime areas for activities which might sensibly be transferred from City to State include corrections, election administration, and the courts.
across the gamut of municipal activities the influence of national social forces looms larger and larger. The people who riot in Bedford-Stuyvesant, the autos that congest Manhattan, the neglected children of the lower East Bronx, the blighted housing in parts of Brooklyn are not there mainly because the City or the State planned it that way—or even because they, sadly, have let themselves live with these conditions. Those problems exist because New York—like Chicago, Detroit, Los Angeles, and other urban centers—serves as a great magnet drawing into its heart the social problems of the whole nation.

What has been done, though good, is inadequate. What is proposed, even recently enacted, is better—but its implementation must come soon and in full measure. The headlines of America—Watts, West Side Chicago, Cleveland, Omaha—proclaim the justice and urgency of this judgment. One thing that the City can and should do on its own, today, to further Federal aid—and to enhance State and regional participation as well—is to appoint a Director of Intergovernmental Affairs in the Office of the Mayor, probably under the City Administrator.* The City weakens its case, overlooks some possible assistance, and creates confusion in intergovernmental relations by not having an office of this sort. This is something that other cities have already done. Why should New York be behind?

- *The relations between the City and its metropolitan region must be closer.* The New York region is one great social and economic unit—with many communities, but all highly interdependent. Yet governmentally the New York region is a complex of different governmental units, most of them fiercely independent of one another. In the metropolitan area, as defined by the Regional Plan Association, there are three states, 22 counties, 551 municipalities, and hundreds of towns, boroughs, school districts, and special districts. This crazy-quilt pattern, given national attention within recent weeks by the report of the Folsom Committee,** costs the taxpayers of this region uncountable millions and leads to gargantuan inefficiencies in local governmental services.

This is not to say that the division of the region into many governments is all bad, that all local services should be performed by one gigantic metropolitan government. There is good, as well as evil, in having many local units—community pride, local adaptation of services, closeness to local

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* The recent opening of a Washington Office for New York is a related step in the right direction.

officials, and many other advantages. But these need to be kept in balance with the difficulties. The direction in which New York and its neighbors should move to right that balance, now badly askew, is toward more exchange of information, more coordination of planning, more cooperation in regional services. And the City should move, too, to bring the financial resources of the region to bear on City problems which are essentially regional—welfare and transportation for example. The commuters’ earnings tax, though only a shadow of what it should be, is nevertheless a step in the right direction.

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Everything considered, summarizing the core feeling of the Commission after two-and-a-half years of labor, discussion, and thought, the City is still facing serious fiscal difficulties. The year-by-year crises have been weathered, just barely in some cases, but the basic sickness is not yet cured.

There are good reasons to hope and believe, however, that the City will continue to see the yearly crises through and can, with sober leadership over several years, better its fundamental circumstances. An encouraging start has been made in bringing up City revenues. Various management improvements are under way or projected. The importance of the City economy, and the municipality’s stake therein, is widely recognized. The trend of national and local opinion, and of some events, is toward greater State, Federal, and regional support for the City.

The Commission has no real, inner, final doubt about how this struggle for municipal fiscal health will eventually turn out. New York is too vigorous, too blessed with advantages and wealth, and too important to State and nation for any result but success. No financial easy street is around the corner, certainly. But the City can look forward with justified hope to achieving a calmer, more balanced situation than it has thus far faced since World War II.
FIRST REPORT
Temporary Commission on City Finances

MEETING NEW YORK CITY'S URGENT FISCAL PROBLEMS

NOVEMBER 1964
City of New York

ORIGINALLY DESIGNATED AS THE [FIRST] INTERIM REPORT
The First Report has been reset. Internal paging (bottom numbers)
does not conform to original page numbers.
I
THE CITY'S FISCAL DIFFICULTIES

The Temporary Commission on City Finances was created by Local Law 60 in 1963 largely as a consequence of a fiscal crisis earlier that year, resolved by the adoption of major increases in City taxes, but with the likelihood that this resolution would be a temporary one. Faced with the probability of renewed fiscal strains, the City provided for a broad-gauge appraisal of its finances. This First Report constitutes the preliminary results of that appraisal. Although future reports of the Commission will utilize the Task Force machinery, this Report because of time limitations is the work of the Commission as a whole.

The City's fiscal problems are real. During the past decade, City employment has risen by more than 25 percent and the expense budget has more than doubled, increasing at a rate averaging $175 million a year. In the past five years, the rate of increase has been close to $250 million annually. During this same period, the price level has risen only modestly and the City's population even more slowly. Ten years ago, the City's expense budget amounted to roughly $200 per resident; in this fiscal year, it will amount to about $430 per resident, or some $350 when expressed in dollars of 1954 purchasing power. The current budget in absolute terms approaches $3.4 billion.

RISING COSTS

The costs of City government have been rising rapidly—and probably will continue to rise—in considerable part for understandable reasons and to achieve desirable goals. The composition of the City's population has been changing. Since 1950, more than 1,200,000 persons have migrated from the City, most of them of middle-class families moving to the suburbs. Their places have been taken in large part by in-migrants with poor educational endowments, limited skills, and racial disadvantages restricting their chances to develop and prosper. At the same time, changes in the nation's economy have made the lot of our poorly educated, unskilled citizens a particularly hard one; increasingly, technological advance has reduced the economic opportunities open to them.

The City government has quite properly faced up to these problems. Through its welfare, health, hospital, and housing programs, it has greatly increased expenditures in an effort to assure a minimal standard of living to our least well-off residents. It has greatly increased its outlays for educa-

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tion, in large measure for the purpose of enhancing the opportunities of the disadvantaged. It has also improved a wide range of services for a broader purpose: to maintain and enhance the city's attractiveness as a place to live for all citizens.

All this is enormously costly, and yet still more is demanded of the City by its citizens. This requires huge capital investment. But even more costly, it requires the services of people whose skills and training are in demand throughout our society by other governmental units and agencies and in the private sector of the economy. In common with state and local governments throughout the country, the City has to bid high to attract the resources it needs.

**ECONOMY ESSENTIAL**

We are convinced that City programs should be operated less expensively than they are. Consequently, an immediate economy program is essential. But we also believe that there are large unmet needs for City services, needs which will lead to rising expenditures in the years ahead. The essential problem facing the City, to which the Commission is addressing itself, is to find the fiscal resources for meeting these needs. These will come in part by frugal management of the City's programs and reappraisal of their present value, in part from new revenues which do not damage the City's economy, in part through a division of the fiscal burden with the State and Federal governments which recognizes their interest in the nation's largest city and their responsibility for alleviating some of the underlying causes of the City's fiscal difficulties.

The City has managed to cover its rising expenditures in recent years through repeated increases in the rates of existing City taxes and the imposition of new taxes. In the past decade, annual revenue from City taxes has more than doubled, increasing by $1.2 billion. Less than two-thirds of this increase stems from the growth in the City's taxable resources over the ten-year period; if we had the tax rates prevailing in 1954, City revenues would be less by about $450 million in the current fiscal year. A consequence of the new and increased taxes is that New York City has become a more expensive place in which to live and do business.

**LIMITED OPTIONS**

In the face of competition from other places, both within and outside the metropolitan region, further increases in City taxes should be adopted only after careful consideration of their economic consequences. Indeed, it appears that there are very few options open to the City in its quest for new revenues. In part, this is due to constitutional and statutory restrictions
on the City’s financial powers, but the economic facts of life impose far greater restraints.

Moreover, the City has exhausted most of the easy solutions in its efforts to balance the expense budget in recent years. It has used most of the obvious tax devices; it has accelerated the payment schedule for some taxes; it has virtually exhausted its reserve funds; it has disposed of nearly all the salable surplus City-owned property; it has shifted expenditures from the expense budget to the capital budget. There are few, if any, temporary expedients left. For both the immediate future and the decade ahead, the City must find difficult answers and face hard choices.
II

THE IMMEDIATE BUDGETARY PROBLEM

The Commission is searching for these difficult answers. It considers that its responsibility is not primarily to seek solutions which will hold up for two or three years, putting off the next crisis that long, but rather to make recommendations looking a decade or more ahead. However, we cannot overlook the fact that the City is confronting an immediate budgetary problem of large proportions. In the past few months, we have considered this problem and this First Report is largely addressed to it.

The immediate problem is pressing. Based on the City's own estimates from first-quarter experience, a budget gap of about $100 million is likely in the current fiscal year. Revenues are falling short of anticipated amounts.

All indications are that present City revenue sources will be even less adequate to finance the 1965-66 expense budget as presently projected. This is true for a number of reasons. First of all, City expenditures of a mandatory nature will rise—debt service, pensions, salary increases under the Career and Salary Plan, as well as some others. Second, this year's revenues include an estimated $57 million from an extra installment of the general and financial business taxes, revenue not available in succeeding years. Third, $30 million in budget notes issued in June 1964 to balance last year's budget must be repaid in 1965-66.

The shortfall in revenues in the current year, added to all this, suggests that the City may have to close a budget gap of more than $350 million in the budget it adopts next spring, even if that budget provides for few significant improvements in City services. The size of this gap could be lessened by moving ahead quickly with the economies suggested below.

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Frugality Is Essential

Solutions for the immediate budget problem are even harder to come by than are long-range answers. Some possible courses of action cannot be instituted immediately, or if instituted, cannot produce large financial results rapidly. Both in the short run and for the decade ahead, the City no doubt will need more revenue from its own taxes and more State and Federal aid.

But the City cannot justify either new taxes on residents and businesses, or greater outside assistance, without a convincing demonstration that it is committed to providing only really necessary services and to providing them in the most frugal fashion possible. It must begin to tighten up operations in every agency and program and set in motion procedures to ferret out opportunities for economy and efficiency of operation, to realize these opportunities, and to strengthen an atmosphere of cost-consciousness throughout City government.

The Commission is convinced that it is possible to put into practice measures which will save money. Although the amounts which can be saved in the current fiscal year are likely to be modest, the City cannot afford to miss any opportunity to effect possible economies.

For a variety of reasons, City programs and agencies do not approach the ideal in economy and efficiency of operation. Partly, this is a result of the inherent management problems which arise in any organization which is as large as the City government. These inherent problems are compounded by the rapid change in the nature of some City programs, which makes it even harder to operate at maximum efficiency. Also, the City is not free from external restraint even in its internal operations; in programs aided by the State and Federal governments, some operational procedures are dictated from outside. Moreover, the State on occasion directly imposes costs the City opposes, e.g., in the area of pensions.

A basic cause of less than optimal performance is inertia on the part of some City administrators and employees, and an unwillingness to institute any changes which require the actual elimination of municipal jobs. Furthermore, many employees seem to feel that salary increases depend more on pressures than on improved production. Inertia can be overcome and employee motivation reoriented only if there is machinery for continually focusing on the opportunities for economies throughout City government and an official clear-cut determination to use the machinery. The lack of such machinery is perhaps the most basic reason for inefficiency.
Currently, there is no one officer or agency in the City government charged with the responsibility for finding and effecting economies; instead, aspects of this job are handled separately by the Budget Bureau, the City Administrator’s office, and management units in several departments. While the Commission will have more to say about organization for fiscal planning and financial management as its studies proceed, there are three steps in this regard which it can and does recommend at this time:

**Strengthen City Administrator**

First, the Mayor can assign the primary responsibility for this function of searching for economies to the Deputy Mayor-City Administrator. Indeed, this was conceived to be part of the job of the City Administrator when the position was proposed a dozen years ago by the Mayor’s Committee on Management Survey. Moreover, in filling the now vacant post of Deputy Mayor-City Administrator, the Mayor should consider this to be a primary responsibility of the City Administrator, and select a person for the job whose qualifications equip him for this responsibility.

The new Deputy Mayor-City Administrator should be given the tools, authority and freedom of action necessary to do the economy job. One of his immediate tasks would be to weed out existing overlap and unnecessary programs, curtail useful but less important activities, and evaluate the need and cost of newly suggested programs. His focus should be sharply on current economies as well as basic management improvement.

In order to assure that these economies will be effected and that the City will achieve a budget tailored to its most urgent needs and commensurate with its actual means and resources, the Bureau of the Budget, the Department of Finance, and the Department of Personnel should all be made responsible to the Deputy Mayor-City Administrator. He will make his recommendations to the Mayor, who has the ultimate responsibility.

**Interagency Economy Committee**

Second, as a further forceful demonstration of its commitment to economies, the City should establish a small *ad hoc* interagency committee, with the new Deputy Mayor-City Administrator as its chairman, to direct the program for economies. The advisability of having one or two skilled members from outside the City government should be considered.

The Commission has, of course, received numerous suggestions for economies—some from conversations our researchers have had with various City department officials and some from reports made by public and private agencies in the past. The Commission has not had time to investigate each of these suggestions and does not have the resources or official life-span sufficient to
conducted a comprehensive economy audit of the entire City government. Nevertheless many of these specific proposals appear to have merit.

The ad hoc committee should bear in mind that education, welfare, police, hospitals, fire, and sanitation account for more than half the total City budget. These areas should get the closest scrutiny. But savings should of course be sought in every department. Some of the specific areas which merit the attention of the committee are listed below.

(A) Departments, divisions thereof, or functions which may have, in whole or in part, outlived their usefulness or which are duplicated by other public and private agencies, or which generally seem to be of questionable utility:

1. Some public markets operated by the City
2. City's Division of Veterans Affairs
3. A considerable portion of the work of the Office of Civil Defense
4. Duplicate routine inspections by Departments of Buildings and Public Works
5. Emergency Welfare Services unit of Welfare Department
6. Duplication between emergency services by Police and Fire Departments
7. Duplicative medical services in the Police, Fire, Sanitation and Education Departments
8. City Sheriff's office and the civil jail
9. City's subvention to New York Convention Bureau
10. Positions of Borough Deputy Commissioner of Highways
11. Board of Examiners in the Board of Education

(B) Areas in which the application of better methods and procedures, many now under study by the City, may result in economies. These include administration of the City hospitals where poor record keeping has resulted in failure to collect bills, in failure to screen adequately the eligibility of patients, in over-long hospital stays, in duplication of X-rays, and in other costly procedures.

Better utilization of data processing equipment and sounder advance planning in its acquisition constitute another area in which economies might
be effected. Our information with regard to the Department of Education is that substantial personnel savings were envisaged through automation but that, instead, there have actually been large staff increases.

Other examples of possible better methods and procedures which might be instituted are the following:

1. The setting up of a central pension agency to handle routine procedures
2. The printing of real property assessment lists by offset rather than by letterpress
3. Improvement in the collection of parking fines
4. Reorganization of the departments dealing with water, sewers, highways, and bridges to consolidate related functions
5. Establishment of a General Services Administration, such as is found in the Federal government, to handle such activities as building maintenance, automotive repairs and purchases
6. Generally, the City should call a halt on the proliferation of agencies and the dispersal of functions among them.

(C) Our information is that there is inadequate evaluation of experimental programs before extending them more widely, that there is no effective machinery for reviewing and reappraising at suitable intervals the value of existing programs, that negotiations in collective bargaining situations could be handled more firmly and with better perspective, and that there could be better utilization of professional personnel if it were not used in nonprofessional jobs.

INSTITUTE IMMEDIATE ECONOMIES

Third, pending the report of such an ad hoc interagency committee and pending the completion of the studies and fiscal reports of this Commission, the City in this and the forthcoming fiscal year should make a determined effort to:

1. Avoid all new commitments for salary and wage increases beyond those regularly arising from seniority and promotion or necessary for efficiency or equity. To this end it should seek the understanding and cooperation of all groups of City employees and their representatives.

2. Absorb the costs of urgent new programs by effecting savings in old ones of lesser urgency. These urgent new programs must be instituted in the most frugal manner possible.
3. Reassign present City employees among programs and agencies, so that vacancies in high priority programs are filled to the maximum extent possible by releasing employees whose services are less urgently needed in low priority programs or in overstaffed activities.

In their search for economies, the ad hoc committee, and especially the new Deputy Mayor-City Administrator, must be given the full encouragement and support of the Mayor.

The Board of Education and the Board of Higher Education also have a special responsibility to seek out economies. Since 1962, the Board of Education has had full and complete control over the sums voted to it in the City budget. Higher Education likewise has more flexibility than regular City departments in financial matters.

As the City must now, of necessity, face up to the problem of economy and provide special machinery to focus on and achieve savings, so the two Boards have no less a responsibility to stress economy in their operation.

The need for economy must be a continuing concern of top priority even after the City's current urgent financial problems are solved. The economic base out of which taxes to finance City expenditures must be raised has not been increasing as rapidly as the taxes imposed by the City. For example, between 1952 and 1962, personal income originating in New York City plus income originating elsewhere received by City residents increased by no more than 55-60 percent compared to an increase in City taxes of approximately 78 percent.* While this trend is apparently characteristic of municipal finance generally, its recognition serves to point up the importance of making every effort to assure that the citizens of our City receive a full dollar of services for every dollar of taxes paid.

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* New York State Department of Commerce estimates indicate that personal income received by New York City residents increased by just under 50 percent in the ten-year period 1952-62 (the latest decade for which such estimates are available) but wages and salaries paid to non-residents working in New York City (total of about $8 billion in 1962) probably increased even more rapidly, making for an estimated overall increase of approximately 55-60 percent in the decade.

By "City taxes" we mean Tax Levy Budget figures which include real estate taxes and general fund revenues but exclude most State and Federal aid as well as such non-tax miscellaneous items as sewer rentals and parking meter revenues. The Tax Levy Budget went up from $1,175 million in the fiscal year beginning July 1, 1952 to $2,088 million in the fiscal year beginning July 1, 1962, an increase of approximately 78 percent.
IV

A REEXAMINATION OF SUBSIDIES

City funds subsidize a wide variety of services and groups, ranging from welfare assistance to subway riders. One way for the City to grapple with its fiscal difficulties, while neither cutting essential services nor imposing unnecessary new tax burdens, is to eliminate subsidies which have no apparent justification at this date.

WATER AND SEWERS

Water and sewer charges are an important example of this situation. New York is virtually alone among cities in the United States, large and small, in maintaining water charges at a level which fails to cover the full costs of the water supply system. Many cities, in fact, realize profits from water charges and use them to reduce general taxes. In New York, by contrast, real estate taxes outside the Constitutional limit on the levy for operating purposes are used to cover debt service on the City’s water investment.

It is difficult to see any more justification for subsidizing water service, or sewerage service for that matter, than for subsidizing electric, gas, or telephone service or heating fuels. All these things are necessities of life in present day New York, consumed in differing amounts by individual families and businesses.

WATER DEFICIT. In the 1964-5 expense budget, operating expenses and debt service for water purposes total $70 million. If the system were a privately operated utility, with return on investment and taxes to be covered, the total expenses of the system would work out to near $120 million per annum. But water charges are expected to produce only $55 million in 1964-65—approximately $30 million from frontage fees and $25 million from metered rates. The real property levy for water debt service brings in $44 million, though this amount is not paid by water users as users. But even including this in the total, revenue raised directly and indirectly for water purposes still would be substantially less than real expenses on a utility-accounting basis.

The metered charges, at 15 cents per 100 cubic feet, are low relative to water rates in other large cities, and are less than one-half the median rates charged by other water systems in the New York metropolitan region. There is no discount for quantity purchases. The last rate increase was put into effect in 1933. The fee charged customers paying on a frontage basis

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is equivalent (on the average) to only 6.5 cents per 100 cubic feet, even after allowing for water used by City agencies.

Ideally, water charges should be closely related to actual use of water; this is equitable and also provides incentive to minimize waste. This requires much more widespread metering, which is under study by the City. Pending this, a doubling of frontage rates coupled with an up-to-50-percent increase in metered rates (with quantity purchases scaled down substantially), which would yield about $35 million more in a full fiscal year, is recommended. Even after this proposed increase, water rates in New York City will be low by standards elsewhere.

SEWER DEFICIT. Sewer rents are set at a level equal to one-third water charges. In 1964-65, they are estimated to provide a little over $18 million in revenue; minor sewer charges bring the total up to nearly $19 million. Sewer and sewage disposal costs, however, will total more than double this—nearly $43 million—and the excess over sewer income has to be paid out of other revenues. If water rates were increased as proposed, an aggregate raise of about 65 percent, sewer rents would rise correspondingly, thus producing an additional $11 million in sewer revenue. This would significantly reduce the present deficit and thus ease the burden of the extensive and costly sewer improvement program on which the City is currently embarked.

The City is authorized to increase both water and sewer charges without further State action. Since frontage charges are billed in January, the full gain of $30 million resulting from doubling these charges, plus a small additional amount from increasing meter rates, would be available for use in the fiscal year 1964-65 if the City acts in time.

ACCOUNTING DIFFERENCES. It should be noted in this connection that water charges are credited to the general fund rather than to a special water fund. They are, therefore, available for general City purposes, including (but not limited to) water operations. Since water debt service is separately covered by the real property tax and since water charges fall largely on real property owners, some argue that real estate pays doubly for City water. Under present accounting arrangements this argument carries weight, even though the effect is to help the City's general revenues.

Sewer rents, unlike water charges, are credited to a separate sewer fund and may not be used for general City purposes. Consequently, an increase in sewer rents would have the effect of reducing real estate taxes since sewer debt service would then be covered in some part at least by the sewer rents. But general City revenues would not be increased by higher sewer rents.

The Commission strongly believes that water revenues should be applied as sewer rentals are, to debt service as well as operating costs. This would

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establish a more straightforward utility-type accounting system. But we recognize that this is not practical at this time, with general City revenues so seriously short.

However, if the City increases water rates it should simultaneously sponsor an amendment to Section 10-a, Article VIII, of the State Constitution to delete the sentence which now permits water revenues to be diverted into general funds rather than requiring their application to water purposes. With this amendment effective, real estate as such would be freed wholly or partly from carrying the water debt service.

MOTOR VEHICLES

The financing of streets and traffic control is another area in which there is heavy subsidization. On the basis of a conservative calculation which does not cover all the relevant costs, the City will spend over $95 million in 1964-1965 for street and traffic control and related purposes. Its revenues from State highway aids, the commercial motor vehicle tax, parking meters, and traffic fines and street permits are estimated at a little over $50 million, far less than costs. Here, too, there seems little apparent reason for subsidization. Neither the Federal government nor most state governments so clearly subsidize highway users as a class. Indeed, highway self-support is the prevailing national policy except in some big cities.

The City might impose an automobile license tax at a reasonably productive level. A tax at a flat $25 per year (or at graduated rates averaging $25), requiring permission from the State, would yield nearly $40 million when applied to the 1.5 million cars in the City. These are owned by less than half the City's families, and most of the owners have above-average incomes. A local license of this sort would be in addition to the auto license already issued by the State.

Even without State action, the City may impose a more modest tax on the use of motor vehicles. Between May 1952 and May 1957, the City had such a tax at rates of $5 and $10 per vehicle, with the rate difference based on the weight or the type of use of the vehicle. The City repealed this levy without loss of revenue under an arrangement with the State under which the State agreed to make payments to the City (as it was already doing to counties outside the City) equal to 25 percent of the State motor vehicle registration and license fees collected within the City. At $5 and $10 per vehicle, the rates currently authorized, such a tax would yield an estimated $10-11 million per annum—and such amount would be available for City use during the fiscal year 1964-65 if the City initiated the tax without delay.

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Almost any useful step the City can take in this field will require State legislation. Moreover, the entire highway and transportation finance situation needs to be rationalized in agreement with the State.

**Transit System**

The largest of the City's subsidies is to the transit system. The City, under a long-standing policy, meets debt service requirements on the transit system from the real estate tax levy. This will amount to approximately $115 million this year. In addition, since 1959, the Transit Authority has received payments from the City's expense budget for transit police costs, and payments from the proceeds of the sale of the transit power plants. These payments will be more than $16 million this year.

The low transit fares permitted by the subsidy affect the functioning of the entire transportation system in the City and the economic vitality of the central business district. Any change in transit fares and finances has major ramifications, therefore, and is an important question of City policy. However, the size of the transit subsidy is so large that it cannot be ignored. The Commission will be considering the issues involved in transit finances in its continuing work.*

The Commission also will be looking into other City services, subsidies, and charges, including such matters as the toll-free East River bridges and taxicab licensing. Here, too, numerous suggestions have been made in the past. The appropriate general principle in this area seems to be that the City is so hard-pressed that it cannot afford to subsidize activities and services which can be fee-financed without excessive hardship to the users of those services.

*Although not opposing further study, Mr. Potofsky feels that the public transit system is our best means of transportation, and its use should be encouraged. A reduction of City subsidies would necessarily be followed by a fare increase, which would reduce passenger use and would also tend to fall most heavily on low-income groups.
V
CITY-STATE COOPERATION FOR REVENUES

More than at any other time in recent years, the fiscal problems confronting the City cannot be resolved by the City government without cooperation between it and the State and Federal governments. One reason for this is the coincidence of City and State fiscal needs in the coming year, almost an accident of history. The State will almost surely be faced with needs for large new revenues for the coming fiscal year; it is hardly likely that the City will be authorized to raise new revenues in ways which conflict with the State's own program. The most reasonable revenue programs for City and State separately will be those worked out jointly, in a spirit of accommodation. Moreover, such a cooperative program would provide an opportunity to minimize the economic consequences of new City tax measures by placing them in a statewide context.

PROBLEMS NATIONAL IN SCOPE

A fundamental and continuing reason for a cooperative City-State-Federal solution is that many of the City's problems stem from causes beyond its reach and impose burdens beyond its capacities. A significant share of current and projected City expenditures is a consequence of the increased numbers of low-skilled, low-income people in New York. The overall regional economy has been the magnet attracting these people (or their parents), but they live in the City rather than all over the region.

As a prime example of this situation, the City's Negroes and Puerto Ricans comprise about one quarter of the total population of 8 million plus. However, these groups, containing many newcomers, account for a much higher percentage of elementary and high school registration and 75 percent of the welfare case load. Obviously, New York City finds it difficult to absorb the costs associated with great population shifts of this kind.

National social and economic forces are responsible for the great migrations, for the migrants' lack of education and capacity to adapt readily to a new environment, and for the dispersal of better-off residents from the city to the surrounding suburbs. Thus, in New York as in other large cities, municipal problems in education, delinquency, poverty, narcotics, transportation, and many other fields are occasioned mainly by external forces.

New York City's historic role has always been to serve as the point of entry for unskilled, poorly educated, and unassimilated migrants. But there is reason for greater public concern now than in the past. For one thing, there is far greater sensitivity now to the conditions of life of all the City's

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people, and an unwillingness to place the entire costs of assimilation on the newcomers themselves. Moreover, the adaptation process for newcomers today requires more than individual hard work plus night school; in an increasingly complex society with limited employment opportunities for the unskilled, a large part of the process depends on services and facilities which can only be provided through public action.

CHANGED FISCAL ENVIRONMENT

In addition, the fiscal environment has greatly changed. Seventy-five to one hundred years ago, the City's fiscal tools were as adequate as those available to the State and Federal governments. Nearly all the economic activity in the metropolitan region was concentrated in the City and could be reached by City taxes. Today, taxable wealth and capacity have dispersed throughout the region—beyond the reach of City taxes—while needs for special public services continue to be concentrated within the City. Further, the Federal government in particular has, today, vastly more productive fiscal resources at its command than the City.

All this, then, argues for substantially more Federal and State responsibility for City services which stem from national economic and social forces and policies, or at least for solutions arrived at cooperatively in recognition of the real nature of the problems. It is clear that the Federal government is on the threshold of recognizing its broad and deep responsibilities for the nation's big cities, as years ago it recognized its responsibilities toward agriculture. Washington has already played a role in developing the suburban parts of the great urban areas through assistance to housing and highways—and has helped the core areas, too, with urban renewal funds.

STATE AID

The Commission is studying City-State-Federal fiscal relationships. Among other things, it is looking into present State aid formulas while dealing with more basic questions of the proper distribution of financial responsibility for the major public services between City and State. Part of the resolution of both the immediate and long-range fiscal problems of the City must be larger fiscal responsibilities undertaken by both State and Federal governments.

There is no larger single item in the City's budget than its expenditure for education. The costs of elementary and secondary education have more than doubled in the past ten years, from $398 million to $910 million, and have by no means levelled off. While State aid will cover some 30 percent of New York City school outlays in the current fiscal year, it will make up about 50 percent of school expenditures in the rest of the State. Moreover, although City school expenditures are continuing to rise, State aid will level off at approximately the present amount under the existing State aid programs.
The evidence assembled by the Commission's staff to date strongly suggests the desirability of both more State aid for schools on a state-wide basis and a more equitable distribution of school aids among the State's communities. We are continuing to study this in depth. However, we are already persuaded that increased school aid for the City is both necessary and desirable.

LIQUOR TAXES

One specific area for additional revenue in which a cooperative approach might be fruitful is liquor taxes. Liquor prices are expected, in time, to decline substantially under the new liquor laws, after October 31, 1964. There is a strong case for the State and City to recapture the prospective price declines through increased liquor taxes; indeed, higher taxes which do no more than maintain present price levels are among the least harmful taxes which can be devised. However, increases in New York City alone would no doubt divert sales to suburban areas.

This argues for joint State-City action. The Moreland Commission found that New York liquor prices are $1 or more a fifth higher than in other large cities without State liquor price-fixing laws. It estimated that New York prices would decline by this amount in time under the new laws. The present State tax of 30 cents a fifth yields about $50 million a year. If liquor taxes were increased to offset expected price declines, each 30 cents a fifth increase would produce $50 million in new revenue on a state-wide basis.

An increase in liquor taxes of 90 cents a fifth would produce $150 million in new revenue on a state-wide basis, of which perhaps $90 million would be collected in the City. If the State were to share two-thirds of the increase with the communities in which collected, the City would get $60 million in new revenue (or $45 million if half of the increase were returned to the City).

REAL ESTATE TAX LIMIT

The Commission is studying the whole question of the role of the real estate tax in the City's finances. It is investigating the economic effects of the present and possibly increased levels of the real estate tax, including the matter of purported inequalities in assessments.

The Commission is not prepared, at this time, to take a position on either the desirability or the timing of an increase in the real estate tax. It is of the opinion, however, that the present constitutional limit upon the City's real estate tax levy for operating expenses is uniquely and unnecessarily restrictive. New York City is the only area in New York State in which a single government provides for city and county services as well as for schools. Every
other local area has available, for operating purposes, revenues derived from real estate levies through two or more taxing jurisdictions, with the limit on rates consequently aggregating 4 percent or more. But New York City is limited to $2\frac{1}{2}$ percent. This argues for a permissive increase in the rate limit—especially in view of the fact that it may at some time in the future be both advisable and necessary for the City to increase the rate of taxation on real estate.

For these reasons, the Commission believes that legislative steps which must precede the necessary constitutional amendment to afford the City relief in this regard should be initiated now.* Before the present limitation on real estate taxes for City operating expenses can be increased, it will be necessary for the Constitution of the State to be amended and that cannot be done until an amendment to that end has been approved by two separate Legislatures.

The Federal courts have decreed that the Legislature elected on November 3 of this year shall serve only for one year with a new Legislature to be elected in November, 1965. Should both of these Legislatures pass the required amendment, it could be on the ballot for popular vote in November, 1966, with an effective date, if approved, of January 1, 1967. Thus, by starting the amendment process at the forthcoming legislative session, the City may save a year or two in putting itself in a position to increase the real estate tax, should such an increase be deemed to be desirable.

**Other Revenue Possibilities**

The Commission is, of course, aware that the City administration has proposed a system of off-track betting as a source of City and State revenue. If the Legislature were to authorize such a program it would take a minimum of two years to put it in operation. Therefore, like a possible increase in the real estate tax, it offers no solution to the immediate financial problem which confronts the City and on which this First Report must focus.

The Commission has not had sufficient time, as of the issuance of this First Report, to consider adequately the merits and demerits of other major revenue possibilities such as a municipal income tax, payroll tax, the much-discussed tax on off-track betting (referred to above), or increases in the rates of existing taxes. Nor has it had time to consider whether any existing taxes should be repealed and replaced by other sources of revenue. All involve serious questions in regard to their effects upon the City's economy, and the Commission will make recommendations on them subsequently. However, each may involve State interests and may require State action; a cooperative resolution of the problems involved is needed.

*Because the Commission has not yet made a finding that the real estate tax limit should be increased, Mr. Grimm is of the judgment that the Commission should complete its study before recommending action.

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*First Report*
VI

THE SALES TAX

The City's sales tax is its principal revenue source, aside from the real estate tax. The Commission is looking into the sales tax—its long-term role in the City's tax system and its effect on the City's economy. However, for the immediate future, there is no substitute for the sales tax. The Commission's research has proceeded far enough to enable it to recommend three measures, each of which will both increase the City's revenue and reduce either inequities or economic disadvantages in the present sales tax arrangements.

INCLUSION OF BEER

First, the Commission endorses the recommendations of earlier study groups that purchases of beer in stores be subject to the sales tax. Beer is now classified as food, with exemption from the sales tax, rather than with other alcoholic beverages which are subject to the tax. We see no convincing reason for this treatment. Extending the sales tax to beer should produce additional revenues of about $10 million in a full year.

STATEWIDE EXTENSION

Second, the Commission is concerned over the City's position as a 4 percent sales tax "island" in the midst of a metropolitan region in which there are no sales taxes short of the Connecticut border. The City's sales tax has encouraged the diversion of retail sales to stores located beyond the City limits, where shopping centers have been expanding rapidly in recent years.

To prevent further diversion of sales, the City by regulation exempts all purchases in which delivery is made to a point outside the City. This helps City retailers vis-a-vis their suburban competitors, but encourages the delivery of merchandise to out-of-city addresses—even for purchases made by City residents—with a resulting loss of revenue to the City and higher delivery costs for retailers.

Both to recapture for the City some of the revenue lost and to help protect the City's economy from the adverse effects of its isolated sales-tax position, the Commission urges the City to explore with the State the possibility of a state-wide sales tax, with rebates to the City (and other local jurisdictions) at rates now collected. A State sales tax would put New York in the company of 37 other states. For the City it might mean an additional
$25 million or more in income annually through lessening sales diversion and deliveries to out-of-city locations.

PERSONAL SERVICES

Third, the Commission recommends that the City's own sales tax be extended to cover consumer-type personal services. This proposal—to apply the tax to the total charges made by laundries, dry cleaners, barber and beauty shops, auto, television, and watch and similar repair shops, parking lots and garages, and similar types of service establishments—would produce $40-45 million in revenue. Services of this sort are not so subject to interarea competition as commodities.

Today, the sale of goods by any of these establishments—for example, auto and television parts—is subject to the sales tax, while the labor component of bills rendered by the same establishments is not taxed. Whatever the administrative reasons for the exemption in the 1930's, they no longer apply; indeed, the exemption complicates sales tax administration. In general, the exemption makes no more sense today than would taxing the food used by restaurants but not the service that goes into restaurant meals. Elimination of the exemption will make the sales tax a better tax, less discriminatory among consumers and on balance less regressive, since consumption of services rises with income.

This proposal is entirely unlike that made a decade ago, to extend the sales tax to business services, such as advertising, brokerage, building maintenance, and repair services. That proposal, it seems clear, would have had seriously adverse effects on the City's economic future; the proposal here is one to raise more revenues by making the City's present consumption tax structure a fairer one, with minimal economic damage.*

* Mr. Potofsky cannot support recommendations which would extend the sales tax, in view of the traditional opposition of the labor movement to this tax as a non-progressive revenue-raising device.
VII

Preliminary Conclusions

The Commission's recommendations in this First Report do not provide easy and complete answers to the pressing fiscal problems of the City. Some specific new revenues are suggested which, if acted upon in time, would produce new revenues that could be used to meet general City expenses in this and the coming fiscal year, estimated as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Fiscal 1964-65 (In millions)</th>
<th>Fiscal 1965-66 and thereafter (In millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased water charges</td>
<td>$ 32</td>
<td>$ 35</td>
</tr>
<tr>
<td>Auto use tax</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Extension of sales tax to beer</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Extension of sales tax to personal services</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Increased liquor taxes in cooperation with State</td>
<td>10</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 67</strong></td>
<td><strong>$170</strong></td>
</tr>
</tbody>
</table>

The City might also benefit substantially, perhaps to the extent of $25 million or more in additional revenue annually, if a statewide sales tax is instituted.

But the principal contribution of this Report is intended to be its emphasis on what the Commission considers to be the proper approach for the City government to follow;

— a determined effort to economize and eliminate unwarranted subsidies;

—an equally determined effort to reach an accommodation with the State for mutual resolution of the financial problems which confront both City and State.

The Commission firmly believes that this course, seeking both economies and new revenues, will lead toward a sound solution of the City's fiscal problems.
SECOND REPORT
Temporary Commission on City Finances

TOWARD FISCAL STRENGTH
Overcoming New York City's Financial Dilemma

NOVEMBER 1965
City of New York

ORIGINALLY DESIGNATED AS THE SECOND INTERIM REPORT.
Cross references are to the original (bottom) page numbers.
I

Crisis and Perspective

The City of New York is approaching a financial crisis, stemming from nationwide changes in the big cities, but aggravated here by the 1964-65 and 1965-66 budget gaps and the policies adopted for handling them.* Revenues were nearly $100 million short of scheduled expenditures in 1964-65. The situation is worse this year, 1965-66, despite a great expansion in State aid.

The 1965-66 Expense Budget calls for expenditures of $3.9 billion, 15½ percent more than in 1964-65. Estimated revenues fall more than $300 million short of that sum. Last spring the City faced the difficult decision of how to bridge that gap—by economies, additional taxes, or borrowing.

Deficit Borrowing

The Commission recommended against borrowing but the City chose that course—for 1964-65 as well as for 1965-66. State legislation was obtained, authorizing temporary borrowing to bridge last year's gap and permitting the issuance of $256 million in five-year serial bonds to meet this year's deficit.

Revenue Anticipation Notes

On June 30 the City borrowed $56 million through revenue anticipation notes against revenues attributable to spring business transactions but not receivable until summer, after the close of fiscal year 1964-65. This unprecedented action created a $56 million revenue deficit in fiscal year 1965-66 from the very start.

The City has no plans to meet this deficit other than by borrowing again in June 1966 to replace the amount borrowed in June 1965 and, presumably, to obtain as much more as may be necessary to cover any shortfall in 1965-66 revenues. The legislation permitting this year-end borrowing, Chapter 441 of the Laws of 1965, is permanent. Its use year after year would render meaningless the annual estimate of General Fund revenues.

Serial Bonds

The 1965-66 borrowing by serial bonds, unlike the year-end revenue anticipation borrowing, was authorized for only one year to make up for a revenue shortage pending statewide approval of a constitutional amendment to increase the City's real estate tax limit. But the 1966-67 budget, sure to be higher than this year's, has the current deficit built in from the start.

* Mrs. Hoffman and Mr. Coleman view the financial situation as difficult but not as "approaching a crisis." They consider that this characterization belies the City's basic economic strength.

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and will have to be adopted next spring before the proposed amendment could go to the voters—in November 1966.

One factor pushing up the new budget will be the deficit bonds themselves, for the budget must provide for the repayment of the first installment of these five-year obligations as well as for interest on the entire principal. This requirement in combination with growing principal and interest payments on the City's regular long-term debt will add approximately $100 million to debt service in 1966-67. Actually, these bonds have not yet been sold nor can they be sold until litigation now pending is resolved.

**More Borrowing**

Assuming the legal obstacles can be surmounted, only $127 million of the $312 million “borrow now pay later” total ($256 million in serial bonds plus $56 million in revenue notes) will have been borrowed by December 31. But the City's 1966 timetable calls for additional borrowing as follows:

- **January:** $64 million in serial bonds.
- **April:** $64 million in serial bonds.
- **June:** $56 million, plus, in revenue anticipation notes.

These additional borrowings might be curtailed, however, by prompt action toward economy and new revenues. Higher tax rates for 1966-67 and subsequent years, which will otherwise be necessary to repay this indebtedness, could thus be partly avoided.

**Rising Budget**

The City budget more than doubled in the decade 1954-55 to 1964-65, increasing at an average rate of $175 million a year, as the Commission noted in its First Report. The growth in the last two years has been much greater—up $300 million in 1962-63, another $300 million in 1963-64, and $520 million this fiscal year.

**Further Increases**

The current budget is not quite five months old and already the City must deal with several unplanned expenditure increases, including:

1. The collective bargaining settlement in September with the City's 47,000 public school teachers will cost over $100 million, considering related benefits as well as teacher salaries.
2. The City settlement with sanitation employees, also concluded this fall, will cost over $3.2 million more than budgeted.
3. The Mayor has recently agreed to add 700 patrolmen to the transit police force, financed by the City at a cost of some $6 million.

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(4) Under the new federal legislation establishing Medicare, the City must make increased Social Security payments for its 250 thousand employees beginning January 1, 1966, amounting to $15 million to June 30, 1966, and to $20 million in fiscal 1966-67.

(5) The City has committed itself to greater support of health insurance for municipal employees under optional plans now open to its personnel.

(6) Several million dollars in scheduled 1964-65 expenditures were in effect shifted to 1965-66 by Executive Order of the Mayor at the very end of 1964-65.

Some of the money which these items will require in 1965-66 can be obtained from lump-sum appropriations in the current budget. But in total, over $125 million, they are most likely to result in a substantial overrun of budgeted expenditures. More importantly they represent sizable new commitments for 1966-67.

With these increases, and others certain to follow, the Commission staff estimates that the 1966-67 budget will total over $4.3 billion. Allowing for normal growth in existing revenues and expected increases in State and federal aid, and anticipating some economies, the deficit for 1966-67 is likely to be $500 million—almost $200 million larger than in 1965-66, as shown in Table 1.

<table>
<thead>
<tr>
<th>Item</th>
<th>1965-66 Expense Budget as Adopted</th>
<th>Projected Increase in 1966-67</th>
<th>1966-67 Expense Budget as Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>$3,875</td>
<td>$475</td>
<td>$4,350</td>
</tr>
<tr>
<td>Revenues + Aid</td>
<td>3,563(^a)</td>
<td>287</td>
<td>3,850</td>
</tr>
<tr>
<td>Gap</td>
<td>312(^b)</td>
<td>188</td>
<td>500</td>
</tr>
</tbody>
</table>

* Projections by Commission staff. See Appendix Tables A and B for detail.

\(^a\) Excludes $56 million of General Fund revenues already applied to the repayment of the revenue anticipation borrowing used to balance the 1964-65 General Fund shortfall.

\(^b\) To be bridged by borrowing $256 million in serial bonds and $56 million in revenue anticipation notes.

**LAGGING REVENUES**

The City budget has risen more than fivefold since World War II, from $760 million in 1945-46 to $3.9 billion currently, 1965-66. But revenues from the City's own sources have not grown at this pace and greater dependence has therefore been placed on State and federal aid. Total State aid
has increased to more than 6 times its 1945-46 level, from $150 million to $940 million. Federal aid is 13 times greater over the same period, but absolute amounts have not been large—$20 million in 1945-46 and $260 million in 1965-66.

City tax revenue has increased at a slower rate than State or federal aid during these two decades. Real estate taxes, still the most important source of City funds, have tripled, rising from $425 million to $1.4 billion. General fund and miscellaneous revenues, exclusive of State aid, increased sixfold, from $150 million to $950 million. This growth in the general fund is mainly attributable to new taxes and repeated increases in rates of existing taxes, as indicated in Table 2.

### Table 2

NEW AND INCREASED TAXES  
NEW YORK CITY GENERAL FUND, 1946 TO 1963

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 1946</td>
<td>Sales tax and compensating use tax increased from 1% to 2%</td>
</tr>
<tr>
<td></td>
<td>General business tax increased from 1/20 of 1% to 1/10 of 1%</td>
</tr>
<tr>
<td></td>
<td>Financial business tax increased from 1/10 of 1% to 1/5 of 1%</td>
</tr>
<tr>
<td></td>
<td>New tax on hotel rooms—5% on transient occupancy</td>
</tr>
<tr>
<td>July 1, 1948</td>
<td>General business tax increased from 1/10 of 1% to 1/5 of 1%</td>
</tr>
<tr>
<td></td>
<td>Financial business tax increased from 1/5 of 1% to 2/5 of 1%</td>
</tr>
<tr>
<td>May 1, 1951</td>
<td>Sales tax and compensating use tax increased from 2% to 3%</td>
</tr>
<tr>
<td>April 1, 1952</td>
<td>New tax on race track admissions—15% on price of admission</td>
</tr>
<tr>
<td>May 25, 1952</td>
<td>New cigarette tax (per 10) ½¢</td>
</tr>
<tr>
<td>July 1, 1952</td>
<td>Financial business tax increase from 2/5 of 1% to 4/5 of 1%</td>
</tr>
<tr>
<td>July 1, 1954</td>
<td>New amusement tax—5% on price of admission</td>
</tr>
<tr>
<td>July 1, 1955</td>
<td>General business tax increased from 1/5 of 1% to 4/5 of 1%</td>
</tr>
<tr>
<td></td>
<td>Financial business tax increased from 4/5 of 1% to 1%</td>
</tr>
<tr>
<td>July 1, 1959</td>
<td>Sales tax on meals and liquor increased from 3% to 5%</td>
</tr>
<tr>
<td></td>
<td>Cigarette tax (per 10) increased from ½¢ to 1¢</td>
</tr>
<tr>
<td>July 1, 1959</td>
<td>General business tax increased from 1/4 of 1% to 2/5 of 1%</td>
</tr>
<tr>
<td></td>
<td>Financial business tax increased from 1% to 1½%</td>
</tr>
<tr>
<td></td>
<td>New real property transfer tax—1/2 of 1% of consideration paid for deed in excess of $25,000</td>
</tr>
<tr>
<td></td>
<td>New tax on coin operated amusement devices—$25 per juke box</td>
</tr>
<tr>
<td>April 1, 1960</td>
<td>Gross receipts tax on utilities increased from 1% to 2%</td>
</tr>
<tr>
<td>June 1, 1960</td>
<td>New tax on commercial motor vehicles based on weight or use (Earlier tax of $5 and $10 on all motor vehicles in effect from 1952 to 1957)</td>
</tr>
<tr>
<td>July 1, 1962</td>
<td>New annual vault charge—35¢ to 60¢ per square foot</td>
</tr>
<tr>
<td>June 1, 1963</td>
<td>Sales tax and compensating use tax increased from 3% to 4%</td>
</tr>
<tr>
<td></td>
<td>(Decreased to 3%, August 1, 1965, with imposition of 2% state sales tax)</td>
</tr>
<tr>
<td></td>
<td>Cigarette tax (per 10) increased from 1¢ to 2¢</td>
</tr>
<tr>
<td></td>
<td>New commercial rent or occupancy tax—2½% up to $2,500, 5% over $2,500</td>
</tr>
</tbody>
</table>

Numerous and painful as these tax changes were, they did succeed, with greater State and federal assistance, in maintaining a budget equilibrium of sorts until recently.

4

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BUDGETING BY EXPENDITURES

The City began, however, to resort to financial expedients a decade ago. Various recurring expenditures, formerly in the expense budget, were met by borrowing. For example, judgments and claims, partly for wage settlements, have been financed with five-year bonds; certain pension contributions have been financed with three-year bonds. Perhaps as much as $100 million of each year's borrowing is for items which should not be capital charges at all.

In the mid-fifties, also, the City obtained legislation, after twenty years of effort, to permit in rem foreclosures for delinquent taxes. Several years later, in 1960, it secured permission to apply the proceeds from City sales of the foreclosed property to current municipal purposes. Previously these proceeds were credited to a Real Property Fund which could only be used for real property acquisition.

Under the new arrangements about $85 million from City real estate sales have been used in the last five years to finance the expense budget. Capital assets have thus been reduced by their application to current purposes.

Encouraged by these real estate transfers, and under pressure to find new revenue sources, the City embarked on systematic withdrawals from its reserve funds. Table 3 shows that in four years the City reserves have been depleted by $175 million and are now almost exhausted.

Table 3

DECLINE IN MAJOR CITY RESERVES
JUNE 30, 1961 TO JUNE 30, 1965*
(in millions of dollars)

<table>
<thead>
<tr>
<th>Funds</th>
<th>June 30, 1961</th>
<th>June 30, 1965</th>
<th>Four-Year Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Balance</td>
<td>$68.2</td>
<td>$0</td>
<td>$68.2</td>
</tr>
<tr>
<td>Tax Appropriation Surplus and Deficiency Account</td>
<td>2.9</td>
<td>2.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Reserve for Uncollected Taxes</td>
<td>19.6</td>
<td>0</td>
<td>19.6</td>
</tr>
<tr>
<td>Tax Deficiency Account</td>
<td>7.3</td>
<td>(6.5)</td>
<td>13.8</td>
</tr>
<tr>
<td>Tax Appropriation — General Fund Stabilization Fund</td>
<td>100.8</td>
<td>28.6</td>
<td>72.2</td>
</tr>
<tr>
<td>Total Reserves</td>
<td>$198.8</td>
<td>$24.3</td>
<td>$174.5</td>
</tr>
</tbody>
</table>

*See Appendix Table C for detail.

