A SHARED OPPORTUNITY AGENDA

New York State
Economic and Fiscal Outlook
2016-2017
Acknowledgments

The Fiscal Policy Institute (FPI) wishes to thank the Ford and Charles Stewart Mott Foundations for their support of the state fiscal analysis work that makes this briefing book and the briefings at which it is being presented possible. FPI also wishes to thank the many organizations, including other foundations, labor unions, faith-based organizations, human services providers and advocates, and community and good government groups that support FPI’s work and/or disseminate the results of FPI’s analysis.

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Executive Summary

Vice President Joe Biden once said, “Don’t tell me what you value, show me your budget, and I’ll tell you what you value.”

Governor Cuomo’s 2017 Executive Budget advances some bold and progressive proposals that well reflect the values and needs of New Yorkers. In particular, the governor has shown great leadership and vision in forcefully advocating for a first-in-the nation statewide $15 minimum wage. If enacted, the minimum wage increase would lift the incomes of 3.2 million New Yorkers who desperately need a raise. The governor’s proposal to build a system of paid family leave is another important step that would improve the lives of New Yorkers.

The Executive Budget rightly recognizes the need to address issues affecting some of the poorest and most vulnerable residents in our state. It proposes to reduce homelessness and high levels of poverty in many of our upstate cities. It includes a multi-year plan to combat homelessness, together with the development of 10 anti-poverty tasks forces; these are productive ways to recognize that child poverty and homelessness are at record levels across the state.

But, in many critical human infrastructure investment areas, rigid adherence to a two percent spending cap is unnecessarily blocking real progress. Last June, the State Budget Director noted that New York State “is in the best fiscal position in many years … with money in the bank, growing reserves and more surpluses on the horizon.” The state now enjoys its highest credit ratings in more than four decades. Although the recovery has benefitted New Yorkers unevenly, the state’s economy is in the midst of a period of sustained employment and total income growth. Tax receipts are growing at an annual rate of four or five percent. Yet despite the strong current economic and revenue picture, state operating expenditures are projected to increase by only 1.7 percent in FY 2017 from the current year—less than the 1.9 percent projected rate of consumer inflation.

This stark juxtaposition between four to five percent growth in tax receipts and a self-imposed cap on spending of two percent or less define a budget policy best characterized as unforced austerity. It is austerity driven by a policy choice, not by a faltering economy.

Unforced austerity budgeting has severely restrained services in many critical areas affecting New York’s children, families, and their communities. The state has simultaneously put a fiscal straitjacket on local governments by insisting that they live under an artificial and rigid tax cap, limiting property tax increases to two percent or the rate of inflation, whichever is lower. The result is that local government spending in most parts of the state has suffered, with a corresponding deterioration in services from schools to parks to libraries, and an inadequate public response to hardships afflicting many families. It is hard to imagine that a reduction in
school and local government jobs of nearly nine percent would be possible without a significant erosion in public services.

In 2007, legislation responded to the final court ruling in the Campaign for Fiscal Equity case, establishing a program for getting the state in compliance with its own constitution and providing adequate funding for at minimum a sound, basic education to all students. That program was abandoned during the Great Recession. In the coming fiscal year, the state is $4.8 billion short of where it should be according to the legislation. Governor Cuomo proposes just $455 million in funds that can reasonably be considered going to fill a gap that is more than ten times that size, an abrogation of his constitutional responsibilities and a betrayal of New York State’s school children.

The Executive Budget also proposes a focus on community schools as a way to help faltering schools to improve, but the $100 million allocation is not nearly enough to implement the program in all the schools that need it. Eliminating the misguided Education Tax Credit and redirecting the proposed $150 million cost to community schools would be a better way to ensure that all students in struggling schools get the resources they need to succeed.

On an inflation-adjusted basis, general-purpose aid to local governments has fallen by 13 percent over the past five years. Declining state aid and capped ability to raise local property taxes have severely constrained local budgets around the state. In the first two years following the imposition of the property tax cap, county governments cut spending on community colleges and public health by 15 percent, fire protection by 14 percent, elder services by 13 percent, and youth services by 28 percent.

On top of the cuts sustained in the past five years of austerity, substantial further budget cuts will be layered on in order to keep within the two percent spending limit. These as-yet unspecified cuts total $9.5 billion over the next three years or an average of $3.2 billion a year.

Perhaps the biggest bombshell in this year’s Executive Budget is the proposal to shift what in two years will be about a billion dollars in CUNY and Medicaid spending from the state’s budget to the City of New York. This is a pernicious, unilateral shift in fiscal responsibility to a local government, essentially punishing the city for its economic and fiscal success.

Some state budget changes are benign enough, but others are more risky. Converting STAR from a directly paid state budget item to a credit against the personal income tax, for example, does little more than shift the expense out from under the cap. But the governor has also proposed a set of extremely ambitious infrastructure proposals. In this case, his ambition is not limited by the tight cap on operating spending because these are capital projects. Devoting resources to our state’s ailing roads, bridges and public transit is a wise investment. However, the funding sources to support these ambitious initiatives are vague at best. The budget should clearly identify funding plans for all of these initiatives, and match spending on the state’s infrastructure needs with the needs of year-to-year operations, without the constraint of a spending cap.

New York’s overall state and local tax system is regressive. The state personal income tax should be made more progressive to offset regressive property and sales taxes that result in an overall regressive state tax system. New York should build on the current income tax structure originally
proposed by Governor Cuomo in December 2011, which is set to expire at the end of 2017, by increasing the number of brackets from eight to 12, and making the new structure permanent. This “1% Plan for New York Tax Fairness” would retain the middle class tax breaks the governor introduced then, and generally increase tax rates slightly for the richest 1% of New York’s taxpayers, i.e., those with incomes over $665,000.

If the “millionaires’ tax” is not extended, New York State would suffer a net $2.7 billion revenue drop that would entail a $1 billion tax increase for moderate- and middle-income families (with incomes from roughly $40,000 to $300,000), while the richest 1% would get a $3.7 billion windfall. The 1% plan would raise income taxes by $2.2 billion, with 17 percent of that amount paid by out-of-state residents.

A sound body of research supports the conclusion that businesses can reasonably accommodate a phased-in $15 minimum wage and that it would be good public policy for New York. The government-funded human services sector is one of the state’s biggest low-wage employers. It is important that the state increase funding to make sure that the higher wage floor benefits the many non-profit sector workers providing state human services under state contract or paid through Medicaid reimbursements. Medicaid and other public assistance savings and increased tax payments will help offset the budget costs. On net, there will be no adverse economic effects for New York and the well-being of one-third of the workforce and their families will improve.

We have the resources to make sure this budget is of great value to all New Yorkers. Now we just need the political will to make it a reality.
NEW YORK STATE 2016-2017 EXECUTIVE BUDGET
STATE OPERATING BUDGET – $95.9 BILLION

Revenues

Components may not sum to total due to rounding. Revenues total $95.0 billion; expenditures total $95.9 billion.

State Operating Budget excludes $49.3 million in federal receipts for operating funds, and $8.7 billion in capital funds ($6.7 billion in state funds and $2 billion in federal funds).
NEW YORK STATE 2016-2017 EXECUTIVE BUDGET
STATE OPERATING BUDGET – $95.9 BILLION

Expenditures

31% Pre-K to 12 Education
21% Health

9% Higher Education
7% Mental Hygiene
6% Long-Term Debt Service
5% Transportation

20% All Other

4% Public Protection & Criminal Justice
4% Elected Officials
2% General Government
1% Economic Development & Government Oversight
1% Assistance to Local Governments
1% Parks & The Environment

Components may not sum to total due to rounding.
Unforced Austerity Jeopardizes New York’s Progress

Though the continuing economic recovery is generating greater-than-forecast state tax revenues, putting New York in a better position to make public investments critical to promoting the common good, the state cannot take full advantage because of the self-imposed limit on spending.

The state’s fiscal situation is in the best shape in years, even without counting several billion dollars from bank settlement proceeds over the past two years. However, the rigidly maintained two percent state spending cap has meant that state and local public services have eroded even as revenues—and needs—are increasing. While the governor has announced an ambitious array of infrastructure projects, he proposes making comparatively tiny investments in areas that would help New York families struggling to get by in the wake of hardships exacerbated by the recession.

Boosted mainly by personal income and estate taxes, tax collections through December 2015 were nearly 10 percent greater than during the first nine months of the prior fiscal year and well ahead of the 5.7 percent forecast for the fiscal year that began last April 1. Although the recovery has benefitted New Yorkers unevenly, the state’s economy is in the midst of a period of sustained employment and total income growth. Private employment gains averaged two percent annually since 2010, the strongest job growth since the late 1990s. The Budget Division forecasts personal income growth of 4.7 percent for 2016 and five percent for 2017 and 2018.

U.S. economic growth could weaken in the face of destabilizing developments in the international economy, but the more likely scenario at this point is for the continuation of moderate economic growth below the average for other U.S. recoveries. Tax forecasts are appropriately cautious, and the state has added to its official “rainy day” funds. State budget makers are channeling much of the bank settlement windfall into a newly created Dedicated Infrastructure Investment Fund (see box on next page) set up in a way such that it also functions as a more flexible reserve that could be tapped in the event of an economic downturn.

Last June, then-State Budget Director Mary Beth Labate noted that New York “is in the best fiscal position in many years … with money in the bank, growing reserves and more surpluses on the horizon.”¹ The state is enjoying its highest credit ratings in more than four decades.

Including the additional bank settlement funds, the executive’s all funds state budget for the fiscal year that starts April 1 includes $155 billion in spending.² On a state operating funds basis, excluding federal funding and spending on capital projects, next year’s budget is projected at $96 billion.

² “All funds” include the state’s General Fund (the state’s major operating fund) and three groups of special purpose funds: Special Revenue Funds, Capital Project Funds and Debt Service Funds.
Despite the strong economic and revenue outlook, state operating expenditures are projected to increase by only 1.7 percent in FY 2017—less than the 1.9 percent projected rate of consumer inflation. This stark juxtaposition between, on one hand, reasonable economic and tax receipt growth and, on the other, a spending limit of two percent or less, define a budget policy best characterized as \textit{unforced austerity}. It is austerity driven by a policy choice, not by a lack of resources in a faltering economy.

There are a handful of new initiatives in the proposed operating budget, but most, like the Dream Act or the Upstate Anti-Poverty Initiative, pale in comparison to the spending cap-induced proposal to shift CUNY and Medicaid spending from the state’s budget to the City of New York. A budget policy change like the STAR conversion to a personal income tax credit from a benefit paid directly out of the state budget reduces reported state spending with no service diminution. But the CUNY and Medicaid spending reductions in the state budget are a pernicious and unilateral shift in fiscal responsibility to a local government. They appear to be the sort of budget maneuver compelled by a choice to keep operating spending under the two percent cap.

There are also a number of new infrastructure and related initiatives in the governor’s FY 2017 Executive Budget, as there were in the enacted FY 2016 budget. Many of these initiatives are to be funded with some of the $8.3 billion in bank settlement proceeds of the past two years, and as capital projects, are not counted toward the two percent operating spending cap. (See the Economic Development section for a discussion of these initiatives.)

The very slight 1.7 percent overall operating spending growth comes after years of real budget cuts in many areas of local assistance and state services, and occurs at a time when tax receipts are projected to grow much faster than two percent annually, local governments have been forced to reduce their spending for a broad range of vital public services, and poverty rates and economic hardships remain elevated despite six years of economic recovery.

\footnote{3 \textit{“Dedicated Infrastructure Investment Fund,”} New York State Finance Law, Article 6, section 93-b.}
Since he came into office five years ago, Governor Cuomo has sought to tightly limit the growth in state spending and to limit local property taxes and spending by local school districts, counties, towns, and villages. Early in his first term, the governor asserted that state government spending in New York had long grown faster than the state’s economy and that state government spending needed to be restrained so taxes could be reduced. But, recent growth in state spending has been well below growth in total personal income, which is a reasonable proxy for growth in the state tax base. General-purpose aid the state provides to local governments has been held flat (meaning it has declined when adjusted for inflation), which in turn heightens the fiscal pressure on localities that face a tight limit on property taxes.

This unforced austerity budgeting has had a harsh impact on New York’s children, families, and communities. When coupled with the governor’s two percent local property tax cap, unforced austerity has meant that local government capacity in most parts of the state has suffered, resulting in deteriorating services and an inadequate public response to hardships afflicting many families.

- State spending for social welfare and housing programs, for example, has fallen by 10 percent or more in inflation-adjusted terms over the past five years. At the same time, a growing number of families with children experienced hardship. Although there has been some reduction in the past year, outside of New York City, the number of people receiving aid from the Supplemental Nutrition Assistance Program (food stamps) is still 84 percent greater than in late 2007, before the recession. Meanwhile, the number of people receiving safety net assistance, which is mainly funded by local governments, is more than 40 percent greater than before the recession began.

- Although state-funded local school aid has risen during the past two years, it was still $4.8 billion below where it should be at this point according to the state’s 2007 response to the final court ruling in the Campaign for Fiscal Equity (CFE) case.

