FISCAL POLICY INSTITUTE ANALYSIS OF THE EXECUTIVE BUDGET

New York State
Economic and Fiscal Outlook
2017-2018

FPI

Fiscal Policy Institute

FPI

Fiscal Policy Institute

WWW.FISCALPOLICY.ORG

The Fiscal Policy Institute is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.

1 LEAR JET LANE, SUITE 1A | LATHAM, NY 12110 | 518 786 - 3156

11 PARK PLACE, SUITE 701 | NEW YORK, NY 10007 | 212 414 - 9001

Report design by ripnroy.com

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.

Additional information on state fiscal and economic issues and copies of the Fiscal Policy Institute's publications (including a PDF version of this briefing book) are available online at www.fiscalpolicy.org.

February 7, 2017

TABLE OF CONTENTS

Executive Summary

Troubling Times

This year's New York State budget negotiations take shape against a worrisome backdrop. The president and congress are threatening to dismantle the Affordable Care Act, make drastic cuts to programs that help millions of New Yorkers, and create a hostile environment for the states four million immigrants. The state has an important role to play to help make life better for all New Yorkers—perhaps, as the Simon and Garfunkel song had it, acting as a bridge over troubled water.

We don't know what lies on the horizon in terms of cuts to federal programs, but we do know that things are going to change, and likely not for the better. The policy ideas advanced by Washington thus far do not bode well for New York State. One-third, or $54 billion, of New York State's FY 2018 All Funds Budget is comprised of federal funds. Local governments get another $16 billion. The potential for substantial cuts in domestic spending poses gargantuan challenges for the state budget and budgets of local government entities throughout the state.

Millionaires' Tax Extension

To put the state on sounder footing, the Executive Budget proposes extending the millionaires' tax. This is a fiscally responsible budget choice that eliminates the projected FY 2018 budget shortfall, allows for funding of important new initiatives, and provides fiscal breathing room in the out-years. Extending the tax provides roughly $4 billion annually in additional revenues at a time when the state faces both uncertainty regarding federal funding and tremendous unmet need.

The assembly and the senate should build on the governor's proposed extension of the millionaires' tax by increasing the number of tax brackets and making the new structure permanent (the millionaires' tax is scheduled to expire at the end of 2017). The Fiscal Policy Institute has proposed a plan similar to the plan advanced recently by the assembly. FPI's plan would retain the phased-in middle class tax rates enacted last year and increase tax rates slightly for the wealthiest 1% of New York's taxpayers, generating roughly the same amount of revenue as the assembly's plan. Either plan would be a positive step in addressing our worst-in-the-nation income inequality.

Another Initiative Called Excelsior

The governor's "shining star" in this year's proposed budget is what he calls a "free college tuition" plan for full-time SUNY and CUNY students. This is a misleading term for what is nevertheless a good idea: making college more affordable for students whose family income is above the threshold for current financial aid. The governor anticipates the Excelsior Scholarship Program to close the tuition gap for families of SUNY and CUNY students making up to $125,000 per year. When fully phased in, by 2021, the governor pegs the annual price tag for the Excelsior Scholarships at a modest $163 million, though there is a good deal of doubt about whether that level of funding would be sufficient. The Excelsior Scholarships would do little to help make college more affordable for lower-income students who already get help to cover tuition costs but struggle to pay for books and other expenses; nor would it help the many people who fall through the cracks of the current tuition assistance program, from part-time students to those with children and families to students who are taking classes while incarcerated. Just as important, it would do nothing to maintain and improve quality at SUNY and CUNY, which have been starved of funds for years. It would, in fact, expose the systems to greater costs.

Two Percent Spending Cap

The governor often touts his two percent spending cap as the core feature of his approach to fiscal responsibility. However, the budget's selective adherence to the two percent cap has been causing real harm to many critical human infrastructure investment areas and to certain state operations. Increasingly, in recent years, budget actions are taken to reclassify expenditures or to shift funding to revenue sources for no reason other than to move the expenditures outside of areas covered by the spending cap. But for spending not favored, the cap is rigidly enforced.

This is unforced austerity budgeting. There is no need to keep spending under such a low cap at a time when the state's economy is expanding. And, selective enforcement of the spending cap creates unnecessary budgetary work to shift spending to different funding categories, while resulting in a harsh impact on many state services and on New York's children, families, and communities who bear the brunt of the cuts. 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. What we end up with is deteriorating services, state and local job cuts and an inadequate public response to hardships afflicting many families.

School Aid at a Glance

Similar to last year, there is a nearly $1 billion increase in school aid in the budget, including an additional $428 million in Foundation Aid (approximately a 2.6% increase). This allocation is still not nearly enough to guarantee adequate resources for all students, especially the most vulnerable. Once again, additional state support remains critical, as the property tax cap will allow very limited growth in schools' primary local revenue source. In reality, the state's added investment in Pre-K to 12 education should be doubled.

Amidst the more attention-grabbing proposals, Governor Cuomo has proposed changes that would eliminate the Foundation Aid formula. This is a radical and shocking proposal. Foundation Aid is a formula designed to meet the state's constitutionally mandated obligation to provide a sound basic education to all students. Eliminating the Foundation Aid formula would mean a multi-billion-dollar debt would be wiped from the books and the spending gap per pupil between poor and wealthy schools in New York would likely grow larger.

What's *Not* New in Local Governments

Local governments in New York have been caught in a vice. Reduced state aid has added fiscal pressure from one side, while a state-imposed two percent local property tax cap has meant that even if they want to, localities do not have the capacity to increase revenues. Add to that, economic development policies that force localities to forgo tax revenues, and the localities are faced with little choice but to cut school funding and reduce other services. This year's Executive Budget once again holds Aid and Incentives for Municipalities (AIM) funding flat at $715 million, the same level it has been for the previous eight years. Astonishingly, payment of this meager amount of aid would become contingent upon the enactment of a new Countywide Shared Services Property Tax Savings Plan Initiative.

Social Welfare, Human Services, and the Executive Budget

Given New York's very high child poverty rates—astronomical in some areas—and its record levels of homelessness and hunger, it would make sense to invest more in fighting poverty. Unfortunately, due to the Executive Budget's continued adherence to the two percent state spending cap, state operating fund support for social welfare agencies for FY 2018 remains almost $900 million below FY 2011 levels. This represents a 21 percent decrease since the governor took office in 2011 (after adjusting for inflation). While the Office of Temporary Disability Assistance (OTDA) has a four percent increase in the governor's budget over FY 2017 after adjusting for inflation, other human service agencies and programs are slated for cuts.

The FY 2017 Executive Budget proposed several multi-year initiatives to combat the serious lack of affordable housing and growing number of people experiencing homelessness in New York State. The initiative committed $20 billion over five years to create and preserve 94,000 units of affordable housing. To advance the initiative, the New York State Assembly, Senate, Governor Cuomo and the Executive Office need to execute a memorandum of understanding (MOU) to release $2 billion in funding.

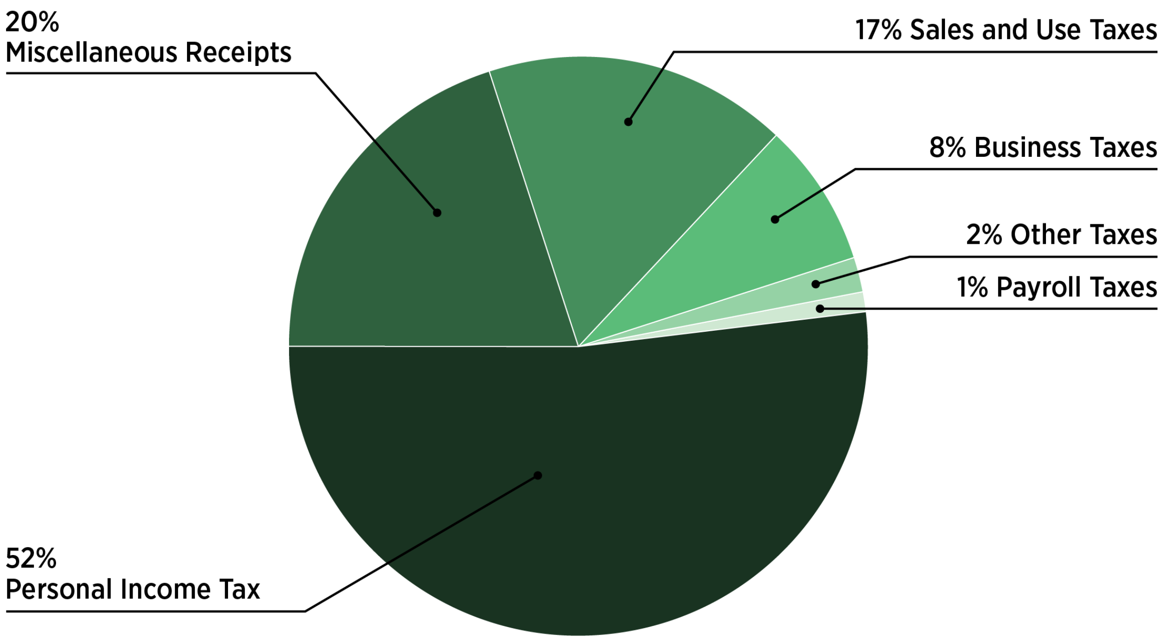
Immigration

Governor Cuomo can be a powerful speaker on immigration issues, and has stood up to some of the early onslaughts of the Trump administration against immigrants and refugees. He has also proposed some very positive ideas in recent speeches. The Executive Budget doesn't include as much as it should, though, to make these ideas a reality. The governor talked about a first-in-nation State-Led Private-Public Legal Defense Program, but the Executive Budget does not provide any funding to make this a reality. Refugee resettlement agencies are under attack; the state could help them get through a very tough period while at the same time helping shore up the economies of upstate cities. And, the long-awaited New York State DREAM Act should finally become a reality. The cost is minimal, and the return on investment is enormous. It has been the object of unseemly political gamesmanship in the past. This year the governor and the legislature should make it a priority to get it passed.

In this very worrisome political season, the state government can choose to make life better for New Yorkers or to let them be overwhelmed by the troubled waters flowing from the federal government. The state should provide the bridge to a better future.

NEW YORK STATE 2018 EXECUTIVE BUDGET
STATE OPERATING BUDGET – $97.5 BILLION

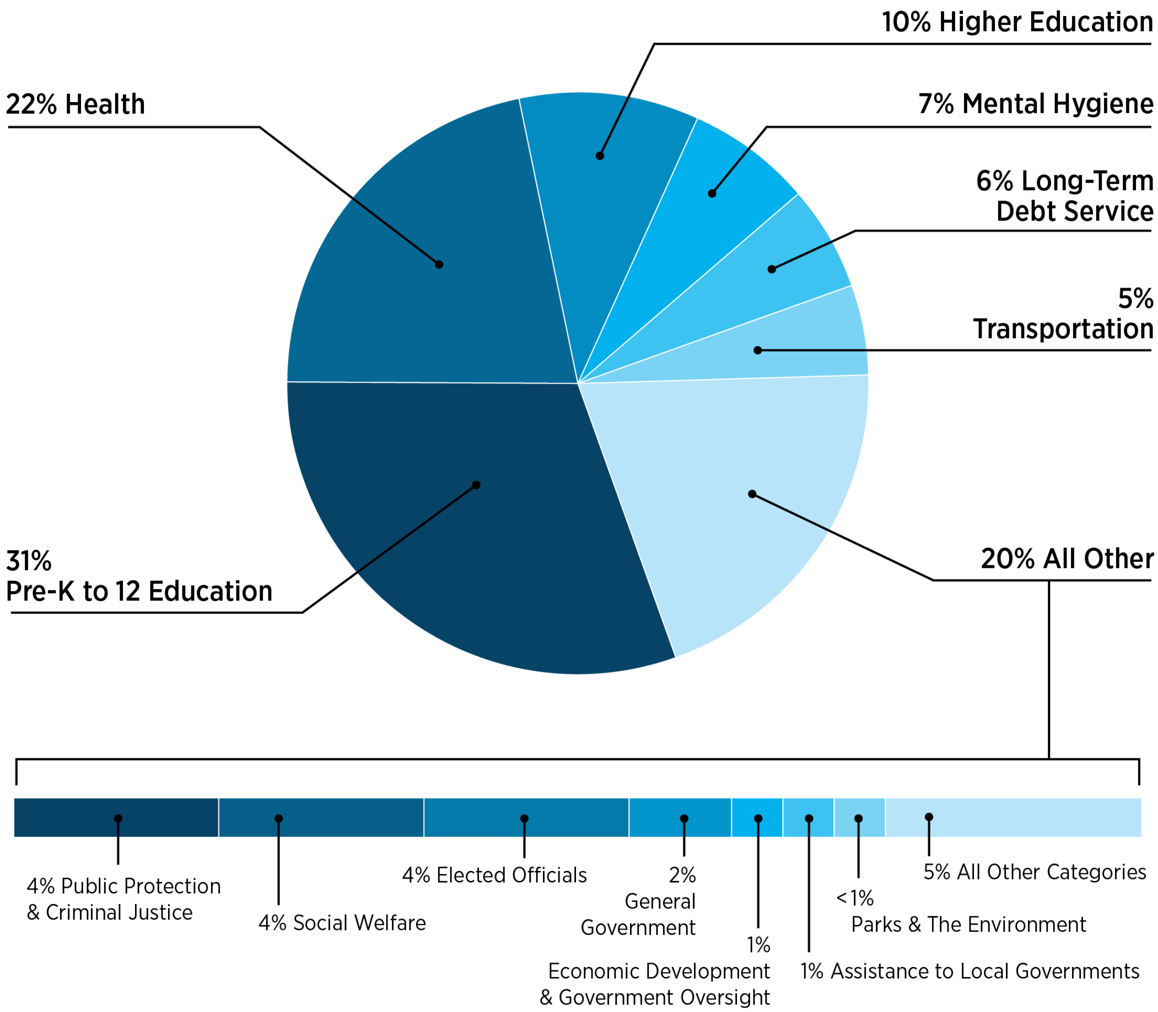
Revenues



Note: Components may not sum to total due to rounding. The State Operating Budget is one component of the All Funds Governmental Budget. Revenue in the All Funds Budget also includes $52.1 billion in federal receipts for operating funds, and $10.6 billion in capital funds ($8.5 billion in state funds and $2.1 billion in federal funds).

NEW YORK STATE 2018 EXECUTIVE BUDGET
STATE OPERATING BUDGET – $98.1 BILLION

Expenditures



Note: Components may not sum to total due to rounding.

The Fiscally Responsible Choice to Extend the Millionaires' Tax

Governor Cuomo's decision to extend the millionaires' tax is the fiscally responsible budget choice, eliminating the projected FY 2018 budget shortfall, funding important new initiatives and providing fiscal breathing room in the out-years. The legislature should follow the governor's lead. In the last few years, New York State has not counted on the extension of the millionaires' tax past calendar year 2017 in its four-year financial plans. Extending the tax provides about $4 billion annually in additional revenues at a time when the state faces considerable uncertainty regarding federal funds. It's important to note that federal funds account for one-third of the state's All Funds Budget, and as a new administration assumes office—along with an emboldened majority in the House of Representatives seeming particularly set on draconian budget cuts—this funding stream becomes critical to our state's financial well-being.

The governor's signature new budget initiative is his proposal for Excelsior Scholarships to close the gap in paying for tuition for SUNY and CUNY students of families making up to $125,000 per year. When fully phased in, the annual price tag for the tuition-free public university aid program is $163 million, though few details were provided in the first few weeks following the initial announcement.

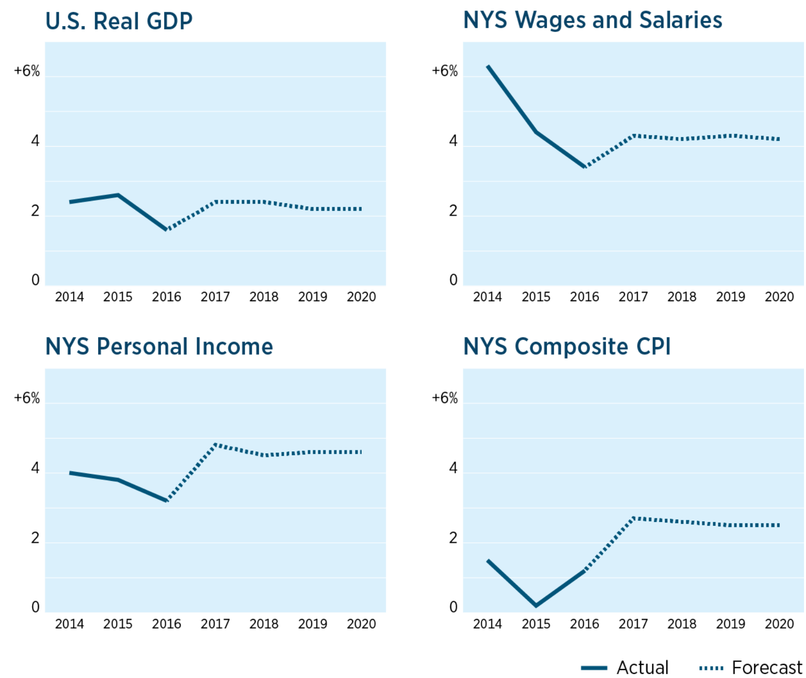
The governor also pledged resources rising to about $200 million a year to "raise the age" of juvenile jurisdiction from age 16 to 18. In another long-sought criminal justice reform, the governor proposed to have the state fund the entire cost of providing effective criminal defense to individuals who cannot otherwise afford counsel. This promise must, however, be matched with funding to make it a reality.

The Executive Budget proposal includes an enhancement to the child and dependent care tax credit for middle-income families, and again includes the DREAM Act that would extend student financial assistance to undocumented immigrant college students in New York State.