An actual deficit of $23.6 million was offset retroactively by an Executive Order of the Mayor, July 1, 1965, reducing an equivalent amount of 1964-65 tax levy appropriations.

b Transferred to Tax Deficiency Account in 1962-63.

c Deficit.

TEMPORARY BORROWING

In the period since 1960 there also has been a fivefold increase in temporary debt. Between June 30, 1961, and June 30, 1965, temporary debt rose from $50 million to $276 million (Table 4). This includes $56 million in revenue anticipation notes issued June 30, 1965, but not the $256 million in five-year serial bonds, which technically cannot be classified as temporary debt.

Table 4
INCREASE IN NEW YORK CITY'S TEMPORARY DEBT,
JUNE 30, 1961 to JUNE 30, 1965*
(in millions of dollars)

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th>Temporary Debt</th>
<th>Four-Year Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 1961</td>
<td>June 30, 1965</td>
</tr>
<tr>
<td>Tax Anticipation Notes</td>
<td>$42.9</td>
<td>$88.8</td>
</tr>
<tr>
<td>Revenue Anticipation Notes</td>
<td>0</td>
<td>118.6*</td>
</tr>
<tr>
<td>Budget Notes</td>
<td>5.3</td>
<td>68.8</td>
</tr>
<tr>
<td>Total, All Notes</td>
<td>$48.2</td>
<td>$276.2</td>
</tr>
</tbody>
</table>

* See Appendix Table D for detail.

a Includes $56.6 million in Revenue Anticipation Notes issued June 30, 1965, pursuant to Chapter 441, Laws of 1965.

Although the downgrading of the City's credit followed close on the heels of the "borrow now pay later" plan, it was the depletion of reserves and the mounting temporary debt which impaired the credit. "Borrow now pay later" was simply the culmination of a long series of expedients.

CRISIS BEYOND DILEMMA

Deficit financing is thus leading to a fiscal crisis more difficult than the recurrent dilemma of trying to match the unrelenting upward thrust of expenditures with a lagging revenue program. The City now faces this situation:

1. Current municipal operations are heavily dependent on borrowing, supposedly as an interim measure pending constitutional authority to increase the real estate tax.

2. A new budget must be prepared and adopted six months before the amendment to grant this real estate tax authority could even be voted.
(3) Advances on "following year" receipts through revenue anticipation borrowing ($56 million last year) are in the offing for spring 1966, spring 1967, and probably beyond that.

(4) Inescapable expenditure pressures, largely reflecting commitments already made, will push next year's budget about $475 million above the current level.

Leaving continued borrowing aside, the new City administration needs to find economies and additional revenues totaling over $300 million this year and over $500 million next year to finance minimal current municipal commitments. Plans and decisions toward this end must be made soon enough to be reflected in the State legislative program of the City by early winter and in the 1966-67 expense budget by early spring.

**Chronic Problem**

The current crisis, though doubtless the worst since 1933, is nevertheless but one in a series that has plagued the City since the close of World War II. Each has been "solved" by expedients that offer temporary relief but in the long run contribute more to the problem than to its solution.

The main impetus for the creation of the Temporary Commission was the desire to break this dangerous cycle. In his 1965-66 Budget Message, the Mayor put it this way:

> Obviously, there must be answers to the challenge presented by the constantly rising level of our expenditures without a commensurate increase in revenue resources.

> We must look forward with eagerness and hope to the long-range report of the Temporary Commission on City Finances. . . . We may hope that some practical solutions will be outlined and recommended.

The Commission has had this objective, practical solutions, chiefly in mind from the start. It has interpreted its mission thus: to identify the City's basic financial difficulties, to relate these concretely to the problems at hand as well as those to come, and to recommend solutions both practical and comprehensive. But what is practical?

**IMPRactical Answers**

Certainly it is not practical for the City to plan its affairs each year in an atmosphere of crisis. In this situation, the City becomes less and less able to act for the general welfare. This year, for example, the City's bond rating has declined and the cost of borrowing has risen. Long-run problems cannot be met indefinitely by short-run, crisis-oriented expedients.

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Nor is it practical to propose new taxes and charges which are chiefly attractive only because those on whom they will fall are politically weak. This is the way to inequity and economic frustration leading eventually to the deterioration of the urban community.

**Realistic Approach**

There is only one way to be practical. The City must take a hard look ahead, asking itself several basic questions:

What are legitimate needs for municipal services in the decade ahead?
Is the City meeting these needs economically and efficiently?
What kinds of taxes are appropriate to finance City services?
Is the tax structure equitable and consistent with community economic growth?
Are City relations with the State and federal government sensible and productive?

These and other questions, some quite specific, point to the real issues. By meeting these issues, the Commission aims to provide the right answers to the City's fiscal dilemma.

The root causes of the City's present crisis have not been removed by the temporizing of recent years. These factors must be understood to reach solutions which are balanced, lasting, and hence practical.

**Underlying Causes**

The basic reasons for the City's rapid increase in expenditures are not difficult to ascertain. Since World War II, New Yorkers, like the residents of cities elsewhere, have turned more and more to municipal government to meet their common needs. Problems are new and large; aspirations have heightened and widened; there is more reliance on public action. Traditional municipal activities have burgeoned.

The cost of government has gone up, too, because of inflation. In fact, the prices of goods and services purchased by government have increased more rapidly than prices paid by private purchasers, primarily because government purchases a higher percentage of personal service.

Throughout the country the cities are in the grip of great nationwide changes—migration of the rural poor to urban centers; obsolescence of basic physical facilities (housing, streets, transit, hospitals, industrial plants); transportation inadequacies at the interchanges and cluster points of a mobile society; and the rising skills and sophistication required for productive work.

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Largest by far of the nation's cities and as old as any, New York has especially been affected by these irresistible national pressures.

**Federal Participation**

To meet this rising national tide of expenditures, New York and the other large cities have had only limited assistance from the federal government. While federal aid reaching urban municipalities has indeed increased substantially since World War II, it started from a very low base and does not yet equal $50 per capita per year on average nationwide. In the current fiscal year, New York City will receive less than $35 per capita in federal aid to help finance a budget of nearly $500 per capita.

Anti-poverty activities, urban transportation aid, federal education grants, housing rehabilitation subsidies, medical care for the elderly, and other federal programs are beginning to make some new support available. They are important first steps in a new urban partnership of federal, state, and local governments. But these programs have only recently been authorized or implemented—and, even while providing additional outside funds, will increase municipal costs through matching requirements.

**Inadequate Substitutes**

Confronted with inadequate federal assistance and very rapidly rising expenses, the City has relied on such additional aid as it could obtain from the State government. This has been supplemented locally by (1) new taxes and increases in existing taxes and (2) a number of unorthodox budgetary practices, as already described. These local approaches have not fitted together well either fiscally or in their impact on the City economy.

In this harsh dilemma, unwise fiscal decisions have developed partly from organizational weaknesses. The City is overcentralized in administrative details, poorly coordinated for the handling of programs, and inadequately staffed for developing broad policy. In this view the Commission concurs in the basic findings of other major City studies since World War II, including the Gulick, Sayre, Buttenweiser, Moore, and Brookings surveys.

**Community Backdrop**

In appraising City fiscal policies, it is vital to recognize that New York as a municipality is quite different from New York as a community. New York exists in boroughs, neighborhoods, ethnic groups, professional associations, labor unions, business networks, university clusters, and numerous other groups—not monolithically. Moreover, the City constitutes only half, or nearly so, the population of the 22-county New York metropolitan region. The economic, financial, and physical well-being of the City and the rest of the region are interdependent.
New York's fiscal problems can neither be understood nor solved parochially. Taxes, expenditures, programs, intergovernmental assistance, debt, and development must be weighed not just for how they affect the City government but for what they accomplish or lose for the City community. They should be based on the plural nature of local needs and their effect on individuals, businesses, and community interests as well as on what they do for municipal revenues, activities, and economy.

To accomplish all this, City leadership has to be both strong and broad-gauged—able to sacrifice today's small stake for tomorrow's large advantage, willing to grasp the nettle of an unpopular course to pull the City to firmer ground, and wise enough to know that the City as government cannot long prosper at the expense of the City as a community.

**Toward Solutions**

New York City's basic economic strength as a community is tremendous. Its buildings, streets, docks, factories, banks, market places, and institutions, together with the skills of its people, constitute the world's greatest concentration of wealth.

This vast treasure, though committed to many ends and counterweighted by vast needs, is a rich resource for the ultimate support of municipal activities. Properly harnessed through the local, State, and Federal governments, it is sufficient to support the legitimate demands of New Yorkers for public services. On an enlightened fiscal course, New York has a bright future both as municipality and community.

But, to pull out of its current crisis and prevent similar dilemmas in the future, the City needs sounder management, more State and Federal assistance, and additional local revenue. This report indicates courses of action which we consider both feasible and desirable, with emphasis on measures which should be taken at the earliest possible date. The Commission's Third Report, due next spring, will spell out certain findings and conclusions in more detail.

The general purpose of the Commission is to help the City with guidelines for the next decade as well as for this year and next. Fortunately there are no differences between the prescription for today and for tomorrow. There are no stop-gap solutions which make sense. Instead, the Commission proposes a way to balance expenditures and revenues at a satisfactory level both currently and for the next decade.

We are, of course, aware that a new Mayor will soon take office and that he must at once come to grips with the crucial issues here discussed. Our three-pronged proposals for better administration, more outside aid, and increased City revenues—covered in this order in the following pages—provide the truly "practical solutions" so urgently needed.
II

Better Municipal Management

As one major approach to meeting growing deficits, the City must do everything possible to get more and better municipal service for each dollar of municipal expenditure. This will require improvement in central fiscal leadership, in policy and physical planning, in program coordination, and in departmental operations.

With operating expenditures of the City approaching $4 billion annually, the Commission has taken a hard look at the outgo side of the municipal budget. We were not set up, or equipped with time or funds, for a detailed economy audit. Our approach instead has been to explore municipal administration for key determinants of the way City monies are allocated and spent. We have asked: What offices, procedures, relationships, and programs govern how much the City spends, for what it spends, and how effectively it spends?

Selective Approach

This selective approach, drawing on the conclusions of earlier City surveys as well as our own research, provides guidelines with which municipal administrators should be able to lower expenditures significantly below present trend projections. At current spending rates, a five percent improvement in efficiency, or reduction in cost, would represent nearly $200 million annually—a difficult target but one within the reach of tough, well-organized administration.

Economy of this magnitude will certainly be necessary, at a minimum, given the great pressures for new and larger municipal programs, if City expenditures are to be kept within the bounds of probable increases in revenues and intergovernmental assistance over the next five to ten years. The Commission's First Report last fall listed, by way of example, several particular areas where economies might well be desirable as a start in the right direction—and many other itemizations of this sort have been prepared by civic groups and municipal agencies. We also suggested that an Economy Committee, headed by the City Administrator and constituted chiefly of top municipal administrators, should take the lead in identifying and implementing economies with a thorough review and evaluation of current programs and practices.

But the City's prime need in this connection is not lists, the Economy Committee, or even the basic organizational improvements to be suggested here—though all these are important. Quite simply, the sine qua non of more efficient municipal administration is strong determination in key City

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officials, beginning with the Mayor, to make economical far-sighted management a matter of top priority as a City leadership goal. With this outlook, the kudos now given for program enlargement should be granted at least as generously for administrative improvement. Sound management not only deserves that kind of recognition but indeed feeds on it.

**Areas for Improvement**

Beyond adopting this basic management-oriented attitude, the City should make each municipal dollar go further by improving administration along at least five main lines fundamental to everything that the City does:

1. **Central Leadership** needs to be strengthened, broadened, and better coordinated.
2. **Operating Arrangements** in City agencies, programs, and procedures should be streamlined.
3. **Personnel Administration** must be modernized in its labor relations procedures.
4. **Debt Practices** should be tightened regarding the purposes of borrowing.
5. **School Relationships** between the City and the Board of Education ought to be clearer and closer financially.

Better management along these lines is important not only to save money and improve services. It is equally vital as evidence of good faith to municipal taxpayers and to the State and federal governments that the City does not turn to them for help before putting its own house in order.

The guideposts that follow are more general than detailed, for City officials themselves know better than anybody else how best in detail to move in the directions indicated. In the Third Report the Commission itself will deal more fully with some areas—but there is no need for the City to wait in implementing the present recommendations.

**Central Leadership**

Under current arrangements, established in the City Charter, the Mayor has great power to shape municipal policies and to direct municipal programs and personnel. The Mayor finally sets the budget, capital as well as operating. He selects and can remove most key officials, and largely determines the allocation of duties among City agencies. Ultimately he establishes pay and benefit levels, based on collective bargaining.

But the machinery through which the Mayor currently exercises his power is too diffuse and too ad hoc. It is also too much focused on details
and too constantly beset by crises. Further, the basic relations between the municipal executive agencies, headed by the Mayor, and other components of City government are not satisfactory.

To improve this situation, municipal organization needs to be changed to: strengthen the City Administrator, establish a City Economic Advisor, sharpen the Comptroller's watch-dog role, and make legislative fiscal review more effective. In composite, these changes will significantly help the Mayor as City executive while clarifying his relations with other officials.

**Stronger City Administrator**

As envisioned by the Commission, the City Administrator (presently called Deputy Mayor-City Administrator) would be the City's chief administrative officer under the Mayor. As City Administrator, he should be the budget, personnel, and finance officer of the City, supervising appropriate staff agencies in each of these areas. And he should coordinate the operating departments.

This is the kind of City Administrator that the Commission recommended last year in its First Report. While the post, then vacant, was subsequently filled, it was not given powers of that sort—and has remained an office chiefly for special assignments and trouble-shooting. This is not the strong executive right arm which the Mayor needs, pressed as he is by policy, political, and ceremonial obligations as well as by administrative responsibilities.

With the City Administrator fully empowered and well staffed, the key strands of municipal management—now integrated only in the Mayor, who is too busy for the task—would be continuously held together by the City Administrator for the Mayor. The City would have a professional center for developing programs, evaluating progress, providing liaison on State and federal grants, and coordinating municipal operations. This arrangement should produce a budget in tune with revenue and personnel considerations as well as expenditure factors, since the City Administrator would centralize responsibility for all these matters.

Supported by a stronger City Administrator, the Mayor could more easily and more effectively devote himself to policy decisions, program planning, and community leadership—things in which the Mayor must have the key role. His prime obligation to the City Administrator should be to utilize him and back him—for only thus can the office gain and keep the stature and authority necessary for its proper functioning. The City Administrator could then serve effectively as the command post for economy and management improvement.*

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* Mrs. Hoffman questions whether the City Administrator should be so widely empowered as proposed here and elsewhere in this report. She believes the office would be overburdened and consequently ineffective.

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CITY ECONOMIC ADVISOR

To complement the added executive competence which the City Administrator, properly endowed, would bring to municipal government, the City also needs to strengthen its understanding of the New York economy and the City’s relations with it. This requires something more than better ties between the City’s current planning-and-policy units, including the Mayor, and the diverse public and private sources of economic information. The City needs for its fiscal planning, as for its administration, an ongoing professional center, as a staff arm of the Mayor, to deal with interrelated matters of top importance.

To handle this task, the City should establish a new office of City Economic Advisor, with a role somewhat analogous to that of the federal Council of Economic Advisers. This office should be informational and advisory, first to the Mayor but beyond that to the whole municipal government, including the Board of Estimate and Council, and to the City community. Supported by a small professional staff, the City Economic Advisor should focus on business and employment trends, municipal revenues and their impact on the New York economy, national and regional developments affecting the City, the fiscal implications of municipal policies regarding capital development and its funding, and other matters bearing importantly on the economic health of the community and the fiscal health of the municipality. He would carry regularly into the future work of the sort done now by the Temporary Commission—assembling data, making studies, maintaining liaison with informed groups, and developing recommendations for the City’s financial and economic welfare. But he should not be saddled with administrative chores.

The Advisor should have particularly close relationships with several City groups. He should head a new City Economic Conference, of perhaps twenty-five members, representing governmental, voluntary, and private groups regularly concerned with New York economic affairs. He should be the prime counsel to the City Administrator on the fiscal implications of municipal programs. He should assist the City Planning Commission on the economic aspects of physical development planning. He should help the Department of Commerce and Industrial Development with economic information for the City’s business promotion efforts.

OTHER MANAGEMENT IMPROVEMENTS

Our other recommendations for better fiscal direction of the City deal chiefly with the role of two partners of the Mayor in fiscal responsibility, the Comptroller and the City Council.
The Commission believes that the activities of the Comptroller as people's watchdog over City fiscal and fiscally-related matters should be extended. This should be done in several ways—more numerous and intensive spot audits of particular facets of City expenditures, more concern with the administrative and performance (as contrasted with purely accounting) aspects of municipal operations, and more frequent and better publicized reports to the community on City fiscal management. In connection with these activities, the post-auditing work of the Comptroller should get more attention and be done more promptly.

To enable the Comptroller to concentrate on his role as fiscal tribune of the community, certain operating chores now lodged with the office should in time be shifted to the City Administrator and the Economic Advisor. Municipal accounting, payroll administration, and prevailing wage-rate determinations could well be meshed into the work of the City Administrator after wide management powers, as herein proposed, have been satisfactorily integrated in that office. Responsibility for advising the Mayor and Planning Commission on the annual ceilings for the capital budget and five-year capital plan, to be set finally by the Mayor, could quite desirably be lodged with the Economic Advisor. However, the issuance of City bonds and the investment of City funds, as responsibilities of special trust properly separated from day-to-day financial operations, should be left with the Comptroller, preferably acting with advice from the Economic Advisor.

The role of the City Council in the financial affairs of the City should also be strengthened. Most important, the Council's fiscal staff should be augmented to enable Council members to act with fuller knowledge—and this staff should also be available cooperatively to the Board of Estimate. Both the Council and the Board should take steps to insure that they are promptly informed of major fiscal actions of the Mayor and other City officials, including salary-and-benefit settlements with employee groups.

With the legislative bodies thus better equipped, and after further experience with minority-party representation in the Council under the 1961 Charter, the next step might well be to revise the legislative review process for the Mayor's budget. This should be in the direction of requiring voted majority concurrence by Board and Council for adoption—in contrast with the present arrangement under which the Mayor's proposals are deemed adopted automatically unless overridden by a two-thirds vote. Further, the Council might then appropriately be empowered to set the general policies for City borrowing and fund management.

Operating Arrangements

Wise leadership is weakened by poor organization for carrying policies into action. The City needs improvement at this operating level as much
as at its executive centers. Current municipal history clearly demonstrates this in such administrative problems as Haryou, school integration, water conservation, and hospital care.

City administration has been characterized in survey after survey since World War II as too diffuse, too much concerned with controlling details, too little concerned with evaluating and advancing programs, and outmoded in its routine procedures. More concretely, the number of agencies and staff officials reporting directly to the Mayor without intermediate coordination seems too large—80 by recent rough count of the Commission, about twice as many as report directly to the Governor and 1.3 times as many as report directly to the President. Further, the annual expense budget heavily stresses items, that is personnel and "objects" which City agencies employ, not programs and their performance—though there has been improvement in this area in recent years. As to procedures, preliminary explorations of City accounting, revenue collection, and automatic data processing systems suggest much room for improvement.

This is the area, the day-to-day development and execution of City programs, in which to find ways of getting more service and spending less money. The Commission suggests that this effort toward efficiency and economy should proceed along at least three lines, related to the criticisms just made: toward program budgeting, stronger departments, and better procedures. We will have more to say on these points in our Third Report—but, in any case, their implementation could best proceed through the City Administrator, strengthened as here proposed.

**Program Budgeting**

The City should enlarge its progress toward budget presentation and control emphasizing services to be "produced" rather than things to be bought. This may quite desirably mean some division of the broad program headings now used into a number of sub-programs linked to projected expenditure. It certainly should mean more emphasis on quantitative statements of program goals, to be tied to actual performance in later reporting.

Generally, City budgeting should move toward a system of flat ceilings for each departmental set of programs, with wide discretion for agency heads within those ceilings. This calls for less interference by the Budget Bureau in the day-to-day actions of administrators in obtaining personnel, equipment, and supplies. Instead of item-by-item control of what agencies get, or do not get, the City might institute a less detail-oriented quarterly allotment system.

Another avenue of budgetary improvement should be greater attention, very early in the expenditure-estimate stage, to what revenue and aid
can realistically be expected by the City in each fiscal year. Then the lists of “needs” can be trimmed sooner rather than later, so that proposed expenditures may be kept within prospective revenues and the now chronic “budget gaps” avoided.

Along with this “available resources” approach, the City ought to follow the lead of federal budgeting by placing more stress on program evaluation—not just for new programs but for the old as well. Without constant evaluation of this sort, municipal programs tend to become perpetual, persisting long after the need for them has passed.

**Stronger Departments**

While New York can and should be run from the center for basic policies and inter-program coordination, this is not feasible, certainly not desirable, for the regular conduct of its departmental affairs. Police beats, health inspections, fire fighting, school teaching, traffic regulation, street cleaning, and the like obviously cannot be well handled, if manageable at all, directly from the Mayor’s office or even the City Administrator’s. Operational control over these matters, within expenditure ceilings, ought to vest with the program agencies—and even within them be moved as close as possible to actual performance.

It is administration of this sort, flexible but responsible, that is thwarted by central supervision which is heavy and detailed. The City should do whatever it can to further operational decentralization. Within each department, internal management ought to be strengthened and linked by professional liaison with the City’s central administrative machinery through departmental units for budgeting, personnel, methods improvement, and program planning. A few departments have units of this sort now.

The City should continuously be alert to the possibility of consolidating departments, of eliminating duplicative activities within and among agencies, and of terminating activities, programs, and agencies which have outlived their usefulness. Some regrouping of municipal activities, particularly toward consolidation into somewhat fewer (even if larger) major units, appears to be desirable both for more effective administration and for economy. Administrators ought to give high priority to reorganization efforts of this sort.

**Better Procedures**

The Commission has by design looked harder at programs and organization than at procedure, feeling that the firing-line administrators themselves will work toward the best possible ways of doing things to the extent that their competence and organizational setting permit. But it has become evident, as already mentioned, that several general procedural areas are ripe

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for improvement. Again, the best approach would be for the City Administrator to emphasize and provide central leadership for work in these fields.

We particularly urge that the City step up its efforts, now centered in the Budget Bureau, to secure optimal use of the electronic data processing equipment already in municipal hands and to insure that additional procurement is geared to the general needs of the City, not merely to the limited needs of particular agencies. Similarly, out of various unsatisfactory experiences in its own assembling and use of municipal data, the Commission recommends that the City undertake a comprehensive review of its systems of accounting and record keeping; duplication, gaps, and cross-purposes now appear common. Finally, City procedures for regular progress reporting, estimates of money and personnel needs, and the development of long-range plans would benefit from a new look.

**Personnel Administration**

Turning from programs and procedures to the City's heaviest direct expenditures, the Commission finds that municipal personnel costs—payroll and fringe benefits—now approach $2.2 billion, about 60 percent of the current expense budget. One in twenty-seven of the City's inhabitants works for the City. With its 250 thousand employees, plus another 45 thousand in quasi-city authorities, the City is the largest single employer in the metropolitan area. Obviously it is of prime importance for both City services and City finances that New York seek out the best possible people for this large work force.

Two years ago the Brookings Institution completed a comprehensive study of what the City must do to meet this crucial personnel problem of getting top-quality people to fill key jobs. The Commission has started with this and gone on to identify other personnel areas badly in need of improvement, particularly areas closely related to how much New York pays its employees and what it gets from them in return. Our findings lead to recommendations in four directions: more effective personnel practices, staff limitations by ceilings, closer relations between collective bargaining and budgeting, and changes in State personnel laws.

**Increasing Costs**

The very rapid upward trend of City personnel costs since World War II is important background for these recommendations. In two decades, from 1944-45 to 1964-65, City expenditures for personnel (outside the authorities) increased fivefold, from $415 million to $2.2 billion. This growth reflected an increase of nearly 80 percent in the number of City employees and a tripling in average salaries and benefits per employee (Table 5).
Table 5
NEW YORK CITY PERSONNEL COSTS AND EMPLOYMENT
1944-45 TO 1964-65

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<tbody>
<tr>
<td>Salaries and Wages</td>
<td>$366.6</td>
<td>$819.5</td>
<td>$1,755.5</td>
</tr>
<tr>
<td>Benefitsb</td>
<td>48.7</td>
<td>172.8</td>
<td>399.6</td>
</tr>
<tr>
<td>Total, Municipal Only</td>
<td>$415.3</td>
<td>$992.3</td>
<td>$2,155.1</td>
</tr>
<tr>
<td>Quasi-City Authorities(^c)  (\text{(Pay and Benefits)})</td>
<td>83.9</td>
<td>238.6</td>
<td>360.4</td>
</tr>
<tr>
<td>Total, With Authorities</td>
<td>$499.2</td>
<td>$1,230.9</td>
<td>$2,515.5</td>
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<tbody>
<tr>
<td>Education(^e)</td>
<td>38.0</td>
<td>49.3</td>
<td>87.2</td>
</tr>
<tr>
<td>Other City Agencies</td>
<td>104.1</td>
<td>130.7</td>
<td>164.2</td>
</tr>
<tr>
<td>Total, Municipal Only</td>
<td>142.1</td>
<td>180.0</td>
<td>251.4</td>
</tr>
<tr>
<td>Quasi-City Authorities(^c)  (\text{(f)}}</td>
<td>33.8(^f)</td>
<td>49.6</td>
<td>45.3</td>
</tr>
<tr>
<td>Total, With Authorities</td>
<td>175.9</td>
<td>229.6</td>
<td>296.7</td>
</tr>
</tbody>
</table>

\(^a\) From Annual Reports of the Comptroller and of the Authorities.
\(^b\) Includes City payments to pension plans, health insurance, Social Security, workmen's compensation programs, and unemployment and disability insurance programs.
\(^c\) Includes New York City Housing Authority, New York City Transit Authority, and Triborough Bridge and Tunnel Authority, but not non-City employees of Manhattan and Bronx Surface Transit Operating Authority.
\(^d\) From Annual Reports of Department of Personnel; data represent employment at midpoint in the fiscal year, excluding personnel on military leave.
\(^e\) Includes Board of Education and Board of Higher Education.
\(^f\) Includes employees of the Board of Transportation, which became the Transit Authority in 1953.

However, this great rise is roughly comparable to what has happened generally in urban local governments throughout the United States. The City's employment levels are not out of line with those in other major American cities. Moreover, City salaries are on balance no higher than those paid by private employers and by other public employers.

These are not grounds for complacency, however. With an annual budget close to $4 billion, even relatively small savings from improved personnel administration are matters of consequence. For example, a one percent reduction in City employment would save about $20 million.

The Mayor is in an excellent legal position under the 1961 City Charter to work toward savings of this sort—and would be strengthened organizationally for doing so by our recommendations concerning the City Administrator and departmental operations. The Mayor is vested in great measure, probably more than any other public executive in the United States, with responsibility and authority for personnel administration and the managerial arrangements connected therewith. There are few, if any, major
personnel actions which do not entail the official, and often the personal, involvement of the Mayor.

MORE EFFECTIVE PRACTICES

As one approach to getting better municipal employees, perhaps at less expense, the City should overhaul many elements of its basic personnel organization. The faults of the system include: diffusion of authority, inequity in the treatment of different groups of employees, cumbersome examination arrangements, an impeded program of merit promotions, a fragmented approach to wage and salary adjustments, and complicated procedures for individual personnel actions.

All this results in unnecessary costs through poor administrative procedures, difficulties in recruiting and retaining competent workers, the erosion of personal initiative, and accommodation to incompetence. Moreover, the system tends to vitiate the efforts of the majority of City officials and employees who are capable and dedicated. Training at executive and professional as well as clerical levels needs especially to be enlarged and improved, building in some cases on existing programs.

Both private industry and large governments have demonstrated that dramatic savings accrue from carefully organized personnel administration. Such organization involves not only personnel procedures themselves but also effective coordination of personnel with budgetary management, systems management, and manpower utilization.

The most important step to be taken in this regard has already been recommended: to make the City Administrator the top-level personnel and budget officer of the City, thus coordinating these two interrelated functions just below the Mayor. The Mayor should not have to take time from policy issues and his other responsibilities to effect this coordination himself.

LIMITATION BY CEILINGS

The second line of personnel improvement recommended by the Commission is the substitution of budget ceilings for "required accruals" to limit departmental personnel expenditures. This step, previously mentioned in connection with widening departmental discretion, deserves particular attention in its personnel aspect—for the accruals system works its damage through disrupting personnel administration and performance.

Accruals, systematic and enforced, were adopted as a conscious economy procedure during the Great Depression. This system of personnel savings by not filling vacancies in authorized positions, first used as an emergency measure, has since become an established part of City budget and personnel
administration. Under this system each department and agency is forced to realize predetermined personnel savings below annual budgeted amounts. Normally, a department achieves some of this through resignations, retirements, or death of employees. But additional accruals are imposed on top of these "normal savings" as a budget-balancing device.

Such an arrangement might be justified as a short-term emergency procedure, but certainly not for continued use. Accruals interfere significantly with responsible departmental administration and place a premium on padding manpower requirements to insure "vacancies" that can be applied against accrual requirements.

The accrual system prevents merit increases to deserving employees until accrual targets are met. As a result, there is little incentive for employees to qualify for such increases and thus improve the return from the City's personnel dollar. Further, it appears that required accruals create general ill will between departments and the Budget Bureau.

By substituting outright budget ceilings, set to fit funds actually available but with departmental latitude under the ceilings, the incentive to preserve unneeded and vacant positions would disappear. A department would know clearly in advance what it may and may not do in personnel terms.

PUBLIC EMPLOYEE UNIONS

For perspective on the Commission's next recommendation, that municipal collective bargaining be related more closely to the municipal budget, it is important to note the extent to which public employee unions have become a part of the City personnel system. Briefly, New York has in a decade brought these unions to a level of participation in City policy without parallel in American municipal history. Indeed, New York has been styled a "labor city" in recognition of its cordial attitude toward unions, in the private economy as well as in government. The Mayor's announced objective in Executive Order 49, March 1958, to apply to City employees "in so far as possible the practice and procedures of collective bargaining prevailing in private labor relations," has substantially been attained.*

The Commission notes, however, that there are significant differences of law, purpose, organization, and economics between the private corporate employer and the municipal corporation. These differences, we believe, must be kept clearly in view as the City and unions play their respective roles in assuring the public a competent, efficient, and adequately paid civil service.

Perhaps most significant is the economic fact that the public services provided by the municipal corporation are social goods. They are things

* A bill recently introduced in the City Council would largely confirm and replace Executive Order 49 with a Local Law.
which the citizen uses, or at least has available, without his option. The provision of these services results in a cost which is for the most part involuntarily paid through taxes and user charges.

There is little of the market-place mechanism of supply and demand, freedom to accept or refuse, or choice of competing vendors, as in the private sector, to protect the consumer of public services. The individual simply must pay for them in some designated direct or indirect fashion. His mechanisms of control are the ballot box, citizen hearings, and perhaps demonstrations—but basically he cannot refuse to buy.

It is highly important, then, that City union negotiations having a major impact upon the cost of municipal services be handled by municipal executives and legislators with sharp awareness of general citizen interests as well as of administrative needs and employee wishes. The public should be informed about the progress of negotiations and the substance of settlements. Citizen reactions can thus be expressed knowledgeably, either directly to City officials or indirectly on election days through votes for or against those officials. After all, it is the citizen who ultimately must pay.

BARGAINING AND BUDGETING

Against this background, the importance of relating union settlements more closely to budgetary considerations should be clear. The City should take steps to equip itself properly with labor relations staff and information to represent the municipal interest effectively in bargaining sessions with the unions.

Nearly every aspect of City employee relations is now subject to collective bargaining, which has grown steadily since 1958 both in scope and number of employees involved. For 184 thousand employees—those represented by unions with city-wide bargaining rights, employees of the authorities, and Board of Education personnel—bargaining is the primary method of salary and fringe benefit adjustment. Unions also figure strongly in prevailing wage settlements affecting another 25 thousand employees. In securing improved working conditions, collective bargaining is the main line of action for almost all personnel. Professional as well as fiscal issues have been at stake in negotiations in some fields, notably education and welfare.

This development has significantly affected fiscal management. Wage and salary settlements from collective bargaining have become a quasi-budgetary procedure outside the established pattern of budget-making. Negotiations are conducted, agreements reached, and personnel orders to implement them are promulgated, providing costly adjustments, often retroactive, without reference to the normal budget process and without sharp concern about fiscal stringencies. Because bargaining and the resulting agreements deal
with municipal personnel piecemeal, across-the-board adjustment of the salary schedules under the Career and Salary Plan has become unfeasible.

To improve this situation, collective bargaining agreements on wages and benefits should be reached in advance of, not after the start of, the fiscal year in which they are to be applicable and should be reflected in the budget for that year. The present timetable of negotiations and contract dates should be shifted where necessary to accord with these principles.

The City should improve its hand for these negotiations in several ways. Most important, central municipal responsibility for collective bargaining should be lodged in one office—not divided as now between Budget, Personnel, and the Mayor or his representatives. This unit, perhaps called the Employee Relations Office, should arm itself for each negotiation with pertinent wage, employment, legal, and financial data.

The Employee Relations Office should function coordinately with the central budget and personnel agencies under the supervision of the City Administrator. Departmental officials should be brought into the bargaining whenever the interests and employees of their department are involved. Eventually, a number of the major departments are likely to follow the lead of the Board of Education by establishing their own labor relations specialists to work in liaison with the central Employee Relations Office.*

IMPROVED STATE REQUIREMENTS

To round out its personnel recommendations, the Commission suggests that the State laws governing local personnel matters be changed in two areas—one involving fringe benefits, and the other, removal of incompetents.

The City is often required to provide fringe benefits by mandate of the State Legislature. Such increases, usually permanent, become fixed-cost items which the City must finance. To correct this situation, the City ought to make a concerted effort with the New York Conference of Mayors, the Association of Towns, the County Officers Association, and the New York Office for Local Government to secure home rule in matters affecting pensions and other fringe benefits.

As to removal of incompetents, the difficulty is that the prescriptions on this matter in the State Civil Service Law stress protection of employee interests without counterbalancing focus on governmental needs. Because of the lengthy, costly, and involved proceedings, removal for incompetence is

* The Mayor has this year initiated two inquiries directly related to municipal union relations: (1) a survey of collective bargaining procedures by a panel of City officials, labor representatives, and laymen under the guidance of the Labor Management Institute of the American Arbitration Association; (2) a review of the Career and Salary Plan as contemplated in the City’s current contracts with District Council 37, AFSCME, AFL-CIO and the Social Service Employees’ Union of the Welfare Department.

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rare. Ineffective employees are retained; often they are assigned inconsequen-
tial duties at City expense.

To facilitate the dismissal of incompetents, new legislation appears neces-
sary to protect the City's interests equally with those of its employees.* The
municipality should be enabled to act reasonably against personnel ineffecti-
ness, by dismissal where necessary, while retaining employee protection against
capricious charges of incompetence. Further, the City should more effectively
screen employees during probationary periods to prevent ineffective people
from gaining civil service status.

Debt Practices

The fourth major area for improvement, the area of debt practices
and borrowing for New York's capital development, currently involves the
expenditure of over $500 million a year for debt service and obligations of
nearly $5 billion for future repayment of principal. While the administra-
tion of this aspect of municipal finances has generally been good, the sums
at stake are so large and the relationship of this area to the City's credit
position is so close that any deviations from sound practice must be viewed
with concern.

The deviations which the Commission notes, some of fairly recent origin
and others of long standing, relate primarily to borrowing for operating
deficits, borrowing for current expenses, and issuance of tax-supported debt
for revenue-producing enterprises. But before specifically discussing these
practices and how to improve them, we look briefly at the basic debt and
investment situation of the City.

Recent years have brought major changes in City debt management,
resulting, among other things, in lower interest costs and acceleration of
the City's debt retirement schedule. Despite these improvements, the City's
credit rating has deteriorated, largely because of the failure to solve its
current budgetary difficulties. Better debt management alone cannot restore
the credit rating. That can be accomplished only by achieving a satisfactory
control and financing of the City expense budget.

LARGE INDEBTEDNESS

New York City is a heavy borrower, as Chart 1 indicates by several
measures. The basic reason is that the City's capital needs have been far
greater than those of any other American city. Its population is almost
equivalent to the combined populations of Chicago, Los Angeles, and Phila-
delphia. No other city has so vast a rapid transit system, and few have as
extensive a water supply system, educational facilities which include colleges
and graduate schools, and so broad a range of other capital facilities.

* Mr. Potofsky is not persuaded that present State Civil Service law is unduly protective of
employee interests. The subject is too special and complex, in his view, to be handled within
the limited focus of this report.

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Chart 1
NEW YORK CITY'S FUNDED INDEBTEDNESS
1948 to 1965

[Diagram showing trends in funded debt, available borrowing margin, and other financial metrics over the years 1948 to 1965.]

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These facilities are financed almost entirely by borrowing, and in consequence the City’s funded debt is large. In per capita comparison with that of most other major cities, however, the City’s debt is high only because of its exceptionally large enterprise debt (notably transit and water supply). Approximately two-thirds of the City’s gross funded debt was incurred for revenue-producing enterprises, one-third for transit alone.

If the enterprise debt were self-supporting, as enterprise debt is in most other cities, the City’s tax-supported debt would be quite moderate. Its school and general purpose debt is certainly moderate. But, as tax support is required for all of the City’s transit debt, for its water debt, and for practically all of its sewer debt, New York City’s total tax-supported debt is relatively heavy.

The City’s debt limit is based on the five-year average full value of taxable real property, with exemptions for water debt, some sewer, hospital, and transit debt, and debt for revenue-producing projects to the extent that they are self-supporting. Despite heavy borrowing, the City’s debt has remained well below the legal limit, owing to rising property values and replenishment of borrowing power by rapid debt retirement. Consequently the City's legal borrowing power seems adequate, though not ample, for financing its capital needs over the near future—unless this margin is consumed by continued borrowing for non-capital purposes.

But recent tendencies to borrow increasingly for essentially current expenses, culminating this year in the projected funding of a large budgetary deficit, present a serious threat to maintenance of adequate capital borrowing power. Further, although short-maturity borrowing has been a helpful counterweight to these tendencies during the present difficult period, it may not be feasible to continue it indefinitely in the light of the City’s probable long-run capital needs. The high debt service requirements of short-maturity borrowing may become a burden which the City cannot afford if major new developmental investment is required.

**ENDING DEFICIT BORROWING**

From the debt standpoint, as well as others, the first order of business in City fiscal improvement must be the elimination of deficit borrowing. New York must close its budgetary gaps by other means, fully outlined in this report. Deficit financing on the present scale, over $300 million this year, as indicated in Chapter I, cannot long be countenanced.

This is not to say that repayment of the City’s debt is in danger. It is not, for the City’s funded debt is payable from legally unlimited real estate taxes, and the collection of these taxes has been good. Most of the temporary operating debt is payable in the first instance from specific sources, but all of it is backed by the faith and credit of the City in accordance with the State Constitution, which requires the ultimate retirement of any City debt from
direct budgetary appropriations or "first available revenues" should the specified revenues not be sufficient.

However, for the City's credit standing and for its capital development, deficit borrowing has very serious implications. If continued, it will not only encroach upon legal borrowing power needed for capital purposes but might well lead to further deterioration in the City's credit standing. Such deterioration might in turn make the sale of the City's bonds increasingly difficult and more costly.

**CURRENT EXPENSE BORROWING**

The fact that New York City's tax rate for operating purposes is limited while its tax rate for debt service is unlimited has tended to induce the City to meet what expenses it could from borrowing rather than from current revenues. This has been particularly true since World War II, owing to unremitting budgetary pressures. It has been facilitated by a series of amendments of the State Local Finance Law permitting borrowing for essentially current purposes. Elimination of this current expense borrowing is the Commission's second recommendation for debt-practices improvement.

Some borrowing for current purposes shows up clearly, as in bonds issued specifically to fund judgments, claims, and awards, and certain pension and Social Security contributions. But a large volume of current expense borrowing is not so obvious, as it is included with borrowing for capital purposes or for "various municipal purposes." Thus, salaries and expenses of the Board of Water Supply are funded with water supply bonds, and salaries of many departmental employees working on capital plans are funded with bonds issued for particular capital projects or for "various municipal purposes." Furthermore, the City now borrows for equipment and maintenance expenses and for numerous minor recurring expenses which may or may not be classed as capital improvements but which a large city should not fund.

The volume of current and recurring expenses funded annually by the City is difficult to determine but may well amount to $100 million. Definition of current expense is in some measure a matter of individual opinion. To one, the purchase of a garbage truck is a current expense, to another it is a capital investment. Preparation of plans for a capital improvement may be classed either as part of the cost of the project or as a departmental salary expense. But, basically, New York pushes the definition of capital improvement to its furthest limits.

That borrowing for current expenses is an unsound practice is generally recognized. Its unfavorable influence in the case of New York City may be summarized as follows:

- It encroaches on borrowing power needed for other purposes.
- It is detrimental to the City's credit standing.
It results in unjustified interest cost.
It conceals and postpones the impact of current expenses on taxes.
It increases annual borrowing significantly and expands outstanding debt.

The elimination of such current expense borrowing is difficult because it would increase the operating budget and there is now no room in this budget for additional expenses. But as soon as additional current revenues become available, as recommended by the Commission in Chapter IV, these current expenses should be removed from the capital budget and financed instead from current revenues. The City should perhaps be compelled to do this by amendments to the Local Finance Law to eliminate the City's authority to borrow for current expenses.

WATER AND SEWER DEBT

As part of a general reorganization of water finances, the City should shift its water and sewer debt service from the real estate tax to user charges. In this complicated area, the City's water bonds are now carried entirely by the real estate tax. Water revenues are not applied directly to meet costs of water operation but accrue to the general fund. Further, as costs of water operation, exclusive of debt service, are less than water revenues, part of these revenues is available for general City purposes. The City's total water costs are therefore supported partly from water revenues and partly from taxes.

The financing of sewer facilities differs from the financing of water facilities. Sewer revenues do not accrue to the general fund but must be applied solely to sewer operations and sewer debt service. But, as sewer operating costs have increased greatly during recent years, the net revenue after operating expenses that would be available for debt service has become negligible. It is clear that sewer debt is going to increase considerably in the near future and that little or none of this debt will be self-supporting unless sewer revenues are increased.

Most American cities have fully self-supporting water debt. An increasing number have self-supporting sewer debt as well. A strong case can be made for higher water and sewer charges in New York City. The City's water and sewer rates are relatively low. An increase sufficient to cover all expenses, including debt service, would not raise charges above the levels prevailing in many other cities. Such an increase would significantly reduce the City's tax-supported debt.

The Commission therefore strongly recommends that water and sewer charges be raised to make water and sewer debt self-supporting. It also
recommends that water revenues be removed from the general fund and be applied directly to meet water operating and debt service costs. This would best be done in conjunction with the passage of the proposed constitutional amendment increasing the real estate tax limit for current purposes, thus relieving real estate taxpayers of the levy for water debt and partly offsetting the increase in the levy for current operating purposes (see Chapter IV).

In the other principal area of municipal enterprise debt, namely transit, the Commission is deferring its conclusions to our Third Report. This will provide time for completing our studies of governmental transportation finances in and around New York City, including the wider economic ramifications of transit pricing and the role of the public authorities. During this period, the recommendations of the special City-State Transit Committee, appointed by the Mayor and Governor last winter, may also be available.

Credit for the Future

Looking beyond these current debt considerations, the Commission notes that future municipal capital requirements will doubtless be large, though our full study of this subject is not complete. Even when the unsound fiscal practices discussed above have been corrected, the City may eventually be hard pressed to finance these needs, especially for transit, under present debt limitations.

It is most unfortunate, however, that the City's operating budget difficulties have recently obscured the strong factors in its credit picture, e.g., the City's tremendous economic resources, its favorable property tax collection record, its moderate general purpose debt, its rapid debt retirement schedule, and the constitutional provisions making debt service a first charge on revenues.

If the recommendations in this report are followed, not only those on debt but others as well, the Commission feels certain that the City can achieve the high credit standing which its basic wealth merits. Of course, this will also depend on its skill in communicating the intrinsic strength of its position to investors.

School Relations

For its final group of administrative recommendations, the Commission turns to the public school system. We do this not simply because this is the most expensive municipal function but also because we were expressly asked by the Mayor and Council to look at this particular activity.

Broadly we have considered (1) whether the City and the school system would be better off if they were fiscally separated from each other and (2) whether some other arrangement, neither independence nor the present loose association, would be an improvement.

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The public schools are not only the most costly item in the municipal budget, and the major activity with the most rapidly rising costs, but they are also the function least supervised by City Hall. City school expenditures this year are about $1 billion, more than a quarter of the entire municipal budget. One facet of the large school budget is evident in Table 5, page 19, namely that the number of City education employees has increased by 130 percent since 1944-45 against an increase of 58 percent in other municipal employees over the same period.

**Fiscal Independence**

One way to resolve the financial problems of education—at least as far as the City government itself is concerned—would be to separate the school system completely from the municipal government, as is done in many school districts. The Board of Education would then have its own taxing and borrowing powers and would determine its own budget without City government approval. This possibility has been a subject of almost continuous debate since public education was effectively established throughout New York State by the State Education Act of 1842.

In the past, pressures for fiscal independence arose out of complaints of municipal interference in school operations. But today, the City government, by and large, remains aloof from educational matters. City involvement in educational policy is now minimized by an agreement reached in September 1963 between the Mayor and the Board of Education under which the City grants the Board annual lump-sum appropriations for education, which the Board allocates as it sees fit.

City officials, with the exception of the Mayor, have a negligible role in school issues. The Mayor's role stems from his public responsibility for everything that occurs in the City and the further fact that he appoints members of the Board of Education. But his direct involvement has been limited in recent years to determining the total school budget appropriation and to providing the money necessary to effect agreements on teachers' salary increases.

Fiscal independence would probably remove the Mayor's limited role in appointments, since most independent school districts operate under elected boards, thus providing a means of public control when the board exercises taxing power. But election of board members would not divorce them from City politics; in fact, the election might turn out to be highly partisan and divisive.

Fiscal independence has been advocated by some educators as a means of getting greater financial support for the schools, and concomitantly of stimulating increased public participation. Moreover it has appealed to some municipal officials who are concerned that they are held responsible for raising education revenues but have little control over the total level of

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education expenditures. These officials are further frustrated by the feeling that the public holds them, not the school board, accountable for the adequacy of the school system as well as for school taxes.

Despite these viewpoints, the Commission has found no evidence that fiscal independence would be advantageous to either the City or the schools. It might, in fact, have serious disadvantages.

Disadvantages of Independence

An exhaustive study of City school districts throughout the country by our staff and consultants indicates that there is no financial advantage, for either the school system or the municipality, in fiscal independence for large city school districts.* For example, in Detroit, Los Angeles, St. Louis, and Chicago, all with large independent districts, the public appears to lean more toward parsimony than liberality in meeting educational needs. Independent small-city school districts do show advantages over their dependent counterparts, but even here the advantages diminish as the size of the school district increases.

Fiscal independence, conditioned by constitutional tax limits and perhaps public votes on the school budget, might, in a city like New York, result in fiscal rigidities that would make educational planning and efficient operation hard to achieve. Such an arrangement would be potentially explosive within the social and political environment in which the City schools now operate.

With a city as large and diverse as New York, public participation is unlikely to become more effective simply with the adoption of fiscal independence and a public vote. An informed citizenry, sharing in educational decision-making, can only result when information is more accessible and channels of expression more plentiful. It is not the fiscal status of the school system but open formulation of school policy that encourages greater public involvement.

Fiscal independence would not, ultimately, define fiscal responsibility more clearly. The public will always consider the Mayor responsible at a time of any grave financial crisis in education. He would, therefore, continue to be pressed to find additional funds, perhaps through municipal subsidies, whether or not he had a legal obligation to do so.

New York City would not, in short, get any of the purported advantages of fiscal independence. Such an arrangement might, in fact, intensify existing deficiencies in the school system, and, in particular, the critical problem of an overcentralized, highly bureaucratic, and inbred professional staff. Our studies clearly indicate that the professional staff in New York City exercises

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* This study is now being continued and widened by the City University (Baruch School of Business and Public Administration and Queens College) and Columbia University Teachers College under a grant from the U. S. Office of Education.
almost complete control over educational policy, as expressed, for example, in curriculum and budgeting. The related weakness of the Board of Education and the dearth of external influence on the professional staff are largely responsible for the inertia that marks the school system.