- On an inflation-adjusted basis, the executive's proposed local government aid (AIM) is 13 percent less than it was five years ago. Declining real state aid together with capped property taxes have severely constrained local budgets around the state. For example, adjusting spending reported by the state comptroller for the 57 counties outside of New York City by inflation, it is evident that from the 2012 fiscal year to 2014, counties reduced support for community colleges and public health by 15 percent, fire protection by 14 percent, elder services by 13 percent, and youth services by 28 percent. This clearly shows that the state has not responded to rising needs even though state tax collections have been increasing by about five percent annually.

Not surprisingly, state budget austerity has led to a steep decline in state and local government employment in recent years. The number of local government jobs outside of New York City is down by about 60,000, or 8.6 percent, since 2009. While job losses have leveled off in the past year, New York lost more state and local government jobs—like teachers, transit workers, parks and library workers, for example—since 2009 than any other state, and only five states have lost a

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4 The governor maintained that state spending had been outpacing income growth for the past fifty years, yet a closer look at the historical trend shows that while state taxes did grow much faster than income from the early 1960s until the mid-1970s, since then income has generally grown parallel to or faster than state taxes. Both state taxes and local taxes outside of New York City relative to personal income were at about the same level in 2012 as in 1995. Only New York City had an increase in taxes relative to personal income between 1995 and 2012. (See Fiscal Policy Institute, New York City Taxes—Trends, Impact and Priorities for Reform, January 13, 2015, p. 27.)
greater share of these jobs. Meanwhile, more than a third of states have had more than two percent growth in state and local government employment since the end of the recession. Besides a reduction in public services, steep government downsizing has cost jobs that offer a middle-class life; jobs held by people whose spending in their communities directly leads to more private sector employment. In many upstate regions, New York's budget austerity has accounted for much of the erosion occurring in middle-class jobs.

**Spending Cap Will Result in Nearly $10 Billion in Future Cuts**

Even in areas where state spending in nominal dollars is increasing, the state is often committing less in real funding support compared to the 2011 fiscal year, despite six years of a recovering economy. Continued adherence to a two percent spending cap in the next three budgets after this one means that, unless the policy is changed, unforced austerity will continue. The number of subsidized child care slots falls far short of the need, library hours have been cut back, and the maintenance of public buildings and infrastructure has suffered.

On top of the cuts sustained in the past five years of austerity and recovery, substantial further budget cuts will be layered on in order to keep within the two percent spending limit. These as-yet unspecified cuts total $9.5 billion, or an average of $3.2 billion a year. The figure on the next page shows the budget cuts that are detailed by program area as part of this year’s proposed gap-closing, as well as the additional unspecified cuts in future years that will be needed to stay within the state’s two percent spending cap.

With Medicaid and school aid likely to increase moderately over the next three years, most of the $3.2 billion annually in further cuts almost certainly will be concentrated in the remaining areas of the state budget: social welfare, higher education, public health, parks and environment, and aid to local governments. For these budget areas taken as a whole, further spending reductions of $3.2 billion a year translate into staggering service reductions.
Fig 1. Local Assistance and Support for State Agencies Keeps Falling Because of the Governor's 2% Spending Limit

Unforced austerity built into future budgets means the state will not make up for several years of harmful reductions nor address a host of critical human needs that have mounted in the wake of the Great Recession and relatively weak recovery. As the figure on the next page illustrates, New York clearly has the overall income and tax receipt wherewithal to do better. By various measures, the state’s tax capacity has been growing considerably above two percent over the past few years, and is projected to grow even more in 2016 and the following three years. Personal income and adjusted gross income, the starting point for determining state personal income tax liability, are projected to grow by about five percent annually, on average, this year and for the next three years. New York’s total tax receipts, even with the many tax cuts already enacted and assuming the various proposed tax cuts were enacted, are projected to grow by 4.6 percent annually—more than twice the two percent spending limit. Each one percent growth in New York’s tax receipts translates into $750 million a year.
Fig 2. New York's Economic Ability to Pay Well Exceeds the Governor's 2% State Spending Limit

Besides the two percent spending cap strait-jacket, the most worrisome budget policy embodied in the state’s multi-year financial plan is the pending expiration of the top 8.82 percent personal income tax bracket—the so-called “millionaires’ tax” levied on incomes greater than $1 million for single and head of household filers, and $2 million for joint filers. Last renewed in 2013, its authorization lapses at the end of calendar year 2017, three-quarters of the way through the state fiscal year 2018. Eliminating this tax bracket would reduce state income taxes on the wealthiest of New York’s top 1 percent by $3.7 billion annually. Allowing it to lapse will exacerbate New York’s troubling income polarization as well as provide a significant windfall to the highest-income out-of-state residents with jobs or businesses in New York. (See also Income Polarization.)

During the last two recessions, in 2001-03 and 2008-09, New York adopted higher top personal income tax rates. Given that the current, albeit uneven recovery has already run for six years, and that some form of economic slowdown could occur over the course of the proposed four-year financial plan, it seems particularly unwise to allow the top income tax bracket to expire.

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5 Also part of the tax change first adopted in December 2011 were small tax rate reductions for filers with taxable incomes between $40,000 and $300,000. If these rate reductions expired, income taxes would rise by a total of $1 billion for these moderate- to upper-middle income households.
Minimum Wage

Considerable research supports the conclusion that businesses can reasonably accommodate a phased-in $15 minimum wage and that it would be sound public policy for New York. A key issue is the need for state funding and budget action to ensure that the higher wage floor benefits the many non-profit sector workers providing state human services under contract or paid through Medicaid reimbursements.

Following a wage board recommendation to phase in a $15 minimum wage for fast-food workers at restaurants that are part of large chains, Governor Cuomo has proposed legislation for a $15 across-the-board minimum wage for all New York workers. The minimum wage would be phased in to reach $15 in New York City by the end of 2018, and by mid-2021 for the rest of the state.

The governor acted administratively to establish a $15 minimum wage for all state employees and employees at SUNY institutions. Legislative deliberations on the governor’s proposal will entail considering the likely impacts on workers, businesses, the overall economy and the state budget.

In New York, as is the case nationally, wages for most workers have stagnated or declined in inflation-adjusted terms in recent years. Median household incomes in New York State fell five percent on an inflation-adjusted basis over the past decade. Real hourly wages have fallen by six to 10 percent for the typical New York worker since 2001. Child poverty in the major upstate cities is at crisis levels, partly because many of these children are in families with a severely underpaid working parent.

Many Economic Factors Support the Need to Raise New York’s Minimum Wage

Given the cost of living in New York, $15 comes close to the amount that workers need to sustain a modest, no-frills household budget. In the Buffalo metro area, for instance, single adults will need an hourly wage of $15.72 or more by 2021 to meet their basic needs, according to the Economic Policy Institute’s Family Budget Calculator. Parents who are raising children will need an hourly wage of $18.55 or more.

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6 For a discussion of the economics literature on the minimum wage, an assessment of studies claiming that a minimum wage increase will decrease jobs, and an overview of the overall business and economic impact, see Testimony submitted by James A. Parrott, Fiscal Policy Institute, on the Overall Impact of a $15 State Minimum Wage, NYS Senate Standing Committee on Labor, January 7, 2016.

7 The governor’s proposal is an excellent start that could be improved by adding an automatic cost of living adjustment after the wage reaches $15 an hour, and eliminating the separate and inferior treatment of tipped workers as seven states, including California, have done.


wage much greater than $15 an hour in 2021, even if both parents are working. In the New York City area, single adults working full-time will need $22.52 to meet basic budget needs in 2018.10

Adjusting the 1970 peak level for the state’s minimum wage for inflation and the higher cost of living in New York would translate into a state minimum wage of $15.01 per hour in 2018, the level the governor proposed for New York City for the end of that year.11

Alternatively, had the state’s 1970 minimum wage level risen along with the average growth in U.S. productivity, it would be $21.40 today, more than two-and-a-third times greater than the current $9.00 state minimum wage.12

The failure of worker pay to keep pace with the growth in productivity or business profits suggests that public and private policy choices have depressed living standards in spite of overall economic growth. New York business profits per worker increased by 61 percent from 2001 to 2013, while labor compensation per worker rose by only 34 percent (not adjusted for inflation).13 The composite New York Consumer Price Index rose by 36 percent over this period, meaning that inflation-adjusted labor compensation fell.14 As noted earlier, real hourly wages for typical New York workers declined six to 10 percent over this period.

Another way to gauge the economic impact of a phased-in $15 minimum wage is to consider it in relation to the median wage for a full-time worker. By 2021, New York’s $15 minimum wage would equal 57 percent of the projected median wage of full-time workers in the state—52 percent in New York City, 54 percent in the downstate suburbs, and 65 percent upstate. In the past, individual states have had minimum-to-median ratios in the mid-60 percent range, and research has shown these resulted in no adverse economic consequences.15

Workers Who Will See a Raise as a Result of a Phased-in $15 Minimum Wage

The nationally prominent Economic Policy Institute (EPI) has prepared a detailed analysis of the workforce impact of a phased-in $15 minimum wage in New York State.16 The accompanying chart shows that 3.2 million New York workers would benefit from a $15 minimum wage by 2021, about 37 percent of the state’s wage and salary workforce. The chart provides details on the worker impact by gender, race-ethnicity, age, and other factors. It is important to note that most workers who will

11 Adjustments using the CPI-U-RS and Regional Price Parity data from the Bureau of Economic Analysis, Real Personal Income for States and Metropolitan Areas, Regional Price Parities, 2015.
13 Both figures are in nominal terms without adjustment for price changes; 2013 is the latest year these data are available. State Gross Domestic Product data from the Bureau of Economic Analysis, U.S. Commerce Department. Fiscal Policy Institute, “Business profits in New York State have grown much faster than wages since 2001; minimum wage hike is a good corrective,” Data Brief, December 1, 2015.
14 Composite CPI as estimated by the NYS Division of the Budget, November 2015.
15 The minimum-to-median ratio is known as the Katiz index. See Cooper, 2016, pp. 5-6; and Ben Zipperer and David Evans, Where Does Your State’s Minimum Wage Rank Against the Median Wage?, Washington Center for Equitable Growth, 2014. The New York minimum-to-median ratios were estimated by the Berkeley Labor Center.
16 Cooper, op. cit.
benefit from the wage increase are adults (and not teenagers) and full-time workers. Roughly half of all affected workers are persons of color. More than half of all Latino workers in the state would receive a raise, as would 40 percent of all black workers.

**Fig 3. Characteristics of New York State Workers Who Would Benefit from an Increase in the Minimum Wage to $15 by 2021**

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>TOTAL ESTIMATED WORKFORCE</th>
<th>NUMBER OF WORKERS BENEFITTED</th>
<th>SHARE OF CATEGORY AFFECTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Categories</td>
<td>8,635,791</td>
<td>3,162,345</td>
<td>36.6%</td>
</tr>
<tr>
<td><strong>SEX</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>4,268,056</td>
<td>1,665,595</td>
<td>39.0%</td>
</tr>
<tr>
<td>Male</td>
<td>4,367,735</td>
<td>1,496,751</td>
<td>34.3%</td>
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<tr>
<td><strong>AGE</strong></td>
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<td></td>
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<tr>
<td>Under 20</td>
<td>233,772</td>
<td>164,865</td>
<td>70.5%</td>
</tr>
<tr>
<td>20-24</td>
<td>835,713</td>
<td>588,725</td>
<td>70.4%</td>
</tr>
<tr>
<td>25 to 39</td>
<td>2,984,891</td>
<td>1,115,306</td>
<td>37.4%</td>
</tr>
<tr>
<td>40 to 54</td>
<td>2,835,217</td>
<td>795,543</td>
<td>28.1%</td>
</tr>
<tr>
<td>55 or older</td>
<td>1,746,198</td>
<td>497,906</td>
<td>28.5%</td>
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<tr>
<td><strong>RACE/ETHNICITY</strong></td>
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<td></td>
<td></td>
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<tr>
<td>White, non-Hispanic</td>
<td>5,023,160</td>
<td>1,553,703</td>
<td>30.9%</td>
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<tr>
<td>Black or African American</td>
<td>1,184,952</td>
<td>480,292</td>
<td>40.5%</td>
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<tr>
<td>Hispanic of any race</td>
<td>1,501,730</td>
<td>777,234</td>
<td>51.8%</td>
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<td>Asian</td>
<td>752,837</td>
<td>282,258</td>
<td>37.5%</td>
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<tr>
<td>Other race or ethnicity</td>
<td>173,111</td>
<td>68,859</td>
<td>39.8%</td>
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<tr>
<td><strong>EDUCATION</strong></td>
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<tr>
<td>High school or less</td>
<td>2,729,831</td>
<td>1,509,486</td>
<td>55.3%</td>
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<tr>
<td>Some college (including assoc. degree)</td>
<td>2,448,200</td>
<td>1,025,469</td>
<td>41.9%</td>
</tr>
<tr>
<td>Bachelors or higher</td>
<td>3,457,760</td>
<td>627,391</td>
<td>18.1%</td>
</tr>
<tr>
<td><strong>FAMILY STATUS</strong></td>
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<tr>
<td>Married parent</td>
<td>2,596,552</td>
<td>694,685</td>
<td>26.8%</td>
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<tr>
<td>Single parent</td>
<td>786,983</td>
<td>347,145</td>
<td>44.1%</td>
</tr>
<tr>
<td>Married, no children</td>
<td>1,563,703</td>
<td>434,872</td>
<td>27.8%</td>
</tr>
<tr>
<td>Single, no children</td>
<td>3,688,553</td>
<td>1,685,643</td>
<td>45.7%</td>
</tr>
<tr>
<td><strong>WORK HOURS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part time (&lt; 19 hour/week)</td>
<td>493,157</td>
<td>265,652</td>
<td>53.9%</td>
</tr>
<tr>
<td>Mid time (20–34 hours/week)</td>
<td>1,212,340</td>
<td>780,229</td>
<td>64.4%</td>
</tr>
<tr>
<td>Full time (35+ hours/week)</td>
<td>6,930,295</td>
<td>2,116,463</td>
<td>30.5%</td>
</tr>
</tbody>
</table>
The majority of workers (nearly 53 percent) who will receive an increase are women, a third have children, and 45 percent of female single parents would benefit. Low-income households would benefit disproportionately from the minimum wage increase. More than a third (37 percent) of affected workers are in families either in poverty or “near poverty” (with income less than 200 percent of the federal poverty line.) Over three-fourths of all workers in or near poverty would get a raise.\textsuperscript{17}

Low-wage workers who stand to benefit are found in every sector of New York’s economy. Three sectors would see gains for over 400,000 workers: retail trade, restaurants (including fast-food chains already subject to the state’s wage order for that industry), and the group of human service workers and care providers in the home-based and residential care, social assistance and child care sector.