Since the FY 2017 budget was enacted last spring, general fund tax collections have weakened by nearly $1.6 billion, entirely related to the personal income tax (there were slight increases in other tax revenues). Roughly half of the tax shortfall was offset by additional monetary settlements generated by enforcement actions against financial institutions.

The Division of the Budget's forecast calls for the pace of national economic growth to pick up in the year ahead, with GDP growing 2.4 percent in 2017 and 2018 (considerably higher than the 1.6 percent growth rate for 2016). Even with New York's job growth expected to slow slightly over the next four years, the pace of total New York wage and personal income growth is predicted to be faster compared to 2016.

Fig 1. While the Economy Slowed Slightly in FY 2016, the Forecast is for Better Economic, Wage, and Income Growth In Out-Years



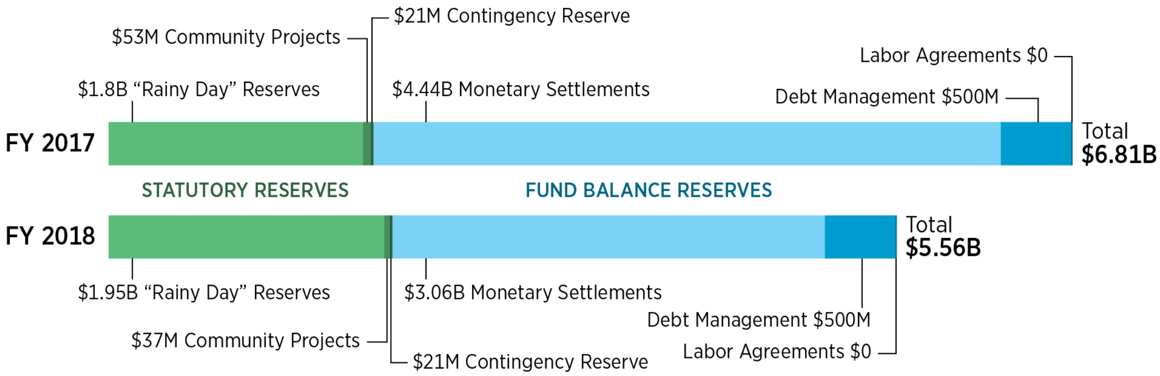
Source: NYS Division of the Budget, FY 2018 Executive Budget Economic and Revenue Outlook, p.125; DOB composite CPI January 2017.

Overall, the Executive Budget projects a sharp rebound in tax collections, with growth of 5.6 percent (All Funds taxes) in FY 2018 and 4.1 percent in 2019. As discussed in a later chapter, the extension of the millionaires' tax is necessary to offset the rising impact of tax cuts enacted in recent years.

The state should end FY 2017 with a substantial $6.8 billion balance in its General Fund. While statutory reserves—mainly in two "rainy day" reserve funds—are not high relative to the state's operating budget, the state plans to keep several billion dollars out of the $9.4 billion received in monetary settlements in recent years in its General Fund for 2018 and beyond. The state plans to spend most of the settlement proceeds on various infrastructure projects, but could redirect those funds to other purposes should the budget need arise.

The amount of settlement cash in the General Fund falls from $4.4 billion at year-end FY 2017 to $3.1 billion at year-end FY 2018 (see the chart that follows) as a result of shifting those funds to something called the Dedicated Infrastructure Investment Fund. The 2015 legislation establishing that fund allows for the transfer of settlement monies back to the General Fund, should the economy and revenue collections weaken significantly. This sound budget management approach to reserves is one of the reasons the state is enjoying it highest credit ratings in more than four decades.

Fig 2. General Fund Balances Bolstered with Bank Settlements



Source: FY 2018 Executive Budget Financial Plan, p. 26.

The governor often touts his two percent spending cap as the core feature of his approach to fiscal responsibility. However, the budget's selective adherence to the two percent cap has been causing real harm to many critical human infrastructure investment areas and to certain state operations. Increasingly in recent years, budget actions are taken to reclassify expenditures or to shift funding to revenue sources outside of funding sources covered by the spending cap. By way of illustration, in the Executive Budget proposal, funding for 3,000 state agency maintenance workers is shifted to the capital budget (which is not included in the two percent spending cap); and $125 million in FY 2018, as well as $400 million thereafter in tobacco settlement funding, is used to pay for part of the state takeover of local Medicaid costs, freeing up state Medicaid spending now subject to the cap.

Such budget maneuvers likely would not be made were it not for the search for more spending room under the artificial cap. In his report on the enacted FY 2017 budget, the state comptroller noted that if spending from state operating funds were adjusted for prepayments and the use of various budget management actions, spending growth would be more than 3.6 percent rather than the claimed two percent.[1] However, when it suits the governor's purposes, the inflexibility of the two percent spending cap is invoked to restrict other spending.

Since he came into office six years ago, Governor Andrew Cuomo has sought to tightly limit the growth in state spending to less than the broader growth in the state's economy and taxes, and to rigidly limit local property taxes and spending by local school districts, counties, towns, and villages, regardless of need.[2] 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.[3] But, recent growth in state spending

[1] New York State Comptroller Thomas P. DiNapoli, Report on the State Fiscal Year 2017-17 Enacted Budget Financial Plan and Capital program and Financing Plan, July 2016, pp. 12-14.

[2] A better way to relieve high local property tax burdens is to enhance the state's property tax circuit breaker in the personal income tax.

[3] 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 (continued)

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 declined in inflation-adjusted terms, which in turn heightens the fiscal pressure on localities that face a tight limit on property taxes.

This unforced austerity budgeting and the selective enforcement of the spending cap is having a harsh impact on many state services and 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. Some examples:

- State spending for social welfare programs fell by 18 percent in inflation-adjusted terms from FY 2011 to FY 2017. At the same time, despite several years of recovery, family hardships are still elevated. While there has been some reduction over the past two years, the number of people receiving aid from the Supplemental Nutrition Assistance Program (food stamps) is still 76 percent greater than in late 2007 (outside of New York City) before the recession. Meanwhile, the number of people receiving safety net assistance, which is mainly funded by local governments, is nearly one-third greater than before the recession.
- The Board of Regents reports that, while state-funded school aid allocated according to the Foundation Aid formula has risen during the past three years—even with a further increase proposed in the Executive Budget—there is still a $3.9 billion shortfall compared to what it should be based on the state's 2007 response to the court ruling in the Campaign for Fiscal Equity case.
- The squeeze on state agency budgets has resulted in the loss of more than 10,000 state workers (over 8 percent of the non-SUNY/CUNY workforce) since 2011. In some agencies, such as OPWDD and OMH, steep staffing reductions have forced up the use of overtime to alarming levels, jeopardizing the well-being of workers as well as that of clients under their care.
- The combined effects of declining general purpose state aid and the restrictive local property tax cap have dramatically constrained the ability of local governments to continue providing quality public services. According to the state comptroller's data on expenditures by the 57 counties outside of New York City, inflation-adjusted county spending on community colleges fell by 10 percent in the first three years after the imposition of the property tax cap (FY 12-15.) Over the same period, county spending on senior services dropped by 12 percent, mental health services spending fell by 15 percent, and county social service spending for youth plummeted by 30 percent.

Not surprisingly, state budget austerity has led to a steep decline in local government employment in recent years. From 2009 to 2015, New York local governments outside of New York City cut jobs for personnel such as teachers, police officers, social workers and parks workers, by 56,800, or 8.4 percent, which is one of the sharpest declines among all states over this period. Local school

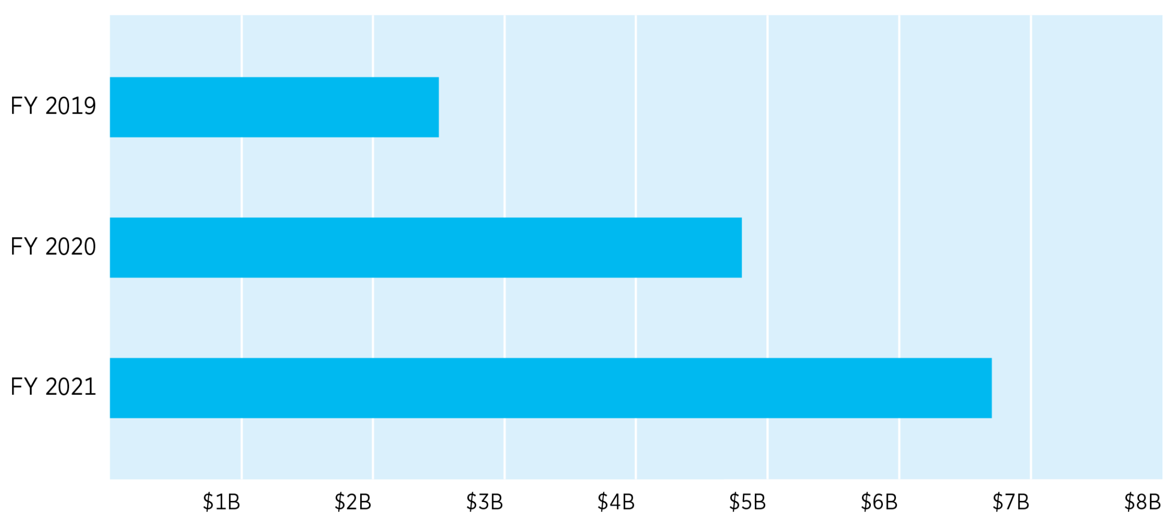
(continued) and local taxes outside of New York City relative to personal income were at about the same level in 2012 as in 1995. Only New York City had an increase in taxes relative to personal income between 1995 and 2012. (See Fiscal Policy Institute, New York City Taxes—Trends, Impact and Priorities for Reform, January 13, 2015, p. 27.).

district employment fell by 8 percent, and all other local government employment dropped by 9 percent.[4] Besides a reduction in public services, public sector job losses have 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, the state's budget austerity has accounted for much of the erosion occurring in middle-class jobs.

Even with the extension of the millionaires' tax, continued adherence to a two percent spending cap means that unforced austerity will continue, and worsen, since the outlook is for inflation to increase. For the past three years, the rate of inflation averaged one percent per year. For 2017, the Budget Division forecasts inflation of 2.7 percent, and projects a 2.6 percent rate in 2018 and 2.5 percent during the following two years. Thus, with school aid and Medicaid growing at about four percent per year or more, the Executive Budget is proposing real overall inflation-adjusted spending declines for the next three fiscal years. In some areas, the real cuts are likely to be much greater.

The mechanics of continued adherence to the two percent spending cap will trigger human services and agency-heavy cuts of $14 billion during the three out-years: $2.5 billion in FY 2019, $4.8 billion in FY 2020 and $6.7 billion in FY 2021. These prospective cuts have not yet been detailed.

Fig 3. Spending Cuts in Local Assistance and State Agencies that Will be Needed to Stay Within the Governor's 2% Spending Limit



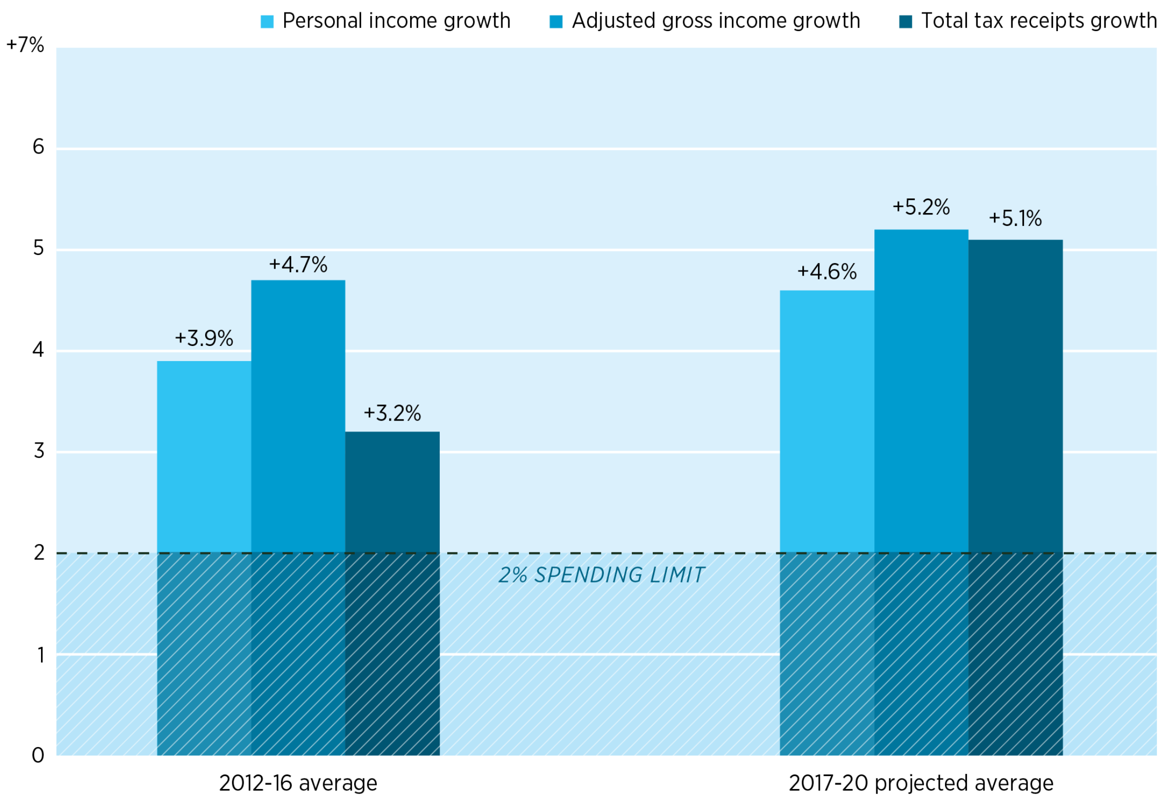
Source: FY 2018 Executive Budget Financial Plan, Jan. 2017.

Unforced austerity built into future budgets means the state will not make up for several years of harmful reductions, nor will it address a host of critical human needs that have mounted in the wake of the Great Recession (and relatively weak recovery). As the figure below illustrates, New York clearly has the overall income and tax receipt wherewithal to do better. By various measures, the state's tax capacity has exceeded two percent over the past few years, and is projected to grow even

[4] Fiscal Policy Institute analysis of NYS Department of Labor current employment statistics data. State government employment fell by 10.5 percent in New York City, and by 2.9 percent in the rest of the state.

more in 2017 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 4.6 to 5.2 percent annually this year and for the next three years. New York's total tax receipts, even with the many tax cuts already enacted, are projected to grow by 5.1 percent annually—two-and-a-half times the two percent spending limit. Each one percentage point growth in New York's tax receipts translates into $800 million a year.

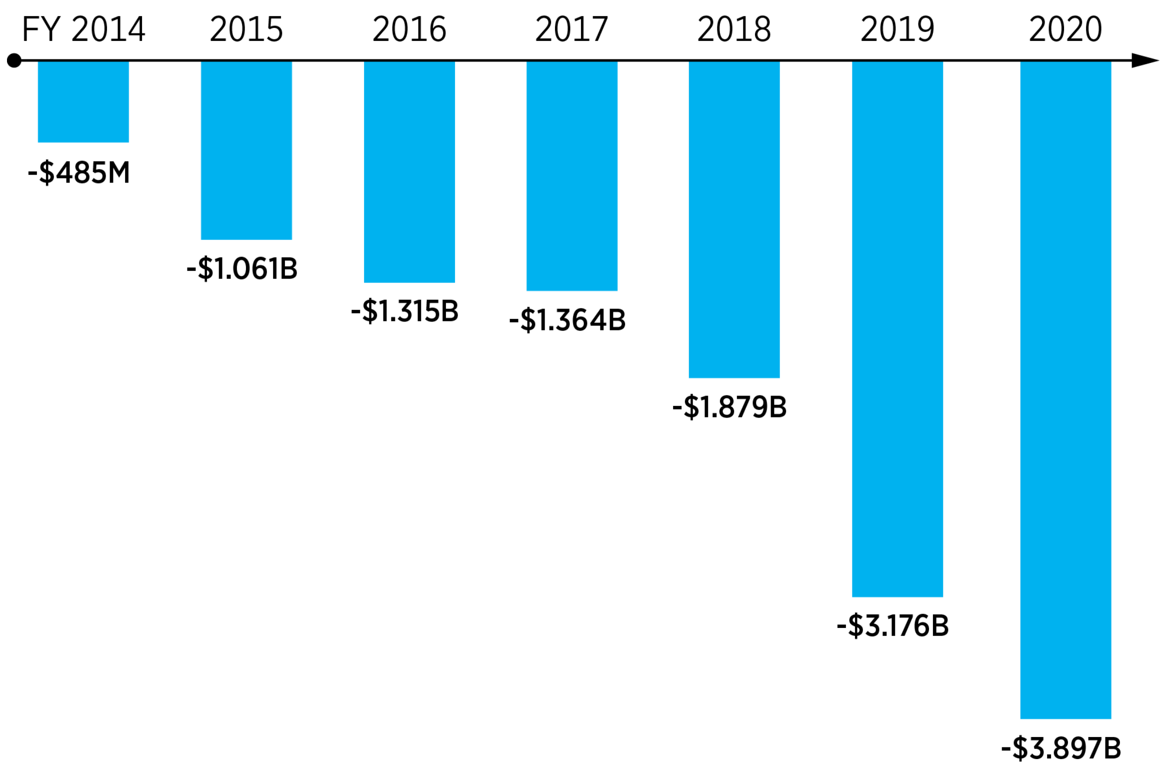
Fig 4. NY's Economic Ability to Pay Well Exceeds the Governor's 2% State Spending Limit



Source: Bureau of Economic Analysis; NYS Division of the Budget, FY 2018 Economic and Revenue Outlook. Personal income data for calendar years, AGI for tax years, and tax receipts for subsequent fiscal years.