The professional staff has repeatedly demonstrated power in its ability to prevent change. Administrative reorganization and school integration in particular have been frustrated by the failure of key officials to respond to Board policy. Decentralized school operations, recommended in every major study of the school system for years, have been checked for more than a decade and seem unlikely to be effected under the new plan announced recently by the Superintendent. The State legislation three years ago, which tied the salaries of school supervisors directly to teachers pay on a sliding scale, is an example of the power of the school bureaucracy in another direction—lobbying.

Fiscal independence would most probably insulate the professional staff even further. The Board, which now has official access to City officials, would probably have to rely on its own staff even more than it does now if the schools were really divorced from the municipal government. Generally, good relations in sensible perspective between the schools and other public services would be harder to achieve.

**Present Arrangements Inadequate**

While rejecting fiscal independence, the Commission does believe that important improvements in fiscal management can and should be instituted by the Board of Education within the present framework. In particular, budget procedures and relationships should be revised to provide for more effective evaluation of programs, greater municipal review, and more intelligent public participation. With school expenditures so large, economy should have an especially high priority.

Although the City government makes the general school appropriation, the Board of Education has an independence accorded to no other City agency. The Board has nearly full control over the allocation and use of the funds which the City appropriates to it. The Board’s wide discretion, a relatively new arrangement, is designed to eliminate long-standing conflict between school administrators and budget officials. It has accomplished this objective, but at the expense of public review. The problem is aggravated because the Board’s budget is overly detailed and poorly organized.

With the present budget document, intelligent public review is not possible. The budgetary responsibility of various units is not clear and evaluation of programs is very difficult. A more informative budget is badly needed. The budget should be an instrument of management control, a means of implementing Board policy while providing the municipal government and
the public with a reasonable basis for appraising the effectiveness of expenditures. Improvements have been made this past year. Much more remains to be done.

The Commission believes that general municipal control should be maintained over school finances, with minimal interference in the determination of school policy, and is continuing its studies of ways to achieve this goal. For the present, we recommend that the City Administrator’s office be authorized to review school operations so as to complement existing controls and facilitate evaluation of ongoing programs.

* * *

These five basic managerial measures—stronger central leadership, better operating arrangements, improved personnel administration, sounder debt practices, and more effective school relations—are essential steps in putting the City’s fiscal house in order. These steps must be taken both for economy and better municipal service.
III

INCREASED STATE AND FEDERAL RESPONSIBILITIES

Although improved fiscal management is an essential first step in resolving the City’s fiscal problems, by itself this will not be enough. City expenditures have approximately doubled in the past decade, and there is every reason to believe that in the coming decade increases will be on approximately the same scale. This prospect makes it all the more important for the City to secure the maximum amount of service for each dollar spent. At the same time, the City government will be able to discharge its responsibility only by securing substantial new revenues.

FISCAL INTERDEPENDENCE

Because it is so often implied that fiscal home rule is the crux of the City’s revenue problem, the Commission has looked into the so-called “home rule question,” that is, the power of local government to impose new revenue measures without prior authorization from the State. But home rule, on analysis, turns out to offer a solution which is more apparent than real.

Even if the City could legally tax anything, at any rates it chose, the harsh facts of economic life would make the home rule solution self-defeating. If City taxes are markedly more burdensome than those of neighboring and competing communities, City businesses and residents can “vote with their feet” against high taxes by migrating away from the City. We have found evidence that some tax-induced loss of economic activity has, in fact, already taken place.

Nevertheless, the Commission concurs that the City should have a greater degree of fiscal discretion. It should have more freedom to make its own decisions and, at times, its own mistakes. This is the essence of responsible local self-government, but it is not the key to the City’s revenue problem. In short, the City cannot meet its revenue needs by itself.

The State and especially the federal government have vastly superior tax-collecting capacities. Their taxes tap wider geographic areas, and they can tax with much less fear of “driving out business.” The potential productivity of their revenue systems far exceeds their present responsibilities and is commensurate with the responsibilities we believe appropriate to these higher levels of government.

The City’s problems and the realities of our times dictate interdependence among the three levels of government, not the illusion of independ-
ence conveyed by the term "home rule." As pointed out earlier in this report, and at length in our First Report, many of the demands for City expenditures reflect national and regional economic and social forces. Substantially increased State and federal assistance to New York City is necessary and appropriate. Programs providing this increased assistance must be developed in a spirit of cooperation with these governments, which now increasingly recognize their responsibilities for urban problems.

City Leadership

The primary power to develop appropriate City-State-Federal fiscal relationships rests with the State and federal governments. But the City can and should exert leadership to bring about the right relationships.

The Commission has examined present State and federal aid arrangements and the more basic question of the distribution of governmental responsibilities between City and State. We have been highly selective because some existing intergovernmental fiscal relationships do not present major problems. For example, by improving the treatment of the City with respect to highway aids and the per capita grant, the State has taken the first steps toward meeting these issues.

But major changes are needed in other areas. The Commission recommends that the City press in the following directions:

(1) The present formula for disbursing State school aid should be revised to make it a true cost-sharing formula. The ceiling on aid should rise automatically as school costs rise over time, and the ceiling itself should be made to reflect statewide average costs of education, not merely the costs in the median school district. Furthermore, the school aid formula should be revised to reflect the high costs of special programs for the handicapped, culturally deprived, and those who seek vocational training.

(2) The State should assume full financial and administrative responsibility for public assistance and some other welfare activities.

(3) The State should assume financial responsibility for the City University, with a City student-aid plan substituted if and as necessary for free tuition.

(4) The City and State should jointly urge the federal government to implement a program of general purpose grants to the states. As one element of City-State cooperation to this end, the City and State should agree to a prearranged formula for sharing potential general-purpose funds between the State and its local governments.

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The fiscal impact of these recommendations is shown in Table 6. Had all four of our recommendations been in force this fiscal year, 1965-66, the City would have received additional funds and freed currently committed local revenues in the amount of some $315 million. We estimate that by 1974-75 this figure would rise to about $835 million.

Table 6
FISCAL IMPACT OF COMMISSION’S RECOMMENDATIONS
FOR MORE INTERGOVERNMENTAL ASSISTANCE
(in millions of dollars)

<table>
<thead>
<tr>
<th>Economic Activity and City Expenditures</th>
<th>At 1965-66 Levels</th>
<th>At Projected 1974-75 Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in State School Aid</td>
<td>$100</td>
<td>$400</td>
</tr>
<tr>
<td>Transfer of Welfare Functions to State</td>
<td>150</td>
<td>300</td>
</tr>
<tr>
<td>State Financing of the City University</td>
<td>20</td>
<td>60</td>
</tr>
<tr>
<td>City Share of General Purpose Federal Grant</td>
<td>45^</td>
<td>75^</td>
</tr>
<tr>
<td>Total</td>
<td>$315</td>
<td>$835</td>
</tr>
</tbody>
</table>

^Additional assistance from the projected general purpose grant would reach the City via State school aid—$20 million in 1965-66 and $45 million in 1974-75. See discussion below, pp. 45-46.

State School Aid

In 1962-63 the State adopted a new formula, the Diefendorf formula, to determine State aid to the public schools. Under it the State contributes in varying ratios to the operating expenses of each school district up to a ceiling limit. The State also provides four supplementary aids to compensate for special conditions which may exist in the school district. Total school aid, despite its five components, is not earmarked and may be spent for any purpose for which the school board may legally spend money. The new formula is an advance over its predecessor, but nonetheless it has certain serious weaknesses.

The most serious weakness is the formula’s ceiling on the operating costs of a city or school district that the State will consider for sharing. At present, the State will share in only the first $600 of operating expenses per weighted pupil in average daily attendance (WADA). In 1964-65, New York City spent an estimated $713 per WADA. This year, therefore, the State will share in only 84 percent of the City’s school operating costs as calculated for State aid purposes.
There is at the present time a proposal to raise the ceiling to $700 per WADA in 1966-67. However, this ceiling would be insufficient; it would continue to discriminate to some extent against New York City. As a guide to determine the ceiling, the State uses the costs in the median school district. The median is a positional, not a mathematical average, and, as such, does not reflect the degree to which school district costs differ nor the fact that some districts have more students than others. There can be no justification for the use of the median except that it is an effective discriminator against New York and possibly some other cities.

Another weakness in the computation of operating expense aid lies in the calculation of the weighted average daily attendance. The purpose of weighting attendance is to allow for the difference in cost of educating different kinds of students. To illustrate, the current weights assume it costs 25 percent more to educate a student in grades 7-12 than it does in grades 1-6. The weights, however, do not allow for cost differences by type of education, as distinct from grade level. The entire weighting system should be reviewed to add weights based on programs to those now assigned only by grade level.

**Formula Changes**

Based on these criticisms the Commission makes three recommendations designed, not to displace, but to improve the operation of the Diefendorf formula:

**First,** the ceiling limit on the amount of operating expenses which the State will approve for sharing should be removed. The ceiling concept should not be abandoned altogether, however. Instead, the ceiling should be allowed to rise automatically as school costs rise statewide. The State's basic contribution to school operating costs would then be subjected to a controlled escalation.

**Second,** as now calculated, the ceiling allowance discriminates against large, above-average-cost school districts, of which New York City is the archetype, because it is based on school costs in the median school district. This practice should be abandoned. Instead, the escalating ceiling should be no lower than the statewide cost of educating the average pupil in New York State.

**Third,** the computation of weighted average daily attendance should be modified to take account of the high costs of vocational education and of special programs for the mentally, physically, and emotionally handicapped, for the culturally deprived, and for gifted children.
EQUITY FOR ALL

There are a number of lesser discriminations such as the exclusion of summer school and adult education costs from approved expenses, the definition of the building aid formula so that it does not adequately provide for high urban land costs, and the like. But, pending additional studies, the Commission is for now withholding further recommendations for modifying the Diefendorf formula.

The Commission observes that some school districts have special problems not encountered in New York City and that they receive special treatment on this account. We do not, however, use this as an excuse for pleading New York City as a special case. Instead, our recommendations are aimed at removing discriminatory features which have no rationale in social policy. None of the proposals are aimed especially at capturing funds for the City at the expense of other communities.

The Commission does not wish to overturn the Diefendorf formula, but rather to build on it. The Diefendorf Committee made a significant contribution by improving considerably on the formula it displaced. Our recommendations would have the effect of making the Diefendorf formula truer to its own objectives.

We recognize that these proposals will be costly for the State. Their approximate first-year effect would be to increase aid to the City by $100 million and to enlarge school aid statewide by $200 million. As school expenses rise over time, these amounts will grow substantially. But so will the State's own revenues as the State economy expands.

State Welfare Responsibility

The Commission recommends that the State assume primary financial and administrative responsibility for most of the public welfare activities the City now performs, especially for public assistance. The case for this recommendation is compelling.

First, the disproportionate concentration of persons requiring welfare services in New York City is mainly the result of national and metropolitan forces. New York City is a powerful magnet for people with limited skills, but a weak magnet for the industries which can use their services. There is a growing gap between the expectations of economic opportunity these migrants have and the realities they encounter. New York's expanding welfare burden is an index of this gap.

It is not possible, nor is it desirable, to inhibit the free flow of people. A residence requirement for welfare eligibility, as frequently urged, would neither limit migration nor save much money. Larger cities with welfare

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residence requirements have experienced in-migration of unskilled people as great as New York City's, and their welfare costs are relatively no less than New York's. Moreover, only a minute fraction of the people on the City's welfare rolls have lived in New York for less than one year.

There is little likelihood that the unfavorable redistribution of employment opportunities is going to be reversed. A great many of the jobs which have left the central city are now located elsewhere in the metropolitan region, while the in-migrants to the City (who once found employment in those jobs) remain bottled up in their residential ghettos. Furthermore, many of the unskilled-labor activities in New York City serve metropolitan functions and thus contribute to the overall economic base of the region.

If welfare activities are to be financed to a significant extent from local taxes, such taxes should embrace the metropolitan area, not just the central city which houses the bulk of the region's poor and disadvantaged. There is no mechanism for areawide taxation. A statewide solution, therefore, is the next best alternative.

Second, it is self-defeating to finance welfare costs out of taxes which threaten to reduce employment in industries which employ potential welfare recipients. The City's present business tax structure is dominated by taxes of this type. In Chapter IV the Commission makes proposals designed to correct this, but even an ideal City business tax structure has its limits.

Any increases in business taxes in the City will make the suburbs a more attractive location for certain kinds of economic activity, mainly in the goods-handling industries. The City cannot afford to tax these industries "to the suburbs" only to become responsible for welfare payments to those they formerly employed and thereby offset the gains to be achieved by restructuring business taxes.

Third, there are administrative arguments for transferring responsibility for most welfare activities to the State. Existing State control aimed at achieving uniformity already sets the tone for almost the entire welfare program. Abundant evidence shows that State supervision is now a source of both duplication and waste. This could be reduced by peeling off one layer of government from the welfare function. Furthermore, the administration of the welfare function is highly amenable to electronic data processing. Substantial economies of scale could most likely be gained by a statewide operation.

There is no evidence to show that overall State administration is inherently inferior to the present complex combination of State and local administration. Indeed, it may be superior. It has not been demonstrated that qualified professional administrators working at the State level are, would be, or need be more remote, less imaginative, less effective, or less
humane in the carrying out of welfare functions. The removal of one layer of
government might simply free welfare administrators from the State-local
tangle which they now find so inhibiting.

WIDER BASE

If the State were to assume the welfare function, the geographic and
fiscal imbalances between welfare costs and taxing to meet these costs would
be largely overcome in one stroke. Statewide financing is an imperfect but
adequate substitute for metropolitan taxation, and federal contributions
further broaden the fiscal base. Equity and certainty of effect would be
furthered by the use of the State income tax to raise the necessary State funds.

The proposal to transfer public assistance to the State does not aim,
it should be emphasized, at an arrangement under which New York City
residents would escape their tax responsibilities for this function. Increased
State taxes would have to be substituted for lowered City taxes. The gain
to the City and its residents would be a superior arrangement of their fiscal
affairs. The State, including New York City, would gain from a generally
improved system of welfare service by placing responsibility for it in the
right place.

State responsibility for public assistance and related welfare activities
is the rule, rather than the exception, in the United States. There are only
eight other states in which the entire welfare function is a local government
administrative responsibility, as it is in New York. In twenty-five states, the
state directly administers virtually all public assistance programs, and in ten
others the state directly handles all federally-aided public assistance programs.
These include such states as Pennsylvania, Illinois, Michigan, Connecticut,
Texas, Oregon, and Washington, to note only the more urbanized.

LOCAL FUNCTIONS

Under the Commission's proposals, the City Welfare Department would
not disappear. Some aspects of the Department's present work are properly
the function of City government and should remain local in administration.
The City should retain control and some measure of fiscal responsibility for
the truly social service aspects of public welfare.

Appropriate City activities include child welfare services (adoption,
foster care, day care centers, and institutions for neglected children), social
services for the elderly, emergency welfare services, and operation of shelters for derelicts. The activities transferred to the State would consist essen-
tially of the disbursement of funds to the indigent and those caring for them,
and the investigative and administrative activities necessary to do this.
If the recommendations made here had been in force in fiscal 1965-66 and were applied on a statewide basis—as they would have to be—we estimate that the additional cost to the State would have been just over $200 million. Of this, about $150 million is the portion transferred from the City to the State. From the City's point of view, this $150 million would be the reduction in the need to allocate revenue from local sources to welfare. In short, the City would have $150 million more available to finance other functions more appropriate to it.

**City University Transfer**

The City University finds itself under growing pressure from the residents of the City and the State Board of Regents to expand its enrollment and offerings. The cost of operating the City University in 1964-65 was $88 million, of which $39 million came from the City tax levy. Projections, based on continued expansion and development, forecast operating budgets of $160 million in 1967-68 and $231 million in 1970-71. Under present fiscal policies, the City would be called on to provide close to half these amounts.

In addressing itself to ways in which the City might finance its programs in higher education, the Commission had to consider generally the whole system of relationships and responsibilities which govern higher education in New York City. The Commission finds these arrangements complex and not conducive to an effective coordination of financing, administration, and planning. To illustrate, the City University is responsible to the Board of Regents of the University of the State of New York for developmental planning. Yet the officers of the City University may present budget requests to the State legislators only through the State University of New York.*

In the same complicated vein, the senior colleges of the City University operate under its sole jurisdiction, but its community colleges are also part of the State University. The doctoral and teacher education programs are almost wholly financed by the State. The City University's tuition policy is determined by the Board of Higher Education, with strong support from the City government; and this tuition policy is at variance with the policy of the State University, through which State aid is channelled.

**The Commission Proposals**

Historically, the State government has relied heavily on private institutions and indeed the City University to provide higher education in this State. But now that the State has come to recognize its own responsibility, a new

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* The State University of New York and the University of the State of New York referred to in connection with the Board of Regents are not one and the same. The University of the State of New York is the State agency which through its Board of Regents sets and coordinates educational policies and standards for all public and private educational institutions within the State. The State University of New York is the State's operating institution of higher education.
range of policy alternatives for financing higher education has been opened up. The Commission has had to choose between recommending continued municipal operation of a system of public higher education and State assumption of financial responsibility for the City University. We propose an arrangement under which the City University would become part of the State system of higher education. Specifically, our recommendations are threefold:

(1) The State of New York should assume financial responsibility for the City University of New York, as a separate system of higher education coordinate with the State University of New York. The City's contribution to operating costs would be limited to its financial obligations as sponsor of the community colleges, following the pattern of all local sponsors throughout the State.

(2) Coordination of policy and planning for public higher education in the State should continue to be handled by the Board of Regents, which should be given the further responsibility of reviewing the proposed budgets of the City University and the State University in implementing the Regents Plan. In addition, a Committee for Coordination of Public Higher Education, consisting of the Commissioner of Education, the Chancellor of the City University, and the President of the State University, should be established to coordinate the separate budgets of the two institutions for submission through the Regents to the Governor for transmittal to the State Legislature.

(3) If tuition charges are instituted at the City University when State financing takes effect, the City could establish a student aid plan providing $200 annually in scholarship aid for all full-time undergraduate matriculants who are City residents attending public institutions of higher education in New York State. These payments, which would be in addition to State scholar-incentive aid and other student grants, would provide the equivalent of free tuition in most instances.

Under these arrangements, several benefits would accrue. First, the net contribution for higher education from City funds would be reduced by one-half, or about $20 million, at the present level of operations, considering both the assumption by the State of City University costs and the possible new expense of City scholarships. Since City University costs are rising rapidly, the saving in City funds by 1968 might be $50 million.

Second, with State sponsorship, the City University should fare better than presently in the level of State support per student. Currently, State contributions on this basis are only half as much for the City University as for the State University.
Third, the intricate and cumbersome system of relationships and responsibilities which now exist would be replaced by far simpler and more viable administrative machinery. By recognizing its full educational responsibilities the State has laid the basis for better integrated relationships among all public institutions of higher education in the State. Under our plan, higher education both in New York City and elsewhere would be placed in a sounder educational, administrative, and fiscal position.

Free Tuition

The City University has a tradition of free tuition which goes back over a hundred years. It is therefore not surprising that the possibility of a change in tuition policy arouses deep emotions. Present and past City administrations, with the strong support of the students and alumni of the City University, have repeatedly reaffirmed that free tuition will be continued.

But this issue need not and should not obscure the paramount question of whether the City or the State should finance the City University. If tuition charges were adopted in connection with State financing, the City—through student grants to complement State, federal, and other student aid, now largely unavailable to City University students—could do more than just maintain free tuition. With grants large enough to cover all tuition costs for most students under this complementary arrangement, at the flat rate of $200 per student, the City could make possible extensive scholarship aid, especially for low-income students. Yet the City would spend considerably less than presently on City University financing.*

The City might extend its grants to the 7,500 city residents attending the State University, still at a saving under present City University costs. Further, since the State scholar-incentive program itself covers full tuition for low-income students, the City grant for these individuals would be an excess over tuition as additional educational assistance. Only four-year college students from families whose gross income is roughly $11,000 or more would pay a net tuition cost, $50 per semester, since the State scholar-incentive payments are reduced in that income range.**

* The new federal Higher Education Act of 1965, signed this fall, will provide additional assistance for college and university students. This aid, where granted, will match other scholarships or fellowships—and would thus fit well with the scholarship plan for City residents as here outlined.

** Mrs. Hoffman and Messrs. Greidinger and Potofsky dissent from the recommendation that the City University be transferred from City to State financing and are opposed to breaching the principle of free tuition. They consider that the "complementary scholarship plan" holds no guarantee that its future effect would be to cover all tuition costs. In addition, Messrs. Greidinger and Potofsky doubt that State financing of the City University could be accomplished without eventually giving up City control of University administration and policy.

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Federal General Purpose Grants

At the present time federal grants to state and local governments to help them provide public services are made only for specified purposes. In recent years, there have been several proposals to utilize the federal government's superior tax collecting capacity to provide general purpose grants to states. Funds granted in this way would, by definition, not be earmarked for particular uses, but would instead be available to meet each state's needs in the priorities determined by the state government itself.

Local Concern for Federal Grants

Though federal general purpose grants to states would technically define only a new federal-state relationship, the possibility of such grants is a legitimate concern of local governments. Most certainly some portion of any unearmarked federal grant will be passed on to local governments. Despite this, only state governments have warmly embraced the idea of federal general purpose grants to states, while local governments have been either openly hostile or silently unenthusiastic.

Behind this municipal attitude lies the widely held belief that the big cities can do better if they negotiate directly with the federal government for urban and metropolitan area funds. Urban renewal, transportation, education, and poverty program funds are cited as examples. In addition, urban localities in rurally dominated states are suspicious that they will not receive a fair share of federal general purpose grants from their state governments.

This particular criticism has not been heard in every state, least of all in New York State, but this view, if it continues to be widely held elsewhere in the nation, will delay or even prevent altogether the adoption of unearmarked federal grants.

It may well be that there are states where local fears as to how general purpose grants might be used are justified, but we do not believe such concerns are valid here. On balance, there is in this State a state-local community of interest in seeing that this new channel for federal funds is opened up. For this reason the Commission urges the City to reject those arguments which have been divisive elsewhere. Specifically, the Commission recommends that the City join the State in its support for federal general purpose grants and in so doing assert national urban leadership aimed at implementing this important new program.

A State-Local Sharing Formula

The Commission is aware that if the City adopts this posture it will be advocating a policy which will affect the relationship of every local govern-
ment to the State. This potential obstacle to State-local solidarity in support of general purpose grants can be effectively removed by means of a pre-arranged State-local sharing formula. Such a formula should insure not only a fair sharing between the State and the local governments but also a fair sharing among the localities. Accordingly, the Commission makes the following proposal:

1. Of any general purpose grant received by the State, the State should reserve for the State Purposes Fund a portion equal to the share it now reserves for State purposes from all current revenue sources. The remainder should be redistributed among all local governments in the State. At 1964-65 rates, the State would reserve about one-third and redistribute about two-thirds.

2. Of the two-thirds available for redistribution to the local governments, half should be added to funds available for sharing under the per capita grant program and half should be added to the pool available for education. This division would recognize the special importance of education and at the same time leave the localities with additional unearmarked funds to meet their own particular priorities of need.

**Estimated State-Local Fiscal Benefits**

As a practical matter, the funds which will accrue to state and local governments nationwide will depend, first, on the amount of money which the federal government is prepared to set aside and, second, on the formula it adopts for disbursing this money among the states. This is somewhat speculative, but we may be guided by the magnitudes currently being discussed.

It has been widely suggested that the federal government set aside a total fund equal to 1 percent of the national income tax base. The various proposed inter-state sharing formulas indicate that New York State might receive close to 10 percent of this total fund. Under these assumptions, New York State would receive about $250 million if general purpose grants were now in effect.

By applying our proposed State-local sharing formula, we calculate that the State would reserve for itself about $85 million and redistribute $165 million among all local governments in this State. If half of the $165 million were to be used for education and half were added to the State's per capita grant pool, New York City would receive approximately $65 million, $20 million via school aid and $45 million in per capita grants.

On the assumption that the federal government's contribution will be tied to its income tax base, automatic increases in the total funds available for general purpose grants may be anticipated. Moderate assumptions about
this growth suggest that New York City might easily receive something in the neighborhood of $120 million by 1974-75, again including both school-aid and per-capita components.

**The Federal-State-Local Community of Interest**

Federal general purpose grants have in recent years been proposed mainly by federal officials and their advisors. Grants of this sort are seen as necessary fiscal corollaries of an increasingly complex federal system. Officials responsible for fiscal policy to achieve economic growth and stabilization recommend general purpose grants as a new technique of federal fiscal management.

If achieving a greater measure of fiscal federalism and ensuring national economic growth and stability carry with them revenue windfalls for state and local government, then surely the City of New York should support the measures which advance these ends. Indeed it is surprising and somewhat ironic that at a time when state and local governments find themselves under increasing fiscal pressure, the main impetus for general purpose grants still comes from the national element of our federated system of government.

The Commission believes that state government has an important and useful role to play in financing and providing urban public services. Indeed, we recommend increased direct responsibilities for New York State in higher education and welfare. To meet its responsibilities, the State—like the City—needs additional fiscal resources. Federal general purpose grants would provide some of the funds needed. The amounts thus provided would increase along with the anticipated productivity of the federal income tax.

The Commission feels strongly that the State can and must be trusted to use its resources to meet the high-priority public service needs of its citizens. Cooperation between the local and state governments, not mutual antagonism, is the only way to achieve this goal. A nineteenth century concept of the American fiscal system is no longer tenable. Federal, state, and local governments can no longer stand independently or in opposition to each other.

Federal general purpose grants would provide a means of tapping the highly productive federal tax mechanism for state and local purposes and would therefore be a step in the direction of fiscal progress based on a recognition of the full interdependency of the three levels of government.*

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*Mrs. Hoffman and Mr. Potofsky dissent from the recommendation that the City join with the State in pushing for federal general purpose grants to the states. In their view New York City will receive fuller and clearer federal assistance through special purpose grants along both established and new lines.

They feel that unearmarked federal grants through the states might be diverted from special city problems to general public expenditures. They see federal special purpose grants as an addition to continued State aid to provide the City with necessary intergovernmental revenues.
IV

Additional City-Raised Revenues

Improved fiscal management and intergovernmental fiscal reforms are essential, but they will not be enough to resolve the fiscal problems facing the City now and in the future. The City must face up to the necessity of raising more money from taxes and charges imposed by the City itself.

We do not lightly propose additional tax burdens for the City's residents and businesses. No taxes are pleasant or easy to pay. However, City taxes are the price New Yorkers pay for improved City services. And City services urgently need improvement in many directions.

New York is a great city, but great cities have risen and declined throughout world history. Often their decline has stemmed in part from economic and other handicaps, not corrected in time, which have deflected enterprise, cultural resources, and leadership to a search for more efficient and commodious environments.

We do not believe that New Yorkers are willing to contemplate such a decline. Instead, we are convinced that the people of this City will accept the necessity of higher taxes, if they know that the City's fiscal affairs are prudently managed and that their taxes will be used to buy the public services needed to maintain and improve a great community.

The City must, therefore, take steps to raise more money from its own revenue system as soon as possible—certainly for the 1966-67 expense budget but preferably in time to help balance the current year's budget. Our analysis of the City's approaching fiscal crises, in Chapter I, makes this clear.

Basic Tax Considerations

There are only a limited number of possible tax policy alternatives for the City. We have examined these alternatives in the light of the following objectives:

(1) The revenue measures adopted must not only be adequate to meet the immediate revenue needs, but they should, in addition, be designed to help the City avert recurrent fiscal crises in the years ahead. This means that they should yield revenues which grow rapidly over the years as the City's economy grows.

(2) Any new revenue measures should make the City's overall revenue system a fairer one. They should not increase the degree of inequity which already exists.

(3) Revenue measures which will damage the City's economy must be avoided. Where possible, existing taxes which do this should be revised to reduce their harmful effects on the City's economy.
(4) Some City services can be financed by charges paid by the users of those services without negating the purposes for which the City provides the services. In such cases, user charge financing, not tax financing, is a mark of social progress.

(5) Above and beyond immediate budgetary difficulties, the City needs additional current revenues to permit some of the reforms in borrowing policies recommended in Chapter II, namely cessation of borrowing for current expense purposes and placing debt service for a number of City enterprises on a self-supporting, rather than tax-supported, basis.

REVENUES AND ECONOMIC GROWTH

The City's existing revenue system will yield more revenue automatically as the City's economy grows, but by no means enough to match probable increases in City expenditures. It is reasonable to expect that income generated by the City's economy will increase by about 50 percent between now and 1974-75. We estimate on this basis that the City's revenues from its own current sources will rise by about 50 percent without any new taxes or increases in present tax rates.

This estimate implies an average increase in City-raised revenues of almost $140 million per year (see Table 7). That amount is, however, far less than the recent and probable future rate of increase in the expense budget. Therefore, in addition to securing more federal and State aid, the City will be faced with the necessity of tapping its own revenue sources more heavily, by increasing the rates of existing City taxes and charges and possibly by adopting new tax measures.

The responsiveness of revenues to economic growth is one criterion for choosing among alternative ways to raise more City revenues. If the City employs revenue measures which are relatively sensitive to the growth of the economy, it will have a better chance of minimizing the frequency (and pain) of tax increases.

The City's existing excise taxes rate low on this count, since, on a percentage basis, revenue from them can be expected to rise automatically only about two-thirds as fast as the rise in income generated by the City's economy. The real estate tax is better from this standpoint. Its revenues will increase slightly more rapidly than income generated in the City, assuming that the building boom does not end abruptly but merely tapers off slowly. A City income tax would be quite responsive to economic growth. It is estimated that the revenue from a flat-rate tax (using the State income tax base and a tax credit like the State's) would increase by more than 1.4 percent for each 1 percent rise in income.

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Table 7
NEW YORK CITY REVENUES
ESTIMATED 1965-66 AND PROJECTED 1974-75
(in millions of dollars)

<table>
<thead>
<tr>
<th>Type of Revenue</th>
<th>1965-66 Adopted</th>
<th>1974-75 Projected^a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Taxes</td>
<td>$1,408</td>
<td>$2,273</td>
</tr>
<tr>
<td>General Fund (Excluding State Payments)^b</td>
<td>937</td>
<td>1,289</td>
</tr>
<tr>
<td>Excises</td>
<td>765</td>
<td>1,015^c</td>
</tr>
<tr>
<td>Other^d</td>
<td>172</td>
<td>274</td>
</tr>
<tr>
<td>Supplemental Revenues^e</td>
<td>67</td>
<td>103</td>
</tr>
<tr>
<td><strong>Total from City Sources</strong></td>
<td><strong>$2,412^f</strong></td>
<td><strong>$3,665</strong></td>
</tr>
<tr>
<td>Federal and State Aid (Including State Payments)</td>
<td>$1,207</td>
<td>$2,430^g</td>
</tr>
<tr>
<td>Deficit Borrowing (Serial Bonds)</td>
<td>256</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total Expense Budget</strong></td>
<td><strong>$3,875</strong></td>
<td><strong>$6,095</strong></td>
</tr>
</tbody>
</table>

^a Projections assume the following:
1. An increase between calendar 1965 and calendar 1974 of 51 percent in total money income of City residents plus earnings of non-residents working in the City; this is based on employment and income projections of Regional Plan Association and the National Planning Association.
2. Each of the revenue sources will respond to economic growth much as they did in the past 10-15 years, after adjustment for changes in tax rates and laws during that period.
3. Commission proposals for new revenues from City sources and from State and federal aid are not reflected. See Chart 2, page 73, for projections adjusted to reflect these proposals.

^b State payments, excluded from the general fund in this table, are taken up in that fund in City accounting. They chiefly include per capita aid plus shares of State highway user, mortgage, and stock transfer taxes.
^c Projected on basis of sales, hotel, and amusement tax provisions in effect August 1, 1965.
^d Chiefly user charges, fines, and privileges.
^e Mainly sewer rentals, dock revenues, and parking meter revenues.
^f Includes $56 million actually applied to repay revenue anticipation notes issued in 1964-65.
^g Includes $740 million which would not be available if welfare and higher education are transferred to the State, as the Commission recommends.

A MORE EQUITABLE TAX SYSTEM

The choice among alternative ways of increasing City revenues also depends upon the relative equity or fairness of the tax alternatives. The most common way of measuring the equity of a tax system is in terms of its progressivity or regressivity. That is, estimates are prepared of the amounts of tax burden borne by people in each of several income brackets. These tax burden amounts are then compared to the total income received by people in each of the income brackets. A tax system is said to be regressive if the tax burden as a percent of income declines as income rises;

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it is *progressive* if the tax burden as a percent of income rises along with income; and it is *proportional* if the tax burden in percentage terms is roughly constant throughout the income range.

The City's present tax system is strongly regressive. City taxes absorb a much larger fraction of the incomes of low-income residents than they do of high-income residents.

The regressivity of the City tax system is *not* due to the sales tax. This tax is roughly proportional—that is, it absorbs about the same percentage of income in each group—largely because it does not apply to consumer expenditures for food, housing, transit fares, and similar items for which very large fractions of the incomes of lower-income people are spent. Instead, most of the regressivity of the City's tax system stems from the heavily regressive nature of the real estate tax on housing, which provides more than one-third of the City's tax revenues (see Table 8).

The policy implication of this is clear. If the City does not wish to add to the already substantial regressivity of its tax system, then an increase in the real estate tax as *a major source of new revenue* is an alternative to be avoided.

**Economic Effects of City Taxes**

The economic effects of City tax alternatives are particularly important in connection with taxes on business purchases, assets, and transactions, taxes which affect the cost of doing business within the City compared to other possible locations. The City's business taxes have increased sharply in recent years. The Mayor, in his last Budget Message, estimated that New York City's tax revenues will be 77 percent higher in the current fiscal year than they were ten years earlier, in 1955-56. But taxes whose primary impact is on individuals as consumers have risen by only 69 percent, while taxes whose primary impact is on businesses have risen 89 percent. The business tax share of the City tax load has increased from less than 43 percent of the total to over 45 percent (see Tables 8 and 9).

These results are not accidental consequences of the pattern of economic growth in the City, but rather the result of tax policy decisions which focus on business as a source of taxation, as Table 2 (page 4) shows specifically. Since 1955-56, the rates of the general business and financial taxes were doubled; a major new business tax—the commercial occupancy tax—was adopted; and several minor business taxes were imposed. Meanwhile, the motor vehicle use tax and two other minor consumer taxes were repealed. Although the combined City-State sales tax rate is 5 percent, the City sales tax rate now is back to 3 percent. The only important City consumer tax rate increase in the last decade, still applicable, has been on cigarettes.

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Table 8
NEW YORK CITY TAX STRUCTURE, 1955-56 AND 1965-66a
(in millions of dollars)

<table>
<thead>
<tr>
<th>Tax</th>
<th>1955-56</th>
<th>1965-66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, City Taxes</td>
<td>$1,226.1</td>
<td>$2,173.2</td>
</tr>
<tr>
<td>Taxes Primarily on Businesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Tax on Nonresidential Propertiesb</td>
<td>345.1</td>
<td>576.6</td>
</tr>
<tr>
<td>General Business</td>
<td>89.8</td>
<td>184.5</td>
</tr>
<tr>
<td>Financial Business</td>
<td>12.3</td>
<td>26.1</td>
</tr>
<tr>
<td>Occupancy Taxes</td>
<td>0.9</td>
<td>72.8</td>
</tr>
<tr>
<td>Sales and Use Taxes on Business Purchasesc</td>
<td>68.0</td>
<td>99.0</td>
</tr>
<tr>
<td>Utility Gross Incomed</td>
<td>6.3</td>
<td>16.0</td>
</tr>
<tr>
<td>Commercial Motor Vehicle</td>
<td></td>
<td>3.7</td>
</tr>
<tr>
<td>Vault Charge</td>
<td></td>
<td>2.3</td>
</tr>
<tr>
<td>Conveyances of Real Propertye</td>
<td></td>
<td>5.0</td>
</tr>
<tr>
<td>Taxes Primarily on Individuals</td>
<td>$703.8</td>
<td>$1,187.1</td>
</tr>
<tr>
<td>Real Estate Tax on Housingb</td>
<td>484.2</td>
<td>831.4</td>
</tr>
<tr>
<td>Sales and Use Tax on Consumer Purchasesc</td>
<td>175.0</td>
<td>296.8</td>
</tr>
<tr>
<td>Cigarette</td>
<td>9.8</td>
<td>40.0</td>
</tr>
<tr>
<td>Utility Gross Incomed</td>
<td>5.6</td>
<td>14.2</td>
</tr>
<tr>
<td>Motor Vehicle Use</td>
<td>9.4</td>
<td></td>
</tr>
<tr>
<td>Hotel Rooms</td>
<td>6.5</td>
<td>2.0f</td>
</tr>
<tr>
<td>Amusements</td>
<td>10.8</td>
<td>0.8f</td>
</tr>
<tr>
<td>Pari-mutuels</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Horse Race Admissions</td>
<td>0.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Retail Liquor Licenses</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Coin-Operated Devices</td>
<td></td>
<td>0.2</td>
</tr>
</tbody>
</table>

Percent Distribution:

- Taxes on Businesses: 42.6% 45.4%
- Taxes on Individuals: 57.4% 54.6%

b Allocation of real estate taxes based on distribution of taxable assessed value in 1954-55 and 1964-65 in Tax Commission Annual Reports. Real estate taxes on utility property allocated among businesses and individuals on the basis of the estimated distribution of utility sales.
c A significant share of sales tax collections, estimated at 28 percent under the pre-1965 law and 25 percent under the law in effect since August 1, 1965, comes from purchases by businesses rather than consumers.
d Allocated among businesses and individuals on the basis of the estimated distribution of utility sales.
e Some of this tax comes from conveyances of residential property.
f Since August 1, 1965, these taxes have been merged into the sales tax.

Note: Because of rounding, detail may not add to totals. Table does not cover (a) non-tax revenues such as licenses, permits, fees, rents, and water charges, totalling in all nearly $240 million, or (b) State and federal aid and payments.
Table 9
INCREASES IN NEW YORK CITY TAX REVENUES, 1955-56 TO 1965-66*

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>Percent Increase</th>
<th>Amount Increase ($ million)</th>
<th>Percent Distribution Of Total Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, City Taxes</td>
<td>77%</td>
<td>$947</td>
<td>100%</td>
</tr>
<tr>
<td>Taxes Primarily on Businesses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>67</td>
<td>232</td>
<td>24</td>
</tr>
<tr>
<td>Other</td>
<td>131</td>
<td>232</td>
<td>25</td>
</tr>
<tr>
<td>Taxes Primarily on Individuals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>69</td>
<td>$483</td>
<td>51</td>
</tr>
<tr>
<td>Other</td>
<td>72</td>
<td>347</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>62</td>
<td>136</td>
<td>14</td>
</tr>
</tbody>
</table>

* Derived from Table 8; dollar amounts are rounded.

In fact, as Table 9 shows, the great bulk of the $947 million increase in City tax revenues in the past decade has come from taxes on business and on housing. Revenue from other taxes, applying mainly to individuals, has increased far less than has personal income of City residents.

New York City taxes on business appear to be high relative to business taxes in other places (and New York State's taxes on business are above average, compared to other states). The real estate tax on business property, relative to the estimated market value of property subject to tax, is higher in New York City than in most other large cities in the country. Only in Boston, Newark, Jersey City, and other nearby New Jersey cities is the real estate tax on business property significantly above that in New York City. In most cities outside the Northeast, the business real estate tax is well below New York's. And New York City is alone in imposing a substantial gross receipts tax on business and a substantial commercial occupancy tax.

Although the City's business taxes in general represent a relatively small business cost, the City's business tax structure is highly uneven in its effects on different types of business activity. New York City's business tax structure bears no relationship to the costs of providing public services to tax-paying firms. The City's business taxes bear heavily on firms which operate with high rates of turnover and low margins, often the very firms engaged in activities which have been migrating away from the City in recent years. The City seems to be leading from weakness, rather than strength, by taxing heavily activities for which the City's competitive position is poor and taxing lightly activities for which the City enjoys a good competitive position.

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Thus, the City's present package of business taxes is both high in level and arbitrary in its effects. It surely does not provide a suitable basis for increasing the taxation of business. But whether or not business is to be taxed more heavily, there is a strong case for a comprehensive revision of the business tax structure. The objective should be to foster economic growth in the City by reducing tax burdens on weak industries. This can be done without destroying the City's competitive attraction for other business activities.

**THE REAL ESTATE TAX AND HOUSING**

The portion of the real estate tax which falls on housing (over half the total) also has important economic effects, in this case on the City's housing stock and the rate of construction of new housing. The real estate tax over time is reflected in housing costs paid by the occupants of housing, whether homeowners or renters. For homeowners, the impact of the tax is direct and obvious. For tenants, it is less direct but nonetheless true.

Increased taxes on rent-controlled buildings—like other increases in costs—will, after some delays, result in increased rents (unless rents in those buildings are simultaneously rising rapidly enough because of turnover or other factors). For new apartment buildings, not rent-controlled, prospective investors will of course take increased real estate taxes into account in calculating the rent levels required to make the investment profitable. If market demand will not support the indicated rent levels, the buildings simply will not be built. In time, the reduced supply of new apartments will lead to higher free-market rent levels.

Real estate taxes on housing in New York City are high enough to comprise a significant factor in housing costs and housing decisions. The 1960 Census of Housing indicated that, as of that time, real estate taxes averaged 24 percent of rental receipts of apartment property and 25 percent of the annual housing costs of owners of single-family houses. Both these percentages are far above the national averages. Since 1960, real estate taxes in the City have increased more rapidly than housing expenditures or personal income. Currently, real estate taxes amount to even higher proportions of both housing expenditures and personal income than they did in 1960.

It is inconceivable that, were the City to wipe out its existing tax structure and start over again, a sales or excise tax on housing expenditures at a 25 percent rate would be tolerated. More likely, housing, like food, would be exempt from taxation entirely, as a necessity which absorbs large percentages of the incomes of poorer people. It is anomalous that spending for housing is taxed at 25 percent while spending for clothing, restaurant meals, consumer appliances, and automobiles is taxed at 5 percent, and spending for care of one's face, hair, and clothing is not taxed at all.

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This situation is not simply a question of equity among families of different incomes and tastes; it raises basic questions about City housing and redevelopment policies. A sales tax on housing expenditure of 25 percent, by raising the price of housing to consumers, reduces the amount of housing people rent or buy. It is surely a serious deterrent to the needed renewal and redevelopment of the City's housing stock. To meet the City's housing needs, housing costs should be lowered, not raised through high and rising real-estate taxes.

**The Commission's Proposals**

The Commission has reviewed the City's present revenue system in the light of our tax policy objectives and developed the following proposals:

1. The adoption of a City income tax.
2. Substantial increases in charges for City services which are appropriate for user-charge financing—notably water, sewers, and automobile facilities—and reduction of real estate taxes levied to finance debt service for these purposes.
3. Passage of the proposed constitutional amendment increasing the real estate tax limit for current expense purposes, combined with major reductions in the real estate tax levy for debt service, thus keeping the overall real estate tax rate at roughly its present level.
4. A restructuring of the City's business taxes to make them less harmful to the City's economy.

As Table 10 shows, these measures would yield the City an estimated $480 million in the first year in which they were fully in effect. Equally important, the revenue from these actions would increase with the growth of the economy, yielding an estimated $740 million in 1974-75. *They thus would make an important contribution to the solution of the City's fiscal problems both now and in coming years.*

**Table 10**

**IMPACT OF COMMISSION'S RECOMMENDATIONS ON CITY REVENUES**

*(in millions of dollars)*

<table>
<thead>
<tr>
<th>Description</th>
<th>At 1965-66 Levels of Economic Activity</th>
<th>At Projected 1974-75 Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>$250</td>
<td>$425</td>
</tr>
<tr>
<td>Net Additional Real Estate Tax Revenues</td>
<td>40</td>
<td>65</td>
</tr>
<tr>
<td>Net Additional Business Tax Revenues</td>
<td>70</td>
<td>100</td>
</tr>
<tr>
<td>Water, Sewer, Auto and Other User Charges</td>
<td>120</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$480</strong></td>
<td><strong>$740</strong></td>
</tr>
</tbody>
</table>

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We have also considered a number of other revenue issues. The proposal to adopt a system of off-track betting as a source of City and State revenue is one of them. This proposal has the support of the City administration and of the City's voters. Some people have moral compunctions about raising tax money from legalized gambling, while others worry about the social implications.

But even from the standpoint of the fiscal issues, which are within the Commission's province, there are difficulties with this proposal. Estimates of the net revenue to be raised by off-track betting vary widely and are hard either to refine or verify. In addition, the actual implementation of this program would be administratively complicated, requiring many months. Therefore, off-track betting cannot be a high-priority element in solving the City's pressing fiscal problems. It is not an alternative to our proposals.

The Commission has also looked into the economic effects of the sales tax. A tax rate in the City substantially higher than in surrounding areas clearly diverts retail sales from the City. Such a differential is to be avoided wherever possible. But the City does not have available, even under our proposals, enough revenue to permit a lowering of its own sales tax rate.

A City Income Tax

The City needs a major new source of revenue to cope with its immediate fiscal problems and to help finance the improved public services a great city requires. The Commission believes that improved City services must be financed by additional taxes paid directly by individuals, not just by increasing taxes on real estate or business. The necessary additional contribution from individuals will be distributed most fairly if it is based on individuals' incomes—in accord with their abilities to pay taxes.

Therefore, the Commission recommends the adoption of a City personal income tax, the one major form of taxation the City itself does not now use, to meet this need. We propose a two-percent flat-rate City income tax, with exemptions, deductions, and credits like those in the State income tax, on the income of city residents and on the income earned within the city by nonresident commuters. We estimate that this tax would yield $250 million a year at 1965 income levels.*

The Commission has not reached this conclusion lightly. No new or increased tax is popular, nor is it harmless. But compared to the alternatives, the income tax is by far the best choice available to the City.

The City cannot continue to temporize with the problem through deficit borrowing and the like. We have made it clear that this course

* For taxpayers the net cost would be lower since the City tax would be deductible for federal income tax purposes. See page 58.

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would be disastrous. Nor can it slash essential public services; this is surely the path of stagnation and decline. The remaining choices are for new and increased major taxes, such as: a 7 percent sales tax; a substantial rise in the real estate tax; a doubling of the City's business taxes; or a 1 3/4 percent payroll tax. Any of these alternatives would be either far more damaging to the City's economy or far more regressive (or both) than is the proposed tax on individual incomes.

A Progressive Tax

A City income tax can contribute an element of progressivity to a City tax system which is now heavily regressive. To be sure, an income tax which increases City tax revenues by $250 million, or a little over 10 percent of present City tax revenues, will not convert the total tax system into a progressive one—or even a proportional one—but will mitigate the harsh effects of the present arrangements. The income tax recommended here would largely exempt the lowest income persons who are most severely treated by the present system. For example, the following tabulation compares the additional tax burden (as a percent of income) resulting from the adoption of the proposed income tax, with the tax burden resulting from an increase in the real estate tax yielding the same net additional revenue (approximately $250 million):

<table>
<thead>
<tr>
<th>Income Class ($)</th>
<th>Average Tax Burden as Percent of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income Tax</td>
</tr>
<tr>
<td>Under 3,000</td>
<td>2.4</td>
</tr>
<tr>
<td>3,000–5,000</td>
<td>1.2</td>
</tr>
<tr>
<td>5,000–7,000</td>
<td>0.5</td>
</tr>
<tr>
<td>7,000–10,000</td>
<td>0.9</td>
</tr>
<tr>
<td>10,000–15,000</td>
<td>1.2</td>
</tr>
</tbody>
</table>

As this comparison shows, the adoption of an income tax of this type would moderately reduce the regressivity of the City tax system, while an increase in the real estate tax would increase regressivity appreciably.

Another advantage of a City income tax would be the high degree of responsiveness of income tax revenues to economic growth. Indeed, revenues from the income tax would be more responsive to the City's economic growth than are revenues from any existing City tax. If an income tax were an important component of the City's revenue structure, the City would need less frequent tax rate adjustments as City expenditures and taxpayer incomes rise over time.

Wide Coverage

The income tax, as proposed, would parallel the State income tax in its geographic coverage. That is, the tax would apply to all income
of City residents and to income earned within the City by nonresidents. This arrangement is not only similar to State practice, but also corresponds to practice under local income tax provisions in the majority of larger cities with income taxes. A City income tax which does not apply to income earned within the City by nonresidents but only to City residents is perhaps the worst of all possible fiscal measures. If the rates are high enough, such a tax would be a recipe for wholesale migration to the suburbs by upper-income and middle-income families able to afford suburban housing.

An income tax which does apply to income earned by commuters within the City is one of the few means available to the City with which to tap the total stream of income generated by the City’s economy. That is an important goal for two reasons. First, it is reasonable to recover revenue from commuters who benefit from City services and protections which they do not support through taxes.