\textsuperscript{17} Ibid.
Fig 4. Top 10 New York Industries with the Largest Numbers of Workers Who Would Benefit from an Increase in the Minimum Wage to $15/Hour by 2021

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>WORKERS WHO WILL GET A RAISE</th>
<th>SHARE OF INDUSTRY AFFECTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>All industries</td>
<td>3,162,345</td>
<td>36.6%</td>
</tr>
<tr>
<td>Private industries (for profit &amp; non-profit)</td>
<td>2,922,292</td>
<td>40.4%</td>
</tr>
<tr>
<td>Top 10 affected industries</td>
<td>2,310,850</td>
<td>41.8%</td>
</tr>
<tr>
<td>Retail trade</td>
<td>555,196</td>
<td>57.7%</td>
</tr>
<tr>
<td>Restaurants</td>
<td>427,268</td>
<td>79.6%</td>
</tr>
<tr>
<td>Home-based and residential care, social assistance and child care</td>
<td>419,888</td>
<td>48.4%</td>
</tr>
<tr>
<td>Local government</td>
<td>172,063</td>
<td>20.1%</td>
</tr>
<tr>
<td>Educational services</td>
<td>137,521</td>
<td>30.5%</td>
</tr>
<tr>
<td>Finance, insurance, and real estate</td>
<td>134,915</td>
<td>19.4%</td>
</tr>
<tr>
<td>Construction</td>
<td>134,474</td>
<td>34.2%</td>
</tr>
<tr>
<td>Transportation, warehouses, and utilities</td>
<td>126,358</td>
<td>40.0%</td>
</tr>
<tr>
<td>Durable manufacturing</td>
<td>102,107</td>
<td>31.0%</td>
</tr>
<tr>
<td>Personal services</td>
<td>101,061</td>
<td>79.1%</td>
</tr>
</tbody>
</table>

**HOW MANY WORKERS IN EACH INDUSTRY WILL SEE A WAGE INCREASE?**

The Government-Funded Human Services Sector Is One of the Largest Low-Wage Employers

Most of 870,000 workers in the broad human services sector work directly under government-funded contracts or provide services reimbursed by Medicaid funding. Nearly half—420,000—would benefit from an increase in the minimum wage to $15. This sector’s affected workforce is evenly divided between New York City and the rest of the state (206,000 and 214,000, respectively.)

This workforce includes a broad range of human service workers, including home health aides, personal care assistants, alcohol and substance abuse counselors, foster care case workers, afterschool program leaders, homeless shelter workers, preschool teachers, domestic violence counselors, settlement house workers, and home-based child care providers. Many of these occupations traditionally have been held by women and are underpaid compared to people with similar education and training working for government or for-profit employers. Sub-par wage levels persist despite the fact that services such as those provided by home health care aides, personal care aides or substance abuse counselors allow clients to function better on their own, saving taxpayers millions of dollars each year.

This workforce should benefit from a statewide $15 minimum wage, but for that to happen, the state government will need to increase funding in human services contracts and change Medicaid reimbursement rates that apply to home health care, workers providing services for the developmentally disabled, and others. Given federal-state cost-sharing, half of any Medicaid funding increases would be paid by the federal government.

Most of the employers in this sector are non-profit organizations providing services under government contract or are reimbursed under Medicaid. Non-profits do not sell their services, which are essential public services after all, so they cannot raise prices. Because wages are so low, and fringe benefits are bare bones, employee turnover is very high in this sector, often such that it compromises the quality of service delivery. Moreover, local and state governments have mostly under-funded human service contracts in the wake of the recession despite an increase in hardships.

Using data available on the state comptroller’s website, FPI identified roughly $1.5 billion (annualized) in state contracts to nonprofit organizations to provide a range of human services other than those that are Medicaid-reimbursable. To phase in a $15 wage floor for the contract workforce would cost $60-$75 million in the first year and approximately $250-$300 million yearly when fully phased in over six years. These estimates assume that

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18 Ibid., Appendix Tables A-5, 6 and 7.
some spillover wage increases are provided to workers slightly above $15 an hour to avoid an undue compression of an organization’s overall wage scale.\textsuperscript{20}

Child care workers are among the lowest-paid of all workers in New York. In 2014, median child care pay was $9.39 an hour, and 9 out of every 10 child care workers were paid less than $14.46 an hour.\textsuperscript{21} Child care workers not on the payroll of an organization paid under state contract also deserve to be included in any across-the-board increase but this will mean that state-funded child care subsidies should be adjusted to reflect the wage increases. In addition, since many moderate-income families are not eligible for child care subsidies and pay for care out of their own pocket, the state should explore how to enhance the state’s Child and Dependent Care Tax Credit to help offset higher private pay child care fees that may result.

**Higher Wages Also Mean Higher Tax Revenues and Lower State and Local Costs**

The increased governmental cost associated with a $15 minimum wage will be partly offset by a fiscal dividend stemming from the wage increase. More than half of New York workers paid below $15 an hour receives some form of public assistance, or a family member does.\textsuperscript{22} In total, public assistance expenditures to New York’s low-wage families are an estimated $9.1 billion, with an estimated $2.9 billion of that paid by New York State and local governments. The fiscal dividend involves likely state government savings on public assistance costs as workers’ wages rise, and increased state and local income and sales tax collections. According to an Urban Institute analysis, the net fiscal savings to all levels of government from an increase in the minimum wage to $15 represented roughly 43 percent of the rise in aggregate earnings as a result of the minimum wage increase.\textsuperscript{23} Raising the minimum wage is an effective way to reduce the extent of taxpayer subsidy to low-wage employers, and improve government’s fiscal balance.

\textsuperscript{20} Ibid., p. 8. About half of the costs under these estimates are for workers now paid less than $15 an hour and half is for raising the wages of workers making more than $15 an hour.


New York’s Profound Income Polarization and Regressive Tax Structure

Income inequality has increased in New York during the recovery with income for the 1 percent growing faster than the average income for everyone else. New York’s combined state and local tax structure is regressive and several rounds of substantial multi-year tax cuts in the past three years have done nothing, on net, to make the tax structure less unfair. When the current “millionaires’ tax” expires at the end of 2017, it should be permanently replaced with the 1% Plan for New York Tax Fairness that will add four new, high-end tax brackets and continue the middle class tax cuts the governor initiated in 2012.

Since 2013, wage growth has started to pick up in New York after languishing in the early recovery years. Still, the average incomes of the richest 1 percent have grown four times as fast as the average incomes of the remaining 99 percent from 2009 through 2014. Adjusted for inflation, the incomes of the top 1 percent rose by 26 percent, while the average incomes of 99 percent increased by only six percent.24

People in the bottom of the income distribution are struggling. Incomes for most low-income New York households have fallen since the Great Recession began. As one gauge of New York’s challenge, according to a Brookings Institution analysis of the largest cities in the United States, inflation-adjusted 20th percentile household income—i.e., incomes for households earning more than only 20 percent of all other households—fell between 2007 and 2014 by four percent in Albany, six percent in Buffalo, nine percent in Rochester and New York City, and 15 percent in Syracuse.25

At the same time, those at the top are seeing extraordinary gains. In the United States overall, the richest 1 percent claimed 21 percent of all income in 2014. In New York State, with its concentration of both high- and low-income households, the top 1 percent received 30 percent of all income. And, in New York City, the top share was a staggering 39 percent in 2014. (That share was not quite as high as it was at the peak of the mid-2000s financial bubble, or as high as the year before the 2013 tax increases when the rich accelerated the receipt of capital gains and other income before federal top income tax rates rose in 2013. Still, the 1 percent’s share has generally been rising for more than three decades.)26

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25 Alan Berube and Natalie Holmes, City and metropolitan inequality on the rise, driven by declining incomes, Brookings Institution, January 14, 2016.
26 Sommeiller and Price, and FPI estimates. In New York State, the 1 percent share in 2007 was almost 33 percent, and in 2012 almost 32 percent.
Fig 5. A Bigger Slice of the Pie
The Growing Share of All Income Going to the Top 1 Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>New York City</th>
<th>New York State</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>12.2%</td>
<td>11.9%</td>
<td>10.0%</td>
</tr>
<tr>
<td>1996</td>
<td>25.6%</td>
<td>21.7%</td>
<td>16.7%</td>
</tr>
<tr>
<td>2014</td>
<td>39.0%</td>
<td>30.2%</td>
<td>21.2%</td>
</tr>
</tbody>
</table>

Source: Sommeiller and Price, Emmanuel Saez, and FPI estimates.

New York Incomes—Unequal by Class and by Race

- The average income of New York’s richest 1 percent of tax filers was $2 million in 2014, compared to $47,300 for the remaining 99 percent.
- The average 1-percent income was nearly 43 times the average income of the 99 percent in 2014, up from 40 times the year before, and considerably greater than in 1979 when top incomes were about 13 times greater than the average incomes of everyone else.
- New York families headed by a person of color were one-and-a-half times more likely than families headed by a white person to have very low incomes, according to data from the American Community Survey 2013 3-year data. (Very low income here refers to those in the bottom 20 percent of all families, or earning less than $29,200).
- Roughly two-thirds of black and Latino families were in the bottom half of the income distribution (64 percent of black families and 71 percent of Latino families).
- White families were four times more likely to be among the richest 10 percent of New York’s families as black and Latino families.

As with all states, New York’s income inequality has been on the rise since 1979, a sharp reversal of the patterns of income growth that prevailed for more than three decades following World War II. From 1949 to 1979, incomes rose across the board, with the middle class expanding
dramatically in number and experiencing fairly steady income gains. For the past 35 years, most income gains have flowed to the very top.

**Fig 6. A Sharp Reversal: Shared Prosperity vs Income Polarization in New York State**

![Bar chart showing income gains for the bottom 99% and top 1%](chart)

Source: Sommeiller and Price, Emmanuel Saez, and FPI estimates.

**New York’s Tax Structure Further Benefits the Wealthy**

Those in the wealthiest 1 percent are taking home the lion’s share of income gains, yet they nevertheless pay a smaller share of their income in combined state and local taxes than lower and middle-income families. New York households with incomes under $100,000 pay higher effective state and local tax rates (ranging from 10.4 percent to 12 percent) than the richest 1 percent of households (who pay 8.1 percent).

One reason the cumulative impact of state and local taxes is regressive is that most low- and middle-income New York families pay a greater percentage of their income in sales and property taxes than they do in income taxes. New York State income tax is mildly progressive, but not progressive enough to offset the effects of highly regressive sales and local property taxes.
Fig 7. New York State’s Regressive State and Local Tax System
PERCENT OF STATE AND LOCAL TAX BURDEN BY INCOME GROUP

Note: Shares of family income for non-elderly taxpayers.
Source: Institute on Taxation and Economic Policy, January 2015.

Recently Enacted Tax Cuts

Governor Cuomo has made a point of cutting taxes rather than maintaining services when revenues exceed his self-imposed two percent spending cap. This essentially means that budget cuts each year are used to pay for tax cuts. Tax cuts enacted in the last three years are reducing tax collections in the current 2016 fiscal year by an estimated $1.3 billion. Because some of these tax cuts are designed to increase each year, like the property tax relief credits adopted last June or the estate tax cut phased in beginning in 2014, the total amount of the already-enacted tax cuts will rise to $2.0 billion in FY 2019 and $2.3 billion in FY 2020.