One of the major reasons that the extension of the millionaires' tax is needed is to make up for the various tax cuts enacted over the past four years. As the chart below indicates, tax cuts enacted with the FY 2014-2017 budgets translate into $3.9 billion in lower tax receipts in FY 2020. That is close to the amount of revenue that will result in FY 2020 from the millionaires' tax extension. The steady growth in the cost of the cumulative tax cuts starting in FY 2018 is due to the multi-year middle class income tax cuts enacted last year. These cuts rise in value from $236 million in the coming fiscal year, to $1.1 billion in FY 2019, and $1.5 billion in FY 2020. When fully phased in FY 2025, the middle class tax cuts reduce state tax receipts by an estimated $4.2 billion.

Fig 5. NYS tax cuts in the last four years, FY 2013-FY 2016, and the resulting loss in state tax receipts



Source: FPI analysis of NYS Division of Budget and Office of State Comptroller enacted budget reports.

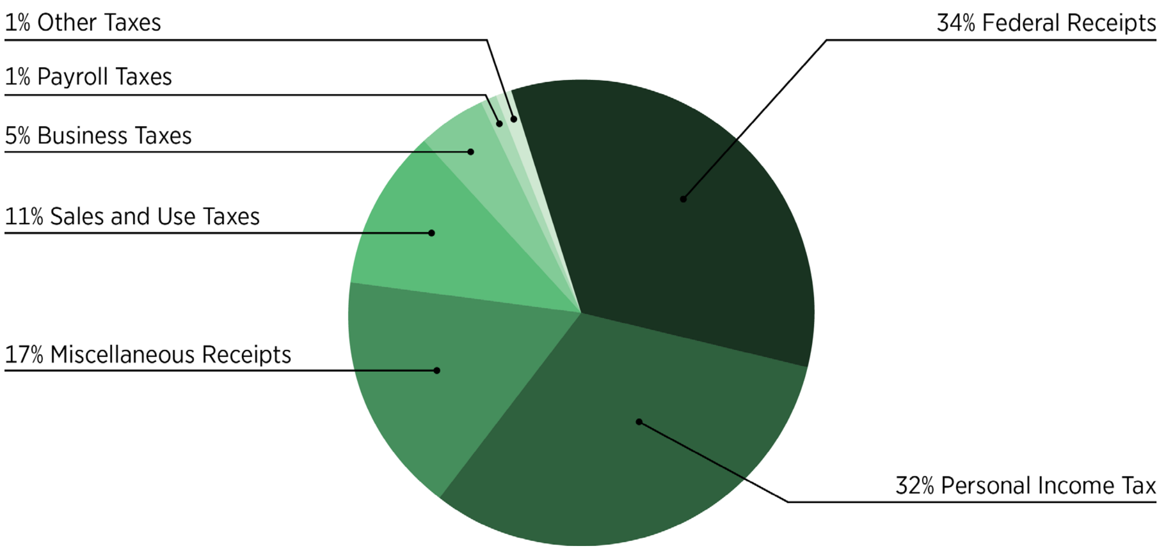
Given that high-income taxpayers are benefitting from some of the more prominent tax cuts in recent years, such as the estate tax changes, the corporate tax rate reduction, and the sales tax breaks for yachts and private jets, it is entirely fitting that the millionaires' tax be extended to help offset the myriad enacted tax cuts.

The Importance of Federal Funding in NYS

One-third, or $54.3 billion, of New York State's FY 2018 All Funds Budget is comprised of federal funds. Under President Donald J. Trump, and with a newly-empowered, Republican-dominated Congress taking control of the federal budget, the potential for substantial cuts in domestic spending poses gargantuan challenges for the New York State budget and the budgets of local government entities throughout the state (as in other states and localities around the country).

Fig 6. Revenue: 2018 Executive All Funds Budget

TOTALS $160.4 BILLION



Source: FY 2018 Executive Budget Financial Plan, Jan. 2017.

As the chart indicates, federal funds account for 34 percent of receipts in the state's All Funds Budget, representing a larger share than even total personal income tax revenues.

Nearly $34 billion in federal Medicaid dollars represent, by far, the biggest share of the $54 billion in total federal aid received by the state. New York is scheduled to receive an additional $3.7 billion in the coming fiscal year as the federal share of the state's Essential Plan, which provides health insurance to low- and moderate-income households not qualifying for Medicaid. New York is also scheduled to receive $3.7 billion under the TANF block grant to cover public assistance, child care and other vital services for children and other low-income New Yorkers. The areas of school aid, public health, and capital projects (mainly transportation-related), each account for over $2 billion in federal funding. Slightly over one billion dollars goes to homeland security law enforcement, and children's services areas.

The chart on the following page shows that all New Yorkers benefit in one way or another from the broad range of programmatic areas in which the state receives federal categorical funds. The chart shows only funds that flow through the state budget, however, and does not include the billions of federal dollars that flow directly to New Yorkers for Social Security, Supplemental Nutritional Assistance, or federal pensions.

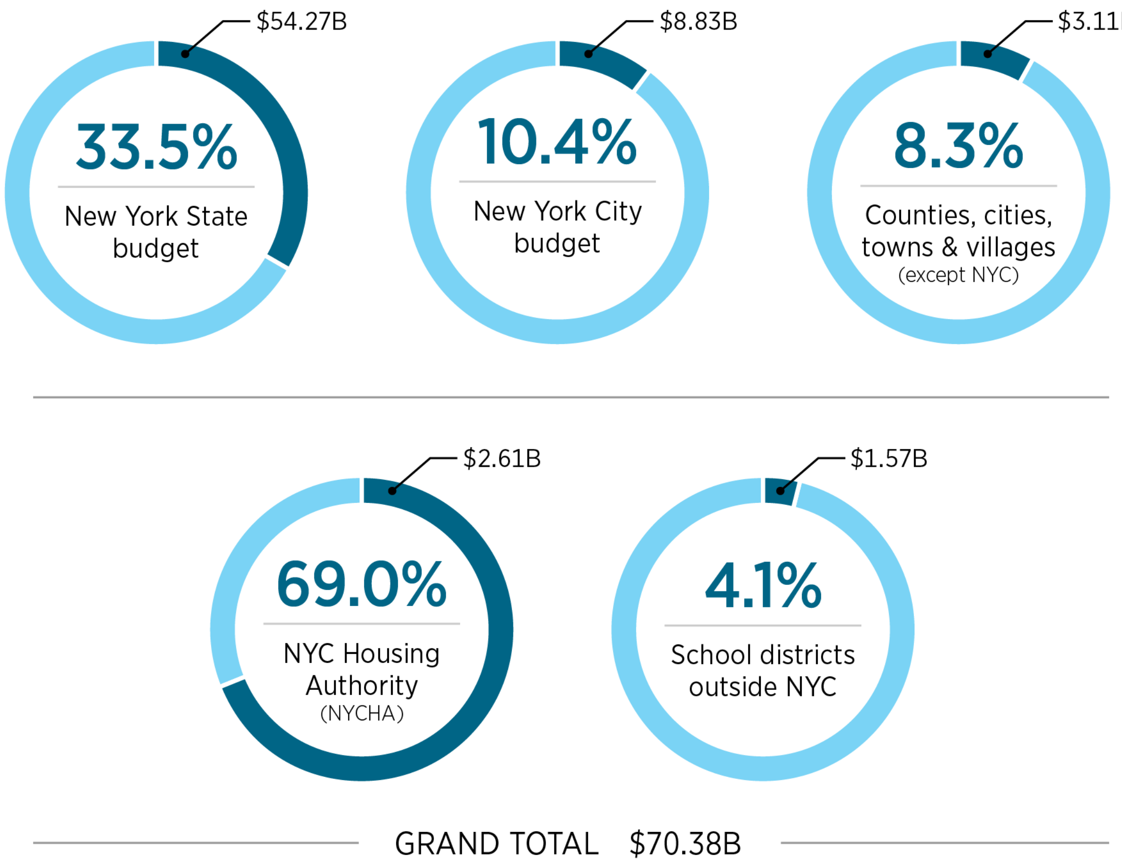
Fig 7. The Importance of Federal Funding in the NYS Budget

PROGRAM	FEDERAL $	MAIN BENEFICIARIES AMONG NEW YORKERS
Medicaid	**$33.56B**	6.2 million New Yorkers: low-income households, low-wage workers, the elderly, the disabled and patients with high-cost chronic conditions
Essential Plan	**$3.75B**	620,000 covered: low- and moderate income households that don't qualify for Medicaid or Child Health Plus
Temporary & Disability Assistance	**$3.65B**	Children, low-income households and persons with disabilities
K-12 School Aid	**$2.72B**	All children
Public Health	**$2.32B**	Everyone
Capital projects (largely transportation) & debt service	**$2.16B**	Businesses and everyone
Homeland Security & related	**$1.13B**	Businesses and everyone
Children's Services	**$1.01B**	At-risk children
Special education programs	**$830M**	Special needs children
Unemployment Insurance program administration and workforce training	**$507M**	Businesses and workers
Higher education	**$335M**	College students from low- and middle-income families
Other educational programs	**$272M**	Children
Mental Hygiene (incl. alcoholism & substance abuse)	**$177M**	People with alcohol abuse, substance abuse and mental health issues
Senior Services	**$115M**	The elderly
Transportation	**$92M**	Businesses and everyone
Housing	**$63M**	Communities
Environmental Conservation	**$56M**	Everyone
Law Department	**$40M**	Businesses, consumers and workers
Fund transfers and all other programs	**$1.41B**	
Total Federal Funds, FY 2018	**$54.23B**	

Source: NYS Division of the Budget, FY 2018 Executive Budget Financial Plan.

New York City and other local governments are also highly dependent on federal aid. The chart on the following page shows that New York City, the NYC Housing Authority (NYCHA), school districts, and local general purpose governments receive a total of roughly $16 billion annually in federal funds. Of the nearly $9 billion in federal aid going to New York City, social welfare purposes account for the largest share, followed by education and housing. Over two-thirds of NYCHA's budget comes from federal housing funds. Federal aid received by local governments around the state mainly goes to social welfare, public health and transportation programs. While federal aid represents six percent of local government revenues, state aid accounts for 23 percent of local revenue; so, local governments would certainly be affected if significant federal budget cuts severely constrain the state's financial picture and its ability to provide local assistance.

Fig 8. NYS and Local Governments Receive About $70 billion Annually in Federal Funding



Source: FY 2018 NYS Executive Budget, Preliminary FY 2018 NYC Budget, State Comptroller Local Finance data, NYC Housing Authority.

As a contingency measure, should there be significant federal aid reductions, the Executive Budget includes the following language with all appropriation bills:

> "In the event that receipts, including but not limited to receipts from the federal government, are less than the amounts assumed in the 2017-2018 financial plan, as determined by the director of the budget, the amount available for payment under this appropriation may be reduced by the director of the budget in accordance with a written allocation plan promulgated by the director of the budget to offset that loss in receipts."

This unprecedented budget language is sweeping and essentially allows the Executive to, as the Senate budget report states: "rewrite the Enacted Budget without approval of the Legislature."[5]

The biggest immediate risk to the State budget is the potential repeal of the Affordable Care Act (ACA.) Repeal jeopardizes health insurance for more than an estimated 2.7 million New Yorkers, according to the Governor's Office. With the ACA, the portion of the state's population without health insurance has fallen from 10 percent to five percent. Repeal would entail a direct state budget loss of $3.7 billion in federal Medicaid dollars associated with expanded health insurance coverage in New York, and it would result in the loss of nearly $600 million of federal funding that goes directly to counties.[6]

Block-granting Medicaid, favored by U.S. Rep. Tom Price, the nominee for health and human services secretary, would destabilize a system that covers 6.2 million New Yorkers, nearly a third of the state's population. The history of block grants is one of locking states into lower funding levels than when funding can be triggered by the level of need of individuals. Block-granting would reduce Medicaid's value as a counter-cyclical program helping families of individuals who lose health insurance when they lose jobs in a downturn.

The progress the federal government made under President Barack Obama in using federal tax policy to reduce income inequality very likely will be undone. As the latest Economic Report of the President demonstrated, Obama's policies delivered the most significant reduction in market-generated inequality since the Great Society programs in the mid-1960s. The combined impact of his tax policy changes and taxing the wealthy to pay for expanded health coverage under the Affordable Care Act (Obamacare) cut by 20 percent the ratio of average income of the top 1 percent to the bottom 20 percent.[7]

While a detailed proposal has not yet been made public, the broad outlines of Trump's tax policy priorities are fairly clear from campaign and other documents. Priorities include scrapping the century-old estate tax, which likely would shower almost all of its benefits on the wealthiest 1 percent. Using data from the Tax Policy Center, it appears that New York State's top 1 percent could get a $20 billion windfall. Eliminating the deductibility of state and local income taxes, hinted at by U.S. Treasury Secretary nominee Steven Mnuchin, could decrease the tax windfall for the rich in New York by $8 billion.

In the event that draconian federal spending cuts threaten the well-being of millions of New Yorkers, the state should consider a special tax to recapture some of the federal windfall that would flow to the state's richest 1 percent. Whatever happens in Washington, Albany needs to extend and enhance the state's millionaires' tax. Without it, New York would be inflicting harmful budget cuts on itself.

[5] *Staff Analysis of the FY 2018 Executive Budget*, Report of the [New York] Senate Finance Committee, January 2017, p. 1.
[6] NYS Governor Andrew Cuomo, "Governor Cuomo Announces Impact of Potential Affordable Care Act Repeal in New York," Press release, January 4, 2017.
[7] President's Council of Economic Advisors, 2017 Economic Report of the President, January 2017, chapter 3.

New York’s Pronounced Income Inequality and Regressive Tax Structure

The millionaires’ tax is New York’s fiscal Swiss Army knife, a tool that addresses many different needs. It helps fund important priorities, balance the New York State budget, respond to heightened income inequality, and lessen the overall regressive state and local tax structure. And it is very much needed in New York today.

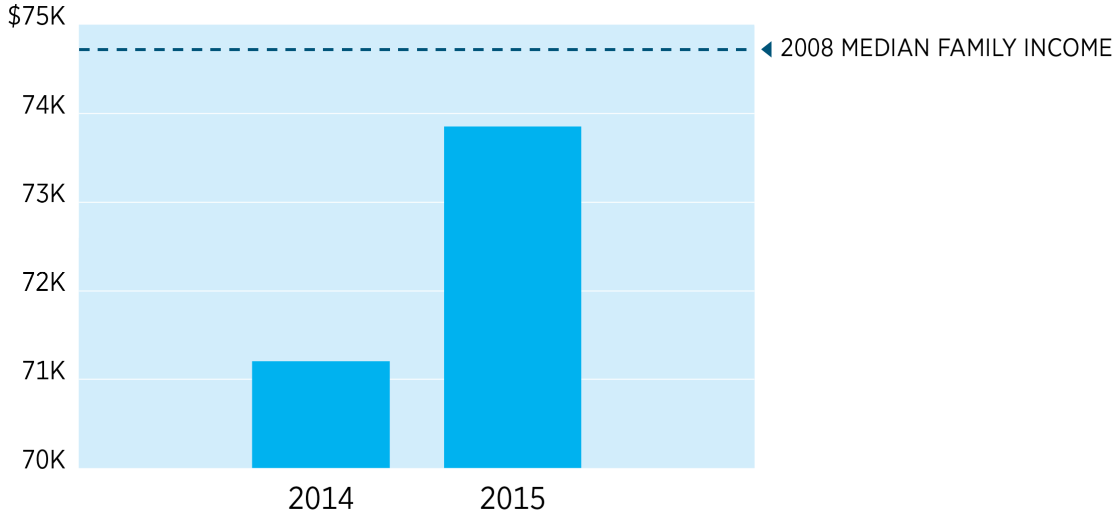
The proposed extension of the millionaires’ tax will help New York continue to support statewide priorities from education to health care. It will restore some of the revenues lost from tax cuts enacted between FY 2013-15 and from the middle class tax cuts enacted in 2016. The income gap, which is greater in New York State than in any other state, will narrow. The tax will help offset the regressive nature of New York’s overall state and local tax burden, particularly when paired with enhanced low-income tax credits and additional high-end tax brackets.

Since 2013, wage growth for the average worker in New York has started to pick up after languishing in the early recovery years. Total wages increased 6.4 percent in 2014 and 4.4 percent in 2015.[8] Low-wage workers are benefiting from the state’s minimum wage increases; two increases for workers at fast-food chain restaurants have lifted the hourly wage floor from $9.00 to $10.75 ($12.00 in New York City), and the first increase on the way to $15 for all workers statewide took effect December 31, 2016. When the $15 minimum wage is fully phased in, more than a third of all New York workers will see wage gains.

Several years of recovery and declining unemployment finally generated a solid increase in family incomes in 2015. Inflation-adjusted median family incomes rose in New York by 3.7 percent in 2015. However, this increase still does not make up for the erosion that took place after 2008.

[8] Growth in total wages for workers in all industries from the NYS Department of Labor's Quarterly Census of Employment and Wage series (2015 is the latest full year of wage data).

Fig 9. NYS median family income rose 3.7 percent in 2015 but still lagged the 2008 level



Source: American Community Survey data, 2008, 2014 and 2015. Incomes expressed in 2015 constant dollars.