The second reason is equally significant. Taxing the entire City economy rather than only the income, consumption, and wealth of City residents recognizes that the City performs important functions for the entire metropolitan region by accommodating the poor and the disadvantaged. Many in-migrants, poor and ill favored, are attracted to the region by the strength of the metropolitan economy, but they are not evenly spread throughout the region. They live in New York (and the other older cities in the area), and the City government spends large amounts from City tax funds for their education, housing, welfare, and medical care.

These public service costs should properly be a charge against the entire metropolitan community. They are not under present arrangements, though State and federal aid does somewhat spread the fiscal burden geographically. Increased intergovernmental assistance would help further, as would full State assumption of the public assistance function as proposed in Chapter III. A City income tax applying to all income generated in the City, regardless of where the income recipient lives, would also work in the right direction.

**Economic Consequences.**

Any conceivable increase in City taxes would have some adverse effects on the City’s economy, compared to no tax increase at all (with the increase in expenditures financed from, say, more federal aid). The policy issue is: which tax measure among the conceivable alternatives will have the least adverse effects?

The Commission believes that a City income tax, imposed at moderate rates, is best from the standpoint of economic consequences. Since all those

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working within the City would be subject to the tax, there would be little tax
incentive for people living and working in the City to move only their
residences to the suburbs. Were they to change to both suburban jobs and
suburban homes, which is a difficult move to arrange for most people, they
open both job and housing opportunities for other New Yorkers. It is not
likely that a tax of moderate rate on personal incomes can provide any real
incentive for businesses to leave the City, especially if the alternative to the
income tax is higher taxes on business as such.

The income tax here proposed would be at a moderate rate, mildly pro-
gressive in its overall effect because of the exemptions, deductions, and
credits provided. Much higher income tax rates across the board, or steep
progressive rates on top of the New York State income tax, already among
the most progressive state income taxes in the country, might have more seri-
ous economic effects.

Under the Commission proposal, the tax computation for a New York
City resident would involve applying 2 percent to taxable income already
computed for State tax purposes (total income less exemptions and deduc-
tions) and subtracting the credit from this amount. For example, a married
couple with two children with adjusted gross income of $8,000 would com-
pute its tax as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted gross income</td>
<td>$8,000</td>
</tr>
<tr>
<td>Less: Exemptions and deductions</td>
<td>3,200</td>
</tr>
</tbody>
</table>
| New York taxable income
  (line 9 of State tax return)            | 4,800  |
| X 2 percent                              | 96     |
| Less credit: $25 for married couple      |        |
| $10 for single individual                | 25     |
| New York City tax                        | $71    |

As Table 11 shows, for a married couple with two children, City income
tax liability would begin at an income level slightly over $4,000, rising to
$107 at a $10,000 income and to $369 at a $25,000 income. Since City taxes
are deductible in computing federal income tax liability, this tax would be
offset in part by lowered federal tax bills. For example, for the taxpayers
shown in Table 11, the federal tax saving would be $6 at the $6,000 income
level, $20 at a $10,000 income, and roughly $100 at a $25,000 income.
Table 11

HYPOTHETICAL NEW YORK CITY INCOME TAX ON A MARRIED COUPLE WITH TWO CHILDREN (RESIDENTS OF NEW YORK CITY)

<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>Exemptions</th>
<th>Deductions(^a)</th>
<th>Taxable Income</th>
<th>New York State Tax(^b)</th>
<th>Hypothetical City Tax: 2% Flat-Rate with Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 4,000</td>
<td>$2,400</td>
<td>$ 400</td>
<td>$ 1,200</td>
<td>$ 1.00</td>
<td>—</td>
</tr>
<tr>
<td>5,000</td>
<td>2,400</td>
<td>500</td>
<td>2,100</td>
<td>28.00</td>
<td>$ 17.00</td>
</tr>
<tr>
<td>6,000</td>
<td>2,400</td>
<td>600</td>
<td>3,000</td>
<td>55.00</td>
<td>35.00</td>
</tr>
<tr>
<td>8,000</td>
<td>2,400</td>
<td>800</td>
<td>4,800</td>
<td>127.00</td>
<td>71.00</td>
</tr>
<tr>
<td>10,000</td>
<td>2,400</td>
<td>1,000</td>
<td>6,600</td>
<td>215.00</td>
<td>107.00</td>
</tr>
<tr>
<td>15,000</td>
<td>2,400</td>
<td>1,600</td>
<td>11,000</td>
<td>495.00</td>
<td>195.00</td>
</tr>
<tr>
<td>20,000</td>
<td>2,400</td>
<td>2,200</td>
<td>15,400</td>
<td>875.00</td>
<td>283.00</td>
</tr>
<tr>
<td>25,000</td>
<td>2,400</td>
<td>2,900</td>
<td>19,700</td>
<td>1,305.00</td>
<td>369.00</td>
</tr>
</tbody>
</table>

\(^a\) Assumes 10 percent standard deduction for incomes up to $10,000 and slightly larger proportionate itemized deductions above this.

\(^b\) $25 credit against tax computed from tax rate schedule.

*Note:* No State income tax is payable by any married couple with 2 children with an income of less than $3,963. Under the hypothetical 2 percent City tax, no tax would be paid by any married couple with 2 children with an income of less than $4,056.

Up to incomes of about $15,000, this proposed tax would be a progressive one, and above that level roughly a proportional tax. We believe that a City income tax of this type is the best major new revenue measure we can propose.*

### Increased User Charges

In our First Report we said that “the City is so hard-pressed that it cannot afford to subsidize activities and services which can be fee-financed without excessive hardship to the users of those services.” The official response to the recommendations stemming from this approach was not encouraging, but the Commission remains persuaded that an equitable and efficient City fiscal system requires the elimination or reduction of unwar-

* Mr. Potofsky would prefer a more progressive arrangement for the proposed City income tax. A flat rate for the City tax, even in combination with the progressive State income tax, would not in his view draw sufficiently and fairly from middle and upper income groups—comparing their burdens and advantages with those of low-income people.

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ranted subsidies. Moreover, where such unwarranted subsidies result in tax-supported debt service, sound debt management dictates that increased user charges be instituted to provide funds for debt service as well as operating costs.

The City does charge for many of its services. In 1965-66, it anticipates about $240 million—6 percent of the expense budget—in non-tax revenue from a wide variety of fees, charges, reimbursements, and the like, from private sources. But, for a variety of reasons, often largely accidental, revenue from users of specific services frequently does not cover the cost to the City of providing services which seem appropriate for user-charge financing.

Erratic subsidization of individuals and businesses that happen to be heavy users of certain types of City services is a luxury the City can no longer afford. In its present fiscal difficulties, the additional revenue possibilities from increased user charges cannot be ignored. The clearest possibilities—elimination of subsidies to water and sewer users and to motorists—could yield additional revenue of $100 million or more annually, a sum well worth attaining. Another $20 million, approximately, might be obtained by increasing the charges for other services, thus providing a total feasible increase of about $120 million in user charge revenues.

Equally important, appropriate charges for the use of services whose consumption can be varied at the user's option would encourage economizing on the use of the services. Such economy in use might lead to reduced City expenditures to provide additional service and facilities. Or it might simply reduce wasteful use of scarce resources like water and Manhattan street space. Both are worthwhile goals.

Perhaps most important of all, the elimination of unwarranted subsidies would provide an especially clear and forceful demonstration that the City is in fact determined to put its fiscal affairs in order, thus producing a climate of opinion in which necessary taxes can be raised and necessary expenditures incurred with public acceptance.

WATER AND SEWER FINANCES

As previously noted, the most obvious of the City's "unwarranted subsidies" is its failure to cover water and sewer costs from charges paid by water and sewer customers as such. The Commission has sponsored considerable research on water and sewer finances, both before and since its First Report. There we recommended substantial increases in water and sewer charges, both on frontage and meters, and the handling of these services on a utility-like basis. The City's current water crisis lends additional support to the Commission's original position. The principal considerations are clear:

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First, there is at least as much reason to charge water and sewer users in accord with the full costs of individual consumption as there is to have individual user charges for electricity, gas, and telephone services. Below-cost water and sewer charges and flat-rate charges not related to the amount of water consumed are justified only if the City wishes to encourage people to use more water than they would if they had to pay the full costs on a metered basis. Although a minimum amount of water is a necessity of life, water is not a free good. In the present circumstances, the City wishes to encourage people to use much less water.

Second, the City spends about $15 million more per year for water purposes (including debt service) than it collects from water users as such, and about $25 million more for sewers and sewage disposal (including debt service) than it collects in sewer rentals. For many years—up until the early 1950's—the City did in fact cover its water costs from water charges. The emergence of a water deficit results from the failure to raise water rates since 1933 as costs have risen. Nearly all large American cities have increased water rates substantially in the past three decades.

Third, despite this water deficit, the City is able to use roughly $29 million a year in water-charge revenue for non-water purposes. The reason is that all water debt service costs are defrayed from a real estate tax levy outside the constitutional tax limit.

Fourth, most water charges to residential water users are paid through frontage rates, which are independent of the actual amount of water used. Metered-rate customers pay 15 cents per 100 cubic feet. It is estimated that the average cost of water to frontage customers in 1963 was only 8.5 cents per 100 cubic feet. It appears that the average cost for one-family and two-family houses was a little over 6 cents. If all water use were metered at the 15 cent rate, and the same amount were consumed, total water revenues would be nearly $23 million higher than at present.

Fifth, the City's water experts believe, on the basis of the experience of other large cities instituting universal metering, that the adoption of universal metering in New York City would reduce water use by 150 million gallons per day. This is about 12 percent of total normal water use.

Sixth, the State Constitution authorizes the City to set water charges high enough to cover not only all cash outlays for water purposes but also "a fair return on the value of the property used" and "an amount equivalent to taxes which such services, if privately owned, would pay to such local government" (Article 9, Section 1f). This provision would permit the City to collect $130 million in water charges, compared to the $55 million now collected and the $70 million needed to cover all water outlays including debt service.

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In the light of these facts, the Commission recommends that City water finances should be revised to do at least the following:

(1) Cover all City water systems outlays from water revenues;
(2) Meter all water use; and
(3) Apply water revenues to cover water debt service and eliminate the levy of real estate taxes for this purpose.

If all water were metered at a flat rate of 15 cents per 100 cubic feet, water revenues would provide an estimated $66 million, taking into account reduced water consumption. This would not be enough to cover all City water outlays, currently $70 million. Moreover, the accompanying increase in sewer rentals of $3.4 million would be far too little to cover the $25 million sewer deficit.

In view of this shortfall in revenues needed to cover costs, and taking into consideration the fact that the City now derives some revenue from water charges for general City purposes, water charges should be set to raise at least $100 million a year, $45 million more than at present. This is 50 percent more than would be produced by universal metering at 15 cents per 100 cubic feet. These higher rates should be on a metered basis as soon as possible. Meantime, since full metering will take several years, the water charges still on a frontage basis should be doubled—and this should be done at once.*

If sewer rentals are continued at one-third of water charges, the sewer deficit would be reduced substantially under our proposal, since sewer rental revenue would increase by $15 million per year. The sewer deficit would be eliminated if sewer rentals were raised to one-half of water charges.

The main effect of these several changes, including particularly the shift of water debt service from real estate taxes to water revenues, would be to reduce real estate taxes for debt service, not to increase general City revenues.

**Transportation User Charges**

The City at present subsidizes both highway and transit users from general tax funds. The City spends roughly twice as much, conservatively estimated, for streets, traffic control, parking, and related purposes, as it receives from City taxes and charges paid by highway users and from shares

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*Universal water metering at rates high enough to cover all water costs has also been recommended by the Mayor's Panel on Water Supply, which reported in August 1965. The Panel was composed of the Deputy Mayor-City Administrator (Chairman), Chairman of the City Planning Commission, Commissioner of Health, Commissioner of Water Supply, Gas, and Electricity, President of the Board of Water Supply, and the Budget Director.*

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of State highway-user tax collections. Recent changes in State legislation will somewhat increase City revenue from State highway user taxes, but, even so, there will be a substantial continuing subsidy to motorists from general City revenues.

As to transit, the City’s subsidy to the subway system through municipal responsibility for debt service is long-established policy. It would take a fare of at least 25 cents, the present fare in cities like Chicago and Washington, most probably more, to cover the full costs of the transit system, including debt service. Direct municipal contributions to transit operations, including City support for the transit police and the transportation of school children, have developed more recently.

In a very real sense, City funds spent for transportation subsidies limit the City’s capacity to spend money for all sorts of other high-priority useful purposes. However, it may be that the annual transit subsidy of over $150 million, or at least some part of it, is a good investment for the City. The benefits from a low-fare transit system may be as great as those from any conceivable alternative use of the funds. Similarly, the highway subsidy must be judged in the light of general City transportation policy, not solely on the need for more revenue here and now.

The Commission is continuing its study of City transportation finances, including the fiscal relations between the transportation authorities and the City government. Among other things, it is considering the possibility of consolidating transportation agencies and pooling transportation revenues, a possibility bearing directly on transit finances and the transit fare. In its Third Report, the Commission expects to have more to say on this subject.

However, as noted in our First Report a year ago, “neither the federal government nor most state governments so clearly subsidize highway users as a class. Indeed, highway self-support is the prevailing national policy except in some big cities.” Since that time, the Commission has found no evidence to justify a highway subsidy which encourages motorists to use already congested street space in our crowded City.

Therefore, we again recommend the imposition of a City motor vehicle tax, at a $25 per year rate, which would yield $40 million. The imposition of tolls on the now toll-free bridges to Manhattan, where this is physically possible, would also be very desirable, both to reduce the subsidy and to help reduce Manhattan congestion.

**Review of Other User Charges**

The City imposes many other user charges besides those discussed above, and supplies services amenable to user charges not employed at present. Nearly every agency of City government has operations which generate some
non-tax revenues in the forms of fees, permits, licenses, fines, and similar charges collected from individual users of the services of that agency. For the most part, these revenues have developed over the years in response to the nature of operations of the individual agency and program, with little overall direction from the central administration of the City government. Since many of these revenues are deposited in the general fund (and are not directly applied to finance a particular agency's activities), agency heads commonly have little incentive to try to increase such revenues.

The City needs a procedure to put into effect the policy of eliminating unwarranted subsidies by increasing user charges or instituting them where none now exists. For this purpose the Commission recommends systematic and periodic reviews of user-charge practices and policies. These reviews should be conducted by a central administrative agency under the Mayor, preferably the City Administrator's office. All City agencies should be required to report to this central agency, at periodic intervals, their user-charge practices and policies and the justification for these policies. These reports would provide a basis for ordering a change in policies, when and where appropriate.

Real Estate Tax Amendment

A resolution to submit to the voters a proposed amendment to the State Constitution to raise the limitation on the real estate tax which the City may levy for current operating purposes was approved by the Legislature earlier this year. It will be before the 1966 Legislature for further consideration. If the Legislature approves, it will be submitted to the State's voters for approval at the general election in November 1966. The Commission tentatively recommended such action a year ago. We now renew our recommendation that the amendment be approved.

The proposed constitutional amendment would enlarge the City's real estate taxing power in two ways: (1) it would increase the constitutional tax limit for current operations and maintenance from 2½ to 3 percent, thus in effect permitting an increase of 20 percent in real estate taxes for current purposes; (2) it would increase the base of calculation by substituting a 3-year rather than a 5-year average of full valuations. During the past ten years, full valuations have been increasing about $2 billion annually; as long as they increase, the shortening of the base period will raise the City's taxing power. If the amendment had been in effect in 1965-66, the possible increase in the tax levy for current purposes would have been in excess of $250 million.

Against Net Increase

The Commission finds, however, that the present real estate tax is regressive and has unfavorable effects on the City's economy and its housing
supply. We do not believe that the overall real estate tax rate should be further increased mainly to provide major additional revenues. Instead, we recommend that the increased revenue which the amendment will provide be used primarily to put the City's fiscal house in order. Such use would permit a substantial reduction in the real estate levy for debt service purposes. The Commission's support for the constitutional amendment is based on the expectation that the City would in fact act along these lines, if need be under the spur of restrictive changes in the Local Finance Law.*

To understand the Commission's position, it must be remembered that the City's real estate tax levy has two components: the first is for current operating purposes (and most service of its short-term debt), which is subject to the constitutional tax limitation; the second is for long-term debt service, which is outside any constitutional limitation. In the 1965-66 budget, the real estate tax levy for debt service not subject to the limitation is $460 million, one-third of the total real estate tax levy of $1,408 million.

DEBT SERVICE REDUCTIONS

As already shown, an unlimited tax rate for debt service purposes, coupled with a severely limited tax rate for current purposes, has over the years led the City to shift numerous expense items which are current or recurring in nature from the expense budget to the capital budget. In the capital budget they are financed by borrowing, which is serviced by the unlimited real estate tax. Upwards of $100 million in annual debt service may be covered by expense items of this type. Adoption of the constitutional amendment would permit the transfer of these expenditures to the expense budget, over several years, with a commensurate reduction in the real estate tax levied for debt service.

In addition, the Commission's recommendations for increased user charges for water, sewer, and highways will permit debt service for capital

* Mr. Grimm and Mr. Yunich dissent from the recommendation for approval of the constitutional amendment to increase the real estate tax limit.

Mr. Grimm believes that the increase would run counter to the Commission's own findings against additional reliance on real estate as a major tax source. He doubts that steps will actually be taken to reduce debt service supported by the real estate tax, as an offset against a higher real estate levy for operating expenses.

Mr. Yunich notes that the Commission's endorsement of the real estate tax amendment is not conditioned on prior adoption of legislation requiring the proposed shifts out of debt service supported by the real estate tax. Without such a guarantee he feels that operating expenditure pressures may keep these shifts from being made and that the real estate tax may consequently rise substantially, in contradiction of the Commission's view.

Mr. Potosky supports the proposed amendment but does not concur with the Commission in tying its support so closely to restraints on possible future increases in the overall real estate tax. He foresees the possibility of situations in the decade ahead where a higher real estate tax may be the only effective means of insuring essential public services.
expenditures for these purposes to be met from user charges, rather than from the unlimited real estate tax levy. It is estimated that this change, if adopted, would reduce debt service charges against the tax levy by nearly $100 million. Thus, the combined effect of passage of the constitutional amendment, transfer of current items to the expense budget, and user-charge financing of debt service for water, sewer, and street purposes, would be to increase the net tax levy only very modestly, by about $40 million at current fiscal levels. This increase is indicated by Table 12, which compares the present real estate tax situation and the hypothetical results if the Commission proposals were in force currently (and had been in force for a few years).

Table 12
REAL ESTATE TAX LEVY, ACTUAL 1965-66, AND HYPOTHETICAL UNDER COMMISSION PROPOSALS
(in millions of dollars)

<table>
<thead>
<tr>
<th>Item</th>
<th>City Purposes Within Limitation</th>
<th>Debt Service Outside Limitation</th>
<th>Total Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual 1965-66 Levy..................</td>
<td>$ 948</td>
<td>$460</td>
<td>$1,408</td>
</tr>
<tr>
<td>Increase within Limitation under Proposed Constitutional Amendment.........</td>
<td>+ 250</td>
<td></td>
<td>+ 250</td>
</tr>
<tr>
<td>Reduction outside Limitation under Commission Proposals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current and Recurring Expense Items Shifting outside Limitation ...........</td>
<td></td>
<td>-100</td>
<td>100</td>
</tr>
<tr>
<td>(or more)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>User Charge Financing of Water, Sewer and Street Debt Service..............</td>
<td></td>
<td>-100</td>
<td>100</td>
</tr>
<tr>
<td>(or more)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment to Round Hypothetical Totals ......................................</td>
<td>+ 2</td>
<td>- 10</td>
<td>- 8</td>
</tr>
<tr>
<td>Hypothetical Levy....................</td>
<td>$1,200</td>
<td>$250</td>
<td>$1,450b</td>
</tr>
</tbody>
</table>

a Hypothetical situation assumes that the Commission's proposals had been in effect for several years. The proposed reductions in the real estate tax levy for debt service can be realized only over a period of years, as debt issued for current expense purposes (and now outstanding) is retired.

b The increase in the overall real estate levy, $42 million (1,450 minus 1,408) is rounded to $40 million elsewhere in this report.

Restructuring the City’s Business Taxes

The City's present package of business taxes* has often been criticized as harmful to the City's economy and discriminatory among different firms and types of business. The Commission's research supports these criticisms.

* The general business and financial business taxes, the commercial occupancy tax, and the utility taxes are treated here as a group since they reach different facets of the City's business life.
We recommend a comprehensive revision of the City's business tax structure designed to minimize the adverse economic effects of the present taxes.

**Net Income Tax**

No one form of business taxation is ideal in all respects. One possibility is a net income (or profits) tax on both corporations and unincorporated businesses (which parallels the State's practice of taxing unincorporated business).

A net income tax as a substitute for the present business tax structure would lead to a very different distribution of tax liabilities among industries. Taxes on retail and wholesale trade would be drastically reduced, while taxes on finance and service activities would be increased even more. In part, this is because, under existing federal law, a net income tax is the only practicable way for the City to tax commercial banks (except to a relatively minor extent under the commercial occupancy tax).

Although the manufacturing share of total tax liabilities would not change significantly under a net income tax, individual manufacturing industries would be differently affected. Taxes on the apparel industry would decline. There would also be decreases for producers of textiles, furniture, plastic products, leather products, toys, jewelry, and novelties. Substantial increases would occur for producers of food products, chemicals, metal products and machinery, and instruments.

In short, the tax burden would be shifted heavily in the direction of the office activities for which the City's position is strong, away from wholesale and retail trade, and away from most kinds of manufacturing activities which have been leaving the City in recent years.

A net income tax has some disadvantages, however. Although its yield would be highly responsive to economic growth, corporate profits are very volatile, and the revenue the City could expect from this tax would fluctuate considerably with business conditions, declining in recession years. Revenue from the State's business net income tax, for example, declined in the 1957-58 recession and was only 2 percent higher in 1959-60 than in 1956-57.

Perhaps more important, the rate of a City business net income tax substituting for the present business taxes would have to be high to raise the same revenues—6 percent, based on 1963-64 data, which compares to the 5.5 percent State corporate franchise tax rate. Yet another disadvantage is that the allocation of net income to New York City operations, for firms also doing business elsewhere, is difficult and more complicated than with other business tax alternatives.
GROSS MARGINS TAX

Another possibility is a tax on gross margins or “value added.”* Under this tax, a firm would compute its tax liability by subtracting from its gross receipts its purchases from other businesses, such as goods for re-sale, materials, utility services, and the like. This tax also avoids most of the defects of the present City business tax structure.

By deducting inter-firm purchases, the gross margins tax avoids pyramiding of taxes, that is, multiple taxation of the same goods and services at different stages as they move from producers to final consumers. It does tax firms in accord with their contribution to productive activity in the City, unlike the gross receipts tax, since a firm’s gross margins are its contribution to the value of total output. Indeed, since total gross margins in the City represent the City’s share of the national income created by business activity, the gross margins tax is a good measure of the true taxpaying capacities of the City’s business firms.

This tax form is not discriminatory among businesses but is strictly neutral in an economic sense since it applies with equal weight regardless of type of activity, form of business organization, capital structure, or “input-mix.” The last refers to the combination of production inputs. Some firms and industries are capital intensive, others labor intensive, and still others land intensive. The gross margins tax does not discriminate among them.

Unlike the net income tax, the gross margins tax reaches firms which are new and not yet profitable, as well as established and profitable businesses. This is not as disadvantageous as is often claimed. There is strong evidence that New York continues to be an attractive place to launch new business undertakings but is much less alluring to established (and profitable) firms. Thus, a net income tax might drive away some profit-making businesses. But a gross margins tax which does shift some of the tax burden to new firms will be substantially offset by the other advantages the City has as an incubator for “infant industries.”

The gross margins tax also possesses some of the few virtues of the gross receipts tax: relative stability of revenue yield, comprehensive coverage, and low tax rate. A gross margins tax covering all enterprises with no exclusions at a rate of about one percent would yield enough revenue to replace the present City business tax package. As in the case of the net income tax, a switch to gross margins as a business tax base would reduce taxes for retail and wholesale trade, for many types of manufacturing, and for utilities. Taxes on financial activities and services would increase, but these are among the strong points in the City’s economy.

* “Gross margins” is not used in the accounting sense of “gross profits” but is equivalent to “value added.”

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Table 13 indicates the effects of the business tax alternatives on representative New York City firms. For manufacturers, wholesalers, and retailers, the gross margins tax would produce substantial tax relief; the net income tax considerable, but somewhat less, relief.

Table 13
CITY BUSINESS TAXES ON REPRESENTATIVE FIRMS UNDER PRESENT AND ALTERNATIVE SYSTEMS

<table>
<thead>
<tr>
<th>Tax Base and Tax Liability Alternatives</th>
<th>Manufacturer</th>
<th>Wholesaler</th>
<th>Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Bases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Taxable Gross Receipts$^b$</td>
<td>$700,000</td>
<td>$1,100,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>• Estimated Gross Margins</td>
<td>260,000</td>
<td>93,500</td>
<td>36,000</td>
</tr>
<tr>
<td>• Net Income before State and Federal Income Taxes</td>
<td>48,000</td>
<td>17,500</td>
<td>7,500</td>
</tr>
<tr>
<td>Tax Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Under Present 0.4% Gross Receipts Tax$^c$</td>
<td>2,760</td>
<td>4,360</td>
<td>560</td>
</tr>
<tr>
<td>• Gross Receipts plus Commercial Occupancy Taxes$^d$</td>
<td>3,220</td>
<td>4,660</td>
<td>800</td>
</tr>
<tr>
<td>• Gross Margins Tax at 1%</td>
<td>2,600</td>
<td>935</td>
<td>360</td>
</tr>
<tr>
<td>• Net Income Tax at 6%</td>
<td>2,880</td>
<td>1,050</td>
<td>450</td>
</tr>
</tbody>
</table>

$^a$ "Representative firms" are the average-size firm in New York City in the indicated categories, with average gross receipts/gross margins/net income relationships.

$^b$ Gross receipts now taxable by New York City.

$^c$ After $10,000 deduction.

$^d$ Estimated average commercial occupancy tax payments in each industry in 1963-64.

Because of its economic neutrality, low rate, and greater emphasis on office-type activities, the Commission recommends the gross margins tax as a substitute for the existing general business and financial taxes, commercial occupancy tax, and utility tax. In order to reach commercial banks, we recommend that the gross margins tax be combined with a net income tax as an alternative, with firms required to pay either the gross margins tax or the net income tax, whichever is higher (this parallels State practice with regard to alternative bases for business taxation). Commercial banks, stock insurance companies, and many service activities would then pay the net income tax, while mutual financial institutions and most other businesses would pay the gross margins tax.*

A reformed City business tax structure should not be designed primarily to produce substantial increases in revenues from business. However, this

* A 2.5 percent net income tax would treat most financial institutions approximately on a par with a 1.0 percent gross margins tax.
much-improved system could appropriately yield marginal increases in revenue—say, 20 to 25 percent more than the present business tax structure, or $60-70 million at current economic levels, with a tax rate of 1.20 to 1.25 percent. Considering the broadened coverage of financial institutions and the better distribution of tax liabilities, aggregate tax liabilities of this amount would be less of a burden on the City economy than existing business taxes at present rates.*

* Messrs. Greidinger and Potofsky concur with the Commission on the need to restructure the City's business taxes but dissent from the recommendation that this be done through a combination gross margins tax on non-financial business and income tax on financial institutions. They urge instead that the restructuring be accomplished through a net business income tax across the board.

Mr. Greidinger argues as follows that the gross margins tax discriminates unfairly between mercantile enterprises and manufacturing firms:

"The retailer and wholesaler buy and sell a *finished* product. The manufacturer on the other hand buys raw material to which must be added labor and overhead to convert to the *finished* product. Gross margin as recommended in the report is determined for a firm 'by subtracting from its gross receipts its purchases from other businesses.' Thus, in the case of the retailer and wholesaler gross margin is sales less cost of *finished* product, whereas in the case of the manufacturer gross margin is sales less cost of *partially finished* product, raw material only. This in effect taxes the manufacturer on labor and overhead going into the *finished* product from which the retailer and wholesaler are exempt. Hardly an equitable tax to be offered to the business community."

Messrs. Greidinger and Potofsky see the following advantages in the net business income tax (over the gross margins tax): better measure of ability to pay, less discouraging to new firms, simpler because applicable uniformly to all business, more responsive to economic growth.
V

ACHIEVING FISCAL BALANCE

The recommendations in this report comprise an integrated package of proposed improvements in fiscal management, intergovernmental fiscal relations, and the City's own revenue system. They are designed to result in a balanced City budget which provides for improved City services financed in ways which are least harmful to the City's economy. If promptly adopted, these recommendations can solve the current fiscal crisis. In addition, they will make it possible to avoid recurring fiscal crises in coming years as City services expand. Their potential impact in enlarging City fiscal resources, in the near future and for the decade ahead, are summarized in Appendix Table E.

Meeting the Current Crisis

To close a budget gap of $300 million this year and at least $500 million next year, the Commission urges (1) better City management and economies, (2) more State and federal assistance to the City, and (3) the increases in City revenues which are necessary.

If all our recommendations for more aid and City revenues could be adopted quickly, almost $800 million additional a year would be available to finance public services in New York City.* This would be new money, over and above the increases in State and federal aid and in City revenues expected to accompany rising City expenditures and economic growth, more or less automatically under existing laws. With strict economy, these new resources would give the City leeway for prudent provision of additional essential services and for mandatory increases in costs. Moreover, they would eliminate the need for temporary borrowing to cover budget deficits and repair the damage done by the borrowing now in progress.

The Commission is not so unrealistic as to expect that all its recommendations can and will be adopted at once. In a technical sense, the $40 million in net additional real estate tax revenues is the only amount not available, for constitutional reasons, in time for the 1966-67 expense budget. All our other proposals could conceivably be adopted in time for that budget or even for the last few months of the unbalanced 1965-66 expense budget. But some of the proposals, especially those involving intergovernmental relationships, require major changes in established practices.

* The additional funds, as referenced here, would include $170 million of City monies now spent on the welfare and higher education functions recommended herein for transfer to the State. The transfers would free these funds for other municipal purposes.

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It is therefore urgent that the incoming City administration act at once for the adoption and implementation of those proposals which can be effected most rapidly. These include better fiscal management, increased State school aid, a City income tax, increased user charges, and reform of City business taxes.

**Future Prospects**

The City's expense budget has been rising rapidly in recent years—by $520 million this year and probably by almost as much next year (see Table 1, page 3). If City expenditures continue to climb as fast as they have since 1958, when a persistent upturn in the growth rate began, the expense budget will exceed $9 billion by 1974-75. Since the unmet needs for City services are great, the pressures for increased expenditures will be considerable.

To finance rising expense budgets, the City will have available large revenues from expected "natural growth" in State and federal aid and City revenues. Under existing tax provisions City revenue sources should yield an additional $1.3 billion annually by 1974-75. If welfare and higher education remain City functions, present provisions for State and federal aid should yield an additional $1.2 billion, for a total of $2.5 billion.

We estimate the full impact of the proposals for changes in the City's revenue system and its fiscal relations with the State and federal governments at nearly $1.6 billion by 1974-75. That is, if these proposals are adopted, the City will by then have $1.6 billion in additional funds for operating expenses from increased revenues and from freeing City monies otherwise required to finance the welfare and higher education costs which we propose be transferred to the State. In addition, by following our management and economy recommendations, the City should in time be able to save up to 5 percent of the total expense budget, some $200 million per year at current levels.

As Chart 2 shows, the City will have sufficient resources in 1974-75 to finance expenditures about 70 percent above the 1965-66 level, if the Commission's aid and revenue recommendations are adopted. Expenditures at that level, with effective and economical fiscal management, should permit necessary improvements in the quality and scope of City services and provide competitive compensation for City employees.
Chart 2
COMPARISON OF CITY REVENUES BY SOURCE,
ESTIMATED 1965-66 AND PROJECTED 1974-75
(in millions of dollars)

$6,570
Total
1974-75

$2,165
State and
Federal Sources

$3,875
Total
1965-66

Deficit Borrowing
256

State and
Federal Sources
1,207

City Sources
2,412

$4,405
City Sources

Commission Proposals
475

Expansion of
Existing Programs
483(c)

Due to Economic Growth
of New York City
1,253

From 1965-66
740

From 1965-66
1,207

---

a See Table 7 and Appendix Table B for more detailed breakdown.
b Includes $56 million already utilized to repay revenue anticipation notes covering revenues received in 1965-66 but considered attributable to 1964-65.
c Would be $740 million larger, i.e. $1,223 million in total, if welfare and higher education transfers from City to State, as proposed by the Commission, had not been made by 1974-75. In that case City expenditures would be larger by this sum, plus an additional $360 million to be met from local resources.

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But, as Chart 3 shows, if City expenditures continue to climb as rapidly as in recent years, even the large additional resources recommended by the Commission will prove inadequate. It is clearly essential that municipal expenditures be held, by frugal administration, to a growth substantially smaller than the $500 million registered this year and already in prospect for next year. Thus for the longer run as well as in the current crisis, the Commission's position is this: We are supporting additional intergovernmental aid for the City and proposing painful new revenues only as part of a general program in which forceful economy has first priority. Without this prime ingredient—cost-conscious management—balanced municipal finances cannot be achieved, despite large increases in aid and major new tax measures.

**Summing Up**

The City's financial condition gives cause for concern. By various expedients, including depletion of reserves, over-estimation of revenues, and borrowing against taxes not yet authorized, the City has technically balanced its recent budgets. But these "solutions" will not continue to meet payrolls and pay bills.

The interest and principal of the City debt will always be met, as the State Constitution requires, but on its present course New York would eventually—sooner rather than later—find itself unable to meet other current charges. The prospect of payless pay days and a pile of bills with no money in the till, even though not immediate, is certainly real, not an alarm sounded needlessly.

**Growing Services**

The basic reason for this difficult situation is that necessary expenditures for schools, police, welfare, and other required services have recently been going up much faster than the natural growth of local taxes and State and federal aid. Hence, the recurring budget gaps: nearly $100 million last year, over $300 million this year, and $500 million or more next year.

City expenditures are skyrocketing, partly because of the special problems of a changing population, but even more because New Yorkers of all strata and persuasions are demanding more protections and services. Doubtless there is also some waste. But the basic fact is that civilization has to be paid for. Some of the burden comes from national and State policies, especially those concerned with the free movement of people and with education, welfare, poverty, health, sanitation, and transportation.

**Basic Strength**

Yet despite this growing load, we who live and work here know that the basic economy is sound. In fact, New York was never so prosperous and
Explanatory Notes

1. Expenditures are statistically projected from actual expense budget data for 1958-59 to 1965-66 by the curvilinear estimating equation \( Y_c = a + bx + cx^2 \).

2. The Proposed City Revenues projection assumes that enough of the Commission's proposals for new revenues will become effective in 1966-67 to cover the projected expenditures for that year, requiring new revenues of some $400 to $500 million. It is assumed that the remainder of the Commission's revenue program would become effective in the years soon thereafter and would continue in effect through 1974-75.

3. Expenditure and revenue projections include public assistance and higher education as City functions. Revision downward would be necessary if the proposed transfer of these functions to the State is effected—toward a reduction by 1974-75 of $740 million in each revenue line and of $1100 million in the expenditure line.

4. The City has relied on borrowing, use of reserves, and other expedients to bridge the budget gap in 1964-65 and 1965-66.

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dynamic as now—and the new migrants, too, will become a great asset in time. But the City government is like the princess, with riches in the vault, starving, because she has lost the magic key.

New Yorkers want and need the protections and services of modern government. They refuse to go about in filth and fear or to send their children to substandard schools. They want a City they can enjoy and be proud of. And they are able and willing to meet the cost of such a City, in the Commission view, provided those who manage the services do an honest and efficient job and make the essential needs known.

Does anyone think that some outside power is coming to save New York City miraculously from a sea of fiscal troubles? Does anyone really believe that the State and federal governments will soon hand the City added hundreds of millions of dollars in the face of municipal negligence? Some new assistance, yes, as we have suggested, but certainly not soon in great magnitude. For that matter, does the City want a solution under which it would lose self-government by total dependence on a superior government or on some non-governmental creditors’ committee?

The time has come to put the house in order, even if it hurts, and to pay what it costs to do the work that lies ahead. This calls for hard-headed economy, changes in services, and new charges and taxes.

**Essential Steps**

Specifically, the Temporary Commission on City Finances here presents to the Mayor, the Board of Estimate, the City Council, and the entire citizenry a unified plan of fiscal salvation and future promise for New York City. Our program, comprehensive and interwoven, includes the following:

1. Economies and better management, with mandatory budget ceilings for each department.
2. Adequate user charges for commercial-type City services.
3. An end to borrowing to meet current budget deficits.
4. Immediate negotiations with the State and federal governments for revised and enlarged aid.
5. Increase of the real estate tax limit to permit sounder debt policy.
7. A two percent personal income tax (deductible on federal returns) on all who make their living in the City.

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It is with great reluctance that we have proposed the last of these steps, a personal income tax. We have done so only because we can find no other practicable way of getting the additional monies which the City needs, even after stringent savings, without imposing highly objectionable taxes. Such alternatives as a higher sales tax or increased occupancy tax would have a much more depressive effect on the City’s economy than the moderate personal income tax which we endorse and we have recommended this tax only as part of a fiscal package containing various benefits and guarantees for those who will pay.

The Commission, made up of citizens of this community, does not care for new taxes and charges—for the ordinary individual reasons and even more because taxes burden the economy. But there is no viable alternative. So we have sought those revenues which will be the fairest, do the least damage, and still produce the monies which the City sorely needs. Our program calls on New Yorkers for courage to face the facts and for readiness to pay for the things we all know we must have.

Over the next decade, New York City will face rising needs. At the same time, it will offer inspiring opportunities, provided our governmental services and community planning are effective. Municipal management must be efficient, based on an adequate and prudent fiscal foundation. In designing this foundation, as proposed in this report, the Commission has been mindful of our common aspirations that New York remain in the forefront of the great urban centers of the world.
## Appendix Table A

### ESTIMATE OF INCREASED EXPENDITURES

**NEW YORK CITY EXPENSE BUDGET 1966-67**

*(in millions of dollars)*

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debt Service</strong></td>
<td></td>
</tr>
<tr>
<td>On 1965-66 deficit-financing serial bonds</td>
<td>$60</td>
</tr>
<tr>
<td>Increased requirements on other bonds</td>
<td>40</td>
</tr>
<tr>
<td>Total outside tax limit</td>
<td>$100</td>
</tr>
<tr>
<td>Temporary debt within tax limit</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total debt service (principal and interest)</strong></td>
<td>$105</td>
</tr>
<tr>
<td><strong>Pensions</strong></td>
<td>30</td>
</tr>
<tr>
<td><strong>Education and Higher Education</strong></td>
<td></td>
</tr>
<tr>
<td>Salary Increases</td>
<td>$110</td>
</tr>
<tr>
<td>Other Increases</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total Education</strong></td>
<td>135</td>
</tr>
<tr>
<td>Welfare (high birth rates, in-migration, expanded staff)</td>
<td>50</td>
</tr>
<tr>
<td>Police and Fire (salaries, pensions, equipment)</td>
<td>40</td>
</tr>
<tr>
<td>Hospitals (salaries, supplies, and maintenance)</td>
<td>30</td>
</tr>
<tr>
<td>Poverty Program (City share only)</td>
<td>5</td>
</tr>
<tr>
<td>Other Increases (including larger social security and salary adjustments)</td>
<td>80</td>
</tr>
<tr>
<td><strong>TOTAL ESTIMATED INCREASE</strong></td>
<td>$475</td>
</tr>
<tr>
<td><strong>Expenditures per 1965-66 Expense Budget</strong></td>
<td>$3,875</td>
</tr>
<tr>
<td><strong>Projected 1966-67 Budget</strong></td>
<td>$4,350</td>
</tr>
</tbody>
</table>
Appendix Table B

PROSPECTIVE CITY REVENUES
NEW YORK CITY EXPENSE BUDGET, 1965-66 AND 1966-67

(in millions of dollars)

<table>
<thead>
<tr>
<th>Item</th>
<th>1965-66</th>
<th>1966-67</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adopted</td>
<td>Projected</td>
</tr>
<tr>
<td>Real Estate Tax</td>
<td>$1,408</td>
<td>$1,550</td>
</tr>
<tr>
<td>General Fund (Excluding State Payments)</td>
<td>881&lt;sub&gt;a&lt;/sub&gt;</td>
<td>885&lt;sub&gt;b&lt;/sub&gt;</td>
</tr>
<tr>
<td>State Aid and Payments</td>
<td>943&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1,020&lt;sup&gt;d&lt;/sup&gt;</td>
</tr>
<tr>
<td>Federal Aid</td>
<td>264</td>
<td>325&lt;sup&gt;d&lt;/sup&gt;</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>67</td>
<td>70</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td><strong>$3,563</strong></td>
<td><strong>$3,850</strong></td>
</tr>
<tr>
<td>Gap</td>
<td>312&lt;sup&gt;e&lt;/sup&gt;</td>
<td>500</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSE BUDGET</strong></td>
<td><strong>$3,875</strong></td>
<td><strong>$4,350</strong></td>
</tr>
</tbody>
</table>

<sup>a</sup> Not including $56 million already applied to the repayment of revenue anticipation notes used to balance the 1964-65 General Fund.

<sup>b</sup> Not including $56 million which will have to be borrowed to balance the 1966-67 General Fund under current prospects.

<sup>c</sup> Made up as follows: Earmarked Grants $701 million, State payments in General Fund $235 million, and Rent Administration and Urban Renewal $7 million.

State Payments in General Fund include: Per Capita Assistance $98.4 million, stock transfer tax $80 million, gas and fuel tax $26.5 million, registration and license fees $13.3 million, mortgage tax $11.4 million, railroad reimbursement $5.3 million, and highway maintenance $0.3 million.

<sup>d</sup> Substantially smaller if welfare and higher education transfers from City to State, as proposed by the Commission, were to be effective in 1966-67. Expenditures would then be smaller by counterpart amounts.

<sup>e</sup> To be bridged by borrowings, $256 million in serial and $56 million in revenue anticipation notes.
### Appendix Table C

**MAJOR RESERVE FUNDS**

**NEW YORK CITY, AT JUNE 30, 1961 TO 1965**

(in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Balance</td>
<td>$68,192</td>
<td>$33,628</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$68,192</td>
</tr>
<tr>
<td>Tax Appropriation Surplus and Deficiency Account</td>
<td>2,879</td>
<td>2,688</td>
<td>2,646</td>
<td>2,543</td>
<td>2,172</td>
<td>707</td>
</tr>
<tr>
<td>Reserve for Uncollected Taxes</td>
<td>19,623</td>
<td>22,058</td>
<td>0b</td>
<td>0</td>
<td>0</td>
<td>19,623</td>
</tr>
<tr>
<td>Tax Deficiency Account</td>
<td>7,256</td>
<td>(12,248)</td>
<td>1,159</td>
<td>(8,960)</td>
<td>(6,509)</td>
<td>13,765</td>
</tr>
<tr>
<td>Tax Appropriation—General Fund Stabilization Reserve Fund</td>
<td>100,808</td>
<td>113,964</td>
<td>109,710</td>
<td>40,395</td>
<td>28,568</td>
<td>72,240</td>
</tr>
</tbody>
</table>

**TOTAL RESERVES**

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$198,758</td>
<td>$160,090</td>
<td>$113,515</td>
<td>$33,978</td>
<td>$24,231</td>
<td>$174,527</td>
</tr>
</tbody>
</table>

---

a An actual deficit of $23.6 million was offset retroactively through equivalent reductions in 1964-65 tax levy appropriations under Executive Order of the Mayor, July 1, 1965.

b Transferred to the Tax Deficiency Account.

c Composition of "General Fund Stabilization Reserve Fund":

<table>
<thead>
<tr>
<th></th>
<th>1961</th>
<th>1962</th>
<th>1963</th>
<th>1964</th>
<th>1965</th>
<th>4 Year Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$69,923</td>
<td>$66,689</td>
<td>$74,155</td>
<td>$9,042</td>
<td>$155</td>
<td>$69,768</td>
</tr>
<tr>
<td>Mortgages</td>
<td>26,579</td>
<td>30,140</td>
<td>13,013</td>
<td>11,405</td>
<td>10,356</td>
<td>16,223</td>
</tr>
<tr>
<td>Uncollected Taxes and Miscellaneous Assets</td>
<td>4,306</td>
<td>17,135</td>
<td>22,542</td>
<td>19,948</td>
<td>18,057</td>
<td>13,751 Gain</td>
</tr>
</tbody>
</table>

*Source: City of New York, Comptroller's Reports, 1960-61 through 1964-65.*
**Appendix Table D**

**TEMPORARY DEBT, CITY OF NEW YORK**

At June 30, 1961 to 1965

(\textit{in thousands of dollars})

<table>
<thead>
<tr>
<th></th>
<th>6/30/61</th>
<th>6/30/62</th>
<th>6/30/63</th>
<th>6/30/64</th>
<th>6/30/65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Anticipation Notes</td>
<td>$42,900</td>
<td>$51,800</td>
<td>$63,100</td>
<td>$77,400</td>
<td>$88,800</td>
</tr>
<tr>
<td>(§24.00 Local Finance Law)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Anticipation Notes</td>
<td>$40,000</td>
<td>$118,600b</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(§25.00 Local Finance Law)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Notes</td>
<td>$5,300</td>
<td>$10,000</td>
<td>$34,000</td>
<td>$44,050</td>
<td>$68,756</td>
</tr>
<tr>
<td>(§29.00 Local Finance Law)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due 1961-62</td>
<td>5,300</td>
<td></td>
<td></td>
<td>$44,050</td>
<td>$68,756</td>
</tr>
<tr>
<td>Due 1962-63</td>
<td></td>
<td>3,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due 1963-64</td>
<td></td>
<td>7,000</td>
<td>19,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due 1964-65</td>
<td></td>
<td></td>
<td>14,100</td>
<td>14,350</td>
<td></td>
</tr>
<tr>
<td>Due 1965-66</td>
<td></td>
<td></td>
<td></td>
<td>29,700</td>
<td>47,816</td>
</tr>
<tr>
<td>Due 1966-67</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20,940</td>
</tr>
<tr>
<td><strong>Total Temporary Debt</strong></td>
<td>$48,200</td>
<td>$61,800</td>
<td>$97,100</td>
<td>$161,450</td>
<td>$276,156</td>
</tr>
</tbody>
</table>

\textsuperscript{a}Excluding Urban Renewal Notes and Bond Anticipation Notes.

\textsuperscript{b}Includes $56 million in revenue anticipation notes issued June 30 pursuant to Chapter 441, Laws 1965. Does not include an additional $25 million in revenue anticipation notes issued in July 1965.

## Appendix Table E

### ADDITIONAL CITY FUNDS POTENTIALLY AVAILABLE UNDER COMMISSION PROPOSALS*

(in millions of dollars)

<table>
<thead>
<tr>
<th>Category</th>
<th>If Adopted At Current Levels</th>
<th>Projected 1974-1975 Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Larger Intergovernmental Grants</td>
<td>$145</td>
<td>$475</td>
</tr>
<tr>
<td>School Aid</td>
<td>100</td>
<td>400</td>
</tr>
<tr>
<td>Federal General-Purpose Grant</td>
<td>45(^b)</td>
<td>75(^b)</td>
</tr>
<tr>
<td>Funds Freed by Transfers</td>
<td>$170</td>
<td>$360</td>
</tr>
<tr>
<td>Welfare Transfer to State</td>
<td>150</td>
<td>300</td>
</tr>
<tr>
<td>City University Transfer to State</td>
<td>20</td>
<td>60</td>
</tr>
<tr>
<td>Recommended New Revenues</td>
<td>$480</td>
<td>$740</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>250</td>
<td>425</td>
</tr>
<tr>
<td>Increased User Charges</td>
<td>120</td>
<td>150</td>
</tr>
<tr>
<td>Business Taxes Reform</td>
<td>70</td>
<td>100</td>
</tr>
<tr>
<td>Real Estate Tax Revision</td>
<td>40(^c)</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total Additional Funds</strong></td>
<td><strong>$795</strong></td>
<td><strong>$1,575</strong></td>
</tr>
</tbody>
</table>

* Exclusive of projected operating economies targeted to begin at $200 million annually.

\(^a\) Technically all these funds, except the additional real estate tax, could be made available throughout 1966-67 by prompt City, State, and federal actions. Actually they are unlikely to be available that soon across the board because of the time needed to effect some of the proposed changes.

\(^b\) Not including estimated general purpose funds to be channeled by the State through school aid (and subsumed under that heading here), $20 million in 1966-67 and $45 million in 1974-75.