Sometimes the governor has included tax policy measures in a budget package that result in a net gain in tax collections. For example: moves to limit the deductibility of charitable contributions by high-income taxpayers, or to close the resident trust loophole that was enacted in March 2014. However, in recent years revenue-raising measures have been far eclipsed by tax cuts.

Tax cuts in the past few years have mainly been either some form of business tax reduction or property tax relief. Two years ago, business tax cuts predominated, with the net 2020 value of that package amounting to nearly $700 million. That package included the elimination of the separate bank tax and a “corporate tax reform” that included a reduction in the corporate tax rate, the elimination of the capital base alternative tax, along with eliminating the tax on manufacturers and providing property tax relief to manufacturers.
Last year, property tax relief took center stage. The legislature pushed for a different form of property tax relief than the governor proposed. The governor had advanced a “circuit breaker” approach that would have provided a credit against personal income tax liability based on the amount of property taxes paid in relation to income (an approach that FPI has long promoted on tax fairness grounds). The legislature instead opted for providing a flat amount in the first year (higher upstate than in the downstate region) and, in the second through fourth years, property tax rebates scaled so that the benefit declines as income rises, regardless of one’s property tax bill. Recipients must be STAR eligible with incomes less than $275,000, and reside in a school district that did not vote to exceed the prior year’s property tax cap. The price tag for the enacted package will rise from $400 million in FY 2017 to $1.3 billion in FY 2020, and total a substantial $3.1 billion over four years.

The property tax relief enacted last year will take the form of an annual property tax rebate check, with the first to be delivered in October 2016, on the eve of the November state legislative elections. The rebate checks sent on election eve this year will also include the final year’s installment of the property tax freeze credit passed in 2014.
Key Tax Reduction Proposals in the Governor’s FY 2017 Executive Budget

The governor has again advanced a deeply problematic Education Tax Credit, a proposal that was hotly debated but not enacted in the last legislative session. The core component of this year’s proposal is a 75 percent personal or corporate income tax credit for donations made to a private or public school, excluding charter schools. As in previous years, the proposal has the extraordinary feature of a credit of up to $1 million, meaning that it is clearly geared to the very rich. The governor would allow $20 million in credits for public schools and $50 million in credits for private schools. Taxpayers must file applications to receive the credits, which effectively means they are allocated on a first come-first served basis.

The governor’s proposal adds two new features this year: a $200 refundable tax credit for teachers making out-of-pocket purchases of classroom supplies, and a refundable $500 credit per dependent for qualified private elementary or secondary school tuition geared to households with adjusted gross income of $60,000 or less. The governor’s Education Tax Credit proposal would reduce taxes by $150 million annually, beginning in FY 2019.

Eager senate supporters of a far more generous education tax credit proposal approved that legislation on January 11, 2016. The senate measure provides a 90 percent tax credit with a $1 million individual limit, and includes charter schools as eligible donation recipients. The senate bill also has a much higher household income limit of $500,000 (the governor’s proposal had a $250,000 income limit) for students who receive tuition grants funded with tax credit-eligible donations. The senate bill would reduce taxes by an annual average of $225 million over the next three years.

The Education Tax Credit proposal amounts to public funding of private schools, and a means for private donors to steer public dollars to the public schools of their choice. Public schools certainly need additional funding and that should be done through a direct increase in school aid, allocated through the state’s foundation aid formula.

On more narrow tax policy grounds, the proposal flies in the face of sound, long-standing New York personal income tax policies. Most existing personal income tax credits in New York available to households are geared to lower-income households, or have fairly low maximum credit amounts or income eligibility limits. For example, expenses for mortgage interest payments or charitable contributions made by households are eligible for a deduction on state personal income tax returns. The effective value of the tax benefit for such deductions is a taxpayer’s tax rate times the amount of the expense or contribution. Thus, at most, the effective “tax credit rate” for deductions is 8.82 percent, the state’s top income tax rate. The state average effective income tax rate in 2011 was 5.7 percent—that is the benefit New Yorkers get on average for a charitable contribution. Last year the state extended a limit on deductions for charitable contributions by high-income taxpayers.
In the FY 2017 Executive Budget the governor revives last year’s proposed reduction in the corporate income tax rate from 6.5 percent to four percent for small businesses with income below $290,000, and adds a very costly tax reduction for small business owners paying business income taxes on their personal income tax returns (referred to as pass-through business entities.) The latter proposal would triple the existing small business/farm exemption from five percent to 15 percent and expand it to include non-farm limited liability corporations (LLCs), partnerships, and S-Corporation shareholders. Eligibility for the 15 percent exemption would be limited to taxpayers with net business income of less than $250,000. Still, many LLCs are not really small businesses in the commonly understood sense of a neighbor operating a local store or service, but are rather vehicles for financial or real estate investment partnerships. There is no reason to provide such entities a tax exemption on up to $25,000 of business income. These two small-business tax reductions would reduce revenues by $276 million annually beginning in FY 2018. Most of the savings would be realized by small businesses organized as LLCs or S-Corps.

Last year when the governor proposed the corporate tax rate reduction for small businesses, he also proposed a package of tax enforcement and compliance measures that would generate offsetting revenues. In response to continued growth in online sales through marketplace providers like Amazon and eBay, the governor proposed that such providers be required to collect New York sales tax when they facilitate a sale between an out-of-state seller and a New York consumer. This measure would have helped level the playing field for New York’s brick-and-mortar retailers. It would have generated nearly $60 million a year, but was not enacted last year and unfortunately, has not been proposed so far this year. Other enforcement measures proposed last year would have generated $30 million when fully implemented.

A more effective way to provide tax relief to small businesses would be to provide property tax relief through the personal income tax based on a circuit breaker approach. This would gear relief in response to property tax payments that were truly burdensome in relation to business income, and would respond to the concern that property taxes are a fixed cost for businesses and not a function of profitability. Two years ago, the state enacted a 20 percent property tax credit for manufacturers. A circuit breaker approach would allow for relief to be targeted to businesses with
higher relative property tax burdens. Offsetting revenue-raising enforcement and compliance measures, such as requiring marketplace providers to collect the sales tax, would have the added benefit of leveling the playing field for New York’s small businesses.

The Executive Budget includes a proposal to convert the STAR benefit from a local property tax exemption to a refundable state personal income tax credit for new homeowners and homeowners who move. The budget proposal also freezes the exemption benefit for all homeowners in place of the current two percent cap on the year-to-year increase in the exemption. The conversion will affect the financial plan by reducing spending and increasing state tax expenditures, and by a timing difference, with the cost of the income tax exemption for a given year being booked in the following fiscal year. The taxpayer benefit will remain the same. The conversion also changes the New York City personal income tax STAR credit into a state personal income tax credit.

In the senate majority’s analysis of the Executive Budget, it is suggested that New York City’s real property taxes should be subject to the two percent cap that applies to localities outside of New York City. The report notes the recently announced 10-plus percent growth in the estimated market value of all real property in the city and the projected six percent growth in property tax revenue over the next four years. The senate majority report also suggests that serious consideration should be given to phasing out the city’s commercial rent tax.

But, the senate analysis fails to recognize that the city’s overall local tax structure for households is regressive. The most compelling need is to make residential property taxes less regressive. Analysts across the policy spectrum agree that provisions of the state’s real property tax law have created a complicated series of inequities both within and between the 1-, 2-, and 3-family home Class I and the rental, coop and condo residential units in the city’s property tax Class II. In particular, since it is widely understood that much of the property tax for rental units is passed on to tenants, tenants bear the highest effective property taxes among residential properties.

To phase in a more equitable system of effective property tax rates, the problems with the state property tax law should be fixed and a robust circuit breaker tied to the city’s personal income tax will be needed to ensure that property tax burdens relative to household income are kept manageable. On the commercial side, the city should act to end the very costly and unneeded Hudson Yards property tax breaks, and the city and the state should revamp other commercial property tax breaks that now disproportionately benefit real estate developers at the expense of small commercial property owners. Regarding the commercial rent tax, it should be kept in mind that it only applies to the densest parts of Manhattan, that most of the rent tax is paid by well-heeled financial and professional services tenants, and that reducing it is unlikely to lead to lower net tenant payments for the combination of rent and rent tax since landlords likely will raise rents in response to a reduction in the rent tax.
1% Plan for New York Tax Fairness—Permanently Extending the “Millionaires’ Tax”

The best response to the regressivity of New York’s overall state and local tax system is to make the personal income tax more progressive. To do that, New York should build on the current tax structure originally proposed by Governor Cuomo in December 2011, and that is set to expire at the end of 2017. The state should increase the number of brackets from eight to 12 and make the new structure permanent. This proposal, outlined in the chart below, would retain the slight middle-class tax breaks the governor introduced then, and increase tax rates slightly for the richest 1% of New York’s taxpayers, i.e., those with incomes over $665,000. The Fiscal Policy Institute labels this the “1% Plan for New York Tax Fairness.”

The Fiscal Policy Institute estimates that the 1% plan would raise income tax revenues by $2.2 billion, with 17 percent of that amount paid by out-of-state residents. If the “millionaires’ tax” is not extended, New York State would suffer a net $2.7 billion revenue drop that would entail a $1 billion tax increase for moderate- and middle-income families with incomes from roughly $40,000 to $300,000, while the richest 1% would get a $3.7 billion windfall.

Fig 10. 1% Plan: Increase Personal Income Tax Rates Incrementally for Top 1%

<table>
<thead>
<tr>
<th>TAXABLE INCOME RANGE</th>
<th>PERMANENT LAW</th>
<th>CURRENT RATES THROUGH 2017</th>
<th>PROPOSED 1% PLAN</th>
<th>1% PLAN COMPARED TO CURRENT RATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $16,000</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>NO CHANGE</td>
</tr>
<tr>
<td>$16,000 - $22,000</td>
<td>4.50%</td>
<td>4.50%</td>
<td>4.50%</td>
<td></td>
</tr>
<tr>
<td>$22,000 - $26,000</td>
<td>5.25%</td>
<td>5.25%</td>
<td>5.25%</td>
<td></td>
</tr>
<tr>
<td>$26,000 - $40,000</td>
<td>5.90%</td>
<td>5.90%</td>
<td>5.90%</td>
<td></td>
</tr>
<tr>
<td>$40,000 - $150,000</td>
<td>6.85%</td>
<td>6.45%</td>
<td>6.45%</td>
<td></td>
</tr>
<tr>
<td>$150,000 - $300,000</td>
<td>6.85%</td>
<td>6.65%</td>
<td>6.65%</td>
<td></td>
</tr>
<tr>
<td>$300,000 - $665,000</td>
<td>6.85%</td>
<td>6.85%</td>
<td>6.85%</td>
<td></td>
</tr>
<tr>
<td>$665,000 - $1,000,000</td>
<td>6.85%</td>
<td>6.85%</td>
<td>7.65%</td>
<td>+0.80%</td>
</tr>
<tr>
<td>$1,000,000 to $2,000,000</td>
<td>6.85%</td>
<td>6.85%</td>
<td>8.82%</td>
<td>+1.97%</td>
</tr>
<tr>
<td>$2,000,000 - $10,000,000</td>
<td>6.85%</td>
<td>8.82%</td>
<td>9.35%</td>
<td>+0.53%</td>
</tr>
<tr>
<td>$10,000,000 - $100,000,000</td>
<td>6.85%</td>
<td>8.82%</td>
<td>9.85%</td>
<td>+1.03%</td>
</tr>
<tr>
<td>Above $100,000,000</td>
<td>6.85%</td>
<td>8.82%</td>
<td>9.99%</td>
<td>+1.17%</td>
</tr>
</tbody>
</table>

Note: Beginning in tax year 2013, tax brackets have been indexed each year for the change in the consumer price index. Also, the $2 million threshold for the current top tax bracket applies to the married, filing jointly tax filer status. The top bracket threshold for single and head of household filers is $1 million. For simplicity, the above chart does not reflect these changes.

Other actions that would lessen the overall regressivity of New York’s taxes include an enhancement to the state’s Earned Income Tax Credit (currently set at 30 percent of the federal EITC), and enhancements to the Child and Dependent Care Tax Credit to increase benefits for households with incomes up to $80,000. Child care credit increases will be particularly needed as the minimum wage rises to $15 an hour since over 90 percent of child care workers are currently paid less than that amount.
Economic Development

New York State and its local governments currently spend approximately $8 billion annually on a broad array of economic development programs throughout the state (see chart on next page). There are dozens of different economic development programs intended to provide a myriad of benefits such as cash grants, tax exemptions, tax credits (including many that are refundable and paid in cash), and tax-exempt bonds. The vast majority of these benefits go to big businesses in the name of job creation and economic growth, but the results leave much to be desired.

Research on the programs in question reveals that we are not getting a good return on our investment. For example, a detailed study of New York’s business tax credits prepared in 2013 by economists Donald Boyd and Marilyn Rubin noted that “there is no conclusive evidence from research studies conducted since the mid-1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained absent the incentives.”