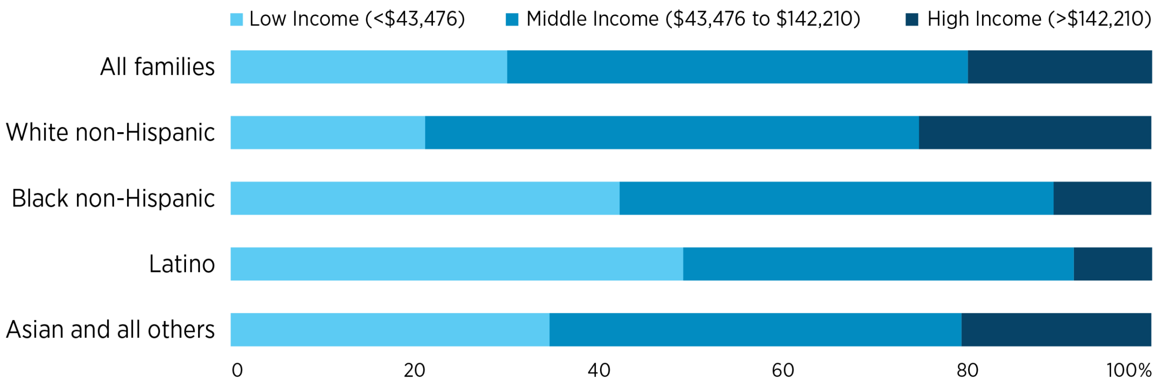
Census Bureau data show greater income inequality in New York than in any of the fifty states, as well as a statistically significant increase since Governor Cuomo was first elected in 2010.[9] Income gains recorded since the recovery began in 2009 have been highly concentrated at the top of the income distribution. Nearly half (48 percent) of the total increase in incomes in New York from 2009 to 2015 accrued to the wealthiest 1 percent.[10]

There is also a significant racial dimension to income inequality in New York. The average income for white, non-Hispanic families in New York State was $122,200 during the 2014-15 period, 77 percent greater than the average family income for blacks ($69,100), 93 percent greater than the average for Latino families ($63,500), and 19 percent greater than for Asian families.[11]

Families with a black head of household were twice as likely as a family headed by a white person to be low-income, according to data from the American Community Survey.[12] For Latino-headed families, the likelihood of being low-income was nearly two-and-a-half times that for a family headed by a white person. At the other end of the income spectrum, families headed by a white person were two-and-a-half to three times as likely to have incomes in the top 20 percent as black- or Latino-headed families. See the following chart.

[9] As measured by the Gini index, a widely-used measure of income inequality. U.S. Census Bureau, American Community Survey data, 2010 and 2015.
[10] Fiscal Policy Institute estimates.
[11] Fiscal Policy Institute analysis of American Community Survey data for 2014 and 2015. Race/ethnicity for families based on the race/ethnicity of the "householder."
[12] According to American Community Survey data for 2014 and 2015, the family income threshold for the lowest income 30 percent of New York families was $43,476.

Fig 10. New York's Black and Latino Families Much More Likely To Have Low Incomes

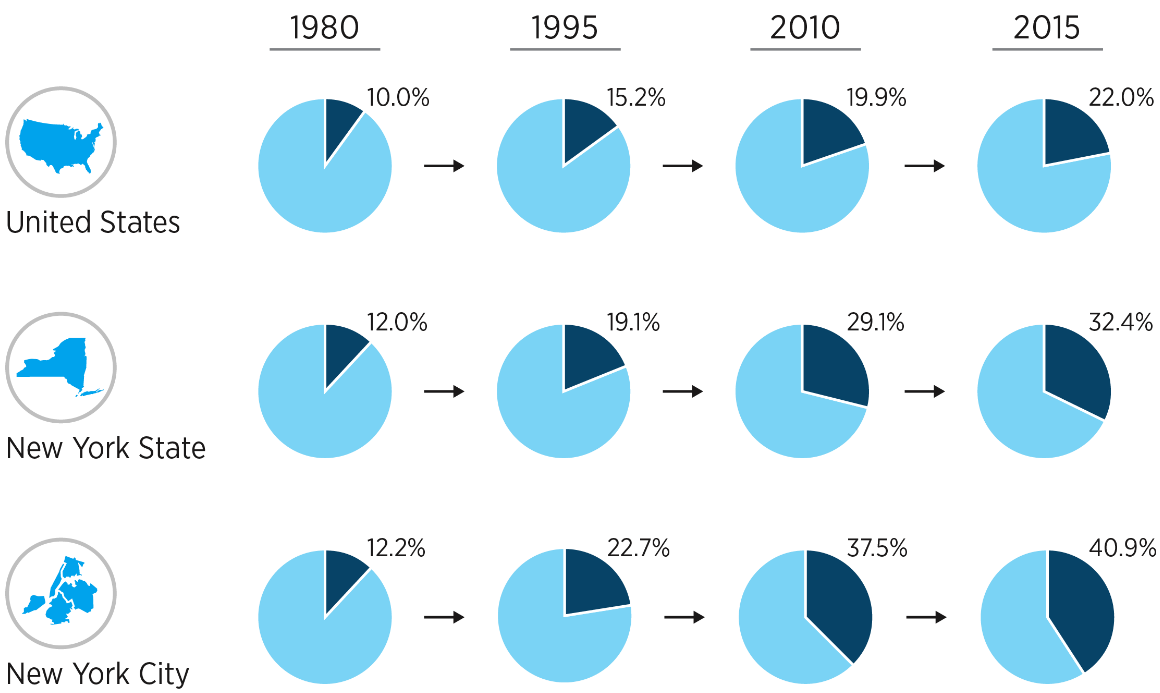


Source: FPI analysis of 2014-2015 American Community Survey microdata. Income analysis done using 2015 constant dollars.

Income inequality, as indicated by the richest 1 percent's share of total income, has grown substantially since 1980 in New York as well as nationally. As the chart below demonstrates, in the United States overall, the richest 1 percent claimed 22 percent of all income in 2015, more than twice the 10 percent share received in 1980. In New York State, the top 1 percent received 32 percent of all income, up from 29 percent in 2010, and 12 percent in 1980. And, in New York City, the top share was nearly 41 percent in 2015. As the chart below shows, income concentration at the very top has grown much faster since 1980 in New York State and City than in the country as a whole.[13]

[13] Emmanuel Saez, U.S. data updated June 2016; Estelle Sommeiller, Mark Price, and Ellis Waezeter, Income inequality in the U.S. by state, metropolitan area, and county, Economic Policy Institute, June 16, 2016, New York state data; Independent Budget Office data for New York City; and FPI estimates based on IRS 2014 data for New York State.

Fig 11. A Bigger Slice of the Pie
The Growing Share of All Income Going to the Top 1 Percent

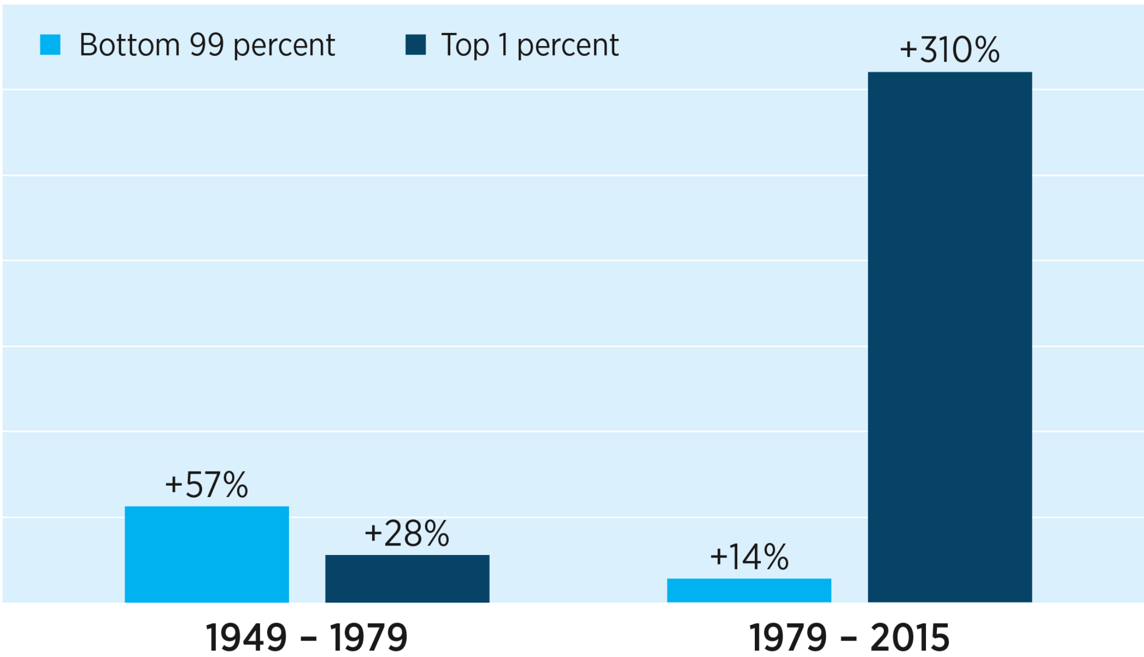


Source: Emmanuel Saez, U.S. data updated June 2016; Estelle Sommeiller, Mark Price, and Ellis Waezeter, Income inequality in the U.S. by state, metropolitan area, and county, Economic Policy Institute, June 16, 2016, New York state data; Independent Budget Office data for New York City; and FPI estimates based on IRS 2014 data for state.

The tremendous growth in income inequality since 1979 represents 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, however, most income gains have flowed to the very top.

Fig 12. A Sharp Reversal: Shared Prosperity vs. Income Polarization in New York State

INCOME GROWTH IN NEW YORK STATE



Source: Sommeiller and Price, and FPI estimates.

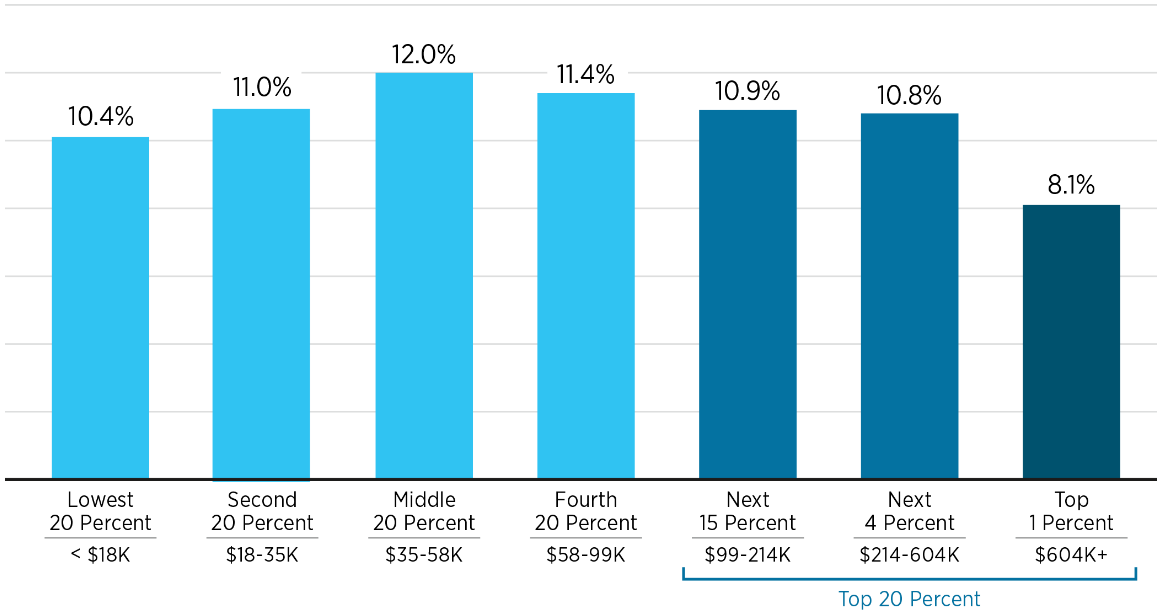
New York's Tax Structure Further Benefits the Wealthy

Those in the wealthiest 1 percent are taking home the lion's share of income gains, yet they pay a smaller share of their income in combined state and local taxes than lower and middle-income families—even with the millionaires' tax in effect. 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 wealthiest 1 percent of households (who pay 8.1 percent).

One reason the combined impact of state and local taxes is regressive is that most low- and middle-income families in New York pay a greater percentage of their income in sales and property taxes than they do in income taxes. New York State's income tax is mildly progressive, but not progressive enough to offset the effects of highly regressive sales and local property taxes.

Fig 13. 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.

Extending the Millionaires' Tax and Other Revenue Proposals in the Executive Budget

Millionaires' Tax Extension

As noted earlier in the Financial Plan section, the extension of the millionaires' tax is needed to make up for the various tax cuts enacted over the past four years that will reduce FY 2020 tax receipts by nearly $4 billion. The governor appropriately links last-year's enactment of substantial middle class tax cuts to the extension of the millionaires' tax. Middle class tax rate reductions—though it is a bit of a misnomer to refer to families with incomes up to $320,000 as "middle class"—beginning in 2012 were part of an earlier extension of the millionaires' tax. The fully-phased in value of the greater reductions passed in 2016 is quite substantial at $4.2 billion, roughly the equivalent of revenue generated by the millionaires' tax. Corporate, bank and estate tax cuts, enacted in 2014, are likely costing nearly $2 billion in lost revenue annually, considering the continued growth in corporate profits and in the number of large estates.

While the governor did not propose to make the extension of the millionaires' tax permanent—as he should have—his Executive Budget does make permanent the existing charitable contribution deduction limit of 25 percent for state and New York City taxpayers with adjusted gross incomes over $10 million. The limit on deductions translates into $140 million per year in revenue. The Executive Budget notes the limitation has not had a noticeable impact on charitable giving.

Closing tax loopholes

In response to continued growth in online sales through marketplace providers like Amazon and eBay, the governor again this year proposes that such providers be required to collect New York State sales tax when they facilitate a sale between an out-of-state seller and a New York consumer. This measure would help level the playing field for New York's brick-and-mortar retailers, and would generate $136 million annually on a full-year basis. Reforms that would yield $30 million annually include closing loopholes associated with nonresident activities related to co-ops, asset sales, and business purchases. Measures related to taxing cigars, vapor products and other tobacco products would also generate $30 million annually.

Other Revenue Proposals

- In the fee category of receipts, the Executive Budget proposes an increase in motor vehicle title fees that would raise $81 million annually, and a surcharge on the sale of prepaid cell phones that would generate $26 million annually. Legislation enacting the prepaid cell phone surcharge also authorizes local governments to levy a reduced rate surcharge.
- The revenue component of an Article VII bill authorizing companies like Uber and Lyft to provide personal transportation services using digital networks to connect riders to drivers upstate is problematic. The proposal calls for a 5.5 percent tax on such prearranged trips, with 4 percent going to the state's General Fund, and 1.5 percent to support local transit systems. The 5.5 percent tax is in lieu of the combined state and local sales tax, which ranges from 7 to 8.75 percent upstate. The legislation provides that municipalities may not prohibit or tax the operation of such transportation companies. The reduced 5.5 percent assessment unfairly favors such companies over existing transportation service providers, such as livery and black car companies whose services are subject to the combined state and local sales tax, and its form as something other than a sales tax deprives local governments of much-needed revenue. It is also of great concern that the proposed law does not require that the assessment be stated separately, as in the case with sales tax. Drivers say that this opens the door for companies to deduct the assessment fee from driver pay.[14]
- Although the state's film tax credits do not expire until January 1, 2020, the Executive Budget proposes to extend the credits for another three years. The credits equal 30 percent of qualifying film and television production costs, and are fully refundable, so the state is not only forgoing tax revenue it might otherwise collect but in fact is paying cash to companies that may have no tax liability. The credits are authorized up to $420 million annually and far exceed the profits or tax liability of the entire industry. That makes the credits among the costliest subsidies the state provides to any sector, according to an analysis by economists

[14] Such a practice has been challenged in driver lawsuits against Uber regarding the current sales tax on black car rides. See, New York Taxi Workers Alliance et.al., v. Uber Technologies et.al., 16-cv-4098 (S.D. N.Y.) Labor advocates also raise concerns that the legislation does not make explicit that drivers working for transportation network companies are employees rather than independent contractors. Recently, the State Labor Department has determined that Uber drivers are employees and eligible for unemployment benefits. Noam Scheiber, "Uber Drivers Ruled Eligible for Jobless Payments in New York State, The New York Times, Oct. 12, 2016.

Marilyn Rubin and Don Boyd. The Rubin-Boyd analysis also calls into question consultants' studies that claim the credits "pay for themselves."[15]

Enhancing the Child and Dependent Care Tax Credit for Middle Class Families

New York allows households that qualify for the Federal Child and Dependent Care Credit to claim a percentage of the federal credit on their state income taxes. The credit is refundable for residents. The Executive Budget increases the benefit by an average of 123 percent for middle income tax filers with New York adjusted gross income between $50,000 and $150,000. The average increase under this proposal, which is effective with the 2018 tax year, would be $208, benefiting an estimated 200,000 households. The credit enhancement would provide a total of $42 million in additional benefits.

The child and dependent care tax credit is long overdue for enhancement. The state last adjusted the credit percentages in FY 2000, and the maximum benefit in 2003, even though child and dependent care costs have soared over the past decade and a half. Today, child care is often the largest component of household expenses, greater than housing or food costs.

Among families with children, in 88 percent of cases, all parents in the household are working and the family must rely on outside caregivers. Even though child care teachers and aides are woefully underpaid, the cost of licensed and accredited child care for an infant and a preschooler averaged $1,755 per month in 2014, or over $21,000 annually, according to the state's Office of Children and Family Services. This amount can represent 25 percent or more of a typical bare-bones family budget.[16]

The median hourly pay for child care workers in New York State was $12.63 in 2015, according to Bureau of Labor Statistics data. Since almost all child care aides and more than half of preschool teachers in child care centers are paid less than $15 an hour, the phased-in statewide $15 minimum wage will very likely lead to higher child care costs over the next few years.