\(^c\) Contingent on approval of the proposed amendment to increase the City's tax limit. Could not become effective until January 1967.
THIRD REPORT
Temporary Commission on City Finances

BLUEPRINT FOR FISCAL IMPROVEMENT
Recommendations for Strengthening Municipal Development, Services, and Management in New York City

JUNE 1966
City of New York

"COMPREHENSIVE REPORT OF FINDINGS AND RECOMMENDATIONS" AS REQUIRED BY STATUTE
Cross references are to the original (bottom) page numbers.
I

Better Bases for Fiscal Balance

In its First and Second Reports the Commission identified the City's fiscal crisis and proposed ways of meeting it currently and over the next decade. In this Third Report, a comprehensive statement required by statute, the Commission offers a program of fundamental improvements in City services, facilities, organization, and revenues.

By strengthening the City's economic base and municipal effectiveness, these improvements would contribute to fiscal balance at a high level of community satisfaction. This program complements and extends our earlier recommendations for municipal economy, more State and Federal aid, and larger City revenues.

Continuing Expenditure Growth

The need for a look at fundamentals is even clearer today than earlier in the Commission's life. Despite the economy intentions of the new City Administration and the reluctance of the State Legislature to grant the City additional revenues, the Expense Budget for 1966-67 totals $4.5 billion, up $600 million or 15 percent over 1965-66. This increase, a new record topping the rise of $500 million last year and of $300 million in each of the two previous years, is unmistakable evidence that powerful forces are working toward higher municipal costs. The Commission has already identified some of these forces—price inflation, population changes, obsolescence and congestion, rising expectations for service, increasing personnel costs, and others—and has noted that they bear not only on New York but on all the large cities of America.

The impact of these pressures on the City of New York is such that municipal budgets by 1975 are very likely to be at least double their present level. A conservative projection of the trend of total annual expenditures over the past ten years, 1956 through 1965, indicates that the 1975 budget will be over $9 billion. Another estimate, based on an item-by-item analysis of major City functions in relation to past trends and probable future changes, suggests a 1975 total over $7.8 billion. These amounts, even the smaller one, are well beyond the present anticipated reach of City revenues, which will probably total only a little more than $7 billion in 1975 under the combination of taxes and grants, old and new, now emerging from legislative action on the City tax program. This grim conclusion points

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not only to the need for larger taxes currently, as the Commission, the Mayor, and the City Council have all urged, but to the probability that further sizable increases will be required in the decade ahead.*

The expected increases in City expenditures on different functions, under the item-by-item estimates, are shown in Table 1. Social and protective services, both closely related to problems inherent in the City's changing population, account for the greatest percentage increases. Education, the largest City function, is expected to have the largest absolute increase—from about $1 billion now to about $2 billion in 1975. Several major physical services—sanitation, parks, and utilities (principally water and sewers)—are projected to grow more slowly. Generally, major City functions are expected to cost two to three times more in 1975 than they do today.

Three basic factors account for the projected increases in the various agencies and functions. First, the needs for most services are expected to rise. More students are anticipated in the public schools and colleges; more young and more old people are living at welfare-level incomes; special educational requirements are proliferating; crime rates are going up; and so on. Second, the prices which the City has to pay for personnel and non-personnel items to carry out its activities are increasing, especially for personnel (for which by far the most City dollars are spent). Third, the quality of various City services is being improved, with consequent higher cost per unit of service, as in the reduction of class size in the public schools.

The item-by-item estimates reflect evolutionary changes without much accommodation to emerging special efforts in some fields. Thus, the welfare estimate assumes a higher eligibility level for public assistance than at present. But wider implications of the anti-poverty programs, such as probable extensive growth in public medical care, were considered too imprecise to reflect in the calculations. This conservatism in handling new approaches doubtless accounts for some of the $1.2 billion difference between the aggregate of the item-by-item estimates and the higher figure extrapolated from the trend of overall expenditures, which of course include new outlays along with old.

* The item-by-item expenditure projection, $7.8 billion, is in a staff paper of the NYU City Finances Project on "Projections of New York City Expenditures to 1975." This paper will appear in NYU's Final Research Report to the Commission, to be published shortly. The paper also gives a minimum estimate of $7 billion, not used here, derived from assuming static municipal services.

The revenue figure assumes that public assistance and higher education will remain City functions, as is assumed in the expenditure projections. Both expenditures and revenues (grants in aid) would be smaller if these functions were transferred to the State, as the Commission recommended in its Second Report.

Third Report
Table 1

NEW YORK CITY EXPENDITURES
1964-65 as Budgeted and 1974-75 as Projected
(in millions of dollars)

<table>
<thead>
<tr>
<th>Functions and Departments&lt;sup&gt;b&lt;/sup&gt;</th>
<th>1964-65 Fiscal Year</th>
<th>1974-75 Fiscal Year</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational Services:</td>
<td>$ 992</td>
<td>$2,070</td>
<td>109</td>
</tr>
<tr>
<td>Public Education</td>
<td>912</td>
<td>1,800</td>
<td>97</td>
</tr>
<tr>
<td>Higher Education</td>
<td>80</td>
<td>270</td>
<td>237</td>
</tr>
<tr>
<td>Social Services:</td>
<td>$ 730</td>
<td>$1,880</td>
<td>158</td>
</tr>
<tr>
<td>Welfare</td>
<td>420</td>
<td>960</td>
<td>129</td>
</tr>
<tr>
<td>Hospitals</td>
<td>264</td>
<td>810</td>
<td>207</td>
</tr>
<tr>
<td>Health</td>
<td>46</td>
<td>110</td>
<td>139</td>
</tr>
<tr>
<td>Protective Services:</td>
<td>$ 499</td>
<td>$1,300</td>
<td>161</td>
</tr>
<tr>
<td>Police</td>
<td>330</td>
<td>860</td>
<td>161</td>
</tr>
<tr>
<td>Fire</td>
<td>169</td>
<td>440</td>
<td>160</td>
</tr>
<tr>
<td>Physical Services:</td>
<td>$ 222</td>
<td>$ 375</td>
<td>69</td>
</tr>
<tr>
<td>Sanitation</td>
<td>123</td>
<td>210</td>
<td>71</td>
</tr>
<tr>
<td>Parks</td>
<td>41</td>
<td>70</td>
<td>71</td>
</tr>
<tr>
<td>Water, Gas &amp; Electricity</td>
<td>58</td>
<td>95</td>
<td>64</td>
</tr>
<tr>
<td>Other Activities</td>
<td>$ 567</td>
<td>$1,415</td>
<td>149</td>
</tr>
<tr>
<td>Debt Service&lt;sup&gt;c&lt;/sup&gt;</td>
<td>$ 374</td>
<td>$ 790</td>
<td>111</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,382&lt;sup&gt;d&lt;/sup&gt;</strong></td>
<td><strong>$7,830</strong></td>
<td><strong>132</strong></td>
</tr>
</tbody>
</table>

<sup>a</sup> Based on 1964-65 Expense Budget as modified to March 15, 1965.

<sup>b</sup> Estimated pension contributions are included in departmental estimates under Educational and Protective Services and in Health and Sanitation, but otherwise are included in Other Activities.

<sup>c</sup> Debt service in support of the public schools is included in Public Education, not here.

<sup>d</sup> Detail does not add to total due to rounding.

**Developing Fundamental Resources**

Whether expenditures in 1975 turn out actually to be $9 billion or something else, they are clearly destined to be so large that the City cannot sit back complacent about its finances. If future deficits are to be avoided, perhaps more serious ones than at present, the City must improve the economic and physical community from which municipal fiscal resources are drawn. Similarly, the City government itself must become more efficient and gain access to greater revenues.

*Third Report*
The City must move quickly but prudently to better its fundamental fiscal position. It would be equitable, considering the national roots of the City's severest problems, to rely more and more on the State and the Federal governments for grants and direct action. But the City's problems are here and now and steadily growing worse, while Albany and Washington are both hard pressed by their own commitments. Further, most State and Federal assistance is directed toward new and larger activities, not toward helping to pay for what is already being done. Consequently, much of what must be undertaken must be locally supported, though with better State and Federal liaison wherever possible.

In meeting its problems largely by itself, in a national economy so interdependent as America's, New York must walk a fiscal tightrope. Public services must be maintained at a high level to attract and retain business, and they must be paid for currently if the City is to avoid unreasonable debt and unending financial anxiety. Yet tax burdens cannot be greatly out of line with those of neighboring or comparable communities lest business and upper-income inhabitants move out of the City in critical numbers (and others decide against moving in). Unfortunately, New York is currently in danger of failing in both areas: it has been borrowing unwisely for current purposes and yet its taxes are already high in comparison with suburban communities and competitive cities.

The Commission believes that New York can walk the tightrope, despite present hazards, with as good a chance of success as any major city. The underlying resources here are abundant, as are the talents, experience, and toughness. The City must draw fully and courageously on these assets to make itself more attractive physically, better balanced financially, and more satisfying personally to those living or working in it. The necessary actions toward that end are diverse and comprehensive—but also feasible.

**Guidelines for Improvement**

Specifically, the Commission recommends that the City take nine critical steps, covered in sequence in the following chapters. Some of these are aimed at strengthening the City's economic base, developing its human resources, and enhancing its livability. Others are concerned with bettering municipal management and productivity and with rounding out the City's intergovernmental and City-tax revenues.

*First*, the City should improve its assistance to the business community along three lines—better economic data and analysis, selective special credits where essential to business and development, and improved land-use planning and regulation. These steps will help protect and enlarge the economic base from which municipal revenues are drawn. *Chapter II.*

*Third Report*
Second, the City should improve its municipal physical development through tighter capital budgeting, more realistic capital planning, and better coordinated planning processes. Capital needs and resources have grown too large for planning centered on year-by-year project lists; comprehensive long-term planning has become essential to sensible capital improvement. Chapter III.

Third, City and City-related transportation activities should be closely coordinated with one another and with land-use and development policies. Charges for subways, buses, bridges, parking, and related facilities should reflect costs and benefits, business and individual economic factors, municipal financial circumstances, and the interdependence of transportation facilities. Chapter IV.

Fourth, the public school system should be made more responsive to general community needs through closer liaison with the Mayor, more involvement of the general public in basic school decisions, and substantial decentralization of program development and administration. The central school bureaucracy should substitute more meaningful budgeting for tight operational control and thus encourage need-oriented educational policies. Chapter V.

Fifth, City organization and procedures for managing its own activities and handling its relations with the State and Federal governments need to be revised. Major steps should be taken to strengthen central management, group departments for better coordination, establish an intergovernmental liaison office, and extend the use of electronic data processing. Chapter VI.

Sixth, the City and the municipal employee unions should restructure their relationships toward correcting personnel inequities and resolving bargaining impasses without strikes. Personnel practices should also be improved by making fringe benefits more equitable, reducing inconsistencies and imprudence in pensions, and stepping up the use of productivity standards and measurement. Chapter VII.

Seventh, State and Federal participation in social service programs should be heavily and rapidly increased. New York should work in concert with other great cities to remove discrimination against urban centers in federal-aid programs and to enlarge federal concern with urban problems whose genesis lies outside the cities. Chapter VIII.

Eighth, the City should make some tax improvements beyond the Commission’s earlier proposals, particularly to round out the coverage of the statewide sales tax and to correct inequities in real estate tax assessments and exemptions. Tax administration should be streamlined by arranging for

Third Report
State collection of City revenues wherever feasible, mainly leaving the real estate tax and other real-estate-related taxes for City collection. Chapter IX.

*Ninth*, City borrowing practices and the State laws which shape them should be revised and simplified in conjunction with the State Constitutional Convention next year. The City should incur debt only for capital purposes, perhaps in time with somewhat longer maturities than at present, and should have a consolidated debt-incurred margin adequate for its very large capital needs. Chapter X.

In a final chapter, these subjects and the Commission's earlier proposals are viewed in the perspective of New York City in relation to other major American cities. Such a view makes clear both the seriousness of New York's plight and the similarity of it to difficulties elsewhere. Comparative data indicate that big cities everywhere are beset by growing needs, rising payrolls, physical blight, constricted revenues, and inadequate federal aid—with New York, as the biggest city, probably most harshly beset. In solving its own dilemma, New York should become a leader in helping the whole nation meet urban problems.
II

STRENGTHENING THE CITY ECONOMY

The fiscal soundness of municipal government depends on the economic health of the community. Growth of the economy provides financing for more public services without increasing tax rates. Local government influences the rate at which such growth takes place by the kinds of facilities and services it provides. For example, the continued vigor of New York as the nation's business and financial headquarters depends on effective transportation to, from, and within the City's major business districts.

The role of municipal government in economic development and stabilization has been expanding in recent years in New York and elsewhere. The central problem here, as in many large cities, is the decline in opportunities for industrial and other blue-collar employment. This chapter indicates the dimensions of the difficulty, identifies some of the reasons for it, and suggests that the attack on it be conducted along three lines: better economic data, selective use of special credit, and more realistic land-use and building regulations.

Basic Employment Trends

In the past fifteen years, job opportunities in the City have grown only modestly, by about 5 percent overall. Meanwhile, the City's resident population has changed little in size, but there has been a substantial increase in the number of non-residents working in the City. Table 2 summarizes employment trends and projections in New York by industry groups.

The slow growth in total employment is the result of two divergent patterns. The first is a substantial, continuing decline in manufacturing and other goods-handling activities such as wholesale distribution. There are about 150,000 fewer manufacturing jobs in the City today than fifteen years ago. Offsetting this loss, there have been major increases in many types of office activities: in finance, business and professional services, and government. Manhattan's office building boom offers clear testimony to the City's attractiveness for such activities.

If present trends in the City and the metropolitan region continue through the next decade, total employment in the City will grow more rapidly than in the past fifteen years but less rapidly than in the surrounding areas. Manufacturing jobs will continue to decline, while employment opportunities in retail and wholesale trade will increase very slowly. But white-collar job opportunities should expand considerably.

Third Report
Table 2

EMPLOYMENT IN NEW YORK CITY*
Estimated Changes, 1950 to 1965, and Projected Changes, 1965 to 1975

<table>
<thead>
<tr>
<th>Industry Group</th>
<th>1950 to 1965&lt;sup&gt;b&lt;/sup&gt;</th>
<th>1965 to 1975&lt;sup&gt;c&lt;/sup&gt;</th>
<th>City's Share of Tri-State Region (%)&lt;sup&gt;d&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated Change</td>
<td>Projected Change</td>
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<tr>
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<td>43</td>
</tr>
<tr>
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<tr>
<td>Transportation, Communications,</td>
<td>+6,000</td>
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<tr>
<td>and Utilities</td>
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<tr>
<td>Wholesale and</td>
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<td>Retail Trade</td>
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<tr>
<td>Finance, Insurance, and Real Estate</td>
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<sup>a</sup> Covers employment in the City regardless of the residence of those employed.
<sup>b</sup> Total employment, including the self-employed, based on Regional Plan Association estimates and data from U. S. Bureau of Labor Statistics and New York State Department of Labor.
<sup>c</sup> Projections based on recent trends in the City itself, trends compared with the surrounding area, and Regional Plan Association projections for the Tri-State Region.
<sup>d</sup> The Tri-State Region is a 31-county area in New Jersey, New York, and Connecticut, with which current regional planning efforts are concerned (notably on the part of the Tri-State Transportation Commission and Regional Plan Association). The estimates and projections for the Tri-State Region are those of the Regional Plan Association.
<sup>e</sup> Total includes minor classes not shown separately, such as mining and agriculture and "industry not reported." These classes accounted for less than 50,000 in 1965.

The decline in manufacturing is a serious urban problem because it has curtailed a major avenue of employment for the unskilled. For some jobs, no skills were required; for others, the needed skills could be acquired at work, and better-paid positions often resulted. In New York the fall-off in blue-collar jobs like these has been compounded by an increase in the total labor force and by higher productivity because of automation and other improved processes. The growth in manpower is due to more workers commuting from the suburbs and to in-migration of the unskilled, high birth rates among some low-income groups, and other influences on the City's population mix.

In the long run, a decline in manufacturing along with growth in service and other employment may be inevitable and perhaps even desirable in New York. For the next ten to twenty years, however, strong governmental,
business, labor, and civic efforts to sustain manufacturing employment for the unskilled and semi-skilled appear essential. Meantime, new production and control processes, heavily automated, may generate employment opportunities of another sort both inside and outside industry, though with substantially higher educational requirements.

During the period of transition, educational systems both public and private will need to focus more sharply on the requirements of the emerging technology. This will not only entail curriculum changes; even more it will necessitate that fewer students drop out and that a stronger sense of hope and personal responsibility be inculcated. Welfare, youth, health, police, and other municipal functions will, of course, be involved in this uplift drive along with the schools. Industrial employment must be kept up, with the aid of various governmental and business stimulants, at least long enough for the program of educational improvement to take effect.

A parallel effort is necessary in New York and nationally to alleviate problems of unemployment in the unskilled segment of the population. This effort might well include special aid for rural newcomers in the cities, broader open occupancy in suburban housing, adequate birth control programs, and an expansion of service jobs (teachers’ aides, for example). These efforts, geared to the eradication of racial discrimination as well as to economic advancement, will need to be directed primarily toward the low-income neighborhoods, including the ghettos, in which most blue-collar and lower-clerical workers live.

Better Data Needed

The reasons that firms move away from New York City, or do not move in, are many and complex, and some are difficult to identify. The need for elbow room—adequate space for production, receiving, and shipping—appears to be the most important local cause. But traffic congestion, urban debris and air pollution, the high crime rate, and labor costs are also contributing factors. So is business taxation, which is heavier in New York, as the Commission’s Second Report indicated, than in most competitive locations—suburbs, other cities, or rural areas. In combination, these factors often mean that a firm can produce the same for less outside the City, even taking into account such New York advantages as labor supply, market accessibility, and the availability of ancillary services.

It is hard to be precise in assigning priorities and specific effects to these reasons for the City’s industrial employment problems. Some key facts, such as the small size of the typical New York manufacturing firm, are clear, but much essential information is incomplete. For instance, the out-migration of firms is not fully documented despite considerable attention
to this subject. The initiation, expansion, in-migration, contraction, and closing of City businesses are other important employment factors about which information is inadequate. New York should take the lead, working with State and Federal agencies and business organizations, to improve the basic data about urban industry and employment.

Better data are needed on a continuing basis regarding vacant industrial floorspace and industrially zoned lots: their size, quality, cost, location, and quantity. Fuller information about industrial employment would also be helpful. For instance, a comprehensive job vacancy survey would be a valuable resource in guiding the many present and proposed educational, training, and retraining programs.

But the City need not and should not delay its activities to encourage industry pending the development of better data. Enough is known about the problem now, its scope and main causes, to enable the City to push ahead. Many channels for strengthening the economic base are available, some of them already in use. Most attention has been given recently to credit programs; but other tools for economic improvement also deserve full utilization.

**Credit for Development**

Special credit arrangements to make industrial financing easier to get, less costly, and more liberal in terms constitute a major, though not wholly beneficial, avenue for stimulating industrial development. Programs of this sort are offered at every level of government—and a number of them are available, or potentially so, in New York City, as listed below. Similar sources are open in other cities—and there is growing inter-city competition, some of it wasteful, in offering low-cost money to induce development.

1. **Federal Economic Development Administration.** This program, directed to areas of substantial chronic unemployment, includes loans providing up to 65 percent of project financing for up to 25 years at government interest cost (now 41/4 percent) and guarantees up to 90 percent of working capital loans. New York City overall does not meet the required unemployment levels, but the rates in some specific neighborhoods—larger than many jurisdictions certified for these loans—are extremely high. Funds of this sort will probably be made available for redevelopment of the Brooklyn Navy Yard.

2. **Federal Small Business Administration.** Direct business loans up to $350,000 for a maximum of 10 years have been available in limited numbers. Other loans are made through local industrial development cor-

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Corporations for up to 25 years, under Section 502 of the SBA legislation, provided the development corporations themselves provide at least 20 percent of the funds. Further, as part of the anti-poverty program, SBA offers fifteen-year loans up to $15,000 without collateral through Small Business Development Opportunities Corporations. Business in New York avails itself of various SBA loans.

3. SMALL BUSINESS INVESTMENT CORPORATIONS. The Small Business Administration also licenses private groups as Small Business Investment Corporations (SBIC’s), some of them in New York. These groups receive federal tax benefits and are sometimes granted loans by SBA. Some SBIC’s with substantial reserves are perhaps moving too cautiously in view of their governmentally granted advantages for special risk-taking.

4. STATE JOB DEVELOPMENT AUTHORITY. Forty loans had been made in New York City by the State Job Development Authority as of June 15, 1966. These loans have gone through the New York City Industrial Development Corporation, a quasi-public lending agency linked to the City through board members who in other capacities are municipal officials, as second mortgages of up to 30 percent layered above first mortgages of 50 percent arranged privately. All but two of the loans were made at 2½ percent authorized by designation of the City as a high unemployment area; terms were for 10 to 25 years. As of June 15 the loans totaled about $4.9 million, intended to create about 1,500 new jobs at an average of about $3,200 per job in JDA credit.

5. NEW YORK BUSINESS DEVELOPMENT CORPORATION. This State-chartered private corporation, whose members are conventional lenders, serves as a public service shared-risk credit corporation. Loans are made for up to ten years at 2 to 2½ percent above the prime rate on 90-day loans, and equipment can be covered. Something less than 10 percent of the $58 million in loans issued as of September 30, 1965, was in New York City, perhaps indicating lack of knowledge of this resource on the part of eligible firms.

6. DIRECT LOCAL FINANCING. A proposed State constitutional amendment passed by the 1965 Legislature would authorize New York City to make direct municipal loans for industrial development and related facilities. The terms which would be permitted (as long as 55 years, with no required repayment of principal for the first ten years) and the inclusion of businesses of low employment densities as eligible would make this arrangement imprudent and unwarranted.

These programs have thus far operated at a modest level, or not at all, in New York City, partly because they have not been widely publicized. But the extent to which the City should push ahead with credit subsidies of
this sort, and how, are important questions. Considering the City's many economic advantages, the wisest policy might be to seek Congressional action to eliminate direct credit subsidies or at least reduce them. One moderate step in this direction would be to deny federal tax deduction as a business expense on payments for use of an industrial plant financed with tax-exempt bonds when these bonds are held by the lessee.

Until strong medicine of this sort is administered, the City should be guided by three key principles in encouraging the use of special credit for industrial development. *First*, this device should be utilized only where it is really needed. *Second*, the subsidy should be as low as possible. *Third*, advantages to the community—additional employment, larger income, compatibility with City plans, and others—should be the touchstone, not simply the needs of particular firms.

**Land Use for Development**

The non-credit avenues for encouraging industrial development are numerous. Many are related to physical planning, land-use control, and building regulation. In some cases, outmoded patterns of physical development must be corrected.

Much construction three-quarters of a century ago was on 25-by-100 plots. Many areas, residential as well as industrial, were mapped and platted for that type of development. But current industrial construction is largely horizontal, for single-level, straight-line production. The older loft buildings have become inefficient, and many are left to deteriorate.

In vast areas of the City, the gridiron pattern of short narrow blocks provides uneconomic sites and leaves a high percentage of land in streets too narrow for effective movement of people and goods. In a few places, where City ownership is substantial, this constrictive framework might be improved by City acquisition of additional land (with or without condemnation), followed by remapping with fewer but wider streets. In rare instances, streets can be closed and sold to adjacent owners to permit expansion.

Two sites have thus far been designated and acquired for industrial renewal. The Flatlands Urban Industrial Park was acquired in 1963 and leased in 1965 to the City Industrial Development Corporation, which subleased to the Rentar Development Corporation. The Washington Street Market was acquired in 1965 and will soon be available for redevelopment, though perhaps for non-industrial purposes. Unfortunately, neither of these two initial areas has led yet to industrial growth.

Land use is the focus of still other approaches to fuller industrial development. City-owned land may be sold at auction subject to deed restrictions that it be used for specified industrial purposes within a given period or revert to the City. Zoning should become a major force in reserving appropriate
areas of the City for industrial use. The Building Code should be changed, as proposed in a new version now in final drafting for Council consideration, to permit less expensive industrial construction in line with safe new building methods.

Transportation and terminal facilities need to be improved to properly serve economic development. Terminals especially require attention. An off-street loading center in the garment district would be a valuable pilot project. The waterfront offers great potential, especially in industrial areas tied directly to piers with adequate backup space. The use of the Foreign Trade Zone on Staten Island should be intensified.

Finally, a municipal attitude friendly to business is an essential element in industrial development. A reduction in the number and complexity of regulations would help business and could ease administration. Unified inspections of commercial and industrial buildings, as is now done with residential structures, would be another improvement, simplifying administration and discouraging dishonesty. In similar vein, the "little" occupancy tax should be reexamined; it amounts at maximum to $12 per year and probably costs many firms more than that in administrative expenses.

**Industrial Development Organization**

A simple organization, with a small number of agencies and a clear focus, is best for industrial development. The Department of Commerce and Industrial Development, perhaps renamed the Department of Economic Development, should be continued and strengthened as the central municipal development agency. A strong industrial development corporation with private as well as public participation should also be a key part of the development structure.

Along these lines the City and the business community are now creating a new Public Development Corporation (PDC), to function under distinguished leadership and be a major non-profit force for promoting the City's economy. PDC will have power, it is hoped, to issue tax-exempt obligations under Internal Revenue Service ruling 63.20, based on eventual reversion of all assets to the City.

The new arrangements will be rather complex, however, for specialized development corporations will be involved along with the PDC. The existing Industrial Development Corporation will continue to be a major channel for projects drawing on credit of the State development authority. A Commercial Development Corporation, recently established, will be more diverse, serving as a channel for various Federal as well as State loans. Local development groups, such as the Commerce, Labor, and Industry Corporation of Kings (CLICK) in Brooklyn, will submit projects to PDC for approval and for governmental financing through one of the central development corporations.
III

CAPITAL DEVELOPMENT AND PLANNING

A city which carries on comprehensive planning can have an overall program for its future public development as currently conceived. A program of this sort, essentially a physical plan based on social needs and economic resources, can provide a guide to what may be accomplished, when, and at what cost. Such a plan, properly implemented and periodically revised, would be another step toward the full and proper use of New York City's resources and hence toward its fiscal as well as economic strength. Without it, an essential guide is lacking for both public and private development.

Scope of Capital Needs

New York City does not yet have a master plan. The City Planning Commission does prepare a capital budget annually for the coming fiscal year, and a capital improvement plan for the subsequent five years. Financially, the five-year improvement plans are based on the amounts which the City estimates it can obtain by borrowing, its primary source of capital funds, and from State and Federal aid, a lesser but increasing source. The five-year plans have been criticized, understandably, as being essentially a budgeting of dollars rather than fundamental planning. However, a budgeting of limited funds was perhaps all that could practically be done at times in the past, in the view of some analysts, since a few major needs (especially transit) were consuming an unusually large share of the City's borrowing capacity.

Judging the future by the City's most recent six-year program, a broader range of capital development is clearly at hand. The capital budget for 1966-67 and the capital improvement plan for the ensuing five fiscal years total more than $3.8 billion. This sum for six years is more than 60 percent of all capital expenditures, in actual dollars, for the twenty years ended June 30, 1965, the whole post-war period—and more than 40 percent of such expenditures converted into 1965 dollars. The trends of the City's capital expenditures from the mid-twenties to the present are shown in Chart 1.

Although the City's plans always somewhat outrun actual expenditures, there are many reasons to expect that capital requirements will indeed be greater in the future than in the past. Merely keeping pace with obsolescence in a municipal plant as vast as New York City's has become a major expense. Construction costs have risen sharply—more than 100 percent since World War II, nearly 300 percent since the early thirties. Higher standards for many municipal facilities are also increasing costs.

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CHART 1
MUNICIPAL CAPITAL EXPENDITURES
City of New York, 1924-1965, Actual Dollars and 1965 Dollars

*Conversion to 1965 dollars based on Engineering News Record U.S. Construction Cost Index to 1949 and New York City Construction Cost Index for 1949 and thereafter.

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Beyond this the probability of expensive basic changes and extensions in City facilities must be recognized. Major enlargement and renovation of the transit system, including a new Queens-Manhattan tunnel, are in the offering and will entail a vast expenditure not yet projected in the present six-year capital program. Racial integration of the schools and the projected 4-4-4 system may add substantially to the already large capital costs of public education. The City University and the community colleges have growing capital needs too. Necessary improvements and extensions of the sewer system will also be costly.

Fundamentally, urban problems and public expectations are leading to expanding municipal services—and these will require a growing capital plant. This will not be the City's first period of intensive physical development and redevelopment. New York's history, going back to colonial days, is marked by several great surges of municipal capital expansion—for example, in the early Nineteenth Century, the decades immediately following the Civil War, and the turn-of-the-century period when the Greater City was established. More recently, in the late twenties, early thirties, and again in the late thirties and early forties, as Chart 1 indicates, City spending on capital plant was at a high rate—well above capital expenditures since World War II in dollars corrected for price-level changes. Conversely, municipal development was at a low ebb in the Great Depression and during World War II, thus helping to create the backlog in capital replacement and needed new construction with which the City must now contend.

**Financing Capital Needs**

Can the City meet these needs financially, economically, and legally? From the financial standpoint, as the Commission has previously emphasized, the first essential is to correct the fiscal abuses which led to the downgrading of the City's credit rating. With this done, and with good debt management and a sound economy, a major improvement program can be financed primarily from City resources.

The City's fiscal strength is fundamentally dependent on its entire economy. But the financing of municipal capital development is primarily dependent on real property values since the City debt is by law and tradition paid from real property taxes. Fortunately, the taxable property base has more than doubled during the past fifteen years owing to both rising values and extensive new construction. To meet its future capital obligations, therefore, the City will have greater taxing power than at any time in the past, provided the City's general economic well-being is maintained.

Furthermore, there is now greater prospect than ever before for outside aid in meeting the City's capital requirements. The growing burden of

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municipal needs is being recognized more and more by state and federal governments. In New York City, State assistance for capital needs has already greatly increased. Federal aid for capital improvement is beginning to become available in new areas, complementing assistance already given for highways and housing. For the current capital budget and five-year plan, State and Federal aid is projected to cover more than 12 percent of the total cost of the program.

The principal legal question respecting the financing of the City's future capital needs has to do with its borrowing power under the 10 percent State constitutional debt limit. This limit has been restrictive at times in the past, and, unchanged, it might in the long run become so again. But currently and for the immediate future, the limit does not appear to present a barrier to the City's proper capital development, particularly with additional State and Federal capital funds becoming available. Desirable rearrangements in the debt limit and related matters, looking ahead several years, are discussed in Chapter X.

**Better Planning Procedures**

Comparing future prospects for capital development with the record of the past, the recent Capital Budget Statement of the City Planning Commission, January 1966, describes the City as standing “at a unique transitional point.” Fundamental changes in the capital programs for education, transportation, recreation, and other areas are being considered in the light of new and larger requirements and growing availability of capital funds.

The need for effective planning, therefore, is critical. When the City's capital program consisted mainly of replacement of old schools, transit system rehabilitation, and other emergency measures, as was the case for some years after World War II, planning sufficed as little more than an allocation of dollars among quite obvious limited-purpose needs. Now the basic physical structure of the City for generations to come will be determined markedly by the City's capital improvement decisions, involving great sums and key facilities.

New York has a long-established procedure for capital planning, programming, and budgeting. But this Commission believes that there are significant defects in the system. Not only does the City lack a comprehensive physical development plan, as already noted, but its annual five-year improvement programs are unrealistic and officially disregarded. And its capital budgets are not really budgets, in the sense of constituting final appropriations when legislatively approved. Also, capital programming is not related closely enough to the City's expense budget to show adequately and solidly the impact of new capital facilities on future City expenditures for operations and debt service. To correct or lessen these difficulties, the Commission makes the following recommendations:

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(1) A comprehensive physical development plan should be prepared and adopted at the earliest possible date.

The City Charter since 1938 has directed the City Planning Commission to develop a master plan for the City. But the plan has not yet been completed. The Commission has accumulated a vast amount of planning data and indicates that it expects to complete the task in 1967. Hopefully, this target will not be missed.

A master plan, regularly revised, will give the City a comprehensive framework for departmental planning, urban renewal, land use regulations to guide private development, and for State, Federal, and authority construction. Furthermore, it will help the City play a stronger role in metropolitan planning.

(2) The five-year capital improvement plan should be officially adopted as the City's short-range program, through submission by the Mayor, after his review, to the City Council and Board of Estimate for their consideration, possible amendment, and approval.

The five-year plan now is essentially a tentative allocation of dollars to which scant attention is paid after its annual presentation. But it should be the instrument through which comprehensive plans are translated into construction plans, and the means by which the capital program is related as nearly as possible to prospective operating budgets. As realistically as possible, the five-year plan should show what projects are to be constructed, when they are to be constructed, what they will cost, and what the operating and debt service expenses will be.

(3) The capital budget should include only such amounts as can reasonably be expected to be spent or obligated during the fiscal year.

In practice the capital budget is now an allocation of funds for capital construction to be undertaken at some future time, not a budget for capital commitments during the year. Because of slow starts, construction delays, and other factors, many projects are not completed, or even physically begun, until long after the close of the budget year, perhaps several years after.

Capital reservations must be kept available for some time, depending on the nature of particular projects, but ought to be rescinded more promptly than at present for projects which are unreasonably delayed or unlikely ever to be initiated. Unexpended capital budget authorizations exceeded $1.2 billion on June 30, 1965, an accumulation equivalent to more than 160 percent of the 1964-65 capital budget.

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(4) The capital budget should be a true appropriation
document under which funds can be allotted and
expended.

At present, capital budget funds cannot actually be committed to a
project until after an “initiation hearing” before the Board of Estimate on
request of the Mayor, followed then by a specific “go ahead” from the Mayor.
This process should be abolished. The hearings tend to be routine, not
really affording the public a significant “second look.”

Such a look would in fact not be needed if the capital budget grew
directly from a thoroughly reviewed five-year plan and was prepared, publicly
discussed, and adopted as an appropriation document. Furthermore, adoption
of such a budget would end the practice of including projects which
have only distant prospects of commitment merely to allay local pressures.*

Capital Development Administration

The City needs better execution of capital programs and better organiza-
tion for planning, as well as improvements in the plans and programs
themselves. As already noted, construction is far behind planning and the
plans themselves need to be more realistic.

This Commission makes several proposals below, aimed at improving
the effectiveness of the present structure and procedures for planning. Even
more fundamental revisions in the City’s planning system may be desirable
later, after the changes in central and departmental management recom-
mended in Chapter VI (or other major shifts in the City’s upper-managerial
organization) shall have been carried into effective operation.

(1) The City should take action to reduce the time and
cost of its capital construction.

The adoption of a new Building Code, as already mentioned in Chapter
II, would be a major step in this direction, permitting the use of modern
techniques, materials, and procedures to save time and money in construction.
In addition, the City should press for State legislation authorizing single-
contract bidding as an alternative to the four contracts now required for City
construction.

Single contracts would simplify assignment of responsibility and allow
the City to make use of “liquidated damages” clauses which now are rarely
enforced. Time and money might also be saved in advance of construction
through coordinating housing code enforcement and condemnation proceed-
ings in slum areas and through fewer delays in relocating tenants from
condemned properties.

* Mr. Grimm believes that the capital budget is too large and diverse to permit meaning-
ful consideration of it as a whole at the time of its adoption by the Council and Board
of Estimate. He favors a final, definitive review of each capital project by the Council
or Board before actual commitment to construction, not abolition of such a review.

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(2) Some changes should be made in the roles and relationship of the planning, programming, and budgeting agencies.

The present procedure for selecting capital budget sites through the Site Selection Board,* as a matter separate from capital budget preparation, causes unnecessary complications and delay. This procedure should be changed to make the Board advisory to the City Planning Commission, which should consult with the Board members as part of the regular process of budget development. Sites should be designated in the capital budget, along with other project specifications.

As another improvement, the Budget Bureau should work with the Planning Department (the Planning Commission staff) in the original preparation of both the capital budget and the five-year plan. The present arrangement is for capital budget review by the Budget Bureau after the Planning Commission has presented the budget to the Mayor. Joint planning committees by functional areas, representing the Planning Department and the Budget Bureau along with key departments, would contribute to closer liaison in planning.

(3) The City Planning Commission itself should be restructured to emphasize breadth of view rather than special expertise in the Commission members.

The effectiveness of the Planning Commission members has probably been impaired by their own performance of what are essentially staff functions. Assigned to cover particular departments, individual members sometimes become advocates for these agencies and get involved in detail to the detriment of comprehensive planning. An unsalaried commission with a salaried, full-time chairman might be a broader and more independent body.

(4) Community districts should be established and the district boards appointed this year.

The City Charter provides for setting up community districts and planning boards by January 1, 1968. Informally, some of these districts are already operative. But formal initiation of this program throughout the City should be expedited and the size of the boards (now limited to nine members) should be increased.

This “grass-roots” approach would, the Commission believes, improve community organization programs and foster administrative decentralization. The community districts might also be used for special services in areas willing to pay extra charges, just as special assessments were once levied for capital improvements of particular benefit to a particular area.

* The Site Selection Board set up in Section 227 of the City Charter is composed of the Director of City Planning, the Director of the Budget, the Commissioner of Real Estate, the Comptroller, and the president(s) of the borough or boroughs in which a site is located.

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IV
TRANSPORTATION FINANCING AND ORGANIZATION

The transportation network is the City's circulatory system. Maintaining and improving the efficient movement of people and goods, especially to and from the central business district, is essential to a healthy City economy.

The transportation status quo is unsatisfactory. Mass transit and private motor vehicles of all kinds compete in an unplanned system. Some elements of the transportation network are taxed; others are subsidized. Some facilities are financially vigorous and well maintained; others are in financial difficulties. Like many cities, New York has developed without an adequate concept of what is needed and how to provide it.

The situation in the City's central business district—Manhattan south of 60th Street—illustrates the scope and complexity of the transportation problem. This district, occupying only 8.6 of the City's 320 square miles, provides employment for 53 percent of all persons working in New York City and 26 percent of all employed in the 22-county metropolitan region. There are 3.3 million persons coming into this core area daily, 850,000 of them during the 8 to 9 a.m. peak. Travel inward during the peak hour is 72 percent by subway, 11 percent by rail, 9 percent by auto and taxi, and 6 percent by bus. Even if the present 120 highway lanes crossing the central business district borders were doubled, no more than 22 percent of this peak inflow could be handled by rubber-tired vehicles.

Finances and Subsidies

To improve the transportation situation, in all its dimensions, basic attention should be given to obtaining the fullest possible utilization of existing resources and to careful channeling of new investment for the greatest possible benefit per dollar. In judging benefits, several factors are relevant: cost, travel time, comfort, convenience, use of space, and economic impact. Subsidies to specific types of transportation, if and when offered, should be directly related to general public benefits and to the City economy. Table 3 provides some key facts of local transportation finances as a basis for analyzing these matters.

Transit System

The best-known transportation subsidy in New York is that given the City's mass transit system, though the motorist is also heavily subsidized. The New York City Transit Authority (which runs the subways and some buses) and its subsidiary for the former Fifth Avenue Coach buses, the Manhattan and Bronx Surface Transit Operating Authority (MABSTOA), had

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# Table 3

## TRANSPORTATION EXPENDITURES AND REVENUES

Municipal and City-Related Agencies in New York City, 1964-65 and 1965-66

*(in millions of dollars)*

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<td>14</td>
</tr>
<tr>
<td>Public Works</td>
<td>6</td>
<td>7</td>
<td>—&lt;sup&gt;c&lt;/sup&gt; (13)</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>(bridges only)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (City</td>
<td>465&lt;sup&gt;d&lt;/sup&gt;</td>
<td>161</td>
<td>362 (265)&lt;sup&gt;d&lt;/sup&gt;</td>
<td>496&lt;sup&gt;d&lt;/sup&gt;</td>
<td>159</td>
</tr>
<tr>
<td>Supported Agencies</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TBTA&lt;sup&gt;e&lt;/sup&gt;</td>
<td>13</td>
<td>18&lt;sup&gt;f&lt;/sup&gt;</td>
<td>51</td>
<td>14</td>
<td>20&lt;sup&gt;f&lt;/sup&gt;</td>
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<tr>
<td>Total (All City-Related Agencies)</td>
<td>477</td>
<td>179</td>
<td>413 (245)</td>
<td>510</td>
<td>179</td>
</tr>
</tbody>
</table>

<sup>a</sup> Paid by City of New York.

<sup>b</sup> Not including City payments to Transit for power and transit police and to Transit and MABSTOA for school fares amounting to $63 million in 1964-65 and $55 million (estimated) in 1965-66. These payments are viewed here as subventions (not as earnings) helping to cover the Transit and MABSTOA deficits.

<sup>c</sup> Less than $500,000.

<sup>d</sup> Includes $1 million in City subsidies to the privately owned Staten Island Rapid Transit.

<sup>e</sup> Triborough Bridge and Tunnel Authority. Data are for calendar years 1964 and 1965.

<sup>f</sup> Excluding interest paid from Temporary Interest Fund established from Narrows Bridge bond proceeds—$11 million in 1964 and $9 million in 1965.

**Note:** Some components do not add to totals due to rounding.

**Source:** Reports of the Authorities and the City Comptroller. Also Departmental and Commission estimates.

A combined operating deficit of about $72 million in fiscal 1965, comparing gross expenditures of about $406 million with passenger revenues and other earnings totalling $334 million. This deficit was bridged in small degree, $9 million, from authority reserves and other accumulated funds. The remaining gap of $63 million was covered by the City through three transit-related programs—$14 million for transit police, $24 million to make up for a reduced fare for school children, and $25 million for power costs.*

*The City is reimbursed by the State for more than half the school transit payment, which some analysts believe is better attributed to education than transit. The power subvention was the balance committed to the Transit Authority from the City's proceeds from the sale of the transit power plants to Consolidated Edison in 1959.*

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In addition, the City spent about $118 million in fiscal 1965 for transit debt service.

The comparable operating deficit this year, fiscal 1966, will be about $116 million, toward which the City has provided $31 million for transit police and $24 million for school fares. The balance of $61 million is being handled temporarily from the Transit Authority's reserves for workman's compensation, public liability, and pension-fund payments, but it must eventually be covered by additional income. Transit debt service payments by the City this year will total about $116 million. The figures for the overall transit deficit, operating gap plus debt service, are $190 million for 1965 and $232 million for 1966. The transit system has cost the City some $3 billion in cumulative investment and would probably require $7 to $8 billion for replacement.

The financial circumstances of the Triborough Bridge and Tunnel Authority, which has built and managed various major motor vehicle facilities since 1933, some $750 million worth of them, differ widely from those of the transit agencies. TBTA earnings exceeded operating expenditures and debt service by $20 million in calendar 1964 and $29 million in calendar 1965. This brought Triborough's reserves to more than $95 million as of December 31, 1965, about $65 million of it specifically earmarked for redemption of bonds and notes.

On operations, TBTA is spending only $13 to $14 million annually and thus is small on this basis by comparison with the transit authorities—but the importance of its facilities for motor vehicle traffic in the City is great. Furthermore, because of its financial strength, TBTA has the wherewithal and credit base for expansion, some of it permissible without need to obtain City approval, while the transit authorities are hard pressed monetarily to do what they are currently doing. This financial contrast between the have-not agencies and Triborough tends to dissociate the City's transportation development from its transportation needs.

Municipal Departments

The City's own municipal transportation departments—Highways, Traffic, Marine and Aviation, and Public Works (as to bridges), are mostly tax supported. City expenditures currently attributable to these agencies total just over $100 million per year, about three-fifths for operations and two-fifths for debt service. Counterpart City revenues, chiefly assignable to Traffic and to Marine and Aviation, are $25 to $30 million annually, thus leaving about $75 million yearly which is financed from general municipal taxation. While tax support for streets, traffic control, terminals, and related transportation facilities is not unusual, the cost of this arrangement must be

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considered along with other costs in determining how much the City spends on developing and operating its whole transportation system. Overall net expenditures by New York are now about $250 million annually, some two-thirds of it on mass transit (which few if any cities support so heavily) and the balance on automobile and other transportation.

Thus, both rail and rubber-tired vehicles are subsidized by the City. Each subway ride is supported on average by more than 10 cents of City funds. Municipal assistance to motorists is not as easily put in terms of unit cost, but is substantial. As a rough measure, City expenditures attributable to cars (street and highway costs plus a reasonable portion of police and court outlays) now exceed City auto revenues by about $50 million a year—more than $30 annually per motor vehicle registered in New York. The related fact that City automobile expenditures help motor vehicles from the suburbs and elsewhere outside the City as well as those registered within it is somewhat counterbalanced by the use which New York City cars make of outside facilities.

Without coordination of transportation policies, increased charges on transit alone would cause some travellers to shift to rubber, thus leading to further declines in the use of mass transit—a dangerous cycle with serious implications for the City’s heartland. This shift would be aggravated if Triborough went ahead on its own volition (as it might legally be able to do) with the construction of a facility like the proposed third tube of the Midtown Tunnel, which would be of limited utility in easing mass transportation to and from Manhattan and of no appreciable help to traffic on the island. Projects of this sort should not be undertaken unless they fit the general transit and traffic needs of the City.

The City and TBTA

The uses to which TBTA revenues may be put are strictly governed by the TBTA statutes and bond indentures, presently giving bondholders first claim on all Triborough revenues (not just on those of particular facilities). Nearly $400 million in TBTA bonds and notes were outstanding at the end of 1965, with intermittent maturities extending to 1985, but all currently outstanding securities will be callable on and after January 1, 1970. The exercise of this option, which could be mandated by the City (or State) on provision of the necessary funds, would free substantial revenues (perhaps $50 million a year) from the provisions of the 1960 Bond Resolution. This might be done by refinancing, by retirement of all issues if sufficient funds were available, or by a combination of refinancing and retirement. A total call of bonds would not be possible in 1970, however, if TBTA in the
meantime issues new bonds with later call dates and the same pledge of all revenues. *

The rights of the holders of securities issued by Triborough must be carefully maintained in the relations between the City and TBTA. Currently only limited earnings can be used for operational purposes not closely related to existing projects, subject however to discretion by the Triborough Board as to what is “closely related.” The chief possibility for some wider revenue use under the existing indentures would be highway maintenance by TBTA of roads which it has previously built and turned over to the City. Even this may require some amendment, at least by way of clarification of powers and restraints, in the State statutes under which Triborough functions. New legislation should make clear that TBTA, if and as needed (but only in clear liaison with the City), may function broadly in the transportation field within New York—not just for major highway facilities.

Greater flexibility regarding Triborough surpluses does not mean, however, that they should be applied to saving the present subway fare or to any other particular purpose now contemplated. But TBTA revenues, after all reserve requirements are met, should as far as possible be allocated along with other resources to the overall transportation needs of the City. This criterion might result not in the application of such revenues to current expenses but rather in their utilization to finance new capital development for transportation, either directly or as an income base for securities. To some extent Triborough surpluses are already being used for capital purposes, i.e., for improvements and enlargement of existing TBTA facilities, but as determined by Triborough wishes rather than by general transportation priorities. In any case it is clear from Table 3 that the net uncommitted annual revenues of TBTA are not nearly large enough, nor indeed is its accumulated general surplus (about $30 million not locked up by specific reserves or notes soon due), to cancel out the deficits in other City and City-related transportation activities.

The City in its own right has sufficient borrowing capacity presently and for the near future for some improvement and extension of the transit system and other transportation facilities. ** This assumes, however, that additional State and Federal capital funds will be available, that the real estate tax base (and hence debt limit) will continue to increase, and that a significant upturn in the rate of City construction in other fields will not

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* Under a new bond resolution providing an early call date and/or a guarantee limited to pledged revenues or specific reserves, it would be possible, if necessary or desirable, to issue additional bonds before 1970 without jeopardizing the flexibility which might then be obtained by refinancing or retiring the present securities.

** Chapter X includes a general discussion of City debt and debt-incurring capacity.
take place at once. The City's capacity to spend heavily on transit development would be significantly strengthened if special assessments were used as permitted under Section 34c of the Rapid Transit Law and if level debt scheduling were permitted for revenue-producing facilities (as would be the case under a proposed constitutional amendment given first passage in 1965).

**Rationalizing Transportation Organization**

Mayor Lindsay has appointed a Transportation Administrator and created a Transportation Council, chaired by the Transportation Administrator. The Council is composed of the heads of ten City agencies related to transportation, the chairmen of the Transit and Triborough Authorities, and the heads of four regional agencies—the Port of New York Authority, Tri-State Transportation Commission, Metropolitan Commuter Transportation Authority, and State Office of Transportation. Through the Transportation Administrator, advised by the Transportation Council, much necessary coordination of City and City-related transportation activities can be effected. The Mayor and the Administrator, as well as the authorities and state agencies, should consult with the Council on major problems, policies, and projects affecting City transportation.