Transparency and accountability are also a serious issue. Tax reduction measures enacted last year reflected both extremes of the spectrum. On the positive side, Empire State Development (ESD) will now be required to submit an annual report in connection with the commercial production tax credit that indicates the name of each production company receiving the credit, the amount of the credit, the estimated number of employees, and the amount of credit-eligible wages paid. At the other extreme, the proposal appearing on legislators’ desks on the very last day of the session included both a yacht and a private jet sales tax credit, measures that had not been mentioned in the Executive Budget nor publicly discussed in the final weeks of the session.

Similarly, numerous audits from the Office of the State Comptroller (OSC) also question whether the state is getting its money’s worth from Industrial Development Agencies (IDA).27 A 2013 report from OSC revealed that of the 4,486 current IDA projects, 1,161 do not promise to create a single job. Sixty-eight percent of the 407 IDA projects that ended in 2011 lost jobs, did not create jobs, or did not meet their job creation targets, falling a total of 32,153 jobs below their targets.

More recent audits have found deficiencies in IDA processes related to approving projects, monitoring the project performance against goals, and recouping benefits from projects that failed to meet promised economic and job targets. Several audits also highlighted deficiencies in the monitoring of the tax exemptions given to IDA projects or the PILOTs the projects were required to pay to local governments and school districts in lieu of forgone property taxes. This is

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27 Industrial Development Agencies (IDAs) are public benefit corporations authorized under state law and intended to encourage and subsidize private business investment in order to enhance job opportunities, general prosperity, and the economic welfare of the people of the state, and in particular of the people of the locale where it is located. Currently, there are 115 active IDAs in New York.
particularly troubling given that local governments and school districts are being squeezed by the state’s local property tax cap.

**Fig 11. Where Does Our $8 Billion in Economic Development Spending Go?**

**SUMMARY OF 2014 NEW YORK STATE AND LOCAL ECONOMIC DEVELOPMENT COSTS**

<table>
<thead>
<tr>
<th>STATE SPENDING</th>
<th>$1.837B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empire State Development</td>
<td>$1.272B</td>
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<tr>
<td>Public Authorities: NYPa, NYSERDA and Others</td>
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</tr>
<tr>
<td>State Agency Spending</td>
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<tr>
<td>Other State Capital</td>
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<table>
<thead>
<tr>
<th>STATE TAX BREAKS</th>
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</thead>
<tbody>
<tr>
<td>Sales Tax Benefits for Production and R&amp;D</td>
<td>$617M</td>
</tr>
<tr>
<td>Film &amp; Commercial Tax Credits</td>
<td>$427M</td>
</tr>
<tr>
<td>Other State Tax Breaks</td>
<td>$382M</td>
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<tr>
<td>Empire Zone Tax Credits</td>
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<tr>
<td>Excelsior Tax Credits</td>
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<tr>
<td>Investment Tax Credits</td>
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<tr>
<td>Brownfields Tax Credits</td>
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<tr>
<td>Exemptions for Commercial Airlines</td>
<td>$84M</td>
</tr>
<tr>
<td>START-UP New York</td>
<td>$59M</td>
</tr>
<tr>
<td>Manufacturer Tax Breaks</td>
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<table>
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<tr>
<th>LOCAL SPENDING</th>
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</thead>
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<tr>
<td>Local Development Corporations</td>
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<tr>
<td>NYC Economic Development Corporation</td>
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<tr>
<td>Other Local Government Spending</td>
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<table>
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<th>LOCAL TAX BREAKS</th>
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</thead>
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</tr>
<tr>
<td>Industrial Development Agencies</td>
<td>$600M</td>
</tr>
</tbody>
</table>

*Source: Citizens Budget Commission.*

Rather than chasing smokestacks or throwing tax cuts at business, the state’s economic development policy should be focused on smart investments with careful accounting of benefits to local communities. The goal must be overall economic growth, not the mere shifting of activity from one area or one state to another.
Regional Economic Development Councils (REDC) and the Upstate Revitalization Initiative (URI)

According to Governor Cuomo, “REDCs have awarded nearly $4 billion for job creation and community development projects that will create or retain over 200,000 jobs.” The governor proposes continuing this regional economic development approach with $150 million in the 2017 state budget to support a sixth round of the REDC awards and URI runners-up awards. Round VI of the REDC initiative will include $150 million to be split competitively among each of the state’s 10 regions (along with $70 million in Excelsior Tax Credits). Also $200 million in settlement funds is allocated to fund top projects for the runners up from last year’s Upstate Revitalization Initiative, referred to as the Upstate Hunger Games Competition by some, where seven regions competed for three pots of $500 million.

While the state continues to attempt to improve the REDC reporting requirements, it is still falling short in a number of different ways. Since job results are currently reported in aggregate, not by individual project, there is no way to determine the performance of individual firm-specific projects relative to their job creation and retention projections. As is the case with many economic development programs, New York needs to collect and publish actual firm-specific data on total costs, jobs created, and jobs retained to be able to judge the efficacy of these efforts.

START-UP NY

START-UP NY was established in 2013 to “transform” SUNY, CUNY, and private college and university campuses, as well as communities across the state, into tax-free zones, ostensibly to attract new businesses and to encourage existing businesses to expand. In April 2015, Empire State Development released a preliminary START-UP NY review, which showed very poor results: 76 jobs were created compared to $53 million in tax dollars spent on advertising costs—$697,000 per job before even counting the foregone tax revenue. The report was released four months late and just after legislators approved spending another $50 million in advertising costs for the program in the state budget. This spending might not have been approved had legislators seen the program’s weak initial results prior to approving the budget.

The program’s focus on clustering businesses around universities makes sense. What is fundamentally misguided is the idea that creating tax-free zones might be sound economic development policy. A substantial body of research suggests that local taxes are not a primary determinant of business investment decisions, and that instead, prominent factors include the quality of the labor force, the quality of life and the efficiency of a locale's physical infrastructure.

Raising further red flags, the governor expanded the program to cover some local airports and even some prisons. The state’s experience with Empire Zones should be a strong cautionary tale. Established in the late 1980s, Empire Zones were initially intended to help distressed areas of the state by giving benefits to companies that located there. Over the years, however, the number of Empire Zones multiplied, until every county, regardless of its poverty status, had at least one zone and eventually zones were designed around existing companies. Expanding START-UP NY zones to new areas is not only a mistake, but it also underscores a problem with creating different
state tax zones for different parts of the state as a way of approaching economic development. Tax-free status for some companies serves to put a greater burden on all other taxpayers.

According to recent reports from the governor, a total of 155 businesses have been approved for START-UP NY participation and are projected to create over 4,200 net new jobs and nearly $221 million in promised investment. We have not seen these jobs materialize, nor have we seen this level of investment as these are merely promises. The state has appropriated over $200 million for television ads promoting this program (and other Open for Business/Tourism ads) across the country. The governor proposes appropriating an additional $66.5 million for another round of Open for Business marketing ads. Since the state currently spends more on ads than we may ever get back in investments, one has to question the justification of continuing such a program.

**NY Must Increase the Transparency of Business Subsidies**

Thanks to the historical decision by the Government Accounting Standards Board, 2016 begins a new era for collecting business subsidy data. The new standard, covering GAAP-compliant budgets started in mid-December 2015, requires all states and local governments to report how much revenue they lose to tax abatements or economic development tax expenditures. The policy creates a tremendous opportunity in New York. The governor should join the state comptroller to leverage a comprehensive, national standard on economic development transparency. New York has recently improved the transparency and coordination of business subsidy programs, but these undertakings failed to produce a holistic view of how $8 billion of tax dollars are being spent.

New York State has recently improved the transparency and coordination of numerous business subsidy programs. Project-specific information for Excelsior, Brownfields, and ReCharge NY is now published on the Open NY portal in a machine readable, downloadable, format. The state has also simplified the process of applying for subsidies with the Consolidated Funding Application (CFA). However, project information for a range of major initiatives is not published, is incomplete, or is not machine readable, including subsidies provided by the REDCs, SUNY Poly, SUNY RF and nonprofit entities controlled by the state. Some published data are fragmentary and not useful—like datasets of START-UP NY and Film/TV locations without a project PIN or subsidy amount. Only limited information from the CFAs is made publicly available.

FPI, along with Citizens Budget Commission and ReInvent Albany, proposes creating a single “database of deals,” managed by ESD for all state subsidies to businesses, including grants, loans, tax credits, tax-exempt financing, and discounted energy. Businesses often receive subsidies from multiple programs, but it is difficult for the public to tally the full cost to the state. A new portal will provide a clear picture of the state’s economic development projects, as well as enhance the state’s ability to track the return on its investments.

**Use of Settlement Funds for Economic Development**

Last year’s $5.4 billion surplus in bank settlement funds was unprecedented. Yet, this year the state has an additional $2.3 in unallocated bank settlement funds to spend. Last year the Fiscal
Policy Institute was critical when the governor proposed using $1.5 billion of these funds for an upstate economic development competition otherwise known as the Upstate Hunger Games. FPI’s position was that the funding would have been better used for infrastructure investments.

This additional settlement surplus is occurring at a time when, under the governor’s tight spending restraints, state operating fund disbursements are increasing by less than two percent. New Yorkers desperately need these funds to be spent wisely to address glaring unmet needs.

It should be noted that the entire surplus is related to a series of financial settlements with banks in response to legal actions taken by the state to prosecute violations of state and/or federal laws. The bank settlement surplus results from these legal actions; it is not due to the state raising more revenues than are required to meet its spending needs.

**Fig 12. Governor’s Proposed Use of $2.3 Billion in Settlement Funds in FY 2017**

The vast majority of these funds will be spent on capital expenditures with some exceptions. A better use of the Thruway toll credit funds ($340 million) and Upstate Revitalization Initiative funding ($170 million) would be to support anti-poverty initiatives identified in the budget. The current funding level of the anti-poverty initiative ($25 million) is insufficient to adequately address the extremely high child poverty rates throughout many of the target cities. Using $500 million to fight poverty in our major cities is a smart and strategic investment in repairing our ailing human infrastructure that is just as in need of attention as our physical infrastructure.
Education

By proposing an increase of nearly $1 billion in school aid, the governor recognizes the critical need for additional state support for our schools, although his proposal falls short of the amount needed to guarantee adequate resources for all students, especially the most vulnerable. The state has once again failed to meet its existing commitment under the terms of the legislative response to the Campaign for Fiscal Equity lawsuit. Additional state support is critical this year as the property tax cap will allow virtually no growth in the schools’ primary local revenue source.

Budget Fails to Recognize that Child Poverty is the Main Reason Schools Fail

The Executive Budget fails to address the fact that high-needs districts throughout the state are straining under inadequate funding. The students in New York’s low-performing schools often come from low-income households. Priority schools are those that score in the bottom five percent in student proficiency tests or have low graduation rates. And, in priority districts, three times as many school-age children live in families below the poverty line than those in non-priority districts. Over three-fourths of the students in priority schools are eligible for the federal free or reduced price lunch program, another important indicator of economic hardship. More than nine out of 10 are students of color (compared to 52 percent in non-priority schools) and, for a higher proportion than is average for New York, English is not their primary language.

Fig 13. Students in Priority Schools Face Economic Hardships

![Pie charts showing percentages of students in priority schools facing economic hardships.]

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>English Language Learners</td>
</tr>
<tr>
<td>78%</td>
<td>Receiving Free or Reduced Price Lunch</td>
</tr>
<tr>
<td>83%</td>
<td>From Economically Disadvantaged Families</td>
</tr>
<tr>
<td>92%</td>
<td>From a Community of Color</td>
</tr>
</tbody>
</table>


A primary cause of poor school performance is high levels of child poverty. Students who grow up poor do less well in school than those from more advantaged households, a considerable body
of research shows. New York is no exception. For example, the figure below shows that the large school districts in upstate New York that include priority schools have lower high school graduation rates than the state average and a much higher proportion of children in poverty.

Fig 14. Large Upstate School Districts Have Lower Graduation Rates and Higher Poverty Than Average

Source: New York State Education Department, Graduation Rates: Students Who Started 9th Grade In 2011, December 2015, U.S. Census ACS.

Noted education policy expert Helen Ladd observes that school performance by students from low-income households is heavily affected by “poor health, limited access to home environments with rich language and experiences, low birth weight, limited access to high-quality pre-school opportunities, less participation in many activities in the summer and after school that middle-class families take for granted, and more movement in and out of schools because of the way the housing market operates for low-income families.”

Policies such as requiring teacher evaluations to be based on test scores, or the promotion of charter schools, fail to directly address the educational challenges faced by low-income students.


Teachers cannot control the backgrounds of their students, and they cannot overcome the resulting disadvantages on their own. State aid must be targeted to schools that serve low-income students, and the academic, social, and health needs of students and engage the local community are needed.

**Budget Fails to Meet Promise of Campaign for Fiscal Equity Settlement**

Schools that serve low-income students need additional resources to help their students catch up. The legislative response to the Campaign for Fiscal Equity (CFE) lawsuit was designed to address this need. The state’s contribution to funding local costs was carefully crafted and targeted to be sufficient to provide a sound basic education to all students.