New York's low- and moderate-income families with incomes under $50,000 should also receive enhanced child and dependent care benefits. The Executive Budget proposes increasing the average credit for middle income families by 123 percent, but provides no adjustment for families with incomes below $50,000. Doubling the credits (a 100 percent increase) would benefit nearly 200,000 struggling families with incomes below $50,000 at a cost of approximately $142 million. Such an adjustment would disproportionately benefit black and Latino households who are heavily concentrated among the state's low-income families, as noted earlier in this chapter. The child and dependent care tax benefit enhancements should be effective this tax year (2017) to begin providing immediate relief to New York's working families.

---

[15] Marilyn M. Rubin and Donald J. Boyd, *New York State Business Tax Credits: Analysis and Evaluation*, A Report Prepared for the New York State Tax Reform and Fairness Commission, H. Carl McCall and Peter J. Solomon, co-chairpersons, November 2013.

[16] United Way of New York State, ALICE, Asset Limited, Income Constrained, Employed; Study of Financial Hardship, Fall 2016.

New York should also raise its Earned Income Tax Credit (EITC) from 30 percent to 40 percent of the federal benefit. The EITC is widely seen as an essential means of improving the well-being of children and low-income families working yet struggling to make ends meet. More than 1.6 million New York families benefit from the EITC. Raising the credit to 40 percent of the federal benefit would cost roughly $300 million, with almost all the benefit accruing to families with incomes under $32,000. State EITC benefits should also be expanded and increased to aid workers not raising children in the home, and include those workers ages 21-24 and 65-66.

1% Plan for New York Tax Fairness—Extending and Enhancing the Millionaires' Tax

The best response to the regressive nature 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 governor's proposed extension of the millionaires' tax, currently 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 phased-in middle class tax rates enacted last year, and increase tax rates slightly for the richest 1% of New York's taxpayers (i.e., roughly those with incomes over $665,000). FPI 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 approximately $6.2 billion. FPI's plan would raise about $2.5 billion more than the governor's proposed extension of the millionaires' tax—under the governor's proposal personal income tax receipts are forecast at $56 billion for FY 2020. Approximately half of the taxpayers affected by the millionaires' tax are non-residents, mainly from incomes earned in New York City's finance and other highly-compensated businesses. Of New York State resident taxpayers subject to the millionaire's tax, 97 percent reside downstate (NYC, Long Island, Westchester, Orange, and Rockland) and only 3 percent hail from upstate.

Fig 14. 1% Plan: Increase Personal Income Tax Rates Incrementally for Top 1%

Taxable Income Range	Exec. Budget proposal for 2018 rates*	2018 rates w/o Millionaires' Tax renewal	The 1% Plan	The 1% Plan vs. Executive Budget	The 1% Plan vs. 2018 rates w/o Millionaires' Tax
Up to $17,150	4.00%				
$17,150 - $23,600	4.50%				
$23,600 - $27,900	5.25%				
$27,900 - $43,000	5.90%			No change	
$43,000 - $161,550	6.33%				
$161,550 - $323,200	6.57%				
$323,200 - $665,000	6.85%				
$665,000 - $1,000,000	6.85%		7.65%	+0.80%	+0.80%
$1,000,000 - $2,155,350	6.85%		8.82%	+1.97%	+1.97%
$2,155,350 - $10,000,000	8.82%	6.85%	9.35%	+0.53%	+2.50%
$10,000,000 - $100,000,000	8.82%	6.85%	9.85%	+1.03%	+3.00%
Above $100,000,000	8.82%	6.85%	9.99%	+1.17%	+3.14%

**Same as 2017 rates*

Note: Brackets shown are for those married, filing jointly, and are different for singles and head of household filing statuses.

The assembly recently proposed three additional top tax brackets to increase the progressivity of the personal income tax. Under the assembly proposal, taxpayers with incomes from $1-$5 million would pay the 8.82 percent rate, $5-$10 million a 9.32 percent rate, 9.82 percent for incomes $10-$100 million, and a 10.32 percent rate for incomes over $100 million. The assembly indicates its proposal would generate $5.6 billion more than the current tax law.

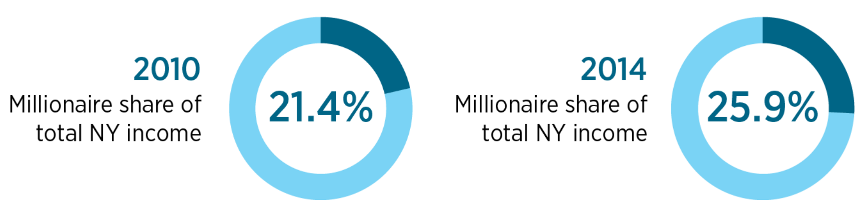
Contrary to the conservative insistence that progressive taxation will drive away the wealthiest taxpayers, recent research on "millionaire taxes" by Cristobal Young of Stanford University and colleagues shows the rich are generally so tied to local economic and social networks that they have largely not moved out of the states that have imposed higher income taxes.[17]

Former state tax commissioner James W. Wetzler, in an article on the millionaires' tax for *State Tax Notes*, concluded, "There is little evidence to discourage New York from extending its millionaires' tax." From his examination of unpublished state tax data for 2006- 2013, Wetzler found "the impact of the millionaires' tax appears to have been limited to out-migration of a few super-rich residents shortly after its enactment."[18]

Since the tax's 2009 enactment, the number of millionaires in New York has climbed and their incomes have grown much faster than that of non-millionaires. The number of resident millionaire returns grew by one third from 2010 to 2014—11 times the three percent growth in the number of non-millionaire returns. The total income on millionaire returns grew by 45 percent, more than three times faster than all other New York tax returns.

Fig 15. Number of Millionaire Tax Returns Increased by One-Third from 2010 to 2014

	2010	2014	% Change
Number of millionaire tax returns	35,802	47,440	⬆33%
Total income on millionaire returns	$134.5 billion	$195.4 billion	⬆45%
Number of non-millionaire tax returns	9,236,260	9,476,400	⬆3%
Total income on non-millionaire returns	$493.9 billion	$559.5 billion	⬆13%
All NYS tax returns	9,272,062	9,523,840	⬆3%
Total income on all returns	$628.4 billion	$754.9 billion	⬆20%



Source: Internal Revenue Service, Statistics of Income data.

[17] Cristobal Young, Charles Varner, Ithai Z. Lurie, and Richard Prisinzano, "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," *American Sociological Review*, 2016, vol. 81(3), pp. 421-446.
[18] James W. Wetzler, "Taxation of Millionaires in New York," *State Tax Notes*, October 10, 2016.

Economic Development

New York State and its local governments currently spend approximately $9 billion annually on a broad array of economic development programs throughout the state (see chart on next page). There are dozens of different programs that provide a myriad of benefits, from cash grants to 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.

Tax Incentives – A Failed Approach

The state's heavy reliance on tax incentives as an economic development strategy is a misguided approach, as after many decades there is little to show beyond a trail of political scandals. A detailed study of New York's business tax credits prepared in 2013 by economists Donald Boyd and Marilyn Rubin for the Tax Reform Commission empaneled by Governor Cuomo, firmly stated 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." The governor and the legislature should pay attention to the findings of this thorough analysis.

At the same time that job-creation results have been meager, political scandals have been in abundance, centering around bid rigging of state contracts, transparency and accountability—issues that have not been substantively addressed, despite repeated media coverage. Lack of accountability, alone, is a problem; but it also masks the failings of these development programs.

On a positive note, Empire State Development (ESD) is now required to submit an annual report regarding the commercial production tax credit. The report is required to indicate the name of each production company receiving the credit, the amount of the credit, the estimated number of employees, and the amount of eligible wages paid.

Industrial Development Authorities: Lack of Accountability, Lack of Results

Numerous audits from the Office of the State Comptroller call into question whether the state is getting its money's worth from Industrial Development Agencies (IDAs).[19]

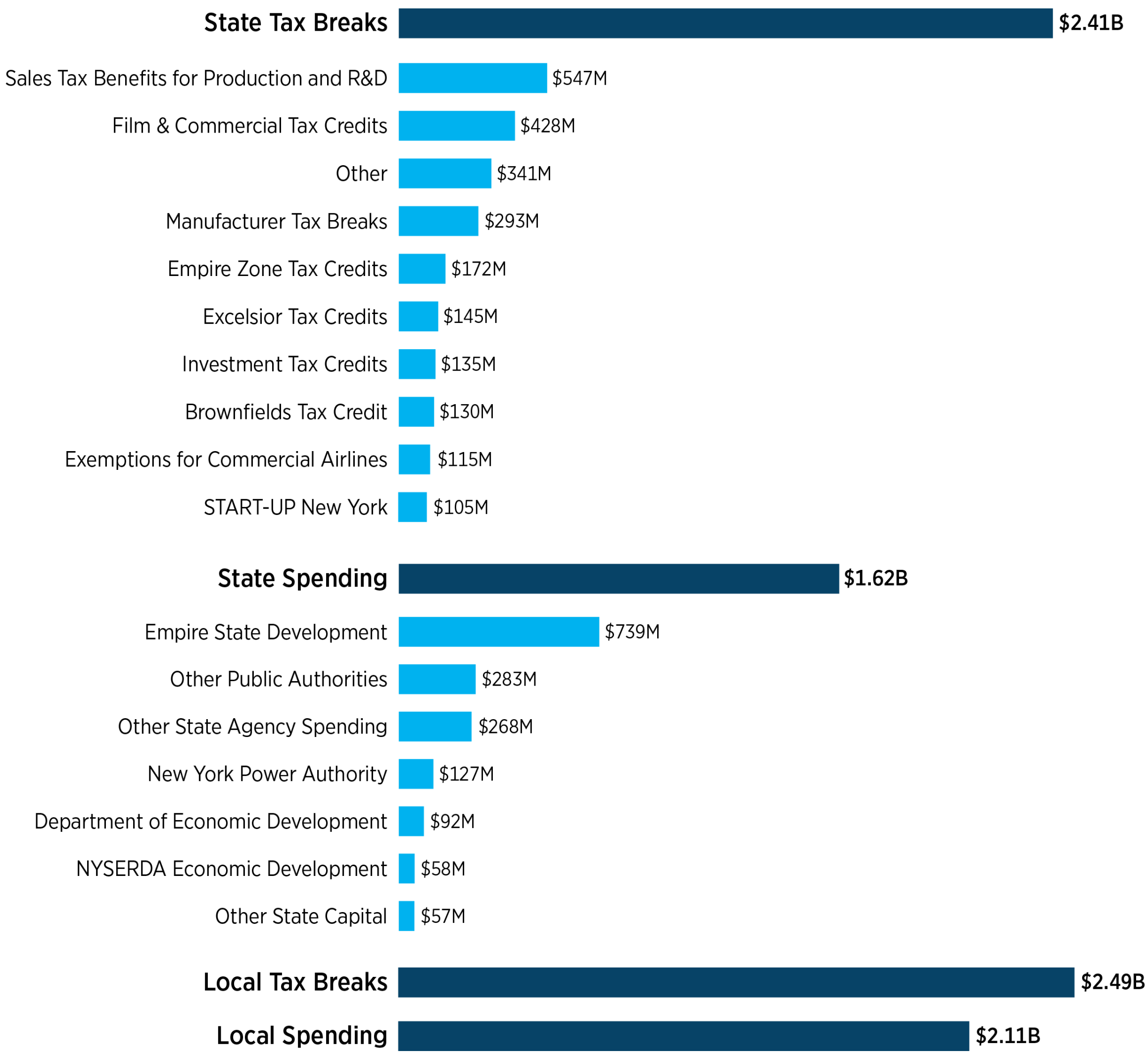
A 2013 comptroller's report revealed that of the 4,486 current IDA projects, 1,161 do not promise to create a single job. Sixty-eight percent of the 407 IDA projects that ended in 2011 either lost

[19] 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.

jobs, did not create jobs, or did not meet their job creation targets, falling a total of 32,153 jobs below their targets.

Fig 16. Where Does Our $9 Billion in Economic Development Spending Go?

SUMMARY OF ANNUAL NEW YORK STATE AND LOCAL ECONOMIC DEVELOPMENT COSTS



Source: Citizens Budget Commission, https://cbcny.org/research/increasing-without-evidence, September 2016.

More recent audits have found deficiencies in IDA processes related to approving projects, monitoring project performance against goals, and recouping benefits from projects that failed to meet promised economic and job targets. Several audits also highlighted deficiencies in monitoring both tax exemptions given to IDA projects as well as the PILOTs (Payments in Lieu of Taxes) the projects were required to pay to local governments and school districts in place of forgone property taxes. This puts added pressure on property taxpayers in the locality, or, in the face of the state's local property tax cap, forces reductions in local school budgets and other local services.

Regional Economic Development Councils (REDC)

The Executive Budget provides another $150 million for a seventh round of Regional Economic Development Councils' competitive awards, and $70 million in Excelsior Tax Credits designated for this same purpose. Thus far, the governor has funded six rounds of REDC awards, totaling approximately $4.5 billion.

REDCs are a structure initiated in the first Andrew Cuomo administration. The idea of local input to economic development is fundamentally sound, as is the approach of setting specific economic development decisions in a comprehensive picture of a region's economic strengths and weaknesses. The quality of REDC processes varies by region, and there are questions about the extent to which decisions are truly made by REDCs or simply echo priorities out of the governor's office. In general, the REDCs are a potentially useful innovation.

But, as in so many areas of economic development, accountability is a crucial issue, in order to both avoid corruption and to be able to provide an honest assessment of the economic development strategies. While the state continues its attempt to improve the REDC reporting requirements, it is still falling short in many ways. Job results are currently reported in aggregate, not by individual project; so, there is no real way to determine the performance of individual firm-specific projects relative to their job creation and retention projections. As with numerous 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.

REDCs and Poverty Alleviation

In November, 2016, Governor Cuomo announced the allocation of nearly $16 million to support three Rochester-based projects aimed at reducing poverty in the Finger Lakes region, a welcome investment in a critical issue.

These projects are the first to receive funding through the Finger Lakes Regional Economic Development Council's "One Community Plan," which identifies priority projects that develop "cradle-to-career" workforce readiness initiatives. Poverty reduction is now incorporated as a core goal of the Finger Lakes Regional Economic Development Council's strategic plan.

Poverty reduction should become a focus of all the Regional Economic Development Councils, and they should all devote resources to ensuring families living in poverty have opportunities to get the skills and training they need to move into the jobs that are being created in each region. There should also be a greater level of cooperation and coordination between REDCs and the governor's Empire State Poverty Reduction Initiatives (ESPRI) that are taking shape in 16 localities across the state. With unacceptably high rates of child poverty and overall poverty among African Americans and Hispanics in many of our upstate cities (some higher than 50 percent), poverty alleviation should be a major focus for every REDC in New York State.

Manufacturing in New York State

Since the early 2000s, the state has spent lavishly to foster big-ticket manufacturing and technology projects upstate. Nearly one-third of the $1.1 billion in new tax credits and other business tax breaks enacted since FY 2010 have benefitted manufacturing. And, while technology investments made in the Capital District have generated some employment and economic growth payoff, it is not clear whether other mega investments warrant the scale of state investments that have been committed. In addition to enacting sweeping contracting reforms discussed below, the state should undertake an assessment of the economic viability of its large manufacturing and technology investments.

There is no doubt about the need to focus on New York's manufacturing. New York's manufacturing jobs, long the economic foundation of most upstate regions, have not shared in the modest manufacturing rebound occurring nationwide. Since 2000, during the same period the state poured money into high-cost tax incentives and mega technology and manufacturing projects, upstate regions have lost nearly 150,000 manufacturing jobs, 36 percent of the total. Job growth in upstate New York has been primarily in lower-paying jobs; no other sector has emerged to provide the sort of middle-class livelihoods most manufacturing jobs made possible.

Trade and technological advances have dramatically reduced the number of manufacturing jobs in most parts of the U.S. Still, within this landscape, some sectors in some regions are seeing growth in factory jobs. Food manufacturing employment has risen by 11 percent since 2010, with gains in a number of regions; and overall manufacturing employment gained by over 20 percent in the Capital region, largely due to job gains in the region's high-paying electronics industry.

Many manufacturing operations have benefitted from fairly modest state investments in workforce training and productivity-enhancing assistance. These should be continued, and with better targeting for large strategic investments and active use of procurement opportunities, the state can more effectively maintain viable manufacturing operations and the valuable middle-class jobs they provide.

START-UP NY Shutting Down

After yet another abysmal report on the effectiveness of the START-UP NY program, the governor has decided to repackage and rename this program. The governor proposes instead to establish the Excelsior Business Program, which merges START-UP NY with the Excelsior Jobs Program, thereby effectively eliminating START-UP NY.

The proposed new Excelsior Business Program is redesigned to allow new and expanding small businesses to receive tax credits for job creation, as well as for conducting research and development in New York State. To become eligible for the program, a business must be a non-publicly traded entity, must not be more than five years old, and must not have employed more than 25 persons one year prior to participation.

Additionally, the Excelsior Business Program has expanded the type of businesses eligible for participation to include retail, restaurants, professional firms, hospitality and financial services establishments. Under the program, businesses are no longer required to be located on not-for-profit college or university campuses, but may operate on owned or leased property. For eligibility to participate in the Excelsior Business Program, a business is required to demonstrate that it will create and maintain in its first five years of operation at least *one net new job*. This Executive Budget proposal removes numerous reporting requirements and benchmarks, but still requires an annual report.

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 (ESD) released a preliminary START-UP NY review, which showed very poor results: 76 jobs were created in 2014, compared to $53 million in tax dollars spent on advertising alone.

The most recent annual report on START-UP NY did not show much improvement. In 2015, the program created 335 jobs—bringing the total to 408 jobs.