**Transportation Administration**

To provide better machinery for policy development and implementation, complementing the advisory and liaison activities of the Transportation Council, the Mayor should bring the principal City transportation-oriented departments together in a Transportation Administration and should have a stronger relationship than at present to Triborough and Transit policies. As the elected chief executive of the City, broadly responsible for community well-being, the Mayor is as appropriately concerned with transportation services as with other major municipal activities—and should be adequately empowered by legislation to act reasonably on this concern. Toward this end, the Transportation Administrator should become the primary communications link between the City transportation agencies and the Mayor, with responsibility for capital and operating budget requests and for personnel and planning services in this area. He should be authorized, within appropriate limits, to coordinate services, pricing, and capital undertakings toward achieving a balanced and coordinated transportation system.

The basic agencies brought together in the Transportation Administration should be Highways, Traffic, and Marine and Aviation. Some inter-departmental shifts would also be desirable, not necessarily all at the beginning, to group like functions as nearly as possible into organization units. These shifts should probably include, among others, the transfer of bridge main-
tenance from Public Works to Highways, of parkway maintenance from Parks to Highways, of taxi regulation from Police to Traffic, and of street permits from Highways to Traffic. Also, the Transportation Administrator should become the Arterial Highways Coordinator (now the Triborough Chairman), the City Representative on the Tri-State Transportation Commission (now the Planning Commission Chairman), and, more generally, the recognized central figure in City transportation activities.

**Authority Relations**

But transportation reorganization must extend beyond the City's immediate agencies if it is to achieve wise policies and better coordination. Through the Mayor and his lieutenants the City should have an effective voice in the major decisions of Triborough and Transit on transportation development, pricing, and service. The way to establish the City in this role would be to move generally along the lines recommended for legislation by the Mayor in February. The boards of the two authorities should be reconstituted, with the Transportation Administrator serving ex officio as chairman of each and the Mayor and Governor appointing the other two members of each for four-year terms matching their own and terminable only for cause. A variant of this, less desirable for central coordination, would be for the Transportation Administrator to serve ex officio as a member but not as chairman of each authority. The boards should be unsalaried, save for per diem and reimbursement of necessary expenses, and each should employ an experienced general manager serving at its pleasure. Authority leadership thus constituted along parallel lines—with a board of distinguished citizens to set policy, a professional administrator to guide operations, and State as well as City interests represented—would be oriented toward policies in keeping with the City's general transportation needs.

**Policy Review**

To help further in meshing major authority policies with basic City objectives, the Mayor should be given the opportunity to consider and, where he deems necessary, to hold up major authority decisions—those with a significant impact on the transportation pattern, the City economy, or municipal services and costs—before these decisions become finally effective. This might be done most easily through permitting the Mayor to review Triborough and Transit minutes in the same way that the Governors of New York and New Jersey review the policy decisions of the Port of New York Authority. The decisions of the authorities would automatically take effect after a brief period for Mayoral review except for those which he might request be deferred for further study pending a possible veto.

To guard against Mayoral capriciousness, "significant impact" might be legislatively defined, though some discretion ought to be and would have to
be left to the Mayor. Further, the Mayor should consult with the Transportation Administrator, and through him with the Transportation Council, before acting on major authority proposals through either passive assent, delay, or active rejection. Actually, given the Mayor's position of influence and persuasion, it is probable that very few if any vetos would be necessary—but the residual power should be available as a guard against gross conflicts with City policies.

These changes in City-Authority relations would move generally toward more harmonious and comprehensive transportation policies and services. Among other advantages, they would put the City and its coterminous authorities in a strong position for City relations with the regional transportation agencies, notably the Port of New York Authority and the new Metropolitan Commuter Transportation Authority (MCTA). This would be particularly desirable as steps toward regional coordination of transportation become more urgently needed and take more formal shape. With the City Transportation Administration in being as here envisaged, New York would for example be better able to further its interests in relation to possible expansion of MCTA. If the City is to be a regional leader in transportation, it must first put its own transportation house in order.

More specifically, one major gain from a unified City transportation structure would be that expenditures for projects which would complicate the City's transportation problem, or produce relatively minor benefit compared to investment, might be deferred or eliminated. Another advantage stemming directly from greater City involvement might be more attention to increasing revenues and to holding down costs through more open competitive bidding on construction contracts, issuance of debt, and leases. Also, tolls, fares, and other charges would be set with greater concern about their effect on the whole transportation system. A key element in reaping these and other advantages is the competence, diplomacy, and dedication of the Transportation Administrator—who clearly must be a person of excellence, highly respected in the community, to do justice to his assignment.

Additional Transportation Revenues

Better organization of the City's transportation facilities is an essential step, but not the only step, which must be taken to make the whole transportation network solvent and more effective. Transportation revenues need to be increased, not only to place a larger part of the expense burden on the immediate users but also to guide more sensibly the pattern of use—discouraging congestion and encouraging space-conserving modes of travel.

In setting higher charges, the City should bear in mind that those who benefit substantially from transportation facilities are not just the users of sub-
ways, buses, bridges, highways, and terminals. Transportation brings people and markets together; it thus benefits business, real estate, residential areas, and indeed the whole national economy and defense. The rider should pay a large share; his benefit is most immediate and direct. Whether he should pay less, an equal amount, or perhaps even more than the cost of the facilities which he uses should be based on the relationship of each mode of travel to the total transportation network and to the economy. The acute question in New York and elsewhere is whether the present largely unplanned allocation of costs—to users through fares, tolls, and other charges and to the wider community through tax-supported grants and taxes—is the proper allocation.

The final answer to that question calls for specific transportation-oriented research and analyses beyond the basic responsibility and special competence of this Commission. We urge that the Transportation Administrator, working with the Transportation Council and other groups, undertake a study of this sort at once—basing it as much as possible on research already done or in process. But, going beyond that, the Commission does feel that the gross transportation situation of the City is one in which the riders—both of subways and autos—are now too heavily subsidized from general municipal revenues. It believes, further, in consideration both of equity and impact on ridership, that adjustments in charges to correct this oversubsidization should be made as nearly as possible at the same time for both transit users and auto riders, thus avoiding an unwise price-induced diversion from one form of transportation to the other.

There are several avenues along which the City might move in making the first-round user-charge increases which the Commission believes to be necessary. We list and discuss these below in a rough order of priority as to the steps which are most urgently needed or most desirable. We start with the transit fare, not only out of urgency but because it is much in the public mind. We move then to various possible ways of increasing auto-use revenues, stating a number of possibilities. Not all these auto-use charges should be imposed at once; they represent an assortment from which City officials can select the particular levies best suited to the City's general needs.

**Increased Transit Fare**

The Commission believes that City subway and bus fares should be increased to a flat 20 cents at this stage, particularly in view of the extreme tightness of general revenues to be available under the tax program now being shaped in the State Legislature. After this increase, and on completion of the transportation finances study recommended above, the fares should possibly be moved to some other level. The five cent raise in fares would produce enough revenue, perhaps $75 to $80 million in the next full fiscal year, to offset substantially the current and immediately prospective operating
deficit—assuming that the City continues to carry the cost of transit police, low fares for school children, and debt service, as we further recommend.

In this way for the six months to a year necessary to develop a better fare structure, the City would be spared the drag of additional transit subsidization requiring either heavier taxation or cuts in other municipal activities. The fare structure of the future may not be a flat charge, but instead may be arranged to take account of distance and time—perhaps by charging less for short runs and for off-peak hours and holiday travel. More liberal transfer privileges should also be seriously considered.

It is worth noting for now that a transit fare increase of five cents would be less in percentage terms than the rise in average wages per capita in the City since 1953, when the subway fare was last changed. Thus a fare of 20 cents would be smaller in relation to a worker’s pay today than the 15 cent fare was when it went into effect.

In adjusting transit charges, even in the interim period during the transportation study, it would be desirable that charges on the City’s private bus lines be moved to the proposed new standard level of 20 cents. This would recognize the basic oneness of the transportation system even though some components are privately rather than publicly owned. The increase in the private bus fare might be effected through charging higher franchise fees to produce perhaps $4 million in additional City revenues annually. As another ancillary matter, this would be an appropriate time, long overdue, to move up the fare on the Staten Island Ferry to the proposed new going rate for City transit, 20 cents per ride, thus substantially reducing the City’s current loss of $11 million annually at the traditional 5-cent level. For equity to Staten Island commuters, liberal transfers to other transit facilities might be instituted when this increase takes effect.*

* Messrs. Greidinger and Potofsky dissent from the recommendation that the transit fare be increased, stating their reasons as follows:

1. In terms of transportation needs in Metropolitan New York, the City’s goal should be to encourage vastly increased use of mass transit and to discourage the use of private cars. Raising subway and bus fares at the same time as automobile charges are increased is not the answer. In fact, this approach might well produce exactly the opposite effect.

2. Increased fares fall heaviest on those least able to pay them. With the country making a major effort to raise the standards of low-income groups, it makes no sense economically or from a social or humanitarian point of view to burden these groups with an added charge to their cost of living.

3. Mass transit represents a necessary service of government, similar to many other city services in that its costs cannot be met entirely by its users. Furthermore, user charges do not pay fully for most other kinds of mass transportation, including notably the commuter railroads, which are heavily subsidized. A fare rise, therefore, is basically a revenue-producing measure, and one which is particularly regressive.

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EAST RIVER BRIDGE TOLLS

One of the prime possibilities for additional automobile charges to be initiated in parallel with a higher transit fare is to place a toll on the East River bridges, as already proposed in the Commission's First Report. The design and construction of the necessary plazas and booths might be started simultaneously with the initiation of a higher transit fare. Estimates of the time needed to complete the toll facilities range from six weeks to six years, but our own research suggests that the shorter period is nearer to correct for some approaches. Even the most difficult facilities should not take an unusually long period after approval.

There is little logic to the current financial status of the East River crossings—north to south a 25-cent toll bridge, a free bridge, a 25-cent toll tunnel, three free bridges, and a 35-cent toll tunnel. Tolls on the Brooklyn, Manhattan, Williamsburg, and Queensborough Bridges—filling out the pattern already begun with the TBTA crossings—would serve transportation as well as revenue objectives. And this approach might also be extended later, after due consideration, to the Harlem River crossings.

With tolls on these easterly accesses to Manhattan, some drivers might shift to transit or railroads. There would also be an incentive to increase the number of persons per car, now averaging 1.7. Congestion in the City's core might thus be lessened, providing quicker travel for those who would still drive. The toll would be only a small part of the total cost of driving and parking.

The toll rates might be set at 25 cents or 50 cents (or something in between), depending on the technical and political judgment of City officials. Ideally, the charges on the Triborough facilities would be the same. And there would be logic, too, in asking the Port Authority to take a look at its toll structure in relation to City congestion. The present Port Authority policy of low rates for commuters tends to encourage automobile use at the hours of peak traffic load.

A decade ago the Buttenweiser Commission staff estimated that toll plazas for the East River bridges might cost $20 million. Despite the increased cost of land and construction, our own preliminary survey indicates that, with ingenuity, tolls might still be instituted at this cost or even less. For instance, since few persons travel only one way across these facilities, the cost of condemnation, construction, operation, and maintenance might be cut and traffic speeded by collecting a double toll westbound, with no toll eastbound, or vice versa. Or both the cost and time of toll-taking might be reduced by other special approaches, such as monthly automobile stickers for advance toll payments.
PARKING REVENUES

Other possibilities for larger revenues from automobiles, to be initiated at the same time as a higher transit fare, have to do with parking in the City's congested areas. Steps in this direction would, again, serve not only to reduce the subsidy to motorists but also to discourage the use of private cars in overcrowded areas by making it more costly. Those who would still want to drive could do so, more easily than now as congestion thinned out, but at a higher cost for choosing this premium form of transportation. Mass transit would be used more as the motor vehicle was used less.

One option for consideration would be a substantial surcharge on transient commuter-type parking, in and out in the same day, in the central business district and other heavily congested locations. Based on the present volume of such parking in Manhattan, mostly in the prime business areas, City revenues from such a tax at 25 percent would be something over $10 million annually. The case for this measure is strengthened by the growing recognition that there is now no real off-peak period in street use between the morning and evening rush hours.

Higher meter fees for short-term parking in congested areas should also be considered, perhaps by raising the present charge of 10 cents to 25 cents for each parking period or alternatively by instituting a more sophisticated fee schedule. The change to 25 cents would probably add $1 to $2 million to yearly parking income—but should not be viewed only as a revenue measure.

Long-term meters for night parking on crowded streets are another promising possibility. They would probably be preferable to an overnight parking tax applied through limiting night parking in designated areas to automobiles carrying stickers issued by the City upon payment of the tax. Enforcement of the parking tax would be difficult—and perhaps unfair to occasional overnight parkers.

More vigorous enforcement of parking regulations, more for greater street capacity than for added revenue, would be another desirable step. Such enforcement would be strengthened by having additional meter maids with greater powers for ticketing non-moving violations. Further, the State Commissioner of Motor Vehicles should withhold renewal of any registration against which there are more than five unanswered summonses, a list of which should be forwarded periodically by the City. This device would discourage the scofflaws, even ultimately those who operate someone else's car.

OTHER TRANSPORTATION REVENUES

There are still other sound ways of raising larger revenues from non-transit transportation. One of these would be to institute a tax on taxi rides,
perhaps ten cents per ride or a flat percentage on meter readings. In the same vein, a limited number of additional taxi medallions might be issued periodically—by auction if legally permissible (in order to convert their true value into City revenues) and in a manner guarding against loss of equity by present medallion owners. More taxis would help meet the need for tailored here-to-there transportation, and thus would lessen one of the reasons for having private cars in congested areas.

A Citywide $25 annual auto use tax, suggested in our two earlier reports, might bring in $40 million and also merits serious consideration. Chicago has had a tax of this sort for a number of years and it has worked satisfactorily. There is a possible disadvantage in a City auto license, however, as to equity and the alleviation of congestion.

The tax would apply to all cars registered in the City, to those in the outer reaches of an outer borough, used only locally, as well as to those in crowded Manhattan. But the Nassau resident who drives into the City core every working day would not pay the tax. The recent 50 percent increase in State registration fees, of which one quarter goes to the City, also suggests some caution in considering a new general auto tax at this time.

**Intergovernmental Assistance**

The City's difficulties in transportation financing would be considerably eased if the State and Federal government were meeting their full responsibilities in urban mass transportation. To illustrate, the federal government has up to now appropriated $75 million under the Urban Mass Transportation Act of 1964 as part of a $375 million program projected to 1967. By comparison, over $20 billion has been appropriated since 1956 for the Federal Interstate Highway Program, which will probably involve at least $42 billion in federal funds by 1972.

**Interstate Highway Reimbursement**

The Interstate Highway Program involves a specific inequity, sizable in amount, for New York State and thus, indirectly, for New York City. This inequity has arisen because Congress since 1956 has deferred the question of reimbursement for State-financed segments of the Interstate Highway System which were constructed or committed between 1947 and 1957.

Congress had provided for mapping the system in 1944, but not until 1956 was substantial federal financing made available. During this period, many states, including New York, proceeded to build segments of the system. Early construction meant more highways per dollar and earlier savings to motorists and businessmen in dollars, time, and lives. These states early committed themselves to heavy maintenance costs for these roads, and in many cases to interest costs.

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An equitable reimbursement for such roads would bring New York State more than $800 million, of which half might appropriately be used for capital transportation improvements in New York City. Such payments could be financed by extending the collection of highway user taxes, now dedicated to the Highway Trust Fund, nine months past the termination date (currently 1972).

**Inequitable State Assistance**

The State has given assistance, substantial in some cases, to every commuter railroad in the State except the largest—the City's transit system. As a special case, close to home, the Long Island Rail Road has been acquired by the State's Metropolitan Commuter Transportation Authority. This body has thus far received an outright grant of State funds, a substantial advance for the transition to Authority operations, and a legislative commitment to appropriate State funds to maintain a two-year debt service reserve fund.

Another inequity is that the State, since 1959, has provided a 50 percent reimbursement of local tax exemptions of commuter railroad property, none of which comes to the City for the transit system since it was already tax exempt. The unfairness of acting so generously toward the commuter railroads while doing nothing for City transit is underscored by the fact that the City transit system carries more Nassau and Suffolk commuters every day than does the Long Island Rail Road.*

As to the $100 million supposedly given the City early in 1966 to preserve the 15-cent transit fare, three items were involved which really had nothing to do with the fare or even with transit. One part of the package was receipts from the stock transfer tax, which had already been legally pledged to the City. Another portion was welfare monies to meet expenditures for which the State was legally liable. The third part was an education payment to correct a long-standing inequity in which the City was a quarter behind while almost all other jurisdictions were receiving their grants on a current basis. Furthermore, as part of the struggle over the City's tax program, the State Senate* recently voted down a bill that would have empowered the City to use part of these funds, or equivalent monies, to subsidize Transit Authority operations.

**Additional Payments by Authorities**

Another way for the City to obtain additional transportation-related revenue would be to negotiate with the Port and Triborough Authorities for larger in-lieu-of-tax payments. Rather than flat sums in lieu of taxes alone, new agreements might provide the City with a share of net revenues. This

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* Two thirds of the Long Island commuters also use the transit system—and there are many other Nassau and Suffolk transit riders as well.
was done in 1965 when the Port Authority was given an 18-year extension on the City airport leases. The Coliseum lease is also a sound example; under it the City receives all net earnings over $1.2 million per annum, an arrangement which produced $1.1 million in municipal revenues in fiscal 1965. By contrast, the City leased land for the Battery Park Garage Addition last fall for $50,000 a year in lieu of taxes, with no provision for sharing net revenues.

**Fuller Use of Existing Facilities**

More productive use of existing transportation facilities should be another aspect of City efforts to improve its general transportation situation. There are opportunities in this area for promoting improvement at little additional cost. For instance, road capacity might be increased by providing car pool locator services, by relating auto use taxes to car length (and perhaps width), by more towing of obstacles such as double-parked cars, by additional reverse flow streets and bridges, and by improved signs and lane markings.

Existing steel-wheel facilities might also be utilized more fully. This might be achieved, for example, by skip-stop subway operation to speed service and increase the number of trains per hour, by running longer trains in rush hours (overlapping station ends, if necessary), and by reversing tracks to expand capacity in the direction of greatest demand. Other possibilities include the use of excess capacity on rail lines for transit service and the improvement of subway signs and maps, some of which still show facilities abandoned as early as 1948.
V

RESTRUCTURING THE CITY SCHOOLS

The long-range fiscal strength of the City is related in large measure to the strength of its school system. One aspect of this linkage has been noted in Chapter II, the need for better educated workers in strengthening the City’s economy and the key role of its schools in developing such personnel. Equally important, the schools greatly affect the tone of life in the City and thus help determine whether families of competence and means live here or elsewhere. The vital nature of the schools is recognized in the municipal budget, where public education is by far the largest item.

The public schools constitute a prime force in breaking patterns of poverty. Many New Yorkers are part of such patterns—newcomers from the South, persons born into poverty here, unskilled laborers out of work because of technological change, and others. Dollars spent now in the schools to head off poverty are dollars saved later from welfare outlays for unemployables.

Toward the other end of the economic spectrum, the flight of the middle class from the City has in significant measure been a search for quality education in suburban schools. The City must reestablish its tradition of educational excellence if this flight is to be checked and New York is not to become an island of poverty in the metropolitan region.

The achievement of excellence will be difficult because the school population is diverse and quite different from earlier years. A growing portion of the City’s school children come from disadvantaged homes; tests show their reading levels to be well below national norms. Many come with low motivation, born of generations of discrimination and years of economic deprivation.

These are the great challenges that the public schools face. They are problems different from those of City higher education, discussed in our Second Report, more matters of organization and program than of inadequate resources. Some observers feel that the lower schools have not fully met these tests.

High Cost Without Top Quality

The City spends enormous sums for its schools, over one billion dollars in the current budget. But large funds alone will not assure excellent schools.

During the past decade, school expenditures have risen by 140 percent while the number of pupils has increased by only 16 per cent. But the
increases have gone chiefly into higher teachers' salaries and fringe benefits, shortened teaching time, and a larger administrative and supervisory staff.

From 1955 to 1965, only $13 million out of a $500 million increase in school expenditures has gone to reduce class size, and that by only one pupil. This has been a step, albeit modest, toward better quality. Much more has been spent on shortening the teaching day. Further, the special high-cost programs in deprived areas seem not yet to have proven their worth.

Larger operating funds and heavier capital investment are needed to implement change in the schools. But these expenditures should be made in a system organized to encourage their most productive use. Otherwise, increased monies are either channelled into areas where special pressures are greatest, or they go to expand existing programs which already may be large enough.

City-School Relations

To get better return for each education dollar, the organization of the City schools needs to be changed. This shift should not be toward fiscal independence from the City, a change which the Commission recommended against in our Second Report. Instead we propose closer relations between the schools and the City Administration in planning, budgeting, and budgetary review, though not in day-to-day school operations. Four major problems need to be overcome:

1. Municipal Involvement in School Policy-Making Is Insufficient. In recent years, the City has limited its participation in school affairs to salary negotiations and to resolving conflicts between the school board and City agencies. But the Mayor, who appoints the school board, might appropriately exert broader influence on school policies which are crucial components in general municipal programs like integration, industrial development, and delinquency control.

2. The School System Responds Slowly to Changing Social Needs. Decision-making rests largely with a centralized, close-knit, professional staff, powerful in its resistance to change. The problem here is not top leadership but the middle and upper-middle levels of the school bureaucracy.

3. Public Control Over School Financing Is Inadequate. The City provides funds for enormous school outlays but has very little control over how these funds are spent. Lump-sum appropriations to the Board, initiated in 1963 to give the schools extensive budgetary freedom, should be balanced by broad City controls through policy review.

4. School Budgets Do Not Clearly Reflect School Activities. The current Board of Education budget, used for internal control,
is overly detailed and organized on a line-item basis. It is not conducive to flexibility, planning, professional evaluation, or public understanding.

The Commission urges that the school system improve its long-range planning and introduce performance budgeting. Further, it recommends a citywide program for greater public involvement in school policy formulation; and, last but not least, decentralization of school administration.

**Improvements in Procedures**

Some of the changes which should be made in school relations with the City Administration are broadly procedural. They have to do with the way in which the Board of Education makes its basic plans, and with City participation in that process.

**Open Formulation of Policy.** The Mayor's interest in the schools might be demonstrated by two simple steps. First, a "Mayor's Conference on Education" should be assembled periodically to bring together representatives of diverse school interests for an open discussion of major educational issues. Second, a few top-quality education advisors should be added to the Mayor's staff to assist the City's policy leaders in appraising education needs in the perspective of municipal policies and fiscal limitations. Basically, the Administration's role vis-a-vis the schools should shift from non-involvement to active, friendly interest in school policies.

**Long-Range Planning.** The Board of Education would be benefited, and thus the schools and the whole City community, if there were a comprehensive school-system plan defining goals, problems, and programs. The committee system for Board research, inaugurated last fall, should be helpful in developing such a plan. The school system staff and various interested groups, especially including the teachers, should also be involved. The plan should be reviewed by the City before its formal adoption and implementation.

**Clearer Budgetary Arrangements**

Some modernization of school budgeting has already been effected. Lump-sum appropriations, first made in 1963, were a major step forward both for the City and the school system. But current arrangements are not yet well suited either to comprehensive planning by the Board or to municipal review of the use of lump-sum funds.

The education budget, allocating funds internally within the City's lump-sum appropriation, is grouped into seven loosely defined programs. The school staff has the power to transfer funds among line items within these programs and, with Board of Education approval, to transfer funds from one
program to another. This wide staff power should perhaps be limited by restructuring the budget into a larger number of meaningful programs. As examples, each major function might be designated as a separate program and separate budgets might be established for each school district.

With the substitution of performance budgeting for line-item budgeting, Board budget requests would be supported by statements on program objectives and on how they will be achieved, thus permitting evaluation of the total budget request. Now only budget increases are justified, which limits evaluation to less than 10 percent of the funds sought. Performance budgeting would also facilitate meaningful review of school expenditures.

These major budget reforms cannot be accomplished overnight. They will require more detailed study as well as trial and error in their implementation. But moving in this direction will eventually provide better schools for each dollar spent—and clearer understanding of how the money is spent.

Decentralizing the School System

The Commission believes that a reform more fundamental than fuller City review and improved budgeting is also necessary if the school system is to become more responsive to changing City needs. That reform is to effect a major decentralization of the system to shift considerable power from system headquarters to a number of regional school centers. There are various ways of doing this. Indeed, the Superintendent of Schools already is engaged in some shift of operations, but not of policy decisions, from headquarters to district offices and individual schools.

Our Education Studies Staff has examined four ways in which policy decentralization might be effected. All of them involve not only the major principle of decentralization, which we favor, but also educational issues beyond the special competence of this Commission. Consequently, without endorsing any of these possibilities, we wish simply to bring them before the City, the Board of Education, and the public for consideration along with other decentralization plans.

Local school boards. One possibility would be to strengthen the existing 31 local school boards by giving them significant decision-making powers over educational policy. School boards might be elected by public vote to stimulate local involvement and participation in school affairs and encourage citizen support for school programs.

Citywide coordination would continue to be provided by a City school board appointed by the Mayor. A small central staff would service the citywide board and handle such matters as planning, budget, curriculum research, accounting, purchasing, and personnel. A possible weakness in this
approach is that the districts might be too small for economical local administration.

Fifteen city school districts. Another pattern explored by our staff would be to establish fewer school districts than the present 31. Fifteen has been suggested as the number best calculated to achieve maximum decentralization while maintaining districts of sufficient size for economic local operation. Each district would be fiscally dependent upon the City and would be headed by a local school board appointed by the Mayor from a list submitted by a local screening panel.

City funds would be appropriated to each district on a formula basis, with each board to have wide discretion in budget-making and budget administration within the lump-sum appropriations. A citywide school council and school staff, serving all the districts, would carry out centralized functions justified by economies of scale.

Educational parks. A third method of decentralization would be educational parks—physical groupings of a whole series of graded and special schools. Initial construction costs would be high, but there would be substantial long-term economies in operation. The sizable physical plants, with variety of rooms and buildings, would provide flexibility useful in adapting schools to changing social needs.

The persons administering an educational park would have to be given a good deal of discretion. While some educational and administrative services would remain centralized at Board of Education headquarters, much responsibility and authority now lodged there would shift to the parks. However, the scarcity of open space and the time needed to replace existing plant would be major obstacles to using this approach.

Borough school systems. Finally, decentralization might be achieved by dividing the citywide school system into five borough school districts, linked together on broad policy matters through a City School Council. Each district would be governed by its own Board of Education, appointed by the Mayor from a list submitted by a borough screening panel. The City would appropriate lump-sum amounts to each district determined on a formula basis. The formula should take into account the special needs in each district through a system of weightings.

The City School Council, perhaps composed of the Chairman and Vice-Chairman of each of the borough boards, would appoint a City School Administrator to oversee citywide school policies and minimum standards. Subject to broad constraints established centrally, each district would have complete authority over school operations—but these would most likely be further decentralized into small operational units. This plan, though moving
most strongly toward decentralization, would at the same time risk unbalancing education in the City ethnically and in other ways by a tight division of the public schools among five powerful components.*

**Advantages of Decentralization**

To effectuate real decentralization along any of the suggested lines would be revolutionary—but in the great cities these are revolutionary times in terms of new educational and social needs. The Commission believes that all these plans deserve close analysis and discussion, along with others, to arrive at the most desirable method of decentralization. Generally, the dispersal of power here proposed, whatever the specific method, would seem to have several advantages over present school organization:

1. Extensive discretion would be vested in local school superintendents while general fiscal controls would be maintained citywide.

2. Schools would be adapted to local needs in terms of class size, curriculum development, and special programs.

3. Only those functions of a major policy nature (such as basic curriculum content), or with demonstrable economies of scale, would be handled centrally.

4. Decentralization might provide a basis for obtaining additional State school aid. If aid could be calculated on a district-by-district basis, the high Manhattan real estate valuations would not operate to hold down citywide aid as they do now.

As a caution, it should be noted that decentralization might be subverted if the persons operating under it were not attuned educationally and socially to the changing times. Furthermore, the citywide nature of school interest groups, teacher unionization, and professional education ties may turn out to be major roadblocks to any move toward regional districts. Yet many educators are convinced from comparative studies that very large (and very small) school areas are poorly suited to quality education,** thus reinforcing our conclusion that decentralization is needed in New York. Clearly, a major effort to move in this direction despite obstacles would be worthwhile.

* Messrs. Gulick and Potosky endorse the principle of decentralization but consider some of the suggested approaches to it unsupportable. They particularly oppose the borough schools plan, which would in their view be a retrogressive and wasteful step, serving only to inhibit the effective use of the City's educational resources.

One step which would be helpful in the personnel area, even if no real decentralization takes place, would be to abandon tenure in higher administrative positions within the schools (it is now accorded from department chairman to assistant superintendent). While tenure for teachers should be retained, upper-level administrators would probably function better serving at the pleasure of the Board or Superintendent.

Changing the school system in all these directions, procedural and organizational, should in time foster greater responsiveness to the massive need for City schools which can both uplift deprived children and provide quality education. The restructuring we have recommended, including some form of decentralization, should set the organizational stage for more creative and flexible educational programs and thus for a better economic future for the City.
VI

FURTHER MANAGEMENT IMPROVEMENT

Parallel with improving its schools, transportation, capital development, and business services, the City should continue strengthening its general municipal machinery as recommended in the Commission's First and Second Reports. Filling out those recommendations, the management of the City should be improved at four levels: central leadership, departmental organization, intergovernmental liaison, and operating procedures. The City personnel system also needs a major overhaul—but we reserve the next chapter for that discussion.

As to central leadership, the Commission in its earlier reports has particularly recommended a stronger City Administrator. We see this position, reoriented to be the principal executive associate of the Mayor and enlarged to include central budget and personnel responsibility, as the key element in getting sustained, creative, well-organized management in the top echelons of City administration. The City Administrator should be the master lever through which the Mayor, without impossible burden of time and detail, steers the municipal machinery. Only thus can the Mayor sufficiently free himself from municipal operations to provide the guiding mind, hand, and spirit for developing municipal policy and achieving its acceptance through political leadership.

Achieving Municipal Economy

With a strong City Administrator, fully supported by the Mayor and ably advised by budget professionals, the City will be able to do whatever really can be done to achieve management economies. These savings must be accomplished more through persistent attention, year by year, day by day, than through grand reorganizations and dramatic flourishes. "Getting the best possible service for each dollar spent" has to be a priority consideration in all operations, with administrators down the line constantly alerted to this policy by attitudes at the top. For constructive economy (neither meat-axe nor penny-pinching), programs, costs, and where-is-the-money-coming-from must be borne in mind simultaneously and always, not separately and occasionally.

But really major savings in municipal government, beyond five percent of ongoing City expenditures at most, cannot be made through better management alone. Cuts in spending large enough to reverse the upward trend of municipal outlays, or even substantially to flatten it, must also involve either programs or personnel or both. If New Yorkers continue to want present and new services, schools and parks and police and the like, they
cannot expect to get them for less money. Similarly, if City employees are to be paid at levels comparable with their private-business counterparts, and are to negotiate for their pay through collective bargaining, policies well established in both public acceptance and City tradition, the citizen certainly cannot expect to reduce municipal pay.

This is not to diminish the importance of what can be accomplished through better management in City government. Savings of one or two percent are large in absolute terms in a $4.5 billion annual budget. Also, better management means wiser policies, timelier actions, and more coordination—in short, better municipal service. Indeed, it is in better service, rather than in massive dollar savings, that efforts to improve management are most clearly justified. The Commission believes that there are three major steps which the City should take, beyond establishing a City Administrator of the sort previously recommended, to strengthen its management and facilitate wiser decisions.

Grouping Departmental Activities

Of greatest importance, subsidiary only to structuring central City management around a powerful City Administrator, is some grouping of municipal departments and agencies into a limited number of cohesive "establishments." Our Second Report noted that many more people now report directly to the Mayor than to the President or the Governor.

Since that report was issued, the new City Administration has announced its intention of setting up about ten comprehensive agencies, each containing several departments and other units. For example, a Human Resources Administration would be established for welfare, youth, and anti-poverty activities and a Recreation and Arts Administration for parks, cultural affairs, museums, and libraries. Moves toward a new Transportation Administration are already under way, as described in Chapter IV.

The basic thrust of the projected reorganization, to create a few major "administrations" as organizational tents for interrelated activities, is clearly in keeping with the Commission's views. The details of which agencies should be where are organizational matters better left to the judgment of the Mayor than to this Commission. Our reactions, beyond general approval of the reorganization principle, are focused instead on the kind of powers which the new administrations will need to be effective and the kind of relationships which might well be set up between them and central City management agencies. Fundamentally, we believe that the leadership of the administrations must be persuasively strong, able to achieve unified policies and coordinated operations on important matters without thwarting the discretion and self-identity of constituent agencies in their special fields.

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More specifically, the administrations should each be equipped with capable program, budget, and personnel staffs. Much of the departmentally focused control now exercised centrally through the Budget Bureau and Personnel Department could then be decentralized to counterpart units in the administrations. Further, most regular relationships between operating agencies and the Mayor's Office should be handled through the administrations, though room should be left for direct departmental access to and from the Mayor on unusual major issues.

Within each administration the head executive ought to have wide latitude in structuring particular functions. Good sense, respect for past experience, and the need for a period of evaluation will suggest a careful approach in exercising this discretion so that reorganization of established activities may be effected without undue cost and disruption. In any case the short-run gains should be contemplated as primarily those of better plans and smoother relations among interlinked programs, not dollar savings. In the long run, grouping City activities into administrations, with clear definition of missions, may also achieve some economy.

**Strengthening Intergovernmental Liaison**

Another organizational area of great significance concerns the City's working relations with the State and Federal governments. Currently, New York has no prime channel below the Mayor for handling its liaison with Albany and Washington in developing new grant-in-aid relationships, establishing the main outlines of cooperation in program implementation, or straightening out conflicts which arise all too often in even long-standing intergovernmental undertakings. With federal, state and city governments becoming increasingly interdependent, the need is clearer and stronger for large jurisdictions like New York City to assign special concern for these relationships to some particular unit.

A current example of the potential size and growth of these linkages nationally is President Johnson's request that Congress approve the expenditure of $2.3 billion of federal funds in the next six years for rebuilding slums in central cities, planning and reshaping metropolitan areas, and starting new cities. This program would simply accelerate a trend already evident for at least the last decade, during which all federal intergovernmental aid has risen from $3.1 billion in fiscal 1955 to about $13.6 billion in fiscal 1966, while aid to New York City alone has increased from $69 million to $264 million—and gives promise of being double that next year. During the same period State assistance to local governments has risen comparably, to the point that it now constitutes nearly three-fifths of the total State budget.*

*See Chapter VIII for the Commission's substantive recommendations on State and Federal aid. Earlier proposals have been presented in the Commission's First and Second Reports.
In the light of these facts, the Commission recommends that the City establish a Division of Intergovernmental Affairs, to be located organizationally in the Office of the Mayor (probably under the City Administrator). This new unit should be staffed and financed to make and maintain an inventory of Federal and State assistance programs, to advise City agencies of aid they are eligible to receive and of what the resulting costs to the City might be, and to expedite the acquisition of approved State and Federal funds. Generally, the Intergovernmental Affairs Division should represent the interests of the City in Washington and Albany and in regional groups such as the Metropolitan Regional Council.

The Director of Intergovernmental Affairs should have easy access to the Mayor, close relations with Congress and the State Legislature, freedom to assign his staff to Albany and Washington as circumstances require, and effective cooperation with the City agencies most involved with Federal and State aid programs. An interdepartmental advisory council on City relations with the national and State governments might be set up under the chairmanship of the Intergovernmental Affairs Director to facilitate such cooperation. Liaison should be maintained with the State’s Office for Local Government, including the proposed Federal Aid Clearing House if and when established.

The basic idea of centralizing responsibility for intergovernmental relations in the Mayor’s Office is not new. In January 1961, the State Commission on Governmental Operations of the City of New York proposed that the new City Charter provide for a “Director of Intergovernmental Relations [to] advise and represent the Mayor in dealing with federal, state, regional, and local agencies.” The State Commission justified its proposal by noting “the swift growth of federal and state participation in urban affairs, as well as the rapidly expanding problems of the metropolitan region.” We find the need for such an office far greater today than it was in 1961.

**Extending EDP Usage**

In improving its procedures for municipal operations and control, the City should give high-priority attention to electronic data processing (EDP). This is not because the City has fallen behind other municipalities in instituting this new, rapidly developing tool for record-keeping and analysis, for the City is in fact in a position of national leadership. Rather, the City should stress EDP because it offers promising opportunities for better municipal services and management, especially in slowing the increase of clerical positions. The recent appointment of a Mayoral assistant to coordinate City data gathering and processing, presumably in liaison with the existing Budget Bureau EDP-control unit, is encouraging evidence of top-level concern with this subject.
The City is currently using 31 computers and some 75 punch card installations staffed by 1,150 technicians and supporting personnel. The cost of operating and amortizing this equipment is about $9 million per year. Most of the computers are in four agencies—Higher Education with twelve, the Comptroller with four, and the Board of Education and Welfare Department with three each. Nine other agencies have the balance, one apiece. In addition the Transit Authority has three computers and Triborough and Housing one each. Another six computers will be added to the municipal installations within a year. No other city in the world, and few nations, have more data processing equipment than this.

The City applies its EDP equipment to a wide range of activities involving the accumulation and analysis of data in large quantities. Many of these activities are familiar clerical operations such as payrolls, inventory control, appropriation accounting, personnel records, and crime statistics. But others involve more complex activities, including fingerprint searches, building violation control, work performance analysis, and computation of welfare family budgets. The variety of these uses is indicative of the wide capacity of computers and suggests that many other municipal activities might be improved through their use. Revenue collection, consolidation of real property records, engineering calculations, and information retrieval are among the areas with good possibilities for such improvement.

Organizationaly, City EDP arrangements have been centrally and rather strongly controlled by the Budget Bureau. The EDP unit in Budget makes the final determination of what EDP equipment may be obtained and guides the recipient agencies in its use, particularly in connection with installation and initial programming. This strong central control has attuned EDP procurement to general municipal needs, especially as to compatibility of equipment and financial feasibility as measured by cost displacement.

In operations, however, the several EDP-equipped City agencies seem fairly independent of one another and of municipal needs outside their particular jurisdictions. There is some cooperation, quite effective in certain instances, but more could and should be accomplished along this line. A major step in this direction would be to develop computer centers for functionally related departments, perhaps for each of the administrations projected in the Mayor's reorganization plan. This approach to wider multiple use of equipment would be intermediate between the present agency-by-agency pattern and complete centralization in a single computer pool for the whole City government. The functional centers should contribute to improvement in the City's data systems as well as to economy in data processing.

This is a particularly timely period for the City to evaluate and extend its use of EDP. New equipment now reaching the market, the so-called "third
"generation" of EDP devices, has technical capacities which outreach the older models in many ways, particularly in permitting several users access to the same equipment. Furthermore, the skill of the City technicians who guide this equipment is accumulating and improving.

Several general guidelines might usefully be observed as EDP is extended. First, in deciding whether or not EDP installations are feasible, the City should match its attention to "direct cost savings" with equal concern for measurably better service. Second, the guidance offered centrally to the City's EDP users by the Budget Bureau and other technical resources might well shift emphasis from equipment problems to broader policy advice on data systems. Third, cooperation with State and Federal agencies and with private organizations in EDP use, now just beginning, should be further explored and whenever possible enlarged. The possible gains from cooperation in such fields as economic research, law enforcement, and tax collection are substantial.
VII

Reforming Personnel Practices

The personnel reforms recommended in our Second Report would improve the City's basic organization and procedures for personnel management. By following these recommendations, the City would strengthen central personnel services, give the municipal departments greater personnel authority, and facilitate the dismissal of employees clearly proven incompetent. Even more important, in view of the growing role of public employee unions in shaping personnel policies and practices, the City would handle its union negotiations more rationally through establishing an Employee Relations Office and relating bargaining more closely to budgeting. The Mayor's special Task Force on City Personnel, which reported this spring, has taken a similar position in urging central and departmental personnel reforms.

In this Third Report, the Commission goes beyond its earlier recommendations, mostly of a structural sort, to deal with several special areas of City personnel program and practice. We propose measures to improve collective bargaining, eliminate unrealistic prevailing rates, lessen inequities and overspending in fringe benefits, and provide better coordinated and more prudent pension policies. We also urge the City to devote more attention to increasing personnel productivity through work measurement, systems analysis, and other management techniques. A look ahead to the City's personnel situation in 1975 is enlightening background for these recommendations.

Projections to 1975

Competent estimates suggest that state-local governmental employment in 1975 may exceed the 1965 level by as much as two-thirds. Fortunately, projections stemming from recent City experience do not indicate this rate of increase in New York. With its population fairly stable since World War II, the City has been enlarging its employment and gross personnel costs more slowly than the country as a whole. Moreover, New York's civil service has grown less rapidly on a per capita basis than that of other cities with a population of one million and over.

Even so, the City outlook for the next decade, summarized in Chart 2, illuminates the compelling need for more effective personnel practices. An estimate based directly on the City's experience over the past twenty years indicates that municipal and quasi-municipal employment in 1975 will be at least 30 percent higher than in 1965. Employment by the City proper will be up by one-third but the three City-related authorities—Housing,
Transit, and Triborough—will probably not grow quite so fast. The projected figures are 335,000 for the City itself and 390,000 for the City and Authorities together, against comparable figures near 250,000 and 300,000 today.

Costs of personnel are expected to rise at more than four times the rate of increase of numbers employed. More expensive skill requirements, increases in wages and salaries, and sharp upward shifts in the expense of fringe benefits will account for the steep upward trend. The City's total personnel expenditures, including authority payrolls, will approach $5.4 billion per year in 1975, more than 120 percent above 1964-1965 levels. The total for the strictly municipal agencies will be $4.7 billion, larger than the entire expense budget currently.

If New York is relieved of the responsibility for administering public assistance, as the Commission urged in its Second Report, City personnel requirements, both numbers and dollars, would be lower by 1.5 to 2 percent in 1975. Similarly, if the Commission's recommendation to transfer the City University to the State is implemented, the City could reduce its payroll for 1975 by another 2 to 2.5 percent.

Authority personnel needs may also turn out to be somewhat lower than estimated since the latter years of our twenty-year base period, though not the whole of it, actually show a decline (primarily because of dropping employment in the Transit Authority). Our projections include the authorities, though separately, because of the close financial and personnel connections between them and the City and the possibility that these ties may become closer.

**Collective Bargaining Practices**

The City has extended the right of collective bargaining to its employees on a wide range of issues, including salaries and wages. But there is as yet no clear provision in State statutes authorizing municipalities and their employees to engage in collective bargaining—though there is nothing clearly prohibiting it either.

**Legal Basis Needed**

City officials were aware of this legal gap when collective bargaining was instituted here by executive order in 1958. The Commission considers that this legal uncertainty creates an unsatisfactory situation for both the unions and the City.

It has not been possible, for example, for the City to conclude agreements with the unions that are contractually binding on both parties. The procedure, instead, has been to work largely through oral agreements con-

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Chart 2
MUNICIPAL PERSONNEL: EMPLOYEES AND COSTS
New York City, Trends and Projections, 1945-1975

Note: The 1975 estimates are extrapolated from City experience and authority experience from 1945 to 1965. During that period the average annual increase, authorities included, was 2.7 percent in numbers of employees and 8.3 percent in personnel costs. For the City alone, authorities excluded, the counterpart figures were 2.73 percent for employees and 8.6 percent for costs. Personnel of the Manhattan and Bronx Surface Transit Operating Authority, the former Fifth Avenue Coach lines transferred from private ownership in 1962, are not included in the Authority (or City) figures.

Source: Historical data are from the annual reports of the City Personnel Department, City Comptroller, and Authorities.

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firmed in unilateral personnel orders of the Mayor. Perhaps more serious, the areas within which the City and its employees may bargain collectively have never been spelled out systematically—a source of dissatisfaction to the unions and of inconsistent practice by the City.

The Commission therefore recommends that the legal status of collective bargaining between municipalities and their employees be clarified through appropriate enabling legislation adopted by the State Legislature. The recent reports of the Tripartite Panel to Review New York City’s Collective Bargaining Procedures and the Governor’s Committee on Public Employee Relations provide good bases for developing this legislation—and indeed bills of this sort, one City and the other State, have been under legislative consideration. The Tripartite Panel was established by Mayor Wagner in the fall of 1965 with City representatives, union representatives, and impartial members pursuant to the settlement of the strike of Welfare Department employees earlier that year. The Governor’s Committee, set up in 1966, was composed of five labor experts, charged with developing a system of government-union relations to replace the Condon-Wadlin anti-strike law, which has proven unworkable.

The chief proposal of the Tripartite Panel, made in the form of a suggested agreement between the City and employee representatives,* is that an Office of Collective Bargaining (OCB) be established by local law to set and enforce a framework for negotiations and contracts between the City and unions. OCB would be headed by a board of seven members—two from the City, two from the unions, and three (including the chairman) named unanimously by the other four. OCB would thus be a joint City-union organization, sharing certain costs, with such functions as certification of bargaining units, supervision of contract adherence, and—most important—the appointment of mediators and, in impasse situations, of Dispute Panels for fact-finding and public recommendations. The unions would commit themselves to forego strikes during fact-finding and for at least thirty days after a settlement is recommended.

The Governor’s Committee, concerned not just with the City but with the State and all local governments therein, was requested “to make legislative proposals for protecting the public against the disruption of vital public services by illegal strikes, while at the same time protecting the rights of public employees.” As its prime recommendation, the Committee called for a State statute clearly empowering local governments to bargain collectively with their employees and to enter into agreements thus determined. Under the Committee’s proposals, the State would create a Public Employee Rela-

* This agreement has subsequently been endorsed by the Mayor and some of the larger unions with which it bargains.

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tions Board (PERB) composed of three members appointed by the Governor to establish procedures for resolving State and, on request, local governmental disputes with employee groups. In impasses, the Board would be empowered, either on request or its own initiative, to institute mediation or fact-finding with public recommendations. The prohibition against strikes might be enforced in several ways: through decertification of striking unions by PERB, through court action (with heavy fines permitted) against groups in criminal contempt for not observing court orders against strikes, or through penalties against individual strikers already provided in the State Civil Service Law.

**Resolving Impasse Situations**

Neither of these plans can go into effect without legislation, local as to the Office of Collective Bargaining and State as to the Public Employee Relations Board. In their procedural aspects the two proposals are complementary, both being directed toward establishing machinery to solve labor disputes without strikes through mediation and fact-finding. Under the proposed State law, the City would be permitted to operate in its own way, presumably through OCB, and yet would be able to turn to the State Board (as would the unions) if and when circumstances made that desirable. The Commission urges that the two basic plans be legislated and organized as quickly as possible, though we make no judgment pro or con on the anti-strike penalties in the proposed State law. The Tripartite plan stresses the joint responsibility of government and unions to resolve disputes while the State plan focuses somewhat more on State responsibility toward that end.

The importance of better labor relations machinery, through the proposed new arrangements here and in Albany, is heightened by the Mayor's recently announced intention of removing all collective bargaining employees (those represented by unions in wage and salary negotiations) from the City's general Career and Salary Plan at an early date. This step, which would leave only about 25,000 middle and upper echelon positions under the Career Plan, would free bargaining from the procedural rigidities of fixed pay categories and prescribed relationships of one employee group to another. By taking away these guidelines, the City would turn fully to bargaining, where unions are certified as representative, as the method of determining compensation and other terms of employment within whatever limits are legally permissible. In this light, the Commission offers three additional comments on the emerging bargaining process.

*First*, we must point out that the proposed Office of Collective Bargaining would *not* be the City's negotiating agency. Indeed, under the new setup the City's need for a central, specialized expert unit to handle its interests in collective bargaining would be even greater than now. We therefore repeat
our earlier proposal that an Office of Employee Relations be established under the City Administrator to act as the City's prime agent in labor negotiations.

Second, we suggest that the "Dispute Panels," to be set up under the Tripartite plan to deal with impasses, should be constituted to represent the public interest as well as the interest of the City as employer and the interest of the employees. The inclusion of neutral panel members selected jointly by City and employee representatives, as is contemplated, does not provide a positive voice for the public, i.e., for the consumers of municipal services. Nor can the City members, bargaining as employer and oriented toward immediate budget and personnel considerations, serve at the same time as advocates of the citizenry's wider interests.

Perhaps some arrangement is needed under which recognized "public interest groups"—institutions like universities, foundations, and civic organizations—might designate public members of the Dispute Panels. One possibility might be to ask the heads of the major local universities to name the public members—or to set up a list of potential public representatives from which specific individuals might be chosen for particular panels by the other members. But the Commission does not wish to recommend the specifics; our point is that ways can and should be devised to bring public concern, not just disinterest, into the process of resolving labor-management impasses affecting major governmental services. We do not refer to public participation in mediation, where it would be undesirable, but to public representation in fact-finding and making recommendations.