**Fig 15. School Aid Funding Falls Far Short of Promise of Campaign for Fiscal Equity Settlement**

School aid was to be distributed to districts based on the relative wealth of the district and the number of students with high needs. However, years of austerity budgets have undermined the promise of the CFE settlement legislation; school districts are far behind where they were supposed to be by FY 2017. Total Foundation Aid is currently some $4.8 billion below where it would have been if aid had been fully implemented at levels specified after the enactment of the CFE settlement legislation. The increase in Foundation Aid and the GEA decrease ($266 million
plus $189 million for a total of $455 million) are the only part of this funding that go toward meeting the much-larger $4.8 billion CFE shortfall.

**State Support for Schools has Declined While Property Tax is Capped**

Since 2011, state aid as a percent of total school spending has been at historic lows. Inadequate state aid not only hampers the ability of disadvantaged students to catch up, it also puts pressure on local property taxes as school districts try to compensate for the unmet commitment of state funds.\(^{30}\) This reinforces inequities as school districts with high concentrations of low-income families find it hard to raise the funding needed for the schools and for other anti-poverty programs that can address the challenges their students face.

The primary local source of funding for schools in New York is the property tax. But housing value—the base for the property tax—are often lower in low-income neighborhoods. This goes a long way toward explaining why the 10 percent of school districts with the highest need relative

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to resources raised less than one-sixth the amount of taxes per student than the top 10 percent, according to the most recent analysis of New York State school finances.\textsuperscript{31}

Moreover, the state-imposed property tax cap will make it very difficult for school districts to use their own resources to make up for shortfalls in state aid. For the upcoming school year, almost no growth in property taxes will be allowed under the cap. Current projections are that the property tax cap will allow growth of just 0.12 percent, resulting in the loss of hundreds of millions of dollars in funding for our schools.

\textbf{Funding for Community Schools is a Small Step in the Right Direction}

The governor acknowledges the need for the state to help improve schools that are not meeting reasonable standards. He also proposes an excellent model: providing aid that encourages these schools to become community schools, with wrap-around services for students and a center that families can make use of even after school hours. The governor includes $100 million in aid to this purpose, a welcome initiative. This falls far short, however, of the amount need to fully implement this model for the many schools in the state that could benefit from it. The governor and the legislature should redirect the $150 million earmarked for the Education Tax Credit to instead go to community schools. If the goal is to give low-income children a better education and improve outcomes, this would be a much wiser investment than a misguided tax credit.

\textbf{Universal Pre-Kindergarten Funding Inadequate}

Early learning programs are a proven way to boost children’s learning skills and improve their future prospects. The Universal Pre-Kindergarten program for four-year-olds enacted last year continues in FY 2017 but with no increase in the state funding level of $340 million.

In addition to the funds for four-year-old pre-kindergarten, this year’s Executive Budget includes $22 million to expand pre-kindergarten programs for three-year-olds in high-need districts. The funding for pre-kindergarten falls far short of the amount needed to fully implement this important program across the state. The bulk of the budgeted funds ($300 million) are designated for New York City, leaving only $40 million for the rest of the state. New York City Mayor Bill de Blasio estimates that providing universal pre-kindergarten in New York City alone would cost $1.7 billion over 5 years. The Executive Budget projects funding of $1.5 billion over five years for the entire state. The Board of Regents has recommended an additional $125 million in FY 2017 for pre-kindergarten funding.

\textsuperscript{31} Analysis of School Finances, New York State Education Department, January 2015. The need to resource index is designed to measure each district’s student need in relation to its capacity to raise local revenues, indexed to state averages. See page 14 of the Analysis of School Finances report for a more detailed explanation.
Higher Education

A bombshell in this year’s state Executive Budget, though not presented as one, was Governor Cuomo’s unilaterally developed proposal to reduce state funding to CUNY colleges by $485 million. The governor seems to expect that this will have no impact on CUNY’s budget. Either the city of New York will just absorb the added expense of nearly a half-billion dollars, or efficiencies can be found to save the money.

The governor’s sanguine attitude is hard to understand. Major shifts in responsibility from the state to the city must be carefully and often laboriously negotiated. This is one of three such shifts in the Executive Budget (the other two, described in the Local Government section of this briefing book, have to do with Medicaid costs and sales tax revenues).

In addition to throwing the relationship between New York City and the state into an unexpected and highly charged dispute over responsibility for CUNY funding, the governor also proposes to allow CUNY and SUNY to continue to increase tuition by up to $300 per year. The notion of raising tuition and then dedicating it to faculty and instruction implies a false dichotomy, suggesting the need for a choice between affordability and quality. The state has been systematically underinvesting in its landmark system of public higher education. Reversing that trend would allow for both greater affordability and improved quality.

It is impossible to mention the proposal to allow further tuition increases without recalling that in past years’ tuition increases have not been used to enhance student’s education as was promised in the bill that authorized the increases in 2011 with similar language. The 2011 “rational tuition plan” resulted in a dramatic increase in the portion of costs borne by students and a reduction in the portion borne by the state. The bill promised that the state would maintain its effort so that new tuition dollars could go to enhance student education, a promise that was not realized. When the state senate and assembly passed bipartisan “Maintenance of Effort Legislation” in 2015, the governor’s veto statement stated that the right time to take up the Maintenance of Effort is in the state budget negotiations. He did not include in this year’s Executive Budget any proposal for how he would approach this question, but it should indeed be part of the final budget.

Also hard to ignore is that faculty and staff at CUNY are still without a contract after more than six years, a situation forced by the state’s continued underfunding of the university. The governor’s budget proposal includes $240 million for retroactive salary increases, but the increase in state funding for the salaries is less than half of the additional amount he is asking New York City government to pay for CUNY.

While this year’s budget appears to show a $30 million (1.1 percent) uptick to SUNY state-operated colleges, even that minimal increase is not for the SUNY campuses, but is a pass-through to fund benefits for employees.

Hospitals are also an important part of the SUNY system, yet funding for SUNY hospitals is down by $19 million compared to last year’s budget, even before counting personal service costs that were in last year’s budget and are excluded this year.
Funding for community colleges is based on a per-student formula (accounting also for the number of classes taken per student) that has long been inadequate. Increasing the amount per student by $250 would help ensure a maintenance of quality at community colleges. Making community colleges affordable, accessible, and of high quality must be a high priority.

A positive proposal in the Executive Budget is the inclusion of the New York State DREAM Act, allowing undocumented immigrants who graduate from New York high schools and meet certain additional conditions to apply for the state’s Tuition Assistance Program like other New Yorkers. This is a long-overdue measure that has been a top priority of immigration advocates for years; New York is behind at least seven states with state financial aid programs that are open to undocumented immigrants.\textsuperscript{32} Inclusion of the measure in the Executive Budget is a good sign; now the governor must also show real commitment to his proposal and build support for it in the legislature.

While the state is reviewing the Tuition Assistance Program, it should also take up a number of ways the program should be modernized, among them revamping the way the program treats part-time students, students who are financially independent of their parents, currently incarcerated students, and a number of other well-considered proposals being advocated by the Reform NY TAP Coalition.

\textsuperscript{32} National Immigration Law Center, https://www.nilc.org/eduaccessstoolkit2.html
Human Services and Health

There are many positive elements to the governor’s agenda to address poverty in New York. The governor acknowledges that high levels of poverty and growing inequality are holding back the state’s future economic growth. Funding for supportive housing for the homeless, increasing the eligibility level for Supplemental Nutrition Assistance Program benefits (SNAP, formerly known as Food Stamps), the poverty reduction initiative, and raising the minimum wage are steps in the right direction to addressing the problem of uneven growth.

The most important priority to put New York on a sensible budget footing in regard to needed human service investments is to raise or eliminate the two percent operating spending limit. Staying under the self-imposed two percent spending limit means continued chipping away at programs that should be expanded in order to help the poor get back on their feet and to make real headway in improving life chances for all New Yorkers.

Fig 17. Falling Funding for Social Welfare Agencies

PERCENT CHANGE IN STATE OPERATING FUNDS, INFLATION-ADJUSTED

Source: FPI Calculations of FY 2017 Executive Budget Financial Plan data.
Social Welfare Agency Funding is Cut

In total, the budget cuts state operating funds for social welfare programs in FY 2017 by 4.6 percent after adjusting for inflation. This comes on top of a 12 percent decrease since the governor took office in 2011, as can be seen in the figure on the previous page. In addition, these programs will almost necessarily be subject to additional budget cuts in future years if the governor sticks to his self-imposed two percent cap on spending increases. State operating fund support for social welfare agencies for FY 2017 would remain more than $500 million below FY 2011 levels in inflation-adjusted terms.

The Office of Housing and Community Renewal and the Office of Human Rights were especially hard hit between 2011 and 2016, with cuts of 41 percent and 31 percent in state operating funds after adjusting for inflation. A cut of over 13 percent was doled out to the Office of Children and Family Services, the agency responsible for administering child welfare services and child care assistance. These three agencies would face additional cuts in the current proposed budget. Other agencies are also slated for cuts. The proposed budget includes an inflation-adjusted cut to the Department of Labor of over twelve percent. Housing and Community Renewal would lose an additional three percent, the Office of Temporary and Disability of Assistance would lose two percent, and the Office of Human Rights would be cut by two percent, after inflation.

These cuts are proposed while need remains high in the state. For example, the number of recipients of SNAP has grown by almost two-thirds in the state since October 2007, with an increase of 84 percent outside of New York City.

Fig 18. The Number of Safety Net and SNAP Recipients Is Much Higher than in 2007, Despite a Decline in the Past Year

PERCENT CHANGE OCTOBER 2007 TO OCTOBER 2015

New York City | New York State | Rest of State
--- | --- | ---
Safety Net Assistance | +15.1% | +22.5% | +41.2%
SNAP (Food Stamps) | +51.8% | +61.9% | +83.6%

Source: NYS Office of Temporary and Disability Assistance Initiatives to Address Lack of Affordable Housing and

33 Includes the following agencies: Office of Children and Family Services, Division of Housing and Community Renewal, Division of Human Rights, Department of Labor, and Office of Temporary and Disability Assistance.
Homelessness Are Less than They Appear

Budget Includes Initiatives to Address Lack of Affordable Housing and Homelessness

The budget proposes a number of initiatives to combat the serious lack of affordable housing and growing homelessness that exists in New York. The homeless population in New York currently exceeds 80,000 people. The Executive Budget includes a major initiative to create 20,000 new units of supportive housing and shelter beds by 2020, and a plan to build 50,000 new units of affordable housing and preserve 50,000 existing units. However, the appropriations to support these two $10 billion capital programs are still unclear. The budget is committing $640 million in settlement funds towards the five-year plan. The budget maintains last year's funding levels for existing homelessness programs including the Solutions to End Homelessness Program, support for AIDS housing, and New York City rental assistance.

Paid Family Leave Program Proposed

The governor’s budget proposes a new paid family leave insurance program that would be funded by employee-paid withholding. Paid leave would allow parents time to bond with a new child, and for family members to care for ill relatives or to meet added responsibilities when a family member is absent due to military service. The 12-week benefit would start at 35 percent of a worker’s weekly salary in 2018 and increase to 50 percent in 2021.

It is encouraging that Governor Cuomo has put Paid Family Leave high on New York’s agenda for 2016. But the state needs to make sure that the bill passed this year creates a Paid Family Leave program from which all families will be able to benefit.

To be useful to all New Yorkers, a strong bill must contain five essential components:

- 12 weeks of leave to care for a new child or seriously ill family member;
- Job protection throughout the leave;
- Coverage for all private sector workers, no matter the size of the business;
- A wage replacement rate of 2/3 of a worker’s average weekly wage, which will ensure that low-wage workers are not prohibited from taking the leave; and,
- Modernizing the Temporary Disability Insurance program covering a worker's own illness or off-the-job disability, which has been frozen at the 1989 level of $170/week.

Child Care Funding Remains Flat When Child Development Needs are Urgent

Quality child care contributes to child development, child safety, and the state’s economic development, the latter by helping low-income parents participate in the workforce. Funding for childcare subsidies remains flat compared to FY 2016. (A reduction in General Fund support would be offset by an increase in federal appropriations for TANF child care subsidies.) Current funding only covers 22 percent of the eligible children (130,000 children). Flat funding addresses
neither the rise in the cost of child care in the state nor the increase in need. Only $10 million of
the $90 million needed has been added to support child care provider inspections required under
the federal Child Care and Development Block Grant Act.

New York should be doing much more to step up its investment in early childhood development.
There is an urgent need to increase funding to expand the number of child care subsidies, and to
reduce and equalize parent copayments, as well as to ensure that provider inspections and other
federal requirements are fully funded.34

Child development advocates state that at least $190 million additional is needed in the FY 2017
budget ($90 million for required provider inspections and $100 million to add subsidized child
care slots), but the state can reasonably sustain at least $300 million more annually to begin
making up for years of under-investment in child development. Also, subsidy levels and child
care contract funding should be increased to ensure that all pre-school and child care teachers and
support staff are adequately compensated, particularly if there is an increase in the statewide
minimum wage. The state’s refundable Child and Dependent Care Tax Credit should be modified
to increase benefits for households with incomes up to $80,000, such benefit increases will be
particularly needed as the minimum wage rises to $15 an hour.