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. Local taxes are simply 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.

Forward Thinking Pays Off

A better approach to blending academia with business is evidenced in the New York State Certified Business Incubator and Innovation Hot Spot Program that was enacted as part of the 2013-14 State Budget. This innovative program provides financial support for business incubators in the state to facilitate entrepreneurial activity.

ESD has designated 10 Innovation Hot Spots—one for each of New York State’s 10 economic development regions—and 20 Certified Business Incubators, and provides funding to expand services and assist a greater number of early stage companies. These designees are operated by universities, colleges or nonprofit organizations, and coordinate regional incubation activities while focusing their services on a particular industry of strategic interest to that region.

Through this program, designated companies can improve physical space, share administrative staff, access to capital, coaching, mentoring, networking connections, prototype development, and access to other technical services. Moreover, client businesses of the Innovation Hot Spots have access to tax benefits to assist them through their early growth stage.

In its second year, and with 20 of the current 30 designees in operation and reporting, the program created and retained 1,387 jobs and is funded at $5 million per year. The program created three times the number of jobs of START-UP NY, and at a fraction of the cost.

Buffalo Billion Phase Two and Other Business Subsidy Projects

The Executive Budget provides a new $400 million appropriation to expand the "Buffalo Billion Phase Two" Initiative. An additional $100 million in yet unidentified resources would also be provided through the Executive Budget, providing a total $500 million for Phase Two.

Before another round of Buffalo Billion funding is launched, some of the glaring contracting problems that evolved in the first round need to be addressed. Governor Cuomo has resisted independent oversight of executive branch contracting, despite an administration that has been plagued by the largest bid rigging scandal in state history (resulting in the arrest of nine people by U.S. Attorney Preet Bharara).

The governor's budget also proposes giving hundreds of millions of taxpayer funds to scandal-plagued Fort Schuyler Management and Fuller Road Management—the state controlled nonprofits at the center of the bid-rigging scandal—which still do not have independent oversight of their contracting from the Comptroller's Office.

Reforming the Contracting Process

The public has not forgotten that in September 2016, several high-level officials in state government were arrested for rigging economic development contracts worth nearly $800 million. The need to restore the public's trust in New York's scandal-scarred state government has been the topic of conversation throughout the state over this past year. Fundamental changes to how the state awards over a billion dollars per year in economic development contracts are sorely needed and would be a great starting point.

In numerous letters, the Fiscal Policy Institute (along with the Citizen's Budget Commission and ReInvent Albany) has urged executive and legislative leaders to consider major contracting reforms to restore public confidence. We continue to call for fundamental changes to ensure that billions in state economic development contracts are awarded fairly and transparently.

Five Common Sense, Clean-Contracting Reforms:

- Require competitive and transparent contracting for the award of state funds by all state agencies, authorities, and affiliates. Use existing agency procurement guidelines as a uniform minimum standard;
- Transfer responsibility for awarding all economic development awards to Empire State Development Corporation (ESDC), and end awards by state nonprofits and SUNY;
- Empower the comptroller to review and approve all state contracts over $250,000;
- Prohibit state authorities, state corporations and state nonprofits from doing business with their board members; and
- Create a "Database of Deals" to allow the public to see the total value of all forms of subsidies awarded to a business, as six other states have done.

Increase the Transparency of Business Subsidies

Thanks to the historic decision by the Government Accounting Standards Board (GASB), 2017 begins a new era for collecting business subsidy data. The new standard, covering GAAP-compliant budgets started in mid-December 2015, requires all state 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 City Comptroller Scott Stringer is the first government officer in the United States to comply with the new accounting rule requiring the disclosure of how much revenue is lost to corporate tax breaks given for economic development. More than 50,000 state and local government bodies are expected to issue such data over the next two years. The new data is mandated by GASB Statement No. 77 on Tax Abatement Disclosures, but New York City was not technically required to include the data until its next financial report (to be issued in fall 2017). New York City became the first sizeable governmental entity to report GASB 77 in its FY 2016 Comprehensive Annual Financial Report (CAFR), released on October 31, 2016. The city reported tax abatements exceeding $3 billion, a 5.6 percent increase in abatements over FY 2015.

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). Project information for a range of major initiatives, however, is either not published, 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 CFAs is made publicly available.

Despite these modest improvements in the transparency and coordination of business subsidy programs, the state still fails to produce a holistic view of how $9 billion in tax dollars are being spent.

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. Other states have moved forward on this front, and it's time for New York State to catch up.

Focus on Upstate: The Right Priority, the Wrong Approach

A substantial amount of New York State's economic development is focused on strengthening the upstate economy. The state should expect better results from its economic development efforts, but the attention on upstate is well placed.

Aggregate economic data for New York State masks considerable unevenness in the upstate region. From the economic high point reached in December 2007 before the onset of the Great Recession of 2008-09, to December 2016, the number of overall jobs in New York increased by 6.6 percent, slightly better than the national 5 percent job gain. But, most of the state's growth was concentrated in New York City (14 percent growth) and the downstate suburbs (3.4 percent growth), while the job count in the 52-county upstate area ticked up by a fairly nominal 0.6 percent over that 9-year period. That's a paltry net gain of 20,000 jobs on a base of 3 million. There was also unevenness within upstate. While the Albany, Buffalo and Rochester metro areas saw 1 to 2 percent job growth over the period, there were net job declines in the Syracuse metro area (minus 2 percent), the mid-Hudson Valley (minus 3 percent), the Utica-Rome area (minus 5 percent), and Binghamton experienced an 11 percent job loss. Upstate job trends were slightly better in 2016 than the year before, but not as strong overall as in either 2011 or 2013.[20]

Smart Investing and Careful Accounting Promote Real Economic Growth

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.

In addition to the aforementioned Innovations Hot Spots Program, there are long-overlooked and underfunded programs that have a successful track record such as the Entrepreneurial Assistance Program (EAP) and the Community Development Financial Institutions (CDFI) fund. These two programs have been in operation for decades and are designed to provide training and technical assistance to individuals who want to start their own business (in the case of EAP) and provide the capital needed to create these microenterprises.

Another policy with significant employment potential would be to provide contract procurement preference to bidders committed to domestic and New York manufacturing, particularly important in the case of large transportation equipment orders under the Metropolitan Transportation Authority's five-year capital plan.

We must also accept the fact that investments in public and higher education, labor force development, transportation, information, and other infrastructure create a quality of life and skilled labor force that makes New York State an attractive place for employers to locate and employees to live.

[20] FPI analysis of NYS Labor Department total non-agricultural payroll employment from December 2007 to December 2016.

Education

This year's Executive Budget contains numerous education proposals, including an increase in K-12 school aid, expansion of the Universal Pre-Kindergarten program, additional funding for after-school slots for high-needs students, and so-called “free tuition” for full-time SUNY and CUNY students.

Insufficient Funding for K-12 Education and Elimination of the Foundation School Aid Formula

Similar to last year’s Executive Budget, there is an increase of nearly $1 billion in school aid in this budget, including an additional $428 million in Foundation Aid (approximately a 2.6 percent increase). This allocation is still not nearly enough to guarantee adequate resources for all students, especially the most vulnerable and those in the poorest districts. Once again, additional state support remains critical, as the property tax cap will allow very limited growth in schools' primary local revenue sources. To get closer to meeting the constitutionally mandated minimum funding level required, the addition to the state’s investment in education this year should be doubled to at least $2 billion.

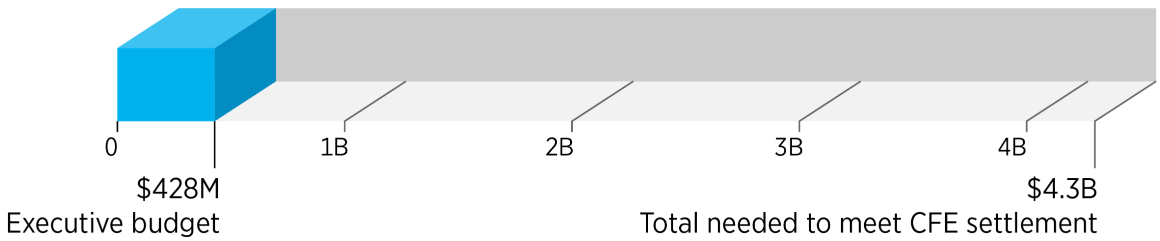
Amidst the more attention-grabbing proposals, Governor Cuomo has proposed changes that would eliminate the Foundation Aid formula. The formula is designed to ensure that all students have access to a “sound basic education” as guaranteed by New York State's constitution, and as was originally created by the state in 2007 in response to the Campaign for Fiscal Equity (CFE) lawsuit.

The CFE lawsuit was a landmark court case in 2003 upholding that the state must 1) “ascertain the actual cost of providing a sound basic education”; 2) “[ensure] that every school…would have the resources necessary for providing the opportunity for a sound basic education”; and 3) “ensure a system of accountability to measure whether the reforms actually provide the opportunity for a sound basic education.”[21] The court ordered the governor and the legislature to determine an actual cost level, which in turn became the Foundation Aid formula.

In essence, the formula determines how much Foundation Aid each school district requires in order to provide students with an adequate education, and offers a total amount of Foundation Aid the state must provide for each district. The formula uses a series of factors and weightings based upon local income levels, property values, number of English language learners, student poverty and other criteria. Currently, the Board of Regents has calculated that $4.3 billion more statewide is owed to school districts since the implementation of the formula. The $428 million allocated in this year’s budget still leaves an approximate $3.9 billion shortfall.

[21] Michael Rebell, “Students Constitutional Rights Are Obligatory, Not ‘Symbolic’ or ‘Aspirational’,” https://educationalequityblog.org/2017/01/26/students-constitutional-rights-are-obligatory-not-symbolic-or-aspirational/, January 26, 2017.

Fig 17. School Aid Funding Falls Far Short of Promise of Campaign for Fiscal Equity Settlement



Source: Board of Regents https://www.regents.nysed.gov/report/dec-2016/p-12-education, December 2016; FPI Calculation, NYS Financial Plan, January 2017.

The Executive Budget removes the Foundation Aid formula in law, completely eliminating the portion that determines how much districts should ultimately receive. Instead, this year's $428 million increase is provided for and distributed based on an alternate formula using elements of the Foundation Aid formula, as well as changes to the factor used to estimate poverty. Furthermore, this new formula does not produce any increases in future years, and districts are only guaranteed the funding level from 2017-18 in all future years. The Big 5 city school districts do not receive their increase based on this new incremental formula. These high-needs districts get their Foundation Aid via a "due-minimum" increase. Therefore, the new formula the Executive Budget is proposing does not generate the 2.9 percent increase in Foundation Aid that New York City would receive in the proposed Executive Budget. Rather, the Executive Budget provides that New York City will automatically get a 2.93 percent increase in Foundation Aid. It's important to note that New York City is owed $1.9 billion under the current Foundation Aid formula.

If the Foundation Aid formula is repealed, the state would no longer owe school districts Foundation Aid, meaning that the $4.3 billion debt would be wiped from the books and the spending gap per pupil between poor and wealthy schools in New York would likely grow larger.

Education advocates are adamant about keeping the Foundation Aid formula because it ensures the constitutional rights of New York's students. However, if the state is looking to review and update the formula, it should do so in a way that complies with constitutional requirements, and must be grounded in current, valid studies to determine the actual cost of a "sound basic education."

State Support for Schools has Declined While Property Tax is Capped

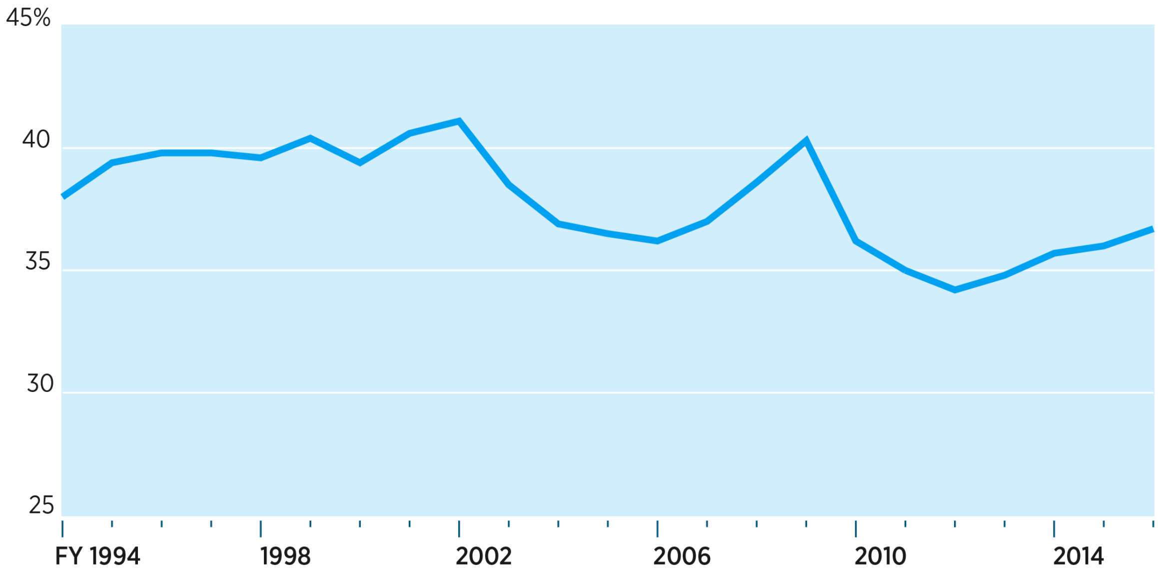
Since 2011, state aid as a percent of total school spending has been at historic lows. Inadequate state aid not only hampers the ability of disadvantaged students to catch up, it also puts pressure on local property taxes as school districts try to compensate for the unmet commitment of state funds.[22] This reinforces inequities, as school districts with high concentrations of low-income families find

[22] Rajashri Chakrabarti, Max Livingston, Joydeep Roy, "Did Cuts in State Aid During the Great Recession Lead to Changes in Local Property Taxes?," Staff Report No. 643, Federal Reserve Bank of New York, October 2013.

it hard to raise funding needed for their schools and for other anti-poverty programs that can address the challenges their students face.

Fig 18. State Support of Schools has not Returned to its Pre-Great Recession Level

STATE AID AS A PERCENTAGE OF SCHOOL SPENDING



Note: State aid excludes School Tax Relief (STAR) Program.
Source: NYS Department of Education, Analysis of School Finances, January 2015.

The primary local source of funding for schools in New York State is the property tax. But housing values—the base for the property tax—are often low in low-income neighborhoods. This goes a long way toward explaining why the 10 percent of school districts with the highest need relative 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.[23]

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, minimal growth in property taxes will be allowed under the cap. Current projections are that the property tax cap will allow growth of just 1.26 percent, resulting in the loss of hundreds of millions of dollars in funding for our schools.

[23] 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.

Universal Pre-Kindergarten Funding is a Good Step But Falls Short

Research indicates that early childhood programs often result in better educational outcomes for children by promoting cognitive, social, emotional, and physical development in all settings. The Universal Pre-Kindergarten program (UPK) for four-year-olds (first enacted in FY 2016 and expanded in FY 2017 to include three-year-olds, with no funding increase) continues with a modest addition of $5 million on top of the $415.6 million current state funding level. This year's Executive Budget, however, merges the state's pre-kindergarten programs into a single program with the consolidation of the $30.5 million Priority Pre-Kindergarten into the $358 million UPK program.

The expansion of pre-kindergarte programs over the last few years is a step in the right direction toward ensuring New York's youngest students are able to develop learning skills and have better overall education outcomes. However, the $5 million in additional funding falls far short of the amount needed to fulfill the need across the state. Many school districts already have waiting lists and/or are forced to use lotteries to award seats to eligible children. This year, 70 districts submitted proposals for pre-kindergarten funding. By maintaining all current funding levels for pre-kindergarten programs, and adding at least $150 million to expand access to high-needs districts outside New York City, New York will effectively add full-day seats and ensure programs have the resources and technical assistance to meet the quality standards.[24]

After-School Program Expansion Would Help Address Child Poverty

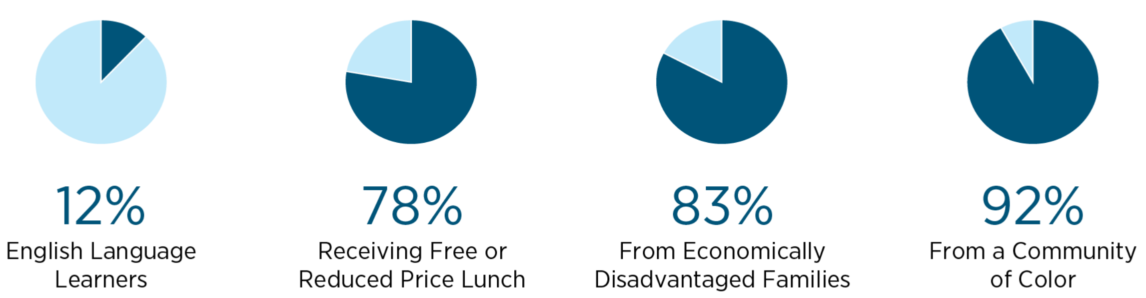
After-school programs provide safe, educational space for children to go after the school day ends in urban, suburban, and rural communities. Successful high-quality after-school programs increase student engagement and attendance, as well as improve test scores and reduce negative behaviors, among other benefits. The FY 2018 Executive Budget invests an additional $35 million in public after-school programs in Priority Schools in the state's 16 Empire State Poverty Reduction Initiative (ESPRI) communities. This new funding will create an additional 22,000 spots for students in after-school programs. With these new investments, more students in ESPRI communities will receive after-school care in the 2017-18 school year.