Finally, the Commission invites attention to its earlier recommendation that the calendar of collective bargaining negotiations be coordinated with the City's budget calendar. Contract settlements should be made so far as possible before the drafting of the annual expense budget in which they should be first reflected. In short, the settlements should be anticipatory rather than retroactive. Only through such coordination can the City achieve an adequate budget as to personnel costs.*

**Prevailing Rate Employees**

The prevailing rate employees constitute a special group in the City's personnel relationships. These employees are supposed to be paid at the daily (or in some cases annual) rate prevailing in private industry for com-

* Mr. Potofsky believes, in reference to collective bargaining, that the proposals of the Tripartite Panel, emphasizing good-faith bargaining, would be far more productive than those of the Governor's Committee, with its reliance on punitive measures.

He also sees elected public officials as far more representative of the public interest than private individuals, no matter how they are appointed. In his view, also, to substitute the opinions of private citizens for the objective neutrality of skilled mediators and fact-finders, when third party assistance is called for, would make a mockery of the collective bargaining process.
parable work. Approximately 23,000 City employees are paid on this basis, along with another 500 to 1,000 employees in the City-related public authorities.

City civil service regulations, in keeping with Section 220 of the State Labor Law, require that the pay of employees in the skilled craftsman and operative service category be fixed at the prevailing rate of wages as determined by law. One hundred and eighty-six civil service titles are so classified. The majority of these (laborers, mechanics, and workmen) are in six City agencies: Sanitation, Public Works, Marine and Aviation, Highways, the Board of Education, and Water Supply, Gas and Electricity.

These positions are in the prevailing rate category by decision of the City Civil Service Commission. Court rulings over the years have confirmed that Civil Service has the option of determining the basis of compensation for municipal employees. The present procedures stem from a 1938 action of the Commission creating the Skilled Craftsmen and Operative Service, to be paid at prevailing rates.

We are concerned with prevailing rate employees for two main reasons, each involving serious inequities. First, the payment of daily rates to employees who actually enjoy full annual employment with fringe benefits severely distorts the City's overall wage structure, to the disadvantage of employees not so paid. Second, in New York practice, the determination of prevailing rates is divided between the Comptroller and the Director of the Budget, each handling about one-half of the persons involved.

Determinations by the Budget Director vary considerably from the procedures contemplated in Section 220 of the State Labor law. In fact, these determinations are generally in the form of an agreement, much like a collective bargaining contract, which provides among other things that employees forego their procedural rights under the State law. These actions by Budget are completely dissimilar in form from those of the Comptroller.

Prevailing rate determinations are now in practice largely matters of union negotiations, and hence hard to justify outside the general procedures for collective bargaining. They place heavy demands, unnecessarily complicated, on the Comptroller and Budget Director, and often require that employees retain counsel with resulting legal fees. Indeed, the need for legal counsel was the factor which first brought unions into prevailing rate procedures.

The State Civil Service Commission and the State Industrial Commissioner both affirm that the City Civil Service Commission has the authority to transfer prevailing rate employees to the Career and Salary Plan schedule. This step appears to be desirable (unless all union-bargaining employees
are moved out of the Career and Salary Plan), especially since New York is the only city in the State which continues to follow the prevailing rate pattern. As a move toward some change, the whole matter has been under study by a special group working with the American Arbitration Association.

As a way of improving the situation, pending total abolition of the prevailing rate procedure, the Commission makes four recommendations:

(1) That as many titles as practicable be transferred to the Career and Salary Plan schedule of compensation or to such new collective bargaining procedures as may be generally applicable to City employees;

(2) That legislative authority be sought vesting authority to make prevailing wage determinations in the proposed City's Employee Relations Office (or counterpart agency) for such titles as must remain so classified;

(3) That prevailing wage determinations be based on wage and salary studies relating prevailing rate employees to other City employees, as would be legally permissible, as well as to similar positions in private employment; and

(4) That no new titles be placed under prevailing wage provisions.

If the Mayor's plan to take unionized employees out of the Career and Salary Plan altogether is implemented, the prevailing rate workers might well be covered by bargaining arrangements like those of other employees.

**Equalizing Fringe Benefits**

Major fringe benefits, the employee costs and allowances assumed by the City over and beyond wages, amount to $344 million in the 1965-66 executive budget. In addition, vacations, holidays, and sick leave, costs subsumed in pay, represent an estimated $427 million. Thus, the total fringe benefit expenditures of the City this year for its own current employees (authority employees not included) will be about $771 million—more than one-third of overall City spending on personnel. The two largest items are vacations and pensions, each costing beyond $250 million annually.

To these large outlays, detailed in Table 4, we might also add 1965-66 City expenditures of $85 million in contributions to non-actuarial pensions systems and $3.2 million in payments for disability insurance. In all, fringe benefit and related expenditures are estimated conservatively at over $850 million this year, more than 20 percent of the City budget.

**Sizable Benefit Expenditures**

For a typical City employee, fringe benefits result in a total wage package which is more than a fifth larger than his stated salary. In addition,
Table 4  
FRINGE BENEFITS AND SALARIES  
New York City Costs, Estimates for 1965-66, Excluding Authorities

<table>
<thead>
<tr>
<th>Item</th>
<th>Gross Cost (in millions)</th>
<th>Cost Per Employee</th>
<th>Percent of Average Base Salary(^1)</th>
<th>Percent of Total Wage Package(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALARIES AND ADDED BENEFITS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries/Wages</td>
<td>$1,960</td>
<td>$7,685</td>
<td>100.0</td>
<td>82.7</td>
</tr>
<tr>
<td>Added Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Plan</td>
<td>344</td>
<td>1,607</td>
<td>20.9</td>
<td>17.3</td>
</tr>
<tr>
<td>(Average Base Salary)(^1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions</td>
<td>263(^b)</td>
<td>1,032</td>
<td>13.4</td>
<td>11.1</td>
</tr>
<tr>
<td>Social Security</td>
<td>41</td>
<td>175</td>
<td>2.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Uniform Allowance</td>
<td>10</td>
<td>130(^c)</td>
<td>1.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Welfare Fund</td>
<td>9</td>
<td>127(^d)</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total (Salaries and Benefits)</strong></td>
<td><strong>$2,304</strong></td>
<td><strong>$9,292</strong></td>
<td><strong>120.9</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>(Total Wage Package)(^2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BENEFITS SUBSUMED IN SALARIES(^3)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holidays</td>
<td>82</td>
<td>323</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Sick Leave</td>
<td>90</td>
<td>355</td>
<td>4.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Vacations</td>
<td>255(^e)</td>
<td>997</td>
<td>13.0</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>Total (Subsumed Benefits)</strong>(^3)</td>
<td><strong>$427</strong></td>
<td><strong>$1,675</strong></td>
<td><strong>21.8</strong></td>
<td><strong>18.0</strong></td>
</tr>
</tbody>
</table>

\(^1\) *Average Base Salary*: Total wages and salaries ($1,960 million) divided by estimated average employment in 1965-66 (255,000).

\(^2\) *Total Wage Package*: Average base salary plus all added fringe benefits ($7,685 plus $1,607 equals $9,292). This is a hypothetical figure since all benefits do not go to all employees. The average wage package, overall gross cost ($2,304 million) divided by employment (255,000), is $9,035.

\(^3\) *Subsumed Benefits*: Workable days (based on the standard five-day week) covered in regular salaries as time off. They are not costs in addition to salaries. The dollar amounts are derived from the proportion of days off to total workable days in the year.

\(^a\) Pertained to 145,000 employees, May 1965.

\(^b\) Does not include payments of $85 million to non-actuarial systems nor payments of $31 million by authorities to the City on behalf of authority employees.

\(^c\) Pertained to 79,000 employees, May 1965.

\(^d\) Pertained to 67,000 employees, May 1965.

\(^e\) Cost of early closing (4 p. m.) during summer is not included. July and August are treated as paid vacation for teachers and other pedagogical employees.


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about one-fifth of his salary is compensation for days not actually worked, i.e., holidays, sick leave, and vacation. In short, the cost of each unit of on-the-job service to the City is well above what might be hastily derived from routine pay figures. An analysis of Table 4 indicates that an employee with a base salary of $7,685 may actually be paid $6,010 for time worked and $1,675 for time off, plus another $1,607 for benefits beyond his salary. This benefit package is high compared with other large American cities.

Fringe benefits will be even more generous in 1967 when the City absorbs the full cost of the employee health plan for all permanent employees and begins making increased social security contributions. These changes will continue the sharp upward trend of recent years, evidenced by an increase of over 9 percent from 1964-65 to 1965-66 in fringe benefit outlays. The non-contributory health plan for City employees will cost not less than $55.5 million per annum. Similarly, if union welfare fund subventions are extended to all City employees at present average rates, they will amount to about $32.3 million annually.

INEQUITIES IN BENEFITS

Inequities among different groups of employees constitute another fringe benefit problem. Differences are marked and illogical in holiday allowances, terminal pay practices, sick leave, sabbatical leave, and benefits in lieu of salary increases. All this is symptomatic of an atomistic approach by the City to a major budget item.

The piecemeal approach is particularly obvious in the subventions to union welfare funds. The payments are provided to some unions but not others, and the rate of subvention per member varies from one group to another. Differences of this sort stem not from considered policy, but from the absence of across-the-board planning.

We are unwilling to recommend a series of "blow-out patch" adjustments for such large and diverse issues. Rather, we propose that the City undertake an across-the-board review of fringe benefits, probably through the City Administrator in liaison with Personnel, Budget, and other agencies. This study should lead to the formulation of a general City program, recognizing differences that are justifiable but seeking to eliminate those which are not. Overall, the program should be abreast of, though not ahead of, practices in private industry and other major governmental jurisdictions in the New York Metropolitan Area.

The Commission urges the City to be watchful of new inequities which might arise while the proposed study is being conducted. Without care, these might develop in extending health services, increasing contributions to union welfare funds, providing more "personal privilege" holidays, or
granting more generous terminal leave provisions. The study should take about a year's work by a small, knowledgeable staff in liaison with key City agencies and with employee representatives.*

**Improving Pension Management**

The most critical fringe benefit problems are in a large special area—the management of the municipal pension programs. Despite a four-year study of the City's retirement systems by Martin E. Segal & Company, 1962 to 1965, the City has done little if anything to initiate the requisite remedial measures. Improvements are needed along four broad lines: benefit structures, actuarial bases, portfolio policy, and the Comptroller's role.

**The Benefit Structure**

The City pension systems, including the fire, police, and teacher programs, several small special plans, and the general City Employees' Retirement System for other employees, offer numerous retirement benefits under a variety of provisions. A municipal employee may be affected by provisions of an actuarial system, a non-actuarial system, federal Social Security, a reserve for increased take-home pay, and various arrangements to supplement basic retirement benefits.

The several systems lack uniformity and the benefits they offer vary widely. Illustrations are numerous. Some plans offer annuity benefits; others do not. Some base entire retirement allowance on a percentage of final salary; others do not. Final salary is defined in some systems as an average over a period of years; in others, as the last year's salary prior to retirement. Some plans guarantee a minimum retirement allowance; others only stipulate objectives toward that end. Some allow reductions in member contributions commensurate with Social Security taxes; others allow no reduction.

Still further, reserves for increased take-home pay accumulate at a high rate in some systems but at a much lower rate in others. Retirement requires age and service minimums in some programs, but only one or the other in other systems. Some systems provide additional benefits for extended service, while others do not. Certain plans distinguish among types of disability and death benefits; others make no distinction. Some systems permit service beyond "mandatory" retirement age; others do not.

Although reform of the benefit structure for present members is desirable, legal considerations may make it impractical. Reform could be inter-

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*Mr. Potofsky feels that it would be incompatible with good-faith collective bargaining for the City to hold back unilaterally on fringe benefit improvements pending completion of the recommended study.*

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preted as abrogating the contractual rights of the present members and thus violative of constitutional guarantees. Of course, it might be possible to institute reform so as to bring every member up to a new, equivalent, higher level. But such reform would be prohibitively expensive.

However, the Commission believes strongly that the City's participation in retirement plans should be determined only by annual rate of pay and years of service. And we see no justification for providing one class of employees a more handsome retirement than others. Consequently, we recommend the development of a revised, uniform benefit structure to be applied to new entrants. Under this setup, entrants should preferably share the cost of benefits on an equal basis with the City, a more conservative arrangement than that currently in effect.

**Actuarial Structure**

The foundations of a sound actuarial reserve system in a retirement program are actuarial tables which accurately reflect work experience, mortality rates, average retirement experience, and other critical elements. But competent analysts indicate that the tables presently in use for the City programs are in most respects obsolete.

The actuarial structures from which benefits and contributions are computed tend generally to understate costs. As a result, unusually heavy costs may accrue when it becomes necessary for the City to fund insufficient reserves. One estimate suggests, for example, that the City may eventually have to fund 40 percent of annuities which were formerly to have been financed from employee contributions. Furthermore, the City's pensions accounting is such that it is difficult to know at this point whether some pension systems are overfunded or underfunded.

The City Actuary is required by statute to perform quinquennial studies of the actuarial systems in order to determine, among other things, any needed revisions in actuarial tables. The Actuary has at times suggested revisions, but most of these have been rejected by the retirement boards to avoid the increased member contributions that the revisions would entail. The board's decisions have been partially supported by the 1959 Saypol decision,* voiding any revisions of benefits and contributions of existing members as impairments of contractual obligations. The retirement boards, notably for the firemen's fund, have also been unwilling to apply the revised tables to new members.

The general result has been the commitment of City funds to cover all additional or unexpected pension obligations. The only option for improve-

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ment realistically open to the City is to require the boards to apply revised actuarial tables to all new members. Without such a requirement, the City's future commitment is dangerously open-ended. The Commission therefore urges that steps be taken at once to develop updated actuarial tables and to set up contracts with new entrants in accord with them. Related to this, as noted in our Second Report, the City ought to be freed from ad hoc pension arrangements imposed by the State.

**INVESTMENT POLICY**

It has been traditional in the United States for public employee pension systems to provide a preferred market for obligations of the sponsoring governmental jurisdiction. In late years, there has been a growing realization that such a policy usually results in a smaller investment income for pension reserve funds than might otherwise be the case.

The preferred market tradition has generally been followed in New York City. Starting in 1962, however, the Comptroller has sought to diversify the portfolio of the pension funds. The Commission recommends that this start be pursued by completely divorcing the portfolio policy of the funds from the City's program for marketing its own securities.

Even thus divorced, the pension funds may invest heavily in City obligations—but this should be at the volition of the fund trustees for purposes favorable to the funds. As of June 30, 1965, the pension funds held $1.4 billion in City bonds, representing about 35 percent of total pension fund investment.*

Finally, the Commission questions whether municipal officials intimately concerned with the management of the City's indebtedness, notably the Comptroller, should also be officially involved in management of the pension fund portfolios. There appears to be a color of incompatibility in that dual role, a relationship inconsistent with the recommended divorce of fund management from the sale of City securities.

**Advances in Management**

Another concern of the Commission in the personnel area has been the identification of management and measurement procedures whose adoption would insure a better return from the City's personnel dollar. The Commission's inquiries prompt the conclusion that the City has not been noteworthy for pervasive concern with improved management practices.

Yet we are convinced that economy in the use of manpower would result from using a wide range of work management procedures. These include

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* The sinking funds held an additional $477 million in City bonds as of June 30, 1965.
job analysis, work measurement, program engineering, systems analysis, and finally productivity measurement. Another important step would be a thorough revision of City personnel classifications, now grossly distorted, to bring jobs of parallel skill requirements once again into par with one another—though this will have to be related in some new fashion to collective bargaining.

The installation of management control systems is expensive. Yet pilot work-measurement projects in industrial-type activities of federal agencies suggest savings over cost in the magnitude of 7 to 1, given the substantial time necessary for management systems to become fruitfully understood, accepted, and operative.

It is impossible to implement a far-flung work-management system successfully in one step. But the City might realize significant gains fairly soon by building on the Budget Bureau work-measurement program and the City Administrator’s management studies. Now used primarily in determining Manning requirements, the work-measurement program might advantageously be brought up to date and applied more extensively as a guide to areas needing productivity improvement.

Experience in industry and the federal government clearly indicates that work measurement must be long-range and continuing if worthwhile gains are to be realized. Such efforts are an economic waste if turned on and off capriciously.
VIII

MORE INTERGOVERNMENTAL ASSISTANCE

Our earlier reports traced the City’s basic fiscal difficulties to the impact of nationwide technological and sociological changes on the great cities. We have by no means excused all the City’s problems on this basis, for temporizing, expediency, poor organization, political customs, and short-range thinking have aggravated the crisis. But it will not be enough for New York to put its own fiscal and administrative house in order, though that must be done as first priority. The City’s problems are basically larger than New York; resources to meet them must come partly from wider jurisdictions.

Increasingly the underprivileged have been coming to New York and other cities while the middle class has been moving out. Here and elsewhere streets are becoming more crowded, air more polluted, old industrial areas more obsolete, crime more widespread, and racial tensions more dangerous. Why? In significant measure because of a national technology that feeds people and transport into the urban centers and because rural pursuits no longer absorb a great part of the nation’s energies. Further, national political movements to correct social inequities are understandably heightening the expectations and lowering the patience of the poor.

Yet the fiscal arrangements of the country have not kept pace with these changes, particularly not with the bunching of the nation’s domestic problems in the cities. In calling for much larger State and Federal aid to New York, the Commission is raising its voice not only for this City but for cities everywhere. The state and federal governments must see—and indeed have started to see—that local government can only meet its immense and growing difficulties with massive intergovernmental help. The tax base of the cities, New York most certainly included, must be enlarged—but beyond that there must be more aid of various kinds from both state and federal sources.

Earlier Recommendations Reviewed

Here we pick up this theme, particularly stressed in our Second Report, and extend it to additional facets of State and Federal relationship with New York. As a prelude to these new proposals, it is desirable to review quickly what the Commission has already recommended. Our program was made up of several key proposals: a substantial increase in State school aid; transfers of responsibilities from City to State in higher education and welfare; and new federal general purpose grants to the states and, through the State, to New York City. These recommendations remain matters of high priority, on which unfortunately little headway has yet been made.
In our Second Report, to illustrate, we stressed the need for changing the State formula for school aid to eliminate unrealistic limitations which work particularly against New York. We recommended that the ceiling on school operating expenses for State aid should be made equal to per pupil costs averaged on a statewide basis, and should be permitted to rise automatically. We also suggested that the computation of the weights in the school aid formula (which are designed to recognize cost differentials) should be revised to reflect the high costs of special programs.

The new State budget, though providing $25 to $30 million in additional school aid, falls far short of the Commission recommendations. The school aid ceiling for 1965-66 is $600 per pupil, 10 percent below the statewide average for the previous year, 1964-65. The budget raises the limit for 1966-67 to $660 per pupil, which is roughly the 1964-65 statewide average. This suggests the emergence of a pattern under which the rise in the State-aid ceiling will lag behind the rise in actual costs by two years, or by 10 percent or more. Our proposals would eliminate such a lag.

**Welfare and Poverty**

The Commission has already proposed the transfer of both the administrative and financial responsibility for public assistance to the State, which would then presumably handle this function through its own field offices rather than local governments. The concentration of the poor in New York is one of the local problems whose roots are primarily national and regional, not municipal. Public assistance and other activities to support the poor and help them break out of "the poverty trap" should therefore be financed on a wide geographic basis from intergovernmental funds.

This approach suggests the desirability of further changes in the State and Federal roles in providing funds for public services for the poor. One such change is connected with the welfare activities which would remain City responsibilities even if public assistance were transferred to the State. Most of these undertakings are child welfare services, particularly institutional and foster care of children. The costs of such services are now shared 50-50 with the State.

If the public assistance function is assumed by the State, there will be two different arrangements for financing care to dependent needy children. If they live with their own indigent families, they will be covered by public assistance. But if they are in institutions or foster homes, their care will continue to require heavy municipal financial contributions. The Commission sees little difference in the appropriate location of fiscal responsibility in the two cases. We recommend that State and Federal aid for child welfare
services be substantially increased, to cover all or nearly all the costs now met by the City.

FEDERAL POVERTY FUNDS

Another issue involves the future financing of the anti-poverty program. Right now, the federal government puts up 90 percent of the funds for many anti-poverty activities, while the remaining 10 percent is provided by the City or nonprofit organizations. The basic federal law provides for a gradual reduction of the federal share, eventually to 50 percent. Neither the City nor the social agencies could afford to continue the anti-poverty program at present levels, higher than the municipality itself would have set, if they are required to cover 50 percent of the costs.

Ideally, the federal law should be changed to continue a very high federal share—75 or 80 percent, if not the present 90 percent—in recognition again that the poverty problem is basically rooted in national, not local, forces. If the federal law is not changed, the Commission believes that the State should make a substantial contribution to the non-federal share. Such participation would be in harmony with our views on the right pattern of financing for welfare services generally.

BROADER FEDERAL RESPONSIBILITIES

The Commission also believes that the federal government should, over time, shoulder an increasing proportion of the costs of all the services linked to poverty, thereby relieving the State of some of the costs which we propose to shift now from City to State. There are a number of ways in which this might be done. One would be for the federal share of public assistance costs in the urban states to be increased, along with increased federal aid to education of children from low-income families.

Another approach to increasing federal help to the poor would be the "negative income tax," which has recently attracted considerable attention. In most formulations, this plan would involve federal cash payments to low-income families on the basis of income tax returns, the payment to be related to the amount by which income fell below a minimum standard. The negative income tax might replace public assistance in many situations and thus substantially relieve state finances, though special cases should continue to receive assistance and have more intensive casework than at present.

The negative income tax would provide a direct way to make payments to the indigent, using tax machinery rather than the more cumbersome local welfare processes. In further contrast to public assistance, the negative tax
could be designed to encourage people receiving payments to increase their private earnings. At present, larger private earnings (unless kept secret) lead to a one-for-one reduction in the assistance payment. Under the usual negative tax proposals, an increase in private earnings might be offset by various deductions or credits so that only a fractional reduction in the negative tax payment would result.

The negative tax obviously has some attractive features. It deserves intensive study by federal economists and legislators with a view to possible implementation after full consideration of its prospective cost and effects.

The Correction Function

Local government responsibilities, vis-à-vis state, are greater in New York State (particularly in New York City) than almost any place else. In the City, these heavy local responsibilities lie mainly in the welfare function, the City University, and the municipal hospital system, activities which are handled elsewhere by either state governments or voluntary organizations.

The Commission has proposed transfers of responsibility in connection with welfare and higher education. As to hospitals, the City's direct administrative responsibility has been reduced by the policy of affiliating City hospitals with medical schools and the teaching (voluntary) hospitals. Its financial responsibility will be greatly alleviated by Medicare and other provisions of the 1965 Social Security Act Amendments.

One remaining area of exceptional City responsibility is correction. Local responsibilities in this field are unusually large because of the City's unique responsibility for certain long-term prisoners. Elsewhere long-term prisoners of all kinds are sent to state institutions.

New York's special correction responsibilities stem from choice in the past, not from State-imposed requirements. The State does reimburse the City for the cost of most of the long-term prisoners (although the ceiling per prisoner per day is less than the City's costs). Further, revisions in the Penal Law effective in 1967 will change these arrangements and may reduce the number of major-term prisoners in City institutions.

If the expected reduction in the number of prisoners does not take place, however, the Commission would urge that the State directly assume the City's custodial responsibilities in this area. There are State mental hospitals in the City; there seems to be no reason why there cannot also be State prisons.
Other State Aid Issues

City-State fiscal relations have been substantially improved in recent years, including major gains in the per capita grant, highway tax sharing, mental health aid, and assistance for education. The City presently receives about two-thirds of all State aid distributed for health, mental health, welfare, and housing; and it gets a portion of highway aid commensurate with the City's share of total highway use in the State. Similarly, under the per capita grant, New York now receives over 50 percent of the total statewide grant even though the City represents only 45 percent of the total State population.

The main areas where additional State responsibility is justified, and would be desirable, are education and welfare, as already noted. In addition, the City has good ground for seeking better treatment in some newer programs. As one matter, the City's share of park acquisition funds from the 1960 and 1962 State bond issues, and as now proposed for 1966 referendum, is grossly inadequate. Further, the State should consider developing State parks within the City, not just outside. The newly acquired land at Breezy Point might, for example, be turned over to the State for development as the first State park in the City.

In the transportation area, the State will be spending large sums to better suburban rail service through the Metropolitan Commuter Transportation Authority. Parallel treatment for transit within the City would be equitable. Thus, MCTA might construct improvements within the City for joint use by transit and suburban rail services.

Other Federal Aid Questions

New and expanded national programs will greatly increase federal aid to the City. The medical care provisions of the Social Security Amendments of 1965, the Elementary and Secondary Education Aid Act of 1965, the anti-poverty program, and similar measures, will provide New York with over $200 million additional annually within a year or two.

The City's case for even more federal aid must be carefully spelled out; it should not be a loose plea for more money pure and simple. The fact that the City has fiscal troubles is not likely to carry much weight outside New York. But the country can be impressed by demonstrations of a national stake in solving problems common to New York and other large cities.

Current and recently enacted programs of federal aid to urban communities will need improvement and adequate funding. A number of these programs are ambitious in conception, but the monies provided thus far are grossly insufficient to achieve the goals set by law. For example, substantial additional funds are needed for the water pollution control, mass transportation, and open space acquisition programs.

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Some federal aid programs contain restrictions which work against New York City to a special extent. For instance, in a number of programs there are limits on the amount of project cost eligible for federal aid. In such cases, New York and other large cities receive assistance which is often only a trivial fraction of project cost, while smaller communities find that federal aid pays for substantial portions of costs.

Other programs contain limits on the allocation of funds to any one state; these programs include public housing and urban renewal, urban mass transportation, and the Neighborhood Youth Corps. Whatever the historic reasons for such limitations, it makes no sense today to limit arbitrarily the federal aid which can be received by cities in the larger states on the grounds that communities in less urbanized states may sometime wish to participate in the programs. We urge the repeal of such restrictions.
IX

Additional City Tax Possibilities

To meet rising costs in the decade ahead, the City will surely need to supplement its revenues, going beyond the tax program now taking shape in the State legislature. Economies and larger intergovernmental grants, with the taxes now authorized, cannot be expected to underwrite for long the larger services which the City is being asked to perform.

Most of the guidelines from the revenue recommendations in our Second Report are still much to the point. Beyond these, several other steps should be taken to increase the productivity of the tax system and correct inequities in it. But the Second Report proposals, constituting the Commission’s basic revenue program, should have priority where they have not yet been implemented.

The most important revenue proposal in our Second Report called for a City personal income tax, covering commuters as well as City residents. A second recommendation was to increase user charges, particularly on water, sewers, and motor vehicles. Third, the Commission proposed an overhaul of the City’s business taxes to replace the existing discriminatory and economically damaging levies with a comprehensive tax on gross margins, supplemented by a business income tax on financial institutions. Finally, the Commission urged adoption of a constitutional amendment increasing the limit on the real estate tax for operating purposes, primarily to enable the City to stop borrowing for such purposes via the capital budget. The amendment would also provide the City with a small margin of real estate tax potential as a reserve for future financial needs.

The Mayor incorporated these proposals in his tax program, though in modified form in each case. But the State Legislature is apparently not going along in important respects with either the Mayor's program or the Commission’s recommendations. We welcomed the Mayor's move in the direction of our thinking, though with a continuing preference for the specific plans we had suggested, and are now troubled that legislative action is falling so far short of both what the Mayor asked and the Commission earlier proposed. We urge that the legislative tax job, which will be no more than half done at this time, be properly finished at the next session of the Legislature.

Liquor Tax

In our First Report, we proposed an increase in the liquor tax, on a statewide basis, sufficient to offset most of the liquor price declines expected to follow the 1964 liquor law reforms. Since November 1964, liquor prices
have declined much less than had been expected and the declines have been sporadic. This has happened partly because the limit which the 1964 legislation placed on prices charged by distillers has only very recently been upheld by the Supreme Court. In addition, many brands continue to sell at high prices because they are being “fair-traded” under the general price-fixing arrangements of the Feld-Crawford Act.

With the limit on distillers’ prices now upheld, retail prices are likely to decline, for “fair trade” at current retail price levels will not be easy to enforce. In this situation, a tax increase would probably push down the “fair trade” prices exclusive of tax. Moreover, the Legislature in its next session may adopt the course, considered this year, of removing liquor from Feld-Crawford coverage.

The Commission continues to favor an increase in liquor taxes. To reduce diversion of liquor sales from the City to the suburbs, this increase should be imposed on a statewide basis and the proceeds should be returned to the community in which the tax is collected. An increase of 60 cents a fifth, imposed on this basis, would yield $60 million a year to the City.

Taxes on Gambling

The usual aim of proposals to legalize and tax forms of gambling is to divert funds from the present private and illegal channels to the public coffer. If people insist on gambling anyhow, the argument goes, legalizing it will certainly have generally good results and could not rightly be blamed for the social disadvantages often associated with gambling. If the improvident among the poor are going to gamble anyway, this view holds, it is better that it be done through legal channels rather than illegal.

While doubts may be expressed about this argument, the time has certainly come to reconsider soberly the economic, social, moral, political, and administrative questions raised by gambling. The advanced and democratic cultures which permit regulated gambling or governmental lotteries do not appear on that account to have produced a less law-abiding or prudent population, or more depravity and crime, than has the United States.

Our dominant ethical standards on gambling were developed as part of a puritanical outlook which also embraced constitutional prohibition of liquor with disastrous results. These standards arose in a very different economy, when leisure was sinful and an “affluent economy” beyond imagination. But many people clearly do find entertainment, relief from boredom, and other satisfactions in gambling directly and consciously, beyond that inescapably built into agriculture, business, investment, and other careers. Against this background, the government should probably turn from outlawing gambling to regulating and taxing it, and perhaps to educating against it.
Many urban dwellers now gamble in various ways—legally at the race-track or in church parlors, but also in considerable part illegally. The illegal gambling not only pays its way as a business, with costs raised by its illegality, but at times also debauches police, other enforcement agencies, political figures, and even the courts. Large resources are taken from the gambling public and transferred to criminal elements for other enterprises.

The morality argument thus appears now to be narrow and uninformed. Our laws are inconsistent. Fully enforced, they would restrict gambling to upper-income people. But they are not in fact enforced and, in the big cities, are altogether unenforceable. They thus produce a destructive circle of pretense, corruption, and underworld revenues.

As with the prohibition of liquor, it has become evident that the morality of gambling is primarily a personal matter. It is something to be dealt with not by constitutions and sweeping legal prohibitions but by personal, familial, and community standards. Blatant exploitation should of course be regulated. Costs might be somewhat raised as a discouragement (as with liquor and tobacco). And revenues should be directed away from illicit profit and into governmental social services. But blanket "thou shalt nots" should be abandoned.

Moral issues aside, the big question about legalizing gambling is its net revenue yield. The evidence on this, whether gambling taxes are considered in respect to a public lottery, the numbers game, or off-track betting, gives no clear conclusion. Reasonable men draw entirely disparate inferences from the information available. Proponents generally choose optimistic interpretations; opponents, the opposite. Either may be right. Gambling taxation is not, therefore, a promising or dependable solution to the City's fiscal problems. Nor could it be instituted immediately.

In any case, a constitutional amendment permitting a State lottery will be before the voters this fall. If this proposal is approved, the City should press for an equitable share of the proceeds, which would be earmarked statewide for education. A City lottery would probably be precluded and municipal off-track betting would probably be unfeasible.

If the lottery amendment is not approved, the City might well seek legal authority to institute off-track betting on a limited experimental basis. Alternatively, the City might ask for the right to establish a municipal lottery, one geared simply to a periodic draw of numbers without ties to horse racing. But such a lottery, even though for the City alone, would require a State constitutional amendment.
Sales Tax

The City continues to suffer losses in retail sales because its sales tax is higher than that in nearby areas. But this situation has improved considerably since our First Report. The 2 percent statewide sales tax in New York, adopted last year, has reduced the differential between the City and the New York State suburbs. And New Jersey now has established a 3 percent sales tax. These lower differentials are about all that can be hoped for presently since the City does not have sufficient revenue to lower its own sales tax rate. Future possibilities for reducing the differential should be explored if and as City finances permit.

The City and New York State sales taxes differ in their coverage in only one respect. The State and local governments outside the City exempt manufacturers' purchases of machinery, equipment, fuel, and utility services. The City taxes such purchases. This arrangement does not accord with the final-sale principle of a consumer sales tax and consequently leads to sales-tax pyramiding. It also is a clear inducement to manufacturing firms to locate their activities outside the City.

The Commission recommends that the coverage of the City sales tax be made identical with that of the State tax by exempting manufacturers' purchases. The revenue loss from doing this could be considerably offset by extending the sales tax to a broad range of consumer services, as recommended in our First Report. Some, but by no means all, of these services were brought under the tax when it was set up statewide. We see no reason to continue to exempt such consumer services as parking, personal care, laundering, and dry cleaning. *

Stock Transfer Tax

The Mayor's tax program included a proposal to increase the stock transfer tax, which is collected by the State but turned over to the City. The Legislature seems likely to approve of this, but for a raise of 25 percent rather than the 50 percent requested. This step, to add some $25 to $30 million annually to City revenues, has been opposed by the New York Stock Exchange, which threatened to move at least part of its trading to another state if the tax was raised.

The stock tax increase does not have a valid economic rationale and ought to be reconsidered. It is opportunistically, singling out one business for special City taxation without justification in terms of special City services to that business. This approach is inconsistent with the Commission's basic view,

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* Mr. Potofsky opposes the extension of the sales tax as a regressive method of raising revenue.

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reflected in another part of the City's legislative tax package, that business
taxes should be reformed to treat enterprises of all types as uniformly as
possible.

**Real Estate Tax**

It is frequently asserted that real property in the City is assessed in a
highly uneven manner, that is, some properties are assessed at much higher
percentages of full value (or market value) than other properties. We have
looked into this and find the allegation to be well-substantiated. Reform of
assessment practices is clearly needed.

Assessment reform would *not*, however, enlarge City revenue. Increases
in the assessments of property now rated at low levels will result in
reductions in taxes for other types of property. This is because the con-
stitutional limit on the tax rate is expressed as a percentage of full value
(after equalization), not of assessed value. If some assessments are increased
to higher fractions of full value, the total permissible tax levy will not rise
but will be apportioned over a larger base of assessed values, thus leading
to a reduction in the nominal tax rate.

**Assessment Reform**

Unequal assessments take two forms: *first*, variations among different
properties of the same general type, and, *second*, systematic differences in
the treatment of different types of property. Both forms of inequality exist
in the City. There is a considerable degree of *correctable* inequity in the
assessment of *individual* properties of the same type—and the City should make
every effort to effect the corrections. The Commission believes that
assessment administration in New York should be at as high a standard as
in other large cities, Los Angeles and Cleveland, for example, not appreciably
lower as at present.

Assessment inequalities among *types* of property are sharp. In general,
vacant lots are assessed at very low fractions of market value. One- and
two-family houses have somewhat higher assessments, averaging about 45
to 50 percent of market value in recent years. But other types of property
are subject to *much* higher rates of assessments, generally in the range of
75 to 90 percent of market value.

Assessment variation of this kind has been long-standing practice in
New York, as in many other large cities. The Commission finds no economic
justification for the continued under-assessment of vacant lots; it serves largely
to encourage speculative withholding of potential building sites. We also
question the wisdom of imposing very heavy taxes, via high assessment ratios,
on apartment property, and much lower taxes on home-owner properties.
This is a discrimination which seems to have no fiscal advantages.

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In short, whether or not the real estate tax limit rises, there is a strong case for a comprehensive program of reassessment of real property to achieve greater equality both within and among the different classes of property. One technical but important detail which should be considered in such a program is the date, now January 25, as of which assessments are made for taxation in the subsequent fiscal year.

Some observers feel that the assessment date is too far in advance of the fiscal year and that there is not enough adjustment afterwards to reflect important gains in property values. If so, the City may be losing considerable revenue because late increases in value are not reflected in assessments until well after they have taken place. This matter deserves the attention of City tax officials.

**TAX EXEMPTIONS**

The assessed value of real property which is exempt from the real estate tax is equal to nearly half the assessed value of taxable property, and moreover has been increasing rapidly in recent years. If large amounts of tax-exempt property could be made taxable, the City's fiscal situation would obviously be eased.

Unfortunately, the revenue possibilities here are limited. Most tax-exempt property consists of facilities which few people would suggest taxing. City-owned property, including transit facilities, accounts for more than two-thirds of the tax-exempt total. Non-profit hospitals, schools and colleges, and churches and cemeteries make up another 13 percent of the total. Exempt railroads and publicly owned transportation facilities (*not including* the City Transit properties) amount to 9 percent. In addition housing abate-ments total nearly 7 percent, and military and Post Office facilities over 2 percent.

However, some exempt property, consisting particularly of commercial-type establishments, operated by voluntary or quasi-public organizations, is borderline in character. The City should scrutinize such properties more closely and insist on taxes or payments in lieu of taxes where the property is really commercial in character. We also believe that there should be payments in lieu of taxes on some governmental tax-exempt property to reimburse the City for services provided. For example, the Federal government might quite appropriately make payments to the City in recognition of municipal costs arising out of the United Nations complex.

Additionally, we see *no reason* why exemption from the real estate tax should also involve exemption from water and sewer charges. All water and sewer users, including tax-exempt organizations, should pay in accord with
the quantity of water used. Such organizations do not receive free electric
or telephone service, which is a fairly close analogy.

Another desirable step in developing a tighter City policy regarding
non-taxed property, though perhaps a difficult move politically, would be
to apply the veterans' exemption in the manner established by State law.
Presently the City extends this exemption (applying to property bought by
a veteran with the assistance of State or Federal military benefit funds, to a
limit of $5,000) to its whole real estate levy. But the State law extends the
exemption only to taxes for local governmental purposes exclusive of the
schools—and it is so applied outside New York City. By making tax-
exempt veterans' property taxable for school expenses, and also by applying
the exemption to full value as the law intends (not to assessed value as has
been done in practice),* the City could increase its revenue from the real
estate tax by about $4 to $5 million annually at current tax levels.

The revenue potential from all these changes, related to property taxes
and charges, is modest by comparison with overall City needs. But it is
certainly large enough to pursue—perhaps $25 million in total. Tighter
policies regarding real estate taxes and in lieu payments would bring in
about $20 million of this. The remainder might be expected from the
extension of water and sewer charges.

Tax Administration

Turning from real estate tax administration to the management of other
taxes, we again see considerable room for improvement. The situation
could be bettered along two main lines.

First, City taxes which closely parallel taxes imposed by the State
would probably best be administered by the State on behalf of the City,
much as the City sales tax now is. The City cigarette tax and the City com-
mercial motor vehicle taxes are two such levies. Albany administration of
the projected City personal and business income taxes, which are closely
related to parallel State levies, also would be sensible.

Second, the City's residual tax activities should be concentrated in a
single City agency along with the real estate tax. Most of the remaining City
levies would be in some way connected with the ownership and use of real
property—for example, the commercial occupancy tax, the vault charge, the
tax on conveyances of real property, and water and sewer charges. Administer-
ing such taxes together with that on real estate itself would make possible
some real economies and management improvements.

* This arrangement might be effected procedurally by multiplying the exemption by the
State equalization rate (the ratio of assessed to full values) for the borough and deduct-
ing the result from assessed value for non-school taxation.

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BETTER CONTROLS ON CITY BORROWING

The City finances capital improvements by borrowing, repaid principally out of real estate taxes but in some cases from enterprise revenues. Some current or recurring expenses are also supported by borrowing, contrary to sound financial practice. The City borrows within various State restrictions and guidelines. Some of these arrangements need revision.

The principal legal provisions controlling City borrowing are contained in the State Constitution and the State Local Finance Law. The Constitution sets forth two debt limits for New York City, a limit for housing debt of 2 percent of the five-year average of assessed valuations of taxable real property and a limit for other debt of 10 percent of the five-year average of full valuations of such property. The latter limitation is generally referred to as “the debt limit” and, unless otherwise indicated, is so referred to here.*

Substantial Borrowing Capacity

A look at the City’s current debt situation provides background for appraising the limitation system and suggesting improvements. The key fact is that the City’s borrowing power in recent years has increased more rapidly than it has been used—though the debt limit at times in the past has been restrictive. The increase of late years has resulted from two factors—a great rise in the property valuations on which the limit is based and a replenishment of borrowing power by the rapid retirement of debt subject to the limit. Borrowing power over the past fifteen years and for the current and the next six fiscal years, as estimated, may be summarized as follows (in millions of dollars):

<table>
<thead>
<tr>
<th>Derivation of Borrowing Power</th>
<th>15 years ended 6/30/65</th>
<th>7 years ending 6/30/72</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Available Borrowing Margin under Debt Limit</td>
<td>$434 (7/1/50)</td>
<td>$1,651 (7/1/65)</td>
</tr>
<tr>
<td>Increase in Limit from Larger Property Tax Valuations</td>
<td>2,069</td>
<td>922</td>
</tr>
<tr>
<td>Borrowing Power Restored by Debt Retirement</td>
<td>3,100 (approx.)</td>
<td>2,471</td>
</tr>
<tr>
<td>Gross Borrowing Power for Period</td>
<td>$5,603 (approx.)</td>
<td>$5,088**</td>
</tr>
</tbody>
</table>

* The 10 percent limit applies to net funded debt, after deduction of sinking funds, and to temporary debt which is to be funded. It does not apply to short-term obligations issued in anticipation of revenues. Water debt, housing debt, debt supported by enterprise revenue, and debt incurred from 1962 to 1973 for sewage treatment are excluded from the limit. Numerous exemptions have also been granted for particular purposes through constitutional amendments. On March 1, 1966, $2,018 million of the City’s $4,876 million of direct funded debt outstanding was exempt from the limit.

** Including $44 million in miscellaneous net credits.

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The $5.1 billion estimated to be available within the debt limit from now to 1972 is large, particularly since the City can borrow beyond this sum for water, sewage treatment, and self-supporting projects. It is more than twice the $2.5 billion of outstanding net funded debt that was subject to the 10 percent limit on March 1, 1966. Outstanding net debt never reaches the limit because substantial land and contract liabilities and reservations pursuant to the capital budget must also be charged against it. But even allowing for this, borrowing power for capital development will be large over the near future, provided it is not further depleted by current expense borrowing, as has happened this year.

While this substantial borrowing power augurs well for the City's legal ability to meet capital needs, there are two aspects of the situation which must be viewed with some concern. First, will the City have sufficient operating revenues in the years ahead to staff and maintain the new capital facilities once they are built? Second, can the City meet large capital needs and yet continue rapid debt retirement? The first question can only be answered by relating capital development (financed from real estate taxes through debt service) very closely and clearly to the City's overall fiscal situation—so that, with good planning, operating funds will be available when capital funds have provided the additional facilities.

The second question is no less fundamental but falls somewhat more within the focus of debt management. The short-maturity policy is without doubt a great improvement over the City's former practice of issuing exceptionally lengthy long-term bonds. It has had a remarkable effect on the City's debt pattern. About 60 percent of the funded debt now outstanding will be retired within the next ten years. This rapid retirement schedule has been a favorable factor from the standpoint of the City's credit standing, interest cost reduction, and legal borrowing power. It may also be considered an offset to the absence of any pay-as-you-go financing by the City.

But rapid debt retirement has been achieved at a considerable cost to the present generation of taxpayers in high annual debt service requirements. In 1950-51, serial maturities totaled $75 million; in 1966-67 they will be $428 million. If rapid retirement were carried to excess, outstanding debt might be kept within reasonable bounds, but an inordinate annual debt service burden could be created, falling very heavily on real estate taxpayers.

If the volume of borrowing rises substantially in future years, some extension of bond maturities for long-life projects may be essential to keep the tax burden for current debt service at a bearable level. No gain would be achieved from rapid debt retirement if the taxpayers and the City's economy were to suffer thereby. Should extension of bond maturities become

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desirable, the City might consider the advantages and disadvantages of issuing callable bonds, particularly during periods of high interest rates.

**Constitutional Debt Limitations**

Although the 10 percent debt limit is not at present a problem for the City's capital financing, the State constitutional limitations on borrowing do need revision. They are outmoded and unduly complicated. Fortunately, the 1967 Constitutional Convention will provide an opportunity, the first since 1938, for their general revision.

Many experts feel that legal debt limitations have had little beneficial effect but instead lead to evasion and special exemptions. They argue that fixed legal restrictions would be eliminated in the ideal local government and that the real debt limitation then would be the voting power of an informed electorate. The Commission doubts, however, that this model can now be applied to the City of New York. It believes that some type of limitation should be retained in the Constitution.

In the Commission's view the debt limit should continue to be based on taxable property values. Debt service is met principally from the property tax, the one tax the City can legitimately pledge to levy in whatever amount may be necessary. But the Commission does recommend for the guidance of the Constitutional Convention that the limitations applicable to New York City be revised along the following lines:

1. A single debt limit should be adopted for New York City, covering all general and housing debt, and based on full real property valuations.

The City's debt is now subject to a 2 percent limit for housing purposes and a 10 percent limit for other purposes. The separate housing debt limit was adopted in 1938 when public housing was a new program. There is now no justification for two rates; the City should be able to allocate its borrowing power to various purposes as needs dictate.

2. The only funded debt excluded from the limit should be debt supported by revenues other than real estate taxes. The revised debt limit should cover all tax-supported debt now exempt.

From the outset of the constitutional debt limit, water debt has always been exempt, regardless of whether or not water revenues were applied to water debt service. This has induced the City, not desirably from the standpoint of enterprise accounting, to use its water revenues for general purposes and to levy property taxes for the entire water debt service. Nine other exemptions of tax-supported debt for particular purposes are now in

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the Constitution, although five of these are either fully or practically exhausted. With such exclusions, the present “ten percent” limit is complicated and thus ineffective as a restriction on tax-supported debt.

(3) A basic debt limit should be set to provide a reasonable margin for future borrowing above presently outstanding tax-supported debt, but provision should be made for issuance of additional debt, up to a specified higher limit, with the approval of the Mayor, the City Council, and the State Comptroller.

Outstanding net tax-supported debt (including housing debt), after deduction of sinking funds, now amounts to approximately 11 percent of the five-year average of the full valuation of taxable property. Land and contract liabilities and other unfunded charges against the debt limits are somewhat in excess of 1 percent, and reserves for projects not yet under contract amount to almost 3 percent, of the five-year average valuation. Accordingly the Commission recommends that a basic debt limit rate of 15 percent be adopted. As indicated in Table 5, this would afford an available margin for future borrowing roughly equivalent to that now existing under the present debt limit and its numerous exceptions.

Such a limit would be adequate for immediately foreseeable needs, and ample if water debt and sewage treatment debt are made self-supporting. But provision should also be made to meet some measure of unforeseen needs without approval by two successive Legislatures and by the voters of the entire State, as is required for amendment of the Constitution.

The Commission therefore recommends that the City be accorded the right to incur debt up to an additional 2 percent of the valuation base, with the approval of the Mayor, the City Council, and the State Comptroller. Such additional authorizations should be for specified purposes and should lapse after use. There is a precedent for this procedure in the present provision that certain school district debt in New York State may be issued in excess of the constitutional limit, after local authorization, with the approval of the State Comptroller and the State Board of Regents*.

* Mr. Grimm believes that a single increased debt limit and elimination of the remaining vestiges of pay-as-you-go financing, as recommended here and on subsequent pages, would harm, not improve, City finances. He feels that these changes would certainly not eliminate future demands for special exclusions.
Table 5

PRESENT AND PROPOSED DEBT LIMITS
APPLIED TO ALL DIRECT AND GUARANTEED FUNDED DEBT
Outstanding Debt, New York City, March 1, 1966
(in millions of dollars)

<table>
<thead>
<tr>
<th>Debt Item</th>
<th>Under 15% Limit Applicable to All Debt Supported by Real Estate Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under Present Debt Limits</td>
</tr>
<tr>
<td>A. Gross Funded Debt, March 1, 1966*</td>
<td>$5,452</td>
</tr>
<tr>
<td>Deductions:</td>
<td></td>
</tr>
<tr>
<td>Exempt Debt now met from Property Taxes:</td>
<td></td>
</tr>
<tr>
<td>Transit</td>
<td>936</td>
</tr>
<tr>
<td>Water</td>
<td>694</td>
</tr>
<tr>
<td>Sewage Disposal</td>
<td>115</td>
</tr>
<tr>
<td>Hospitals</td>
<td>30</td>
</tr>
<tr>
<td>Exempt Debt now met from Other Revenues:</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>382 (^a)</td>
</tr>
<tr>
<td>Docks</td>
<td>100</td>
</tr>
<tr>
<td>Various</td>
<td>78</td>
</tr>
<tr>
<td>Sinking Funds and Debt Retirement Appropriations</td>
<td>361</td>
</tr>
<tr>
<td>B. Total Deductions</td>
<td>2,696</td>
</tr>
<tr>
<td>C. Net Funded Debt Subject to Debt Limits (A minus B)</td>
<td>2,756</td>
</tr>
<tr>
<td>D. Debt Limit</td>
<td>4,378</td>
</tr>
<tr>
<td>General 10%</td>
<td>(15%)</td>
</tr>
<tr>
<td>Plus Housing 2%</td>
<td></td>
</tr>
<tr>
<td>E. Margin between Debt Limit and Net Funded Debt (D Minus C)</td>
<td>1,622</td>
</tr>
</tbody>
</table>

\(^a\) Including notes outstanding for housing purposes.