Empire State Poverty Initiative Established

The governor’s budget includes a $25 million Empire State Poverty Initiative modeled after the
Rochester Anti-Poverty taskforce. A preliminary report by the Rochester Task Force identified
numerous barriers that keep people in poverty, including: lack of social and infrastructure
development in neighborhoods of concentrated poverty; inequality caused by structural and
institutional racism, or from racial, ethnic, social, or gender bias; lack of knowledge, skills, and
credentials to get or maintain a job; limited access to or eligibility for public and private supports,
services, and programs and insufficient community capacity for child care and transportation.

The expanded initiative would initially provide $500,000 planning and implementation grants to
10 cities—Syracuse, Binghamton Oneonta, Buffalo, Utica, Elmira, Jamestown, Oswego, Troy,
and Albany. The cities would also be eligible for state funding from a $20 million grant pool to
be used with matching private funding for anti-poverty programs. While well intentioned, this
initiative falls far short of the funding needed to begin to put a dent in the astronomical child
poverty rates that exist in these communities.

The $25 million in funding for this initiative comes from the pool of $2.3 billion in bank
settlement funds. Other proposed uses include a questionable plan to provide $340 million in
Thruway toll credits, and $170 million in Upstate Revitalization Initiative funding. It would be
preferable to redirect some of these funds to support innovative approaches that combine child
development investments, work and family supports, and greater economic opportunitie to

34 For a discussion needed statutory and regulatory changes in response to the federal Child Care Development Block
Grant of 2014, see Susan Antos, Empire Justice Center, New York State’s Draft Child Care Development Fund Plan,
alleviate the concentrated poverty plaguing the target cities. The need to repair and enhance our human infrastructure should be as high a priority as the need to invest in our physical infrastructure.

Fig. 19 Child Poverty Rates in Many Upstate Cities Top 35 percent and Two Top 50%

PERCENT OF CHILDREN LIVING BELOW THE FEDERAL POVERTY LINE

<table>
<thead>
<tr>
<th>City</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
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<td>United States</td>
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</tr>
<tr>
<td>Schenectady</td>
<td>25</td>
</tr>
<tr>
<td>Syracuse</td>
<td>30</td>
</tr>
<tr>
<td>Troy</td>
<td>30</td>
</tr>
<tr>
<td>Utica</td>
<td>30</td>
</tr>
<tr>
<td>White Plains</td>
<td>30</td>
</tr>
<tr>
<td>Yonkers</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: FPI analysis of American Community Survey 2010-2014 five-year data.

Other Human Service Programs Face Cuts or Minimal Increases

- The Executive Budget eliminates funding for 15 programs that were supported with OTDA-administered TANF initiative funds, totaling over $19 million in FY 2016. These include the Advanced Technology Training and Information Network (ATTAIN), the Emergency Homeless Program and Career Pathways.
• Funding for the Summer Youth Employment Program (SYEP) would increase by $1 million to account for the proposed increase in the state minimum wage. This level of funding may not be sufficient to serve the same number of youth as in previous years.

• The Youth Development and Delinquency program is flat funded at $14.1 million from current funding of $15.4 million.

• Funding for Hunger Prevention and Nutrition Assistance Program (HPNAP), would remain at the FY 2016 level of to $34.5 million.

• The budget provides $1.4 million for cost-of-living adjustments for non-profit human services providers to fund the 0.2 percent increase provided in statute. This increase along with the two percent increases provided over the last two years are overdue but are far from sufficient to offset five years of freezes.

**Medicaid**

The Executive Budget includes several Medicaid-related proposals that should be carefully considered for their impact on eligible individuals and their families. Key questions prompted by these proposals include:

• Changing the eligibility standard for Managed Long Term Care (MLTC) from needing 120 days or more of home-based and community-based services to needing a nursing home level of care: Do all local districts have the capacity to administer long-term care services to a greater number of individuals?

• Removing transportation as an MLTC benefit: Will beneficiaries be assisted in accessing transportation services?

• Adding six new children’s mental health services to the Medicaid benefit package: Is sufficient funding being provided to ensure that these services are fully realized for beneficiaries?

• Elimination of spousal/parental refusal: Given the likely adverse impact on spouses and families, how can this be justified given the insignificant savings involved?

• The Essential Plan (formerly the Basic Health Plan) is a huge step forward in making health insurance much more affordable: Why shouldn’t the state allocate the $10 million needed to extend this option to the small number of immigrants permanently residing under color of law (PRUCOL) who are excluded under federal rules?

The state has provided billions of dollars to the hospital industry in recent years to foster Medicaid systems transformation. Commensurate support is needed by community-based safety-net providers to allow them to participate in a transformed payment and delivery system.
Local Governments

Local governments in New York have come under tremendous pressure in recent years to cut expenses, with a real cost to the quality of life and economic well-being of communities around the state. Between 2009 and 2015, total local government employment outside of New York City fell by 58,000, a striking 8.6 percent decline that represents a reduction of what can be offered in local schools, parks, libraries and more.

For decades now, New York State has put local governments in a terrible bind. First the state systematically reduced its contribution to joint state/local expenditures, while it simultaneously reduced state Aid to Municipalities (AIM) funding, forcing localities either to increase property taxes or cut services. Then, in 2012, Governor Cuomo, with support from the legislature, further restricted the options of local governments by putting a cap on the amount they can raise property taxes. Since the cap is the lesser of inflation or two percent growth and inflation has been low this year, the property tax growth will be limited to virtually zero.

The state’s agreement to take over increases in Medicaid expenses was a positive step that helped to ease the pressure on local government to some degree, but it was not enough to offset the longstanding erosion of other forms of state aid to localities. Rather than recognizing the unreasonable fiscal strain localities face, and reversing it, New York State government has added to the burden of localities and restricted their options for dealing with it.

The unsurprising result is a decline in local services. The first full year the property tax cap was in effect was 2013. And, in just the short period from FY 2012 to FY 2014, county governments around the state cut services substantially. For example, in the 57 counties of New York outside of New York City, after adjusting for inflation county government spending in health care decreased by 15 percent, education (primarily community colleges, since school districts are separate entities) by 12 percent, and community services by 13 percent.35 City governments, again excluding New York City, were similarly down in most service categories. Social Services are down by 20 percent, culture and recreation down by 10 percent, and health down by 16 percent. Local officials across the state report that these cuts are too severe to maintain the services citizens expect.36

35 The county-level analysis excludes three extreme outliers in the data: Transportation spending in Nassau, Economic Development spending in Westchester, and Culture and Recreation spending in Erie. Education expenses here do not include school districts, and primarily reflect expenses for community colleges. City-level education expenses are thus excluded since community college is a county but not a city responsibility.
These data reflect only city- and county-level spending, but towns, villages, fire districts, libraries and, most notably, school districts, are similarly affected.37

**Fig 20. As the State Cuts Back, Cities and Counties Are Squeezed**

<table>
<thead>
<tr>
<th>ALL COUNTIES OUTSIDE OF NYC</th>
<th>ALL CITIES OUTSIDE OF NYC</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>General Government</td>
</tr>
<tr>
<td>Education</td>
<td>-12%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>-1%</td>
</tr>
<tr>
<td>Health</td>
<td>-15%</td>
</tr>
<tr>
<td>Transportation</td>
<td>+4%</td>
</tr>
<tr>
<td>Social Services</td>
<td>-1%</td>
</tr>
<tr>
<td>Economic Development</td>
<td>-24%</td>
</tr>
<tr>
<td>Culture and Recreation</td>
<td>-1%</td>
</tr>
<tr>
<td>Community Services</td>
<td>-13%</td>
</tr>
<tr>
<td>Utilities</td>
<td>-14%</td>
</tr>
<tr>
<td>Sanitation</td>
<td>-6%</td>
</tr>
<tr>
<td>Education*</td>
<td>+11%</td>
</tr>
<tr>
<td>Public Safety</td>
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</tr>
<tr>
<td>Health</td>
<td>+10%</td>
</tr>
<tr>
<td>Transportation</td>
<td>+6%</td>
</tr>
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<td>Social Services</td>
<td>+20%</td>
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<td>Economic Development</td>
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<td>Culture and Recreation</td>
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</tr>
<tr>
<td>Community Services</td>
<td>+18%</td>
</tr>
<tr>
<td>Utilities</td>
<td>+2%</td>
</tr>
<tr>
<td>Sanitation</td>
<td>0%</td>
</tr>
</tbody>
</table>

* See related footnote for further information.

Source: Fiscal Policy Institute analysis of Governor Cuomo’s FY 2017 Economic and Revenue Outlook.

Meantime, the need in many parts of the state is extremely serious. Metro areas in upstate New York stand out dramatically, for example, in a recent Century Foundation report. Looking at segregation and concentration of poverty in the 100 largest metropolitan areas of the United States, that report finds that Syracuse, Rochester, and Buffalo are among the ten metro areas with the most concentrated poverty for both black and Hispanic residents. Nearly two thirds of both African Americans and Latinos living in metro Syracuse live in high-poverty neighborhoods, more than in any other metro area of the United States. Metro Rochester ranks fourth in the country for African Americans living in high-poverty neighborhoods and sixth for Latinos; metro Buffalo is sixth for African Americans and ninth for Latinos.

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37 Expenditure data for local governments is available from the State Comptroller, https://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm
Fig 21. New York Needs to Address the High Concentration of Black and Latino Poverty in Upstate Metro Areas

10 METRO AREAS WITH HIGHEST CONCENTRATION OF POVERTY IN THE U.S.

<table>
<thead>
<tr>
<th>Percent of African Americans Living in High-Poverty Neighborhoods</th>
<th>Percent of Hispanics Living in High-Poverty Neighborhoods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Syracuse, NY 65.2</td>
<td>1. Syracuse, NY 62.2</td>
</tr>
<tr>
<td>2. Detroit, MI 57.6</td>
<td>2. Philadelphia, PA 54.0</td>
</tr>
<tr>
<td>3. Toledo, OH 54.5</td>
<td>3. McAllen, TX 51.8</td>
</tr>
<tr>
<td>4. Rochester, NY 51.5</td>
<td>4. Detroit, MI 51.1</td>
</tr>
<tr>
<td>5. Fresno, CA 51.4</td>
<td>5. Springfield, MA 49.3</td>
</tr>
<tr>
<td>7. Cleveland, OH 45.5</td>
<td>7. Milwaukee, WI 43.2</td>
</tr>
<tr>
<td>8. Gary, IN 45.2</td>
<td>8. Fresno, CA 43.0</td>
</tr>
<tr>
<td>9. Milwaukee, WI 44.8</td>
<td>9. Buffalo, NY 41.6</td>
</tr>
<tr>
<td>10. Louisville, KY 42.6</td>
<td>10. Cleveland, OH 36.9</td>
</tr>
</tbody>
</table>


Decreases in funding for general-purpose Aid to Municipalities only further exacerbates the difficulty localities have in addressing the challenges they face. AIM funding is flat in nominal terms, which means that it is down in inflation-adjusted terms by 13 percent from five years ago.

The commitment of the state to absorb increases in Medicaid spending starting in FY 2014 will save counties outside of New York City $204 million in FY 2017. A better approach would have been to provide Medicaid funding relief in a way that recognizes the differences in ability to pay at the local level, and to increase the amount provided. As it stands, the Medicaid spending is a positive development but not enough to offset the fiscal strain of other state actions.

Extraordinary Proposals for New York City

This year’s Executive Budget shocked many fiscal analysts in the way it unilaterally shifted, or seemed to shift, responsibility for hundreds of millions of dollars from the state ledger to New York City’s. As detailed in the Education section of this report, the Executive Budget cuts $485 million in state funding to CUNY. The Executive Budget also retracts the prior state commitment to hold localities harmless for increases in Medicaid expenses, making a unique exception for New York City, a move that is estimated might cost the city $656 million in the next two years, and more in subsequent years if the total Medicaid costs rise.
In the days after the Executive Budget was released, Governor Cuomo said of these proposals that “at the end of the day, what you’ll see is that it won’t cost New York City a penny.” It is difficult to see how these proposals could avoid either a dramatic increase in New York City budget responsibility or a drastic cut in CUNY and Medicaid services. Further detail from the governor’s office would be welcome.

Finally, in 2014, in connection with refinancing sales tax bonds New York City realized over $600 million in savings. The Executive Budget proposes to take those savings for the state treasury, planning to withhold it in $200 million installments over each of the next three fiscal years from the New York City portion of sales tax collections.

Reducing the High Burden New York State Places on Local Governments

These increasing fiscal pressures on New York’s local governments come on top of an already high burden that the state asks localities to carry. Local governments in New York State are carrying a portion of the shared state/local expenses that is nearly unparalleled in the rest of the country. Drawing on data from the governor’s own economic and revenue analysis, we see that the local share of combined state/local funding responsibilities is higher in New York than in any state but New Hampshire.