Priority Schools are schools that score in the bottom five percent in student proficiency tests or have low graduation rates. Throughout the state, Priority Schools are generally constrained by inadequate funding, because they tend to be located in areas of high poverty.

In an FPI analysis of the original list of priority districts from 2015, 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 lunch program, another indicator of economic hardship. More than nine out of 10 are students of color (compared to 52 percent in non-priority schools), and over 12 percent of children do not speak English as their first language.[25]

[24] Winning Beginning "Keep The Promise for Full-Day Pre-K", January 2017.
[25] A new list of Priority Schools was produced in February 2016, after the data from the chart above. It is unlikely that the shift would change the above picture much. Districts with Priority Schools for both 2016-17 and for prior years include New York City, Yonkers, Buffalo, Rochester, Syracuse, Hempstead, Albany, Mount Vernon, Poughkeepsie, Schenectady, Troy, Wyandanch, Utica, Central Islaip. In 2016-17, Binghamton, Gloversville, East Ramapo, and Salamanca were added to the list, while Roosevelt, Amsterdam, and Newburgh were dropped.

Fig 19. Students in Priority Schools Face Economic Hardships



Source: FPI calculation of U.S. Census data, data from State of New York's Failing Schools, February 2015.

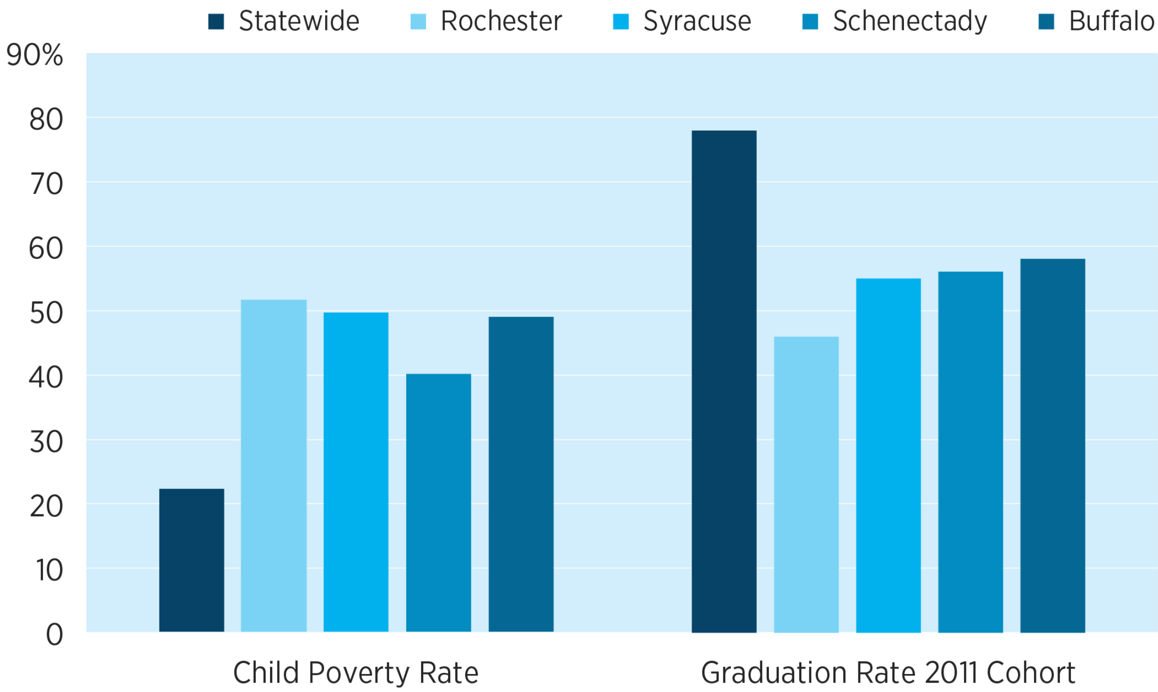
On average, New York families pay $11,352 per child for after-school child care, but New York State can only fund roughly $1,600 per child.[26] This overall lack of resources leaves about three out of four applicants unfunded. ESPRI communities, however, will benefit from having more students in after-school programs, which will combat the hardships that many disadvantaged children face. Research suggests that continuing to invest in after-school programs in high-needs districts will produce $3 for every $1 invested, with even higher potential savings for taxpayers.[27]

Poverty and School Performance

A primary cause of poor school performance is high levels of child poverty, over and above the challenges of being in districts with inadequate funding. Students in low-performing schools often come from low-income households and do not do as well in school than those from more advantaged households, a considerable body of research shows.[28] New York is no exception. For example, the figure below shows that the large school districts in upstate New York, including Priority Schools, have lower high school graduation rates than the state average, and a much higher proportion of children in poverty.

[26] Winning Beginning, "Expanded Learning – Increase Opportunities for Students to Participate in Quality After School Programs," January 2017.
[27] Afterschool Alliance, "ROI: Economic return on investment in afterschool," 2005.
[28] See, for example: "The Long Reach of Early Childhood Poverty," Greg Duncan and Katherine Magnuson, Pathways (Winter 2011); and "Education and Poverty: Confronting the Evidence," "Whither Opportunity? Rising Inequality and the uncertain life changes of low-income children", Greg Duncan and Richard Murnane, Russell Sage, New York, 2011. Helen F. Ladd, Journal of Policy Analysis and Management, Vol. 31, No. 2, 1-25 (2012).

Fig 20. Large Upstate School Districts Have Lower Graduation Rates and Higher Poverty Than Average



Source: U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates; New York State Education Department, Graduation Rates: Students Who Started 9th Grade In 2011, Dec 2015.

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."[29]

Eliminating the Foundation Aid formula, coupled with inadequate resources for after-school and pre-kindergarten programs, will only make this situation worse. The state should increase its investment in high-needs school districts and provide the resources necessary to help children living in poverty achieve academic success. This would surely provide the ingredients for long-term fiscal savings.

Funding for Community Schools Takes a Step Backward

While the governor has acknowledged the need for the state to help improve schools that are not meeting reasonable standards, his proposed FY 2018 budget reflects an about-face in state funding for community school conversion. The FY 2017 enacted budget supported a good conceptual

[29] "Education and Poverty: Confronting the Evidence," Helen F. Ladd, Journal of Policy Analysis and Management, Vol. 31, No. 2, 1-25 (2012).

model: providing aid encouraging these schools to become community schools, with wrap-around services for students and centers that families can make use of even after school hours.

This year's Executive Budget allocates $150 million in Foundation Aid for community school conversion, which is $50 million above last year's level for districts with struggling schools or with significant English Language Learners (ELL). However, the $75 million included in last year's budget to convert these struggling schools into community schools was eliminated, for a net decrease of $25 million.

Higher Education and the Excelsior Scholarship Proposal

SUNY and CUNY are rightly the pride of New York, educating students, contributing to groundbreaking academic research, enriching the state's cultural environment, and robustly contributing to the state's economy. But the state has for years now been starving these institutions of resources, forcing them to make do with less and pass along burdens to the students.

The twin needs of SUNY and CUNY are *quality and affordability.* Investment in the system must make it possible for the colleges to maintain and expand on a high level of quality. Funding must make it possible to hire and retain great professors, keep student-faculty ratios at a reasonable level, and provide for the buildings and equipment that make for good learning environments. At the same time, higher education must be affordable to students, irrespective of their family income or life circumstances.

This year, Governor Cuomo made headlines by proposing what he called "free tuition." The title is misleading; in fact, this is a proposal to provide financial aid to students who come from families whose income is above the threshold for current aid programs. Called the Excelsior Scholarship, this is in itself a fine idea and a step in the direction of affordability, at least for these families. But it is limited in its scope, it does not address the pressing needs of lower-income students, and it does not begin to address the question of quality. In fact, in some respects, it adds financial burdens to the CUNY and SUNY systems.

What is the Excelsior Scholarship?

At first glance, the Excelsior Scholarship proposal is a "conceptual breakthrough," elevating the idea of free college tuition and suggesting that free public college is a realistic goal. The Excelsior Scholarship would help make college more affordable for some working- and middle-class students whose families earn up to $125,000. In order to qualify, students must be a resident of New York State and be on track to complete their chosen degree in two or four years. The price tag for this new initiative, according to the governor, will be a minimal $71 million this year, going up to $163 million in 2021.

However, in reading the fine print, it turns out that the Excelsior Scholarship is a last-dollar tuition-assistance program and not actually a free tuition program. It is also a deferred payment program; eligible students receive the benefit of the scholarship upon enrollment, but the college receives reimbursement only after the student successfully completes 15 semester credits and is earning at least a passing C grade. It also does not cover additional costs like room, board, books and other fees. Current full-time tuition at four-year SUNY schools for residents is $6,470; and, at two-year community colleges, the cost is roughly $4,350.[30] The Excelsior Scholarship will provide awards that are frozen at the 2016-17 tuition levels.

It is important to also note that funding for the scholarship covers the cost of tuition *after* Tuition Assistance Program (TAP), Pell grants, and other financial aid awards and tuition credits are applied. This means that the Excelsior Scholarship does not cover the "TAP gap," or the difference between the maximum amount of TAP and the full cost of tuition at four-year colleges that CUNY and SUNY currently absorb. The "TAP gap" for CUNY and SUNY is already upwards of $100 million; and that number could increase dramatically if the Excelsior Scholarships are implemented. Furthermore, it is only students whose adjusted family income is $50,000 or above that will benefit from the program. Those with family income lower than $50,000 will most likely qualify for other financial aid, but will probably not benefit from this program.[31]

What are the Financial Pitfalls of the Excelsior Program?

The governor's financial plan provides $71 million in for the first year of phasing in the program, and reaches $163 million by 2021. In addition the annual fully phased in amount of $163 million is likely to substantially underestimate the actual cost, despite the restrictions of the program.

With the implementation of the program, and overall SUNY and CUNY operational funding remaining flat with last year's budget, there are some concerns and potential risks that need to be examined.

SUNY and CUNY defer billing for tuition and would not receive the scholarship money until after the semester has ended. If a student fails or drops out, SUNY and/or CUNY receives no income from the scholarship and places costs back on the student. This poses a risk for both students and SUNY and CUNY because if a student is already receiving aid, they are more likely to have trouble coming up with the tuition payment after the semester. This may result in SUNY or CUNY banning them from re-enrollment because of the outstanding balance. It is also notable that the Excelsior Scholarship freezes tuition aid at this year's rate, while continuing to promise free tuition to students. Since tuition has been regularly increasing, this means that any future tuition increases will result in a corresponding reduction in the revenue to the university systems.

While the legislature is reviewing the Excelsior Scholarship Program, it should also consider a number of ways the Tuition Assistance Program could be modernized. This could include 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.

[30] SUNY, "Tuition and Fees," https://www.suny.edu/smarttrack/tuition-and-fees; January 2017.
[31] Ibid.

Affordability and Quality Go Hand-in-Hand

The Excelsior Scholarship only addresses part of the need to make college affordable, since it does not address the many needs of lower-income, part-time, or non-traditional students.

But affordability is just one half of the need; the other half is quality. The Executive Budget does not provide a corresponding investment in expanding capacity or ensuring quality of education at the state's chronically underfunded universities. As real-dollar operational funding for SUNY and CUNY has declined on a per-student basis for some time (measured on a full-time equivalent basis), both entities are in need of restoration of public funding in order to address the systematic disinvestment in academic quality. Before enrollment increases with the promise of free tuition, it is critical to preserve the quality of education by ensuring that student-faculty ratios are more optimal, capital improvements occur, and better working conditions for underpaid adjunct and part-time faculty are implemented. It is difficult to justify free tuition for families earning up to $125,000 a year while paying some faculty less than $30,000 a year to teach a full course-load.

DREAM Act Extended

The Executive Budget also extends the NY DREAM Act, allowing undocumented students who attend high school for at least two years (and graduate) to access TAP funds. This is a welome initiative discussed in greater detail in the Immigration chapter of this report.

SUNY 2020 Extended for Five Years

The Executive Budget extends SUNY 2020 for five years and allows CUNY and SUNY to increase the resident undergraduate tuition by $250 per year. 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 education, as was promised in the bill that authorized the increases in 2011. 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 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, in his veto statement, the governor said the right time to take up Maintenance of Effort is in state budget negotiations. He did not include in his Executive Budget any proposal for how he would approach this question, but it undoubtedly should be part of the final budget.

Human Services, Housing, and Health

The State of the State

The United Way recently published ALICE, a report examining the needs and hardships of the substantial number of working households in our communities with incomes above the Federal Poverty Level but below a basic survival threshold. ALICE (**A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed) was compiled to identify people who work hard, often at more than one job, whose wages are not sufficient to sustain them and their families, and who are one small emergency away from a major financial crisis. The report determined that in New York State, 44 percent of working households struggled to afford basic household necessities in 2014 (15 percent living in poverty as defined by the Federal Poverty Level, with an additional 29 percent qualifying as ALICE).[32]

Digging deeper, ALICE finds that 20 percent of people living in New York City are living in poverty and another 31 percent are ALICE; in the counties surrounding NYC, eight percent live in poverty and another 28 percent are ALICE; and in in the rest of the state (everything north and west of New York City and its surrounding counties), 14 percent are living in poverty and another 28 percent are ALICE.[33]

Last year's enactment of the $15 minimum wage, Paid Family Leave, the Empire State Poverty Reduction Initiative and affordable housing and homelessness initiatives are steps in the right direction to addressing New York's high levels of poverty and inadequate incomes. The continuation of some elements of the governor's agenda to address homelessness, poverty, and health services in New York is a welcome sign amidst the drastically worsening federal landscape. Continued investment in these programs is an acknowledgment that the state's future economic growth is at stake.

More Cuts to Social Welfare Agencies

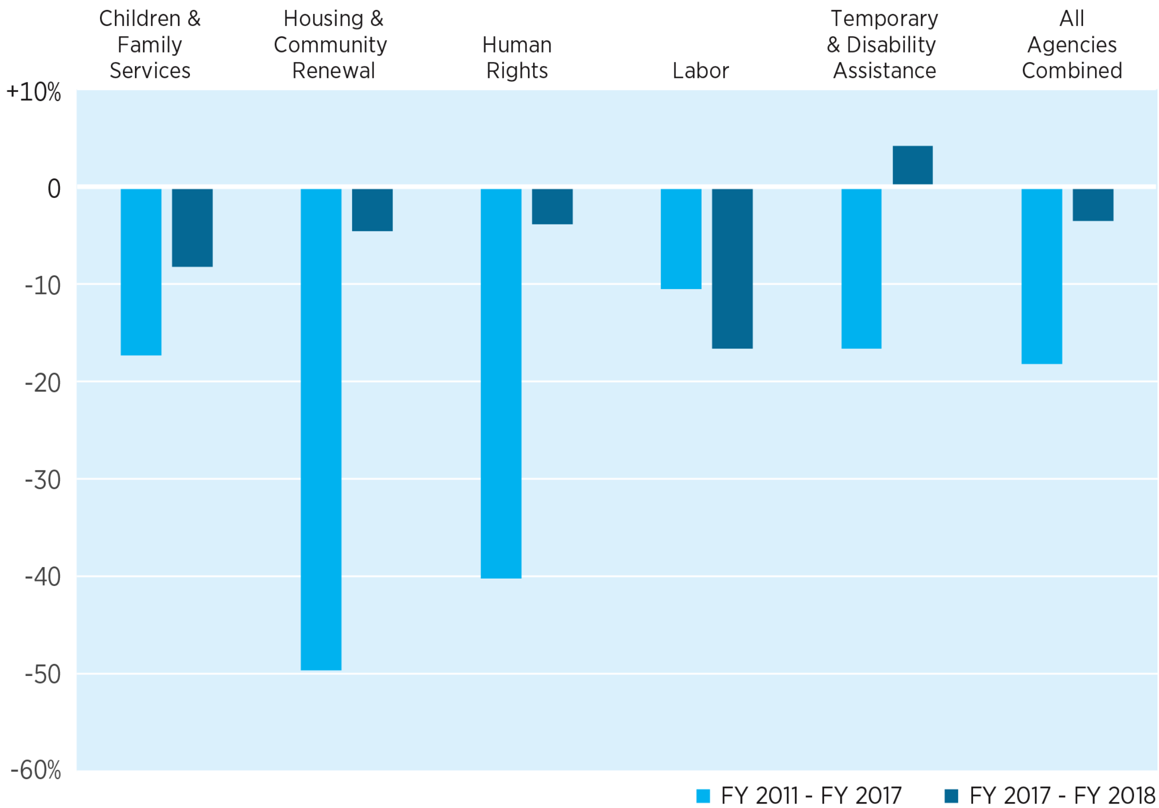
State operating fund support for social welfare agencies for FY 2018 remains almost $900 million below FY 2011 levels, representing a 21 percent decrease (after adjusting for inflation) since the governor took office in 2011. While the Office of Temporary Disability Assistance (OTDA) has a four percent increase in the governor's budget over FY 2017 (after adjusting for inflation), other human service agencies and programs are slated for cuts. The governor has proposed an eight percent cut to the Office of Children and Family Services (OCFS), following a 17 percent cut in state operating funds between FY 2011 and FY 2017.

---

[32] United Way of New York State, "ALICE – Asset Limited, Income Constrained, Employed," Fall 2016.
[33] Ibid.