\(^b\) Approximations, affecting also Items B, C, and E below.

Source: Reports and Statements of the City Comptroller.
Other Borrowing Requirements

The Constitution and the State Local Finance Law contain other provisions which control or influence borrowing by New York City. In fact, some of these have recently had a greater effect on City debt administration than the debt limitations themselves. Several of these provisions are detrimental and should be repealed, as follows:

(1) The constitutional provision relating to pay-as-you-go appropriations by New York City for capital improvements. Such appropriations, when required, may now be excluded from the tax limit, but, if so excluded, must be charged against the debt limit.*

This provision was added to the Constitution to relate New York City's 1938 pay-as-you-go plan to the debt limit. It has been criticized for creating "phantom debt"—charges against the debt limit for appropriations for down-payments (or for repayment of notes issued to cover such down-payments) after the required payments have been made. Regardless of its intent, the 1938 plan is now in fact a dead letter and this provision should be dropped.

(2) The Local Finance Law provision requiring that many types of the City's capital improvements must be financed in part from pay-as-you-go appropriations (down-payments) unless financed with "half-life" bonds.**

The Local Finance Law now specifies various types of capital improvements subject to the 1938 pay-as-you-go plan and the schedule of down-payments called for by that plan. If such payments were actually made, they would now amount to 56 percent of the cost of the improvements. Further, the scheduled payments increase by 2 percent of such cost each year. But the law contains amendments, added in the 1950's, which permit avoidance of down-payments if the improvements are financed with bonds maturing within half the legally defined "period of probable usefulness" of the improvements.

During recent years, improvements subject to the plan have been financed with half-life bonds and no down-payments have been made. The down-payment requirements, therefore, have no effect now in promoting a pay-as-you-go policy. On the other hand, they practically force the City to follow a short-maturity borrowing policy which may at some point have unfavorable consequences.

* Article VIII, Section 11(a).
** Local Finance Law, Section 107.00.
(3) Those constitutional provisions* which specify:
   a. That only serial bonds may be issued for particular purposes.
   b. That the first maturity of serial bonds be not more than two years after date of issue.
   c. That no annual maturity be more than 50 percent in excess of any prior maturity.
   d. That bonds issued for a few particular purposes should have specified maximum terms.

Provisions of this type unduly complicate the Constitution and, if advisable at all, should be in the statutes. The provisions which now regulate serial maturities effectively prohibit the use of level debt service scheduling. Such maturity scheduling is sometimes advantageous for enterprise financing and should not be prohibited by the Constitution.

Eliminating Current Expense Borrowing

The Commission has previously emphasized its opposition to the practice of funding current and recurring expenses. The City has been tempted into this practice because its tax levy for operating expenses is limited, whereas its tax levy for debt service is unlimited.

In our Second Report, we urged that increased operating revenues which might be provided by an increase in the real estate tax limit to 3 percent, as the Commission recommended, should be used in considerable part to meet current and recurring expenses now funded. Such a transfer of the financing of expenses from borrowing to the operating budget would be voluntary on the part of the City, as State law permits funding. Under current circumstances, with City revenues extremely tight, this shift would not be feasible until the tax limit is in fact increased—which is dependent on adoption of a constitutional amendment.**

The elimination of this unsound fiscal practice should not in the future, once the present difficulties have been surmounted, be contingent on the passage of a constitutional amendment or hinged on annual voluntary action of City administrations under the stress of budget preparation. It should be prescribed by law. One means of curbing such borrowing would be an amendment to the Local Finance Law prohibiting the City from funding expenses for objects and purposes having a legal “period of probable usefulness” of less than six years.

* Article VIII, Section 2.

** The tax limit amendment passed by the 1965 Legislature and recommended by this Commission has not yet received second passage by the current Legislature.
Such a restriction, like the end it would seek, will unfortunately be impractical until the tax rate limit is increased or substantial new income becomes available to the City in other ways. Another approach that would be feasible, even under severe fiscal pressures, would be to permit New York—as every other city in the State is now permitted—to meet fundable expenses by direct budgetary appropriations without charge to either the tax limit or to the debt limit.* The Commission recommends that the 1967 Constitutional Convention approve the extension of this privilege to New York.

**Limited-Profit Housing Financing**

City debt administration urgently needs improvement in one other area—the financing of limited-profit housing. Approximately $1.8 billion of housing debt of New York City and the New York City Housing Authority is now outstanding. Of this debt, $310 million was incurred directly by the City for limited-profit middle-income housing, and $305 million is debt for low-income housing issued by the Housing Authority but guaranteed by the City. The balance consists of Housing Authority debt supported by Federal and State subsidies and is not an obligation of the City.

The City-guaranteed housing debt is mainly self-supporting and presents no significant problem. A disturbing situation is developing, however, respecting the City's limited-profit housing debt. This debt was supposed to be met entirely from mortgage payments by limited-profit housing companies, which payments in turn were to be covered by rentals and maintenance charges. Some of these payments are lagging. Furthermore, the City is carrying the greater part of this debt in the form of bond anticipation notes which must be periodically refinanced.

It is evident that the City has delayed funding many of these bond anticipation notes because permanent financing would be at higher rates, leading to higher rents. In view of the City's impaired credit standing and the decline in the bond market, it may not be feasible to fund such debt in the immediate future. In fact, the State Legislature recently increased the amount of temporary debt that can be outstanding. The whole matter needs thorough study and corrective action, as do other factors affecting the self-supporting status of housing debt.

* State Constitution, Article VIII, Section 11 (b).
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New York in Perspective

The fiscal needs of New York are in many ways those of the nation's other great cities as well. Many of the fundamental problems are the same here, as in Los Angeles, Chicago, Detroit, and Philadelphia—central city crowding, deteriorating neighborhoods, middle-class flight to the suburbs, growing pressures for welfare services and police protection, in short a congeries of interrelated social and physical ills. Not surprisingly, similar steps to meet these problems—strengthening the economy, improving transportation and the schools, closer relations with the State and Federal governments, more municipal revenue, and others—are required in most metropolitan centers. Because of the City's super-size, and perhaps its propinquity to two adjacent states, the problems do seem more severe and the reforms more urgent in New York than elsewhere—but these are matters of degree, not of kind.

The similarities in the financial circumstances of the great cities can be documented in various ways, including comparisons between the costs and revenues of New York and those of other cities. Comparisons of that sort, given the pluralistic structure of American government, are hard to draw even roughly. It is impossible to draw them finely. But enough can be done to show that New York is not sharply out of line with other U. S. metropolises in per capita expenditures, or the amount of its intergovernmental aid. Governmental costs are high in New York, but when all circumstances are considered, they are high also in counterpart communities. And the relative position of New York in the financial burden on its residents seems not to have changed greatly over the past fifteen years. Things have been getting harder all over the nation for cities big and small.

Comparative Financial Scene*

The similarity of New York's finances to those of other urban centers is demonstrable in terms of costs, revenues, and aid in the three tables which follow. Table 6 indicates that New York ranked close to Los Angeles, Chicago, and Detroit in per capita city-agency expenditures in 1962, with a range from $311 in Detroit to $373 in Los Angeles. Table 7 shows that New York was high in total city and city-related revenues, especially as to non-property taxes, but this is largely attributable to heavier locally financed (rather than state financed) responsibilities in New York than in the other

* The data for this and the following sections have come largely from the Final Research Report of the NYU City Finances Project to the Commission and related NYU Papers.
Table 6

ESTIMATED PER CAPITA LOCAL GOVERNMENT GENERAL EXPENDITURES IN FIVE CITIES, 1953 AND 1962

<table>
<thead>
<tr>
<th>City</th>
<th>1953a</th>
<th>1962a</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>$186</td>
<td>$337</td>
<td>81</td>
</tr>
<tr>
<td>Chicago</td>
<td>135</td>
<td>334</td>
<td>147</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>221</td>
<td>373</td>
<td>68</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>136</td>
<td>243</td>
<td>79</td>
</tr>
<tr>
<td>Detroit</td>
<td>160</td>
<td>311</td>
<td>95</td>
</tr>
<tr>
<td>All Local Governments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in United States</td>
<td>117</td>
<td>214</td>
<td>84</td>
</tr>
<tr>
<td>All Local Governments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in Metropolitan Areas</td>
<td>N.A.</td>
<td>234</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

N.A.—Not Available.

*Includes the expenditures of the city governments and of overlapping jurisdictions serving the central city. Where the overlapping jurisdiction serves a larger area, its expenditures have been pro-rated, based mainly on population.

Source: Data in U. S. Bureau of the Census, Local Government Finances in City Areas in 1953 (1955), and 1962 Census of Governments, various volumes.

large cities. Table 8 indicates, nevertheless, that New York fared reasonably well in 1962 in the portion of City expenditures that are supported by intergovernmental grants—25 percent here as in Detroit and Los Angeles.

Shifting from the situation in a single year (1962) to what has happened to New York over time in comparison with other centers, Table 6 indicates that the City has not increased its outlay per capita more rapidly than other large municipalities. New York expenditures went up by 81 percent from 1953 to 1962, compared with 147 percent in Chicago, 95 percent in Detroit, and 79 percent in Philadelphia—based on figures adjusted as far as possible for honest comparability. New York’s ranking in expenditures per capita among the big five cities has tended to remain as second or third, with Los Angeles always in first place. The upward sweep of municipal costs is mainly attributable to rising prices of the goods and services which cities have to buy, and this has tended to proceed at a roughly similar rate for most cities. Interestingly, the expenditure increase for all local governments, 1953 to 1962, was 84 percent—a bit more than that for New York.

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Third Report
### Table 7

**ESTIMATED PER CAPITA TAX REVENUES**  
**IN FIVE CITIES, 1962 AND 1963-64**

<table>
<thead>
<tr>
<th>City</th>
<th>Property Taxes, City and Overlapping Units, 1962&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Non-Property Taxes, Central City Only, 1963-64&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>$139</td>
<td>$105</td>
</tr>
<tr>
<td>Chicago</td>
<td>133</td>
<td>29</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>181</td>
<td>33</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>85</td>
<td>55</td>
</tr>
<tr>
<td>Detroit</td>
<td>149</td>
<td>27</td>
</tr>
<tr>
<td>All Local Governments in Metropolitan Areas</td>
<td>112</td>
<td>N. A.</td>
</tr>
<tr>
<td>43 Largest Cities</td>
<td>N. A.</td>
<td>44</td>
</tr>
</tbody>
</table>

N.A.—Not Available.  
<sup>a</sup> Estimates derived as described in Table 6, Note (a).  

### Table 8

**ESTIMATED PER CAPITA INTERGOVERNMENTAL REVENUE IN FIVE CITIES, 1962<sup>a</sup>**

<table>
<thead>
<tr>
<th>City</th>
<th>Intergovernmental Revenue</th>
<th>Percent of General Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>$85</td>
<td>25</td>
</tr>
<tr>
<td>Chicago</td>
<td>54</td>
<td>16</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>94</td>
<td>25</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>35</td>
<td>14</td>
</tr>
<tr>
<td>Detroit</td>
<td>78</td>
<td>25</td>
</tr>
<tr>
<td>All Local Governments in Metropolitan Areas</td>
<td>60</td>
<td>26</td>
</tr>
</tbody>
</table>

<sup>a</sup> Estimates derived as described in Table 6, Note (a).
New York Is Different

Despite these similarities, New York does have its own special characteristics. One of these is that the City provides some unusual and costly services and seeks to maintain unusually high service standards in some areas. The City hospital system is a good example. Most big cities offer about 20 percent of the hospital beds in their communities; New York provides 40 percent and in addition makes large reimbursements to voluntary hospitals for City-charge patients (over $58 per day per patient in general hospitals). The City University is another illustration, pointed up by the fact that New York spent nearly $7.50 per capita on higher education in 1963-64 while other local governments spend less than $2.50 per capita on this function.

Pensions and other fringe benefits for City employees tend to be higher in New York than elsewhere on the municipal scene. Furthermore, the percentage of direct local government participation in pension programs is higher than in other places, where local employee pensions (particularly for teachers) tend to be a State responsibility. Thus, while all local governments outside New York City make annual contributions of about $5 per capita, contributions here amount to $36 per capita (1962 and 1963 data). Nationally, 22 percent of all local governmental pension contributions are made by New York City, which employs only 6 percent of all local governmental personnel.

Another special factor in New York's difficulties is its heavy subsidization of municipal enterprise-type activities. The transit system is nationally unique in the size of the City's investment and support from tax funds, amounting this year to more than $170 million toward operations and debt service. The water system operates at a deficit of 20 percent, in contrast to other local governmental water systems which in aggregate, in 1963-64, produced revenues 10 percent greater than their operating and debt-service expenditures. Highway users are likewise heavily subsidized, more than in most localities, to the extent that the City spends about two-thirds more on highways and traffic control than it receives from all highway-user sources, including State highway aid.

High annual debt service is another special characteristic of the New York fiscal scene. One basic reason for this is that the City has invested heavily in capital-intensive activities such as transit, piers, ferries, colleges, and hospitals. Another is that the City at present borrows for everything it possibly can, including some truly current expenses which the State permits it to fund. In addition, as already noted, the City has of late years relied heavily on short maturities in its borrowing, with the consequence that retirements are bunched in near-current years rather than extended into the further future.
The combined effect of these policies and practices is debt service substantially higher than in other large cities in relation to debt outstanding and in per capita annual amount. This situation accounts considerably for the City's high real estate taxes, which provide 90 percent of the revenues for debt repayment and interest.

The City and Its Neighbors

The difficulties in New York's special fiscal characteristics are compounded by some disadvantages in its fiscal position compared to its suburbs and nearby cities. Differences within this circle of neighboring communities are more important to the City in the short run than contrasts between New York and other great cities far away. Individuals and businesses are apt to find it easier to move within a region than beyond it in response to municipal benefits or disadvantages. Thus education-oriented people with middle and upper-level incomes may be influenced to move out of the City because the City spends less per pupil on the public schools than do the suburbs.

A general financial comparison of the City with the rest of the New York Metropolitan Area, as of 1962, is presented in Table 9. General per capita expenditures are about the same in the City and elsewhere in this region but outlays on particular components (including education) differ widely. The local tax load is greater per capita in the City than in the suburbs, both absolutely and in relation to personal income, chiefly because non-real estate taxes are much higher in the City. Real estate taxes on single-family homes are heavier in the suburbs than in New York, partly because of the City assessment practices discussed in Chapter IX. Business taxes are substantially higher in the City than in its suburbs, though not higher than in the nearby New Jersey cities.*

These relationships between the City and its neighbors bear heavily on decisions about new City taxes. Taxes which would widen the fiscal disadvantages of the City would be extremely unwise. In the long run, they would bring problems to the whole region, not just to the City, because of the interdependence between the suburbs and the central community. Eventually, an equalization of burden and benefit has to take place across the whole region—or at least the movement of affairs must be in that direction.

Remembering Ultimate Resources

Viewed most broadly, this myriad of fiscal problems has to be weighed against the ultimate economic strength of the City of New York. In that weighing, there is no doubt how the scales tip: the City does have the basic

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* As reported in Edgar M. Hoover and Raymond Vernon, Anatomy of a Metropolis (Harvard University Press, 1959), pp. 277-287.
resources, with equitable State and Federal assistance, to surmount its present problems and to build a better community for tomorrow.

The Commission urges that action be initiated now on its earlier economy and revenue recommendations and on the new proposals offered in this report. Action along these lines will, we are convinced, be vital in moving the City safely through the current crisis and in preventing similar crises in the future.

Table 9
LOCAL GOVERNMENT FINANCES IN NEW YORK CITY AND BALANCE OF NEW YORK STANDARD METROPOLITAN STATISTICAL AREA, 1962\(^a\)

<table>
<thead>
<tr>
<th>Item</th>
<th>New York City</th>
<th>Rest of Metropolitan Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Aid</td>
<td>$ 82</td>
<td>$ 90</td>
</tr>
<tr>
<td>Federal Aid</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>General Revenue from Own Sources(^b)</td>
<td>283</td>
<td>230</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>(139)</td>
<td>(202)</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>(80)</td>
<td>(4)</td>
</tr>
<tr>
<td>Expenditure:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct General Expenditure</td>
<td>$ 358</td>
<td>$ 355</td>
</tr>
<tr>
<td>Education</td>
<td>(81)</td>
<td>(194)</td>
</tr>
<tr>
<td>Social Services(^c)</td>
<td>(84)</td>
<td>(30)</td>
</tr>
<tr>
<td>Other</td>
<td>(193)</td>
<td>(131)</td>
</tr>
<tr>
<td>School Operating Expenses Per Pupil(^d)</td>
<td>$ 540</td>
<td>$ 686</td>
</tr>
<tr>
<td>Full Value of Taxable Property(^e)</td>
<td>$4,299</td>
<td>$6,183</td>
</tr>
<tr>
<td>Real Estate Taxes as Percent of Full Value</td>
<td>3.24%</td>
<td>3.26%</td>
</tr>
<tr>
<td>Personal Income of Residents(^f)</td>
<td>$3,165</td>
<td>$3,621</td>
</tr>
<tr>
<td>“Other Taxes” as Percent of Personal Income</td>
<td>2.54%</td>
<td>0.12%</td>
</tr>
<tr>
<td>All Taxes(^g) as Percent of Personal Income</td>
<td>6.94%</td>
<td>5.69%</td>
</tr>
</tbody>
</table>


\(^b\) Including fees and charges as well as real estate and other taxes.

\(^c\) Includes welfare, health, hospitals, and correction.

\(^d\) Excludes expenditures for higher education.

\(^e\) Census of Governments assessed value data divided by State equalization ratios, divided by population.

\(^f\) New York State Department of Commerce estimates.

\(^g\) Includes real estate and other taxes but not fees and charges.

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GENERAL APPENDIX

For

FINAL REPORT

TEMPORARY COMMISSION ON CITY FINANCES
The appendices include Appendix Tables, Commission Statements to the Mayor and other officials, and the Legal Provisions for the Commission.
Appendix A (1)

Appendix Table 1
FUNDS TO FINANCE ANNUAL DEFICITS
Reserve Depletion and Borrowing to Balance Expense Budgets
(in millions of dollars)

<table>
<thead>
<tr>
<th>Fiscal Year(a)</th>
<th>Reserve Depletion(b)</th>
<th>Borrowing</th>
<th>Total Deficit Financing(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Revenue Anticipation Notes</td>
<td>Social Bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Budget Notes</td>
<td></td>
</tr>
<tr>
<td>1961-1962</td>
<td>$35</td>
<td>$10</td>
<td>$—</td>
</tr>
<tr>
<td>1962-1963</td>
<td>60</td>
<td>27</td>
<td>—</td>
</tr>
<tr>
<td>1963-1964</td>
<td>85</td>
<td>30</td>
<td>—</td>
</tr>
<tr>
<td>1964-1965</td>
<td>6</td>
<td>39</td>
<td>56</td>
</tr>
<tr>
<td>1965-1966</td>
<td>(d)</td>
<td>(d)</td>
<td>45</td>
</tr>
<tr>
<td>1966-1967</td>
<td>—</td>
<td>—</td>
<td>35</td>
</tr>
</tbody>
</table>

(b) Net withdrawals in each year.
(c) These deficit figures appear also on Text Table 1, page 3.
(d) In 1965-1966 reserves were replenished by $18 million and budget notes were reduced by $47 million. The adjusted budget for the year, as shown in Text Tables 1 and 2, pages 3 and 9, includes these expenditures.
Appendix Table 2

SOURCES OF CITY REVENUES

Expense Budget as Adopted, City of New York, 1954-1955 to 1966-1967
(in millions of dollars)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Expense Budget(a)</th>
<th>Real Estate Tax Levy</th>
<th>General Fund</th>
<th>State Aid</th>
<th>Federal Aid</th>
<th>Supplemental Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954-1955...</td>
<td>$1,596</td>
<td>$746</td>
<td>$527</td>
<td>$196</td>
<td>$69</td>
<td>$58</td>
</tr>
<tr>
<td>1955-1956...</td>
<td>1,736</td>
<td>808</td>
<td>559</td>
<td>220</td>
<td>76</td>
<td>74</td>
</tr>
<tr>
<td>1956-1957...</td>
<td>1,854</td>
<td>858</td>
<td>601</td>
<td>259</td>
<td>74</td>
<td>61</td>
</tr>
<tr>
<td>1957-1958...</td>
<td>1,934</td>
<td>875</td>
<td>648</td>
<td>268</td>
<td>81</td>
<td>62</td>
</tr>
<tr>
<td>1958-1959...</td>
<td>1,992</td>
<td>932</td>
<td>621</td>
<td>303</td>
<td>88</td>
<td>46</td>
</tr>
<tr>
<td>1959-1960...</td>
<td>2,175</td>
<td>978</td>
<td>730</td>
<td>318</td>
<td>99</td>
<td>49</td>
</tr>
<tr>
<td>1960-1961...</td>
<td>2,345</td>
<td>1,027</td>
<td>796</td>
<td>373</td>
<td>99</td>
<td>51</td>
</tr>
<tr>
<td>1961-1962...</td>
<td>2,542</td>
<td>1,069</td>
<td>879</td>
<td>399</td>
<td>142</td>
<td>54</td>
</tr>
<tr>
<td>1962-1963...</td>
<td>2,785</td>
<td>1,133</td>
<td>955</td>
<td>486</td>
<td>152</td>
<td>59</td>
</tr>
<tr>
<td>1963-1964...</td>
<td>3,083</td>
<td>1,219</td>
<td>1,124</td>
<td>502</td>
<td>178</td>
<td>60</td>
</tr>
<tr>
<td>1964-1965...</td>
<td>3,355</td>
<td>1,312</td>
<td>1,232</td>
<td>548</td>
<td>199</td>
<td>64</td>
</tr>
<tr>
<td>1965-1966...</td>
<td>3,875</td>
<td>1,408</td>
<td>1,173</td>
<td>708</td>
<td>264</td>
<td>323(b)</td>
</tr>
<tr>
<td>1966-1967...</td>
<td>4,554</td>
<td>1,573</td>
<td>1,525</td>
<td>876</td>
<td>508</td>
<td>72</td>
</tr>
</tbody>
</table>

(a) Totals of revenues may not add exactly to Expense Budget, due to rounding.
(b) Includes proceeds of then pending legislation to permit issuance of $256 million in 5-year serial bonds.

Source: Annual Reports of the Committee on Finance of the New York City Council . . . with respect to the Budget Tax Levy and Tax Rates for the Fiscal Year.
### Appendix Table 3

REAL ESTATE TAX LIMIT AND TAX LEVY


(in millions of dollars)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Five-Year Average of Full Valuation</th>
<th>2½ Percent Tax Limit</th>
<th>Tax Levy Within Limit</th>
<th>Unused Margin Within Limit</th>
<th>Tax Levy Outside Limit</th>
<th>Tax Levy Within and Outside Limit(s)</th>
<th>Basic Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954-1955</td>
<td>$20,369</td>
<td>$490(b)</td>
<td>$489</td>
<td>$1.0</td>
<td>$258</td>
<td>$747</td>
<td>.0368</td>
</tr>
<tr>
<td>1955-1956</td>
<td>21,338</td>
<td>527</td>
<td>526</td>
<td>1.1</td>
<td>283</td>
<td>809</td>
<td>.0385</td>
</tr>
<tr>
<td>1956-1957</td>
<td>22,315</td>
<td>558</td>
<td>557</td>
<td>1.0</td>
<td>301</td>
<td>858</td>
<td>.0402</td>
</tr>
<tr>
<td>1957-1958</td>
<td>23,238</td>
<td>581</td>
<td>581</td>
<td>1.0</td>
<td>294</td>
<td>875</td>
<td>.0399</td>
</tr>
<tr>
<td>1958-1959</td>
<td>24,182</td>
<td>605</td>
<td>603</td>
<td>1.1</td>
<td>328</td>
<td>932</td>
<td>.0416</td>
</tr>
<tr>
<td>1959-1960</td>
<td>25,168</td>
<td>629</td>
<td>618</td>
<td>11.2</td>
<td>360</td>
<td>978</td>
<td>.0416</td>
</tr>
<tr>
<td>1960-1961</td>
<td>26,487</td>
<td>662</td>
<td>658</td>
<td>4.7</td>
<td>369</td>
<td>1,027</td>
<td>.0412</td>
</tr>
<tr>
<td>1961-1962</td>
<td>28,391</td>
<td>710</td>
<td>693</td>
<td>16.6</td>
<td>371</td>
<td>1,064</td>
<td>.0410</td>
</tr>
<tr>
<td>1962-1963</td>
<td>30,511</td>
<td>763</td>
<td>756</td>
<td>6.7</td>
<td>377</td>
<td>1,133</td>
<td>.0416</td>
</tr>
<tr>
<td>1963-1964</td>
<td>33,178</td>
<td>829</td>
<td>829</td>
<td>.6</td>
<td>390</td>
<td>1,219</td>
<td>.0427</td>
</tr>
<tr>
<td>1964-1965</td>
<td>35,546</td>
<td>889</td>
<td>887</td>
<td>1.2</td>
<td>424</td>
<td>1,312</td>
<td>.0441</td>
</tr>
<tr>
<td>1965-1966</td>
<td>38,079</td>
<td>952</td>
<td>944</td>
<td>8.3</td>
<td>464</td>
<td>1,408</td>
<td>.0456</td>
</tr>
<tr>
<td>1966-1967</td>
<td>40,143</td>
<td>1,004</td>
<td>1,003</td>
<td>.4</td>
<td>570</td>
<td>1,573</td>
<td>.0495</td>
</tr>
</tbody>
</table>

(a) May not add from figures under "Tax Levy Within Limit" and "Tax Levy Outside Limit" due to rounding.

(b) Constitutional tax limit for fiscal 1954-1955 was equal to 2½% of the 5-year average of full valuation plus $3.8 million, pursuant to Chapter 284, State Laws of 1954.

Source: Annual Reports of the Committee on Finance of the New York City Council . . . with respect to the Budget Tax Levy and Tax Rates for the Fiscal Year.
Appendix B

COMMISSION LETTER, MAY 5, 1965

To Mayor Wagner Regarding the 1965-1966 Budget Gap

THE HONORABLE ROBERT F. WAGNER
Mayor of the City of New York

Dear Mayor Wagner:

In answer to your request the Temporary Commission on City Finances has considered possibilities for meeting a deficit of some $250 million in prospective revenues to meet City expenditures in the next fiscal year.

The Commission is keenly aware of the financial difficulties which confront the City. Our First Report last November recognized that the City might be faced with a gap of $350 million in making its 1965-1966 Budget and urged that steps be taken to decrease this imbalance. We are troubled that such a sizeable gap remains, even with revenues and grants-in-aid up by $250 to $300 million over last year, including some $150 million in new unanticipated monies under the State fiscal program.

The Commission is against borrowing as a way of meeting a gap in covering the City's current operating expenses. Some members are deeply concerned that borrowing for operating purposes, perhaps extended over several years, may seriously jeopardize the City's credit position and cut into funds for capital improvement. The Commission strongly believes that the situation demands as first priority that the City exert the most stringent economy in City affairs. City expenditures, particularly the proposed increases, should be reduced to the maximum extent possible.

The Commission also urges that the City again give serious consideration to the revenue suggestions in the Commission's First Report, to the degree that these have not so far been implemented by the State or the City. Finally, if these approaches are not enough, any additional stop-gap revenues which may become necessary should be levied strictly on a temporary basis.

The Commission recognizes that the situation may eventually call for a major new tax and that there are, as we see it now, only three which could provide revenue in the amount which the City may require—a payroll tax, an income tax, or an increase in the real estate tax.

The City has had for the past ten years the power to impose a payroll tax. At its presently authorized rates this tax would yield no more than
$100 million. To raise these rates to provide a revenue of $150 to $250 million would increase the inherent inequity of the tax and heighten its threat to the City's economic well-being. The Commission, therefore, does not recommend imposition of a payroll tax.

This leaves an income tax or an increase of the real estate tax. Unfortunately, the Commission's research into the possible economic consequences of either of these has not been carried to the point where we are in a position to choose between them as a long-term addition to the City's tax program.

Recognizing that the real estate tax can be increased only by an amendment to the State Constitution and that such an amendment must be passed by two successive Legislatures with an intervening election of legislators before it can be submitted to the voters, our Commission in its First Report recommended the initiation of such an amendment for passage at the current session, reserving to ourselves further comment as to action which might be taken under the amendment. The Commission stated in that Report "that it may at some time in the future be both advisable and necessary for the City to increase the rate of taxation on real estate." The Commission reaffirms its position and recommendation as set forth in the First Report.

Since an increase in the real estate tax could not be achieved for at least 18 months (January 1967), or more likely not for 30 months (January 1968), the City faces the necessity of bridging the revenue gap by other means. Our earlier suggestions for economy and modifications in taxes and user charges, as presented in our First Report, point the right direction for dealing with this problem. Borrowing is not the answer.

We appreciate this opportunity to express our judgment and concern on the hard issues facing you.

EARL B. SCHWULST, Chairman
JOSEPH D. MCGOLDRICK, Secretary
Temporary Commission on City Finances

P. S. Mrs. Hoffman and Messrs. Coleman and Gordon agree with the Commission's emphasis on economy. They feel, however, that the unused taxes recommended in our First Report will not be sufficient, even with maximum economy, to meet the revenue gap and, consequently, believe that the Mayor should have latitude for essential temporary borrowing.

Dr. Greiding was absent from the City during the Commission's entire deliberations on this matter and did not, therefore, participate in forming the Commission's conclusions.

Appendices
Appendix C

SPECIAL STATEMENT, MAY 5, 1965

To Mayor Wagner from Several Commission Members Against Meeting Budget Gaps by Borrowing*

Some of the members of the Temporary Commission on City Finances wish to express their very profound concern with the situation which they see developing.

The City has had an unbalanced budget now for four years. In its 1962-63 budget expenditures exceeded revenue by $29 million. In 1963-64 the shortage was $69 million. In the current year the general fund revenues will be essentially $100 million short. Now the indications are that the City is proposing a budget with a built-in $250 million deficit and that some have proposed to you that the City borrow this by the issue of five-year serial bonds chargeable during their life against the City’s debt limit.

Concerned as we are with this, we feel that you and your colleagues in the City administration must give thought to what the City must face next year. In our judgment, recognizing the inescapable upward pressures on expenditures, the gap between revenues and expenses next year will be not less than $500 million and quite possibly $600 million or higher. This would be a virtually impossible gap to bridge. It would require not one but two major new taxes, and there is only the slimmest chance that the expanded tax limit could be available for the second half of the fiscal year. This would provide not much more than $125 million. It would be almost impossible to include such an item as a contingent revenue in the making of the 1966-67 budget without jeopardizing the very amendment on which the City would be relying.

To open the door to borrowing is more than unwise; it is fraught with peril to the City’s credit. The City has been striving hard to show that it is entitled to an AA rating from the bond rating agencies. A false step now might drop its rating to BAA from which it might take years to recover.

It will open a door which will be hard to close next year. It will be difficult then to convince the seekers of “the easy way” that more borrowing is impossible. If they say now: “what else can we do?” how much more likely are they to say it next year when the difficulties will be even greater. At this point the City’s capital program will be imperilled.

Nor is it true that there is nothing else to do. In a budget that promises now to exceed $3,850 million, there must be items which can be cut or postponed. When this possibility is exhausted taxation may have to be resorted to. But this need not be confined to the “big” taxes discussed when we met with you last Thursday. Lesser taxes and lesser revenue measures may need to be considered.

* Presented to the Mayor with the Commission’s letter of the same date to express the special concerns of Messrs. Bowen, Grimm, Gulick, McGoldrick, Schwulst, Stralem, White, and Yunich.
Appendix D

COMMISSION STATEMENT, APRIL 21, 1966

To the City Council through Chairman Schwulst
Regarding Mayor Lindsay’s Tax Program

The Temporary Commission on City Finances has reviewed the Mayor’s Tax Program with great interest. The Commission is pleased and encouraged that this program recognizes the City’s inescapable need for larger revenues, in combination with economy wherever possible, to meet rising costs, provide essential services, and stop borrowing for current expenses.

The Commission notes that the 1966-67 budget gap projected by the Mayor, $520 million to be bridged by new revenues, is similar in magnitude to its own projection in the Commission’s Second Report, issued last November. The Mayor’s clear recognition that this gap must be met head on, not by borrowing and other expedients, is the central element in his program and in the Commission’s general agreement with it.

I

This statement has been approved by the Commission as an expression of its consensus on the Mayor’s proposals. While individual views differ on some details, Commission members see the main elements of the program in about the same way. The Commission is particularly impressed that the Mayor’s basic approach closely parallels that of the Commission in its Second Report:

(1) They agree substantially with regard to the operating expense deficit that will confront the City in fiscal 1966-67, and the grave consequences that will follow if remedial steps are not taken immediately.

(2) Both affirm that the expense budget must be balanced and that it cannot be properly balanced by borrowing. That is to say, they agree that the deficit must be met through economies, additional grants from the State and Federal governments, and new and additional revenues to be raised by the City itself.

(3) Both approaches regard a personal income tax as the fairest and most appropriate broad-based source of new revenue. Both would superimpose it upon the New York State tax. They differ in some measure with regard to the amount to be raised by this tax and the degree of its progressivity.

The Mayor’s proposal for a graduated 1 to 5 percent levy on taxable income would produce an estimated $385 million in 1966-67. This compares with an estimated $290 million next year under the Commission’s

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plan, a flat 2 percent rate on taxable income, for a difference of $95 million.* The Commission prefers its proposal because the New York State income tax is already very progressive.

The Commission believes that under its plan there would be less danger of movement out of the City of persons in the middle and higher income brackets than if a more progressive tax were imposed. The Commission further believes that its proposal would be less of a deterrent to the movement into the City of middle and higher income people, particularly in the executive and management classes.

(4) The two programs are in agreement that the personal income tax should apply to commuters on their salaries and wages earned in New York City. If this were not done, there would be danger that the application of the tax solely to residents of the City would result in a heavy exodus of the middle and higher income individuals to the suburbs.

It is the existence of the City which makes the commuter's job available to him. Moreover, he uses or has available to him all of the City facilities during much of the day. It is only reasonable that he should be called upon to bear a fair share of the cost of maintaining the City, just as the out-of-state commuter is now called upon to bear a fair share of the cost of maintaining the State government. It must be borne in mind that the City dweller who will be paying a City income tax will also be paying other City-imposed taxes which the commuter may not be paying at all or, if so, in much smaller degree.

The Commission cannot support a personal income tax which does not include income earned within the City by nonresidents. As the Commission stated in its Second Report: “A City income tax which does not apply to income earned within the City by nonresidents but only to City residents is perhaps the worst of all possible fiscal measures.”

(5) Both plans urge that the business tax structure be changed and that the gross receipts tax be repealed. The Commission recommended a gross margins tax at a rate of approximately 1¼ percent to be substituted for not only the gross receipts tax but for the other business taxes, including the commercial occupancy tax. The Mayor recommends a net business income tax of 4 to 5½ percent, with counterpart arrangements for utilities and insurance companies. He would retain the commercial occupancy tax. The net additional revenue for the City's treasury would be approximately the same, about $70 million, under both recommendations.

The Commission believes that the Mayor's plan heads in the right direction in seeking to eliminate the gross receipts tax, which is generally agreed to be very unfair. It is not clear, however, that the results of making the

*The estimated yield of the 2 percent tax in the Commission's Second Report, $250 million, was based on 1965 income data. A flat rate of 2½ percent in 1966-67 would produce about $375 million.
change proposed by the Mayor would be good across the board. The Commission prefers its own recommendation since its economic consequences would be better and it would also replace the commercial occupancy tax.

(6) Under both programs water charges would be increased so as to diminish, if not entirely eliminate, the subsidy now enjoyed by the users of the water system. The Commission would also increase user charges for other services.

The Mayor would increase water charges by $15 million. The Commission's proposal is that they should be increased by a minimum of $45 million—first under the present dual system of frontage and metered rates, later under universal water metering to insure that water users pay according to water use.

The increase recommended by the Commission could be effected at this stage by doubling the frontage rates and increasing the metered rates by 50 percent. These changes would still leave the rates below those which would produce a fair return on the City's investment as the law permits and would not raise them above similar fees elsewhere.

(7) The Mayor and the Commission agree that the Constitutional Amendment permitting an increase in the real estate tax rate from 2½ to 3 percent for City operating purposes should be adopted. The Commission's support of this amendment, as stated in its Second Report, is conditioned on the expectation that, if the increased tax were imposed, the City would offset all but a small part of the resulting additional operating revenues, estimated at $250 million, by eliminating two inappropriate uses of the real estate tax for debt service.

First, certain operating expenses (estimated at $100 million per annum) now shifted each year to the capital budget would be returned as rapidly as possible to the operating budget. Second, debt service for water, sewers, and streets (also approximating $100 million per annum) would be covered by user charges rather than real estate taxes. After these changes, the resulting net increase in the real estate tax levy, even at the maximum possible under the new limit, would be only $40 to $50 million per annum.

In connection with the real estate tax, it should also be noted that no "surplus" could accrue to the City through the passage of the Amendment. Under the City Charter and State Law, the real estate tax is levied as a balancing item available only to the extent necessary to cover budgeted expenditures.

II

Compared with the Mayor's program, the increased taxes and user charges proposed in the Commission's Second Report would provide a somewhat different way of meeting projected 1966-67 expenses. Broadly, the

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Commission would rely more on user charges, somewhat less on the personal income tax, and would abolish the commercial occupancy tax.

The Commission's proposals did not include an increase in the stock transfer tax, which is a part of the Mayor's program. This is a tax of convenience, even at its present level, discriminating against one segment of the business community and hence at odds with the Commission's general philosophy. Further, the tax cannot be justified as a user charge, levied to eliminate or reduce a City subsidy. Any increase in the stock transfer tax incurs the risk of diverting business from the City to the detriment of the City's economy and ultimately to the tax revenues collected by the City.

The above discussion of tax and user charge programs does not take into consideration the strong recommendations of the Commission for increased Federal and State aid due the City in recognition of the many City activities which arise out of national and regional problems. As an immediate step in this vein, the State out of fairness to New York should revise its school-aid formula, as proposed by the Commission, to provide an increased grant of $100 million to the City.

Nor does the discussion above take into consideration the recommendation of the Commission that the State of New York, like most other states, assume the primary financial and administrative responsibility for most of the public welfare activities the City now performs, especially for public assistance. The case for this recommendation is compelling; its implementation would save the City approximately $150 million in its current operating expense budget.

To the extent that the City is successful in obtaining deserved help from the State and Federal governments, it will be in a better position to meet increases in operating expenses without drawing even more heavily on City revenue sources—and perhaps begin to restore in some measure the City's badly depleted reserves.

In conclusion, the Mayor and the Commission are in broad and fundamental agreement with respect to the necessity of meeting the City's fiscal problem and the methods to be used in meeting it; namely, through the institution of economies, through the imposition of increased taxes and charges, and through the solicitation of increased aid from State and Federal governments. They are also in substantial agreement with regard to the kind of taxes and charges that should be imposed, but with some difference as to form and scope.

Everything considered, the Commission prefers its own recommendations as set forth in its Second Report. However, if the choice lies between the Mayor's proposals on the one hand and either deficit financing through borrowing or a drastic curtailment of essential services on the other hand, the Commission would certainly choose the Mayor's proposals.
Appendix E

COMMISSION TELEGRAM, JUNE 13, 1966

Sent by Commission Chairman and Secretary to Governor Rockefeller, Mayor Lindsay, and State and City Legislative Leaders Participating in the Governor’s Conference on the City Tax Program

The Temporary Commission on City Finances has authorized us to submit certain suggestions within the framework of its general recommendations which may be worthy of consideration as a solution to the City’s current fiscal problems. We are an official but completely non-partisan Commission which has carefully studied the City’s finances for the past two and one-half years with the support of an extensive research program. We assume that certain changes in business taxes have already been substantially agreed upon. Our suggestions complementing these changes are as follows:

Adopt a two percent flat rate income tax on all residents and on the income earned within the City by non-residents. With exemptions and deductions this flat rate tax would still be a progressive tax. It would virtually exempt most taxpayers with incomes of less than $5500. On incomes up to $9500 the difference from the Mayor’s proposals is not great. On incomes above that, the Commission’s proposed tax is less than the Mayor’s but it is in these groups that the commuters relatively outnumber City residents and may therefore feel that they are hard hit. Our suggestion may reconcile the commuters to an income tax. It seems to the Commission that the lower progressivity of a flat rate is justified since it will be superimposed upon an already quite progressive State income tax. On the basis of current incomes, our suggestion would produce about $290 million per annum, or $95 million less than the Mayor’s proposal.

The Commission emphatically does not favor a payroll tax but insists that it is vital to adopt an income tax and include commuters in it. The difference of $95 million between the Commission’s income tax proposal and the Mayor’s could be made up (1) by local action to increase water charges by $35 million and (2) by allowing the transit fare to increase by five cents. Such water charges would still be generally less than those elsewhere. As for the fare, we regard it as quite impossible to add $84 million (or, as we think, $100 million) to the current budget balancing program in order to continue the present fifteen cent fare. A twenty cent fare today is a smaller proportion of the rider’s income than fifteen cents was in 1953 when it was inaugurated. It does not seem to us unfair to ask the rider to contribute to the increased cost of providing him with transportation, particularly since the increase suggested would result in a relatively lower cost to him for transportation than he was paying in 1953.
We also favor the submission to the voters of the proposed constitutional amendment in regard to the real estate tax limit, not as a substitute for the income tax but to enable the City to achieve needed fiscal reform.

Having carefully studied the fiscal problems of New York City, the Commission has concluded that the program herein suggested, necessarily including our income tax proposal, is the soundest solution to the City's current fiscal crisis and an important contribution to any long-range solution. The Commission stands behind this program and is willing to accept full responsibility for it.

This telegram is being sent only to the members of the Governor's conference. We are not releasing it to the press.
Appendix F

LEGAL PROVISIONS

Temporary Commission on City Finances*

A. The Council hereby finds and declares that:

(1) Questions involving the revenue, budgetary and tax policies and programs of the city government are matters of the most fundamental public concern, underlying all other policies and programs;

(2) During the recent consideration of city tax legislation, many questions of city fiscal policy were raised in the public mind;

(3) The progressively rising expenses of the city government, faced with mandatory and unavoidable increases in expenditures and commitments, point in the direction of a progressively increasing budget;

(4) Existing state laws limit the city’s control over its fiscal resources and present sharp questions of home rule and of the wisdom of the division of authority between the state and city governments in this regard;

(5) In view of these fiscal problems of the city, the public interest would be served by the creation of a representative temporary commission, to be appointed by the mayor, to study, evaluate, and make recommendations with respect to the city’s revenue, budgetary and tax policies and programs, within the areas of subject-matter specified in subdivision C below;

(6) It should be the mayor’s final responsibility and the subordinate responsibility of those herein authorized to make nominations of commission members to the mayor, to select a representative commission balanced among the economic elements and groups in the city, but with the emphasis on economic and fiscal competence and experience, with the objective of establishing a commission of experienced, representative and independent-minded citizens concerned solely with finding the answers to basic questions and problems, without regard to any special interest whatever;

(7) The basic and primary purposes of the studies, deliberations and reports of the commission so constituted should be to assist the consideration by the council, the mayor, the comptroller and the board of estimate of the fiscal problems hereinabove mentioned and to make recommendations of legislative and executive measures, actions and policies providing or contributing toward solutions for such problems.

B. (1) There is hereby created a temporary commission on city finances, which shall consist of sixteen members who shall be appointed by

*The Commission was established by Local Law 60 of 1963, as amended by Local Laws 2 and 181 of 1964. The pertinent legal provisions are contained in Section C51-9.0 of the Administrative Code of the City of New York.
the mayor within thirty days after the effective date of this section, subject, however, in the case of eight of such members to the provisions of paragraph two of this subdivision.

(2) Four of such members shall be persons nominated by the comptroller for appointment by the mayor and four of such members shall be persons nominated by the president of the council for such appointment.

(3) The members of the commission shall serve for a term commencing on January first, nineteen hundred sixty-four and ending on June thirtieth, nineteen hundred sixty-six or until such date subsequent to the expiration of such period as may be fixed by resolution of the council, except, however, that the chairman and the secretary of the commission shall serve for two additional months, or for such further period as may be fixed by resolution of the council, for the purpose of liquidating the affairs of the commission.

(4) A vacancy in the office of a member of the commission shall be filled by the mayor in accordance with the provisions of this subdivision governing the original appointment of such member.

(5) The mayor shall designate one of the members to be chairman of the commission and one of the members to be secretary thereof. The members of the commission may, in their discretion, elect a vice-chairman. A vacancy in the office of chairman, secretary or vice-chairman shall be filled in the manner prescribed in this paragraph for the original designation or election to such office. The chairman of the commission shall be the chief executive officer of the commission and, subject to the directives and instructions of the commission, shall be the general manager and director of its affairs. He shall preside at all meetings of the commission. The secretary of the commission, subject to the directives and instructions of the commission or the chairman, shall be the chief administrative officer of the commission. Within the appropriations therefor, the secretary shall receive a salary which shall be fixed by the commission.

(6) Except as otherwise provided in paragraph five of this subdivision, the members of the commission shall receive no compensation for their services, but shall be allowed their actual and necessary expenses incurred in the performance of their duties under this section.

C. The commission shall make studies, investigations and recommendations with respect to the fiscal problems set forth in paragraphs (1) through (3) of subdivision A including, in its discretion, (but not limited to) such matters as the following:

(1) Specific categories of economies which can be made in present expenditures, without sacrifice of necessary activities, functions or programs;
(2) Relative weighting of budgetary allocations to the various functions, activities, programs and needs of the city;

(3) Budgetary practices and procedures, as they may relate to possible economies;

(4) All present local revenue sources, including state and federal payments, grants and remittances, and local fees and taxes;

(5) The relative weights, equities and effects of the various present local taxes;

(6) The distribution of the present cost of local government among the various elements, factors and economic groupings in the local population, and also such distribution as related to: (a) federal and state tax burdens being presently borne by the same elements, factors and economic groupings; and (b) ability to pay;

(7) Ways and means of increasing revenues from present sources and resources;

(8) The relationship of the expense budget to the capital budget, and means of refining and improving the use of each;

(9) The advantages and disadvantages of the present basic legal framework and system for revenue-raising to meet local needs, and the desirability of greater home rule in local revenue raising;

(10) The effects of existing debt and tax limits and the desirability of changes in such limits;

(11) Fiscal independence for schools; consideration of the present status of the board of education and the board of higher education, and their present and future fiscal needs; fiscal relationships between the boards and the city, state and federal governments; current proposal for separate tax and debt limits for education; and the problem involved in conferring taxing and borrowing power on appointive bodies.

D. The commission may hold public or private hearings with respect to any matter as to which it is authorized by subdivision C of this section to make studies, investigations or recommendations. The commission may divide its members into subcommittees and make rules for its proceedings.

E. The commission may employ such assistants as may be necessary and fix their compensation within the appropriation provided therefor.

F. On request of the commission, the mayor may direct any agency, officer or employee of the city to cooperate with, assist, advise or provide facilities, materials or data to the commission or furnish services to it, provided that no such direction shall require any act otherwise prohibited by

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or contrary to law. The commission may accept any services, facilities or funds and use and expend the same for its purposes.

G. The commission shall, on request, consult with and advise the finance committee of the city council, the board of estimate, the comptroller or the mayor on matters as to which it is authorized by subdivision C of this section to make studies, investigations or recommendations.

H. On or before February first, nineteen hundred sixty-four, the commission shall submit a preliminary report to the council, the board of estimate and the mayor. On or before November thirtieth, nineteen hundred sixty-four the commission shall submit an interim report to the council, the board of estimate and the mayor. On or before November thirtieth, nineteen hundred sixty-five the commission shall submit a second interim report to the council, the board of estimate and the mayor. Not less than fifteen days before the expiration of its term the commission shall submit to the council, the board of estimate and the mayor a comprehensive report of its findings and recommendations. The commission may at any time submit to such bodies and the mayor such interim reports on its findings and recommendations as it may deem appropriate. The commission shall, on the request of the council, the finance committee thereof, the board of estimate or the mayor, submit interim reports on the findings and recommendations of the commission with respect to matters designated in such request.

I. On or before the date of termination of the terms of office of the members of the commission, other than the chairman and the secretary, the commission shall submit to the council, the board of estimate and the mayor, a final report on the findings and recommendations of the commission.
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