Governor Cuomo misleadingly suggests that local governments can solve their fiscal dilemma by finding very substantial efficiencies. He puts particular stock in the notion that consolidating government services could save enormous sums, and to this end puts an additional $20 million in bank settlement revenues toward promoting consolidation.

Source: FPI analysis of data from Office of the State Comptroller, Financial Data for Local Governments. Extreme outlier expenses are excluded.

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Across the state, numerous local government services are provided through sharing arrangements, but a recent Cornell University study found that lower costs were reported only about half the time.\textsuperscript{39} The academic literature on consolidation in the United States and internationally found mixed results on whether consolidation resulted in cost savings, concluding that “overall, the literature indicates that there is no compelling evidence for consolidation except as warranted on a case-by-case basis.”\textsuperscript{40} There are indeed instances where consolidation may be a way to reduce costs, and there are often other good arguments for consolidation, such as equity in services between different municipalities. But as a response to the fiscal strain the state has placed localities under, “consolidation” is hardly an adequate answer.

Many New Yorkers face an unmanageably high property tax burden. But, the property tax cap is the wrong solution to the problem. Increasing the state share of state/local responsibilities is the main way the problem should be addressed, matched with targeted relief through an improved property tax circuit breaker to those truly straining under a tax burden, since STAR and the new property tax rebate checks do not target property tax relief where it is needed most.

The property tax cap should be removed entirely. If, however, the property tax cap is not removed, it should at a minimum be amended.

Because of low inflation, the property tax cap will be 0.12 percent this coming year instead of two percent. This will result in the loss of hundreds of millions of dollars to school districts and local governments at a time when they are already stretched thin.

The property tax cap currently contains exclusions for a small portion of local pension costs, PILOTs, BOCES capital costs and settlement expenses arising from tort actions—although the exemption for PILOTS and BOCES capital costs have yet to be implemented. Several additional exclusions would make just as much sense. Among them: emergency expenditures resulting from damage to municipal infrastructure or equipment, expenses related to capital improvements for local governments, infrastructure investments intended to enhance the economic development capacity of a community (such as improvements related to municipal water, sewer, or transportation), and costs related to increased enrollment in schools (especially in high-needs urban school districts).

In addition, the property tax cap should be amended to allow for a simple majority override, as is the case with a similar cap in Massachusetts, in place of the current requirement of a 60 percent supermajority. This makes particular sense in the case of school districts, where the state should also not penalize districts if an override attempt fails.

\textsuperscript{39} G Homsy, B. Qian, Y. Wang and M. Warner, “Shared Services in New York State: A Reform that Works, Summary of Municipal Survey in NYS,” (Ithaca, NY, Shared Services Project, Department of City and Regional Planning, Cornell University, 2013).

\textsuperscript{40} Mark Holzer et al, “Literature Review and Analysis Related to Municipal Government Consolidation,” Rutgers School of Public Affairs and Administration, May 9, 2009.
A Shared Opportunity Agenda

The 2017 Executive Budget takes some very positive steps in acknowledging and addressing the needs of struggling working class families in New York State. Proposals to increase the minimum wage, provide paid family leave and address poverty and homelessness are all welcome additions to this year’s budget proposal. In particular, the governor has shown great leadership and vision in forcefully advocating for a first-in-the nation statewide $15 minimum wage. In many critical human infrastructure investment areas, however, rigid adherence to a two percent spending cap is blocking real progress. The following are a series of recommendations to bolster New York’s economy and to ensure more broadly shared prosperity.

Reduce Income Inequality
AID THOSE IN POVERTY AND BUILD THE MIDDLE CLASS

- **Increase the Minimum Wage**
  Adopt the governor’s proposal to enact a statewide $15 statewide minimum wage phased in over a period of years (reaching $15 in 2018 in NYC and 2021 in upstate). To ensure that all workers benefit, increase funding in human services contracts and change Medicaid reimbursement rates that apply to home health care, workers providing services for the developmentally disabled, and others. Medicaid and other public assistance savings and increased tax payments will help offset some of the budget costs. If the state minimum wage is increased to $15 an hour as proposed by the governor, the state should also index the higher minimum wage for inflation annually thereafter, and eliminate the separate and inferior treatment of tipped workers.

- **Increase the State Earned Income Tax Credit**
  The state EITC is currently set at 30 percent of the federal EITC; increasing it to 40 percent would help lift many hard-working families out of poverty. State EITC benefits should also be expanded to aid childless workers ages 20-24 and those 65-66, and to increase amounts for childless couples. Adopt the executive proposal to make permanent the Earned Income Tax Credit provisions that apply to non-custodial parents.

- **Enact Paid Family Leave Insurance**
  The governor’s proposal to provide 12 weeks of job-protected leave for all private sector workers is an excellent start. However, the wage replacement rate should be raised to 66 percent—the current proposal is that it start at 35 percent and rise to 50 percent, too low a
portion of a salary for low-wage workers to live on. Benefits under New York's TDI system are paltry and need to be adjusted.

- **Reform Unemployment Insurance**
  Correct shortcomings in how the state structures partial benefits, accelerate the phase-in for the maximum weekly benefit to equal 50 percent of the average weekly wage by 2020, and accelerate an increase in the taxable wage base to $15,000 by 2020.

- **Increase Funding for the Empire State Poverty Initiative**
  The governor’s budget includes a $25 million Empire State Poverty Initiative modeled after the Rochester Anti-Poverty taskforce. The program would initially provide $500,000 planning and implementation grants to ten cities with high poverty rates. The cities would also be eligible for state funding from a $20 million grant pool to be used with matching private funding for anti-poverty programs. While well intentioned, this initiative should be funded on a level more commensurate with the magnitude of the challenge of extraordinarily high child poverty and concentrated overall poverty.

- **Expand Investments in Early Childhood Development**
  Child development advocates state that at least $190 million is needed in the 2017 budget ($90 million for required provider inspections and $100 million to add subsidized child care slots), but the state can reasonably sustain at least $300 million more annually to begin making up for years of under-investment in child development. Also, subsidy levels and child care contract funding should be increased to ensure that all pre-school and child care teachers and support staff are adequately compensated, particularly if there is an increase in the statewide minimum wage. The state’s refundable Child and Dependent Care Tax Credit should be modified to increase benefits for households with incomes up to $80,000, in part to help families adjust to higher child care costs that may be associated with increasing the wage of child care workers to $15/hour.

- **Increase Funding for Universal Pre-Kindergarten**
  A $125 million investment in pre-Kindergarten would support access to approximately 12,500 more children and move the state forward on the goal of providing universal pre-K to all three- and four-year-olds. Early learning programs are a proven way to boost children’s learning skills and improve their future prospects. The Universal Pre-Kindergarten program for four-year-olds enacted last year continues in FY 2017, but with no increase in the state funding level of $340 million.
Restore Balance to the State/Local Fiscal Relationship

STRENGTHEN LOCAL GOVERNMENTS AND IMPROVE NEEDED SERVICES

- **Move Toward Having the State Carry a Fair Share of Joint State/Local Costs**
  
  Restore the state’s role as a reliable partner to local governments. Rather than assisting local governments, the state has put them in a position where they first had to choose between raising taxes and cutting local services, and more recently only have had the option to cut services and the false promise of huge savings through consolidation and other efficiencies.

- **Scrap the State Spending Cap**
  
  Eliminate the governor’s self-imposed two percent cap on state spending. State tax revenues, total wages, and personal income are projected to grow by four to five percent annually over the next four years. There is no reason to hold annual spending growth below two percent if it means that we are under-investing in education and poverty reduction. This unforced austerity has already caused the state to underinvest in several critical areas, and the continuation of the cap guarantees further harmful cuts to local governments, education and human service programs.

- **Eliminate or Amend the Property Tax Cap**
  
  The property tax cap is the wrong solution to the state/local tax problem, and it should be eliminated. Short of being eliminated, there are modifications that would at least minimize its damage to schools and local governments. The cap should be amended to allow for a simple majority override rather than requiring a 60 percent supermajority. The cap should also have exclusions for local expenditures for emergencies, capital improvements, infrastructure, and increased school enrollment.

- **Increase K-12 School Aid**
  
  Make a serious down payment on meeting the commitments of the Campaign for Fiscal Equity settlement by increasing aid by $2.6 billion and distributing it through the foundation formula to ensure funds are targeted to high-needs school districts with high child poverty rates.

- **Restructure and Expand the State Takeover of County Medicaid Costs**
  
  The state should build on the takeover of all county increases in Medicaid costs by starting to provide additional relief for low-wealth counties who bear a greater burden relative to their ability to sustain the local cost share. The legislature should simply reject the proposed elimination of the Medicaid cost increase takeover for New York City.

- **Increase Aid and Incentives to Municipalities (AIM)**
  
  Help fiscally stressed local governments, by increasing AIM aid. Funding has been flat for far too long; over the past 30 years AIM funding has eroded by 75 percent in inflation-adjusted dollars.
Invest in the State’s Economic Vitality
ECONOMIC GROWTH BUILT ON NEW YORK’S STRENGTHS

• **Reform and Curtail Business Tax Credit Programs**
  Reduce the amount of money ill-used in the name of economic development and redirect it to bolster economic growth. Tax credits have tripled to $1.8 billion in the past decade, yet they have a negligible impact on job creation. The governor’s own tax commission recommended curtailing the scattershot use of tax credits. These funds can be better used as investments in smart economic development.

• **Increase Aid to SUNY/CUNY**
  Build on the tremendous resource of SUNY and CUNY campuses around the state by putting them on a sound financial footing. Quality and affordability must be the twin goals of the system, the two cannot be pitted against each other. Tuition costs must be held down, while state investments in the system are increased. The governor vetoed a Maintenance of Effort Bill passed by the assembly and senate, saying that it should be taken up in the context of budget negotiations. The time for that is now. CUNY faculty and staff have been working without a contract for over six years; that situation must be resolved. The notion that New York City could simply take over a half-billion dollars in additional CUNY aid without further ado got justified headlines around the state; this must be reconsidered. The Tuition Assistance Payment (TAP) program should be modernized and expanded so that it provides targeted aid to students that need it the most by increasing the maximum award, raising income thresholds, and easing eligibility for part-time TAP. The amount the state pays per student at community colleges should be increased, as should the allocations to CUNY and SUNY 4-year campuses and the SUNY hospital system.

• **Enact the New York State DREAM Act**
  The state DREAM Act would allow “dreamers”— undocumented immigrants who came to New York as children—to apply for the state’s Tuition Assistance Program. The governor’s inclusion of this measure in the Executive Budget is welcome. Leading it through the legislature would send the message that New York is a state in which talent does not go to waste and signal that we are a state that welcomes immigrants. This is a very small cost to the state that will have a very high return on investment.

• **Expand Transitional and Public Service Jobs**
  Widen access to transitional employment to better assist welfare recipients and the unemployed while protecting against the displacement of existing public sector workers.
Make the State Tax System More Progressive
IMPROVE THE INCOME TAX, CLOSE LOOPHOLES, AND FIX “CORPORATE TAX REFORM”

- Adopt the 1% Plan for New York Tax Fairness

New York’s overall state and local tax system is regressive. The state personal income tax should be made more progressive to offset regressive property tax, sales tax, and other taxes that result in an overall regressive state tax system. New York should build on the current tax structure originally proposed by Governor Cuomo in December 2011, which is set to expire at the end of 2017, by increasing the number of brackets from eight to 12, and making the new structure permanent. The 1% plan retains the middle-class tax reductions introduced in 2011, and generally increases tax rates slightly for the richest 1 percent of New York's taxpayers (those with incomes over $665,000). This would raise income taxes for the top 1% by $2.2 billion, with 17 percent of that paid by out-of-state residents. If the “millionaires’ tax” is not extended, New York would suffer a net $2.7 billion revenue drop that would entail a $1 billion tax increase for moderate and middle income families while the richest 1 percent would get a $3.7 billion windfall.

- Do Not Pass the Misguided Education Tax Credit

This proposal is nothing more than a $150 million diversion of taxpayer resources to privately determined educational uses. It would provide an unprecedented 75 percent tax reduction relative to a contribution and has the potential to lessen charitable contributions for a range of worthy causes. There is no provision to avert a situation where wealthy donors, corporations, and financial partnerships would claim all or a lion’s share of the credits. These funds would be better invested in expanding the governor's positive proposal to expand the number of community schools, a proven way to give real opportunities to students in struggling schools.

- Fix “Corporate Tax Reform”

Changes should be made to improve the corporate tax reform that was enacted in 2014. The changes were meant to be revenue neutral, but in fact will end up costing well over $500 million annually. To make up for this lost revenue, the state should make permanent the 0.15 percent capital base alternative tax rate and raise the cap to $10 million, and should enact the investment tax credit reforms Governor Cuomo proposed in 2014.

- Fairly Tax Carried Interest

Authorize New York City to tax carried interest on the same footing as that of thousands of smaller businesses, and modify the state nonresident personal income tax to include New York income received from investment management services that is not now taxed.