Fig 21. Falling and Inconsistent Funding for Social Welfare Agencies

PERCENT CHANGE IN STATE OPERATING FUNDS, INFLATION-ADJUSTED

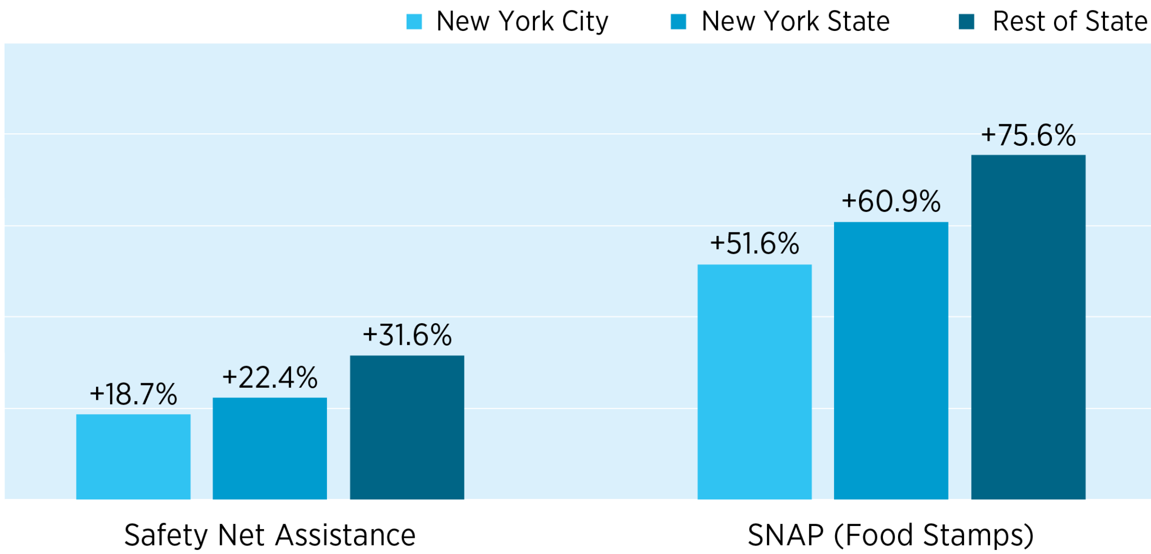


Source: NYS Division of the Budget, FY 2017-18 Executive Budget, January 2017.

These cuts pose a real threat to New Yorkers most in need. The number of SNAP recipients has grown by almost 40 percent since the recession began in late 2007, with an increase of 75 percent outside of New York City. Unfortunately, if the governor maintains his artificially imposed two percent cap on spending, these programs and services will almost certainly be subject to additional budget cuts in future years, impacting the lives of millions of New Yorkers.

Fig 22. Safety Net and SNAP Recipients Have Dramatically Increased Since 2007

PERCENT CHANGE OCTOBER 2007 TO OCTOBER 2016



Source: Office of Temporary and Disability Assistance, January 2017, http://otda.ny.gov/resources/caseload/.

Supportive Housing Initiative Memorandum of Understanding Needs Signatures

Right now, the homeless population in New York State is over 80,000 people. In New York City alone, over 62,000 people are homeless and sleeping in shelters.[34]

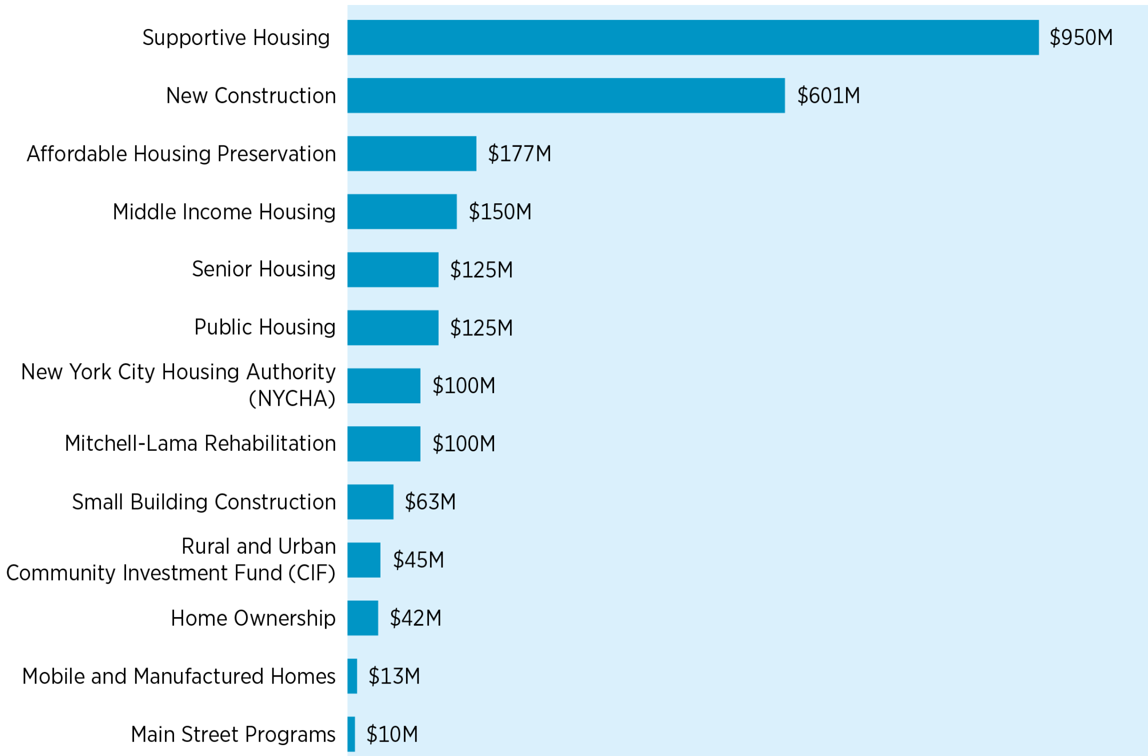
Permanent supportive housing is a solution to homelessness that combines affordable housing assistance with vital support services for individuals living with mental illness, HIV/AIDs, or other serious health concerns. There are several different models of supportive housing, including single-site, "congregate" supportive housing (located in a single building) and "scattered-site" supportive housing, where apartments are rented in the community and social workers visit tenants. Supportive housing is not only better for those in need, it actually saves the state money in the long run. Research has shown that permanent supportive housing costs far less than emergency and institutional care.[35]

The FY 2017 Executive Budget proposed several multi-year initiatives to combat the serious lack of affordable housing and growing number of people experiencing homelessness in New York State. The initiative promised $20 billion over five years to create and preserve 94,000 units of affordable housing. Within that $20 billion, $10 billion has been set aside solely for the creation of 6,000 permanent supportive housing units spread out over five years, with a combined $2.5 billion to be made available in FY 2018 ($1.97 billion appropriated in FY 2017 budget and $526.5 million proposed in FY 2018).

[34] Coalition for the Homeless, "The Catastrophe of Homelessness," November 2016, http://www.coalitionforthehomeless.org/the-catastrophe-of-homelessness/facts-about-homelessness/.

[35] Coalition for the Homeless, "Ending Homelessness: Proven Solutions," http://www.coalitionforthehomeless.org/ending-homelessness/proven-solutions/.

Fig 23. 2018 Affordable and Homeless Housing Initiative Capital Funding Allocations



Source: NYS Division of the Budget, Human Services Agency Presentation, January 2017.

To advance the initiative, the New York State Assembly, Senate, Governor Cuomo and the Executive Office need to execute a memorandum of understanding (MOU) to release $2 billion in funding. The MOU consists of three appropriations: $590 million from the Housing Program Dedicated Infrastructure Investment Fund (DIIF); $50 million from the New York State Special Infrastructure Account Dedicated Infrastructure Investment Fund (SADIIF), and $1.383 billion from the Housing Program Capital Projects Fund (CPF), for a total of $2.023 billion.[36]

In June 2016, the governor and legislative leaders reached an agreement to make only $150 million in new capital resources available for 1,200 units of supportive housing in that fiscal year. In September 2016, the Governor directed the Budget Director to sign the MOU and asked the senate and assembly to finish the job. Other than this commitment, the additional $1.82 billion is subject to the still-to-be-negotiated MOU, with no timeline for getting it signed. It is imperative that the assembly and senate execute the MOU and release the $2 billion in funding to advance the creation of supportive housing units.

[36] Joe Anuta, Crain's New York, "Affordable Housing MOU," September 2016, http://www.crainsnewyork.com/article/20160914/REAL_ESTATE/160919941/gov-andrew-cuomo-signs-agreement-to-release-2-billion-for-affordable-housing-after-weeks-of-protests.

Nonprofit Sector and Minimum Wage

Most of the 870,000 workers in New York's human services sector work directly under government-funded contracts or provide services reimbursed by Medicaid funding. Nearly half—420,000—will benefit as the state minimum wage increases 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).[37]

Most of the employers in this sector are nonprofit organizations providing services under government contract or are reimbursed under Medicaid. As such, they cannot raise their prices. Because wages are so low, and fringe benefits are bare bones, employee turnover is very high in this sector, often compromising the quality of service delivery.[38] Moreover, state and local governments' human service contracts are severely underfunded in the wake of the recession, despite the increase in need.

As a result, the increase in the minimum wage will require the state to increase funding for human services contracts, as well as 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. State budget adjustments have been made for many Medicaid-funded services to bring workers up to $15 an hour over time. Advocates have pressed the need for additional funding to raise pay above $15, arguing that such essential care-giving public services should not be considered "minimum wage work."

However, the state has yet to adjust roughly $1.5 billion (annualized) in state contracts to nonprofit organizations that 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 $12 million in the first year, and approximately $75 million yearly when fully phased-in over six years.

Child Care Workforce

Child care workers are among the lowest-paid of all workers in New York State. In 2015, median pay for workers in the child care industry was $12.63 per hour.[39] 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 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 enhance its Child and Dependent Care Tax Credit for moderate- as well as middle-income families to help offset higher, private pay child care fees that may result.

[37] Ibid., Appendix Tables A-5, 6 and 7.
[38] Federation of Protestant Welfare Agencies, Fiscal Policy Institute, Human Services Council, A Fair Wage for Human Services Workers: Ensuring a government funded $15 per hour minimum wage for human services workers throughout New York State, December 2015.
[39] Bureau of Labor Statistics, Occupational Employment Survey data for New York.

Expansion of the Empire State Poverty Reduction Initiative

Last year, Governor Cuomo introduced the $25 million Empire State Poverty Reduction Initiative (ESPRI), a community-driven, poverty reduction measure intended to increase economic opportunity for all New Yorkers. There is no new funding in the Executive Budget specifically designated for ESPRI, but as also discussed in the Education section of this report, the governor has proposed $35 million for public after-school programs[40] which will benefit the 16 ESPRI communities. ESPRI communities are identified as the Bronx, Rochester, Syracuse, Binghamton, Oneonta, Buffalo, Utica, Elmira, Jamestown, Oswego, Troy, Hempstead, Newburgh, Niagara Falls, Watertown, and Albany. Each of the ESPRI communities are currently in the process of establishing their local Anti-Poverty task forces, which will serve to coordinate local efforts.[41]

Modeled after the Rochester-Monroe Anti-Poverty taskforce, the ESPRI communities were identified by:

- the lack of social and infrastructure development in neighborhoods of concentrated poverty;
- inequality caused by structural and institutional racism, and/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 and services; and
- insufficient community capacity for child care and transportation.

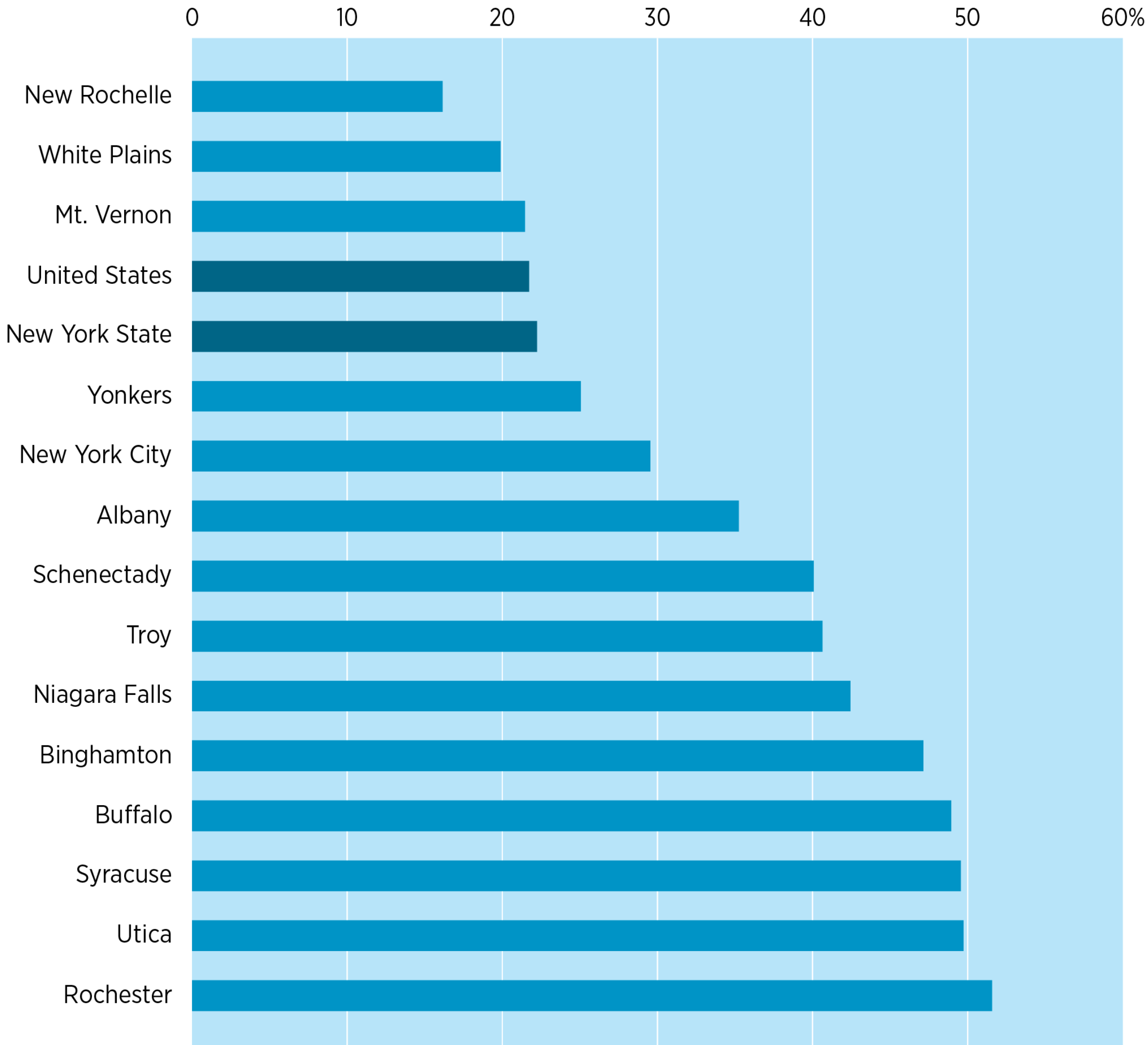
In addition to the $35 million investment for public after-school programs, Governor Cuomo has pledged $6.7 million over three years to establish the Empire Corps. The Empire Corps will consist of AmeriCorps and AmeriCorps VISTA members who will serve the 16 ESPRI communities. They will conduct outreach and engage communities to identify and connect residents living in poverty to programs and services relating to education, housing, health, and workforce development.

There is hope that investing in ESPRI communities through expansion of public after-school programs and creation of the Empire Corps will help improve conditions for low-income children and families. However, the funding on the table remains woefully inadequate for the target communities, and for that reason, communities are limited as to how much they can accomplish. The state needs to become a partner in this process by developing a statewide agenda to complement local efforts and supporting innovative approaches that combine child development investments, work and family supports, and greater economic opportunities to alleviate the concentrated poverty plaguing the target cities. ESPRI communities are some of the poorest communities in the state, and typically have astronomical child poverty rates.

[40] For more information about after school programs, refer to FPI's "Education" chapter.
[41] NYS Senate, "Staff Analysis of the FY 2018 Executive Budget," January 2017, https://www.nysenate.gov/sites/default/files/articles/attachments/staff_analysis_of_the_fy_2018_executive_budget_1.pdf.

Fig 24. Child Poverty Rates in Many Upstate Cities Top 35 percent

PERCENT OF CHILDREN LIVING BELOW THE FEDERAL POVERTY LINE



Source: American Community Survey 2011-2015 five-year data.

Child Care Remains Expensive for Most New Yorkers

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. This year's Executive Budget includes flat funding of $806 million for child care subsidies, despite the lack of funding for new federal Child Care and Development Block Grant (CCDBG) regulations that require provider quality inspections.

In light of these new requirements, it is imperative that New York State continues to provide sufficient funding to maintain slots for the approximately 92,000 children that currently receive child care subsidies. Investing in the subsidies will create a bridge between two other supports for children and working families: the Paid Family Leave program enacted last year, and the ongoing support of Pre-Kindergarten programs throughout New York State.[42]

According to the United Way's ALICE report, quality, affordable child care is the most important and most expensive budget item. The average cost of registered home-based child care is $706 per month for an infant, and the cost for a four-year-old is $657 per month, with costs rising every year.[43] At the same time, funding for actual child care subsidies continues to remain flat, even with the increase to accommodate the new federal requirements. The cost estimate to serve all eligible children is more than $2 billion per year.[44]

In addition to enhancing the Child and Dependent Care Tax Credit for the middle class as proposed, and increasing the credit for low- and moderate-income families,[45] New York should build further on its investment in early childhood development. There is still an urgent need to increase funding to expand the number of child care subsidies, to reduce and equalize parent copayments, and to ensure that provider inspections and other federal requirements are fully funded.

Child development advocates have modestly suggested that a minimum of $156 million in additional funds is needed in the FY 2018 budget ($56 million to support immediate costs associated with new federal regulations and $100 million to add subsidized child care slots). The state can reasonably sustain more than that, and it would be appropriate to allocate at least $300 million more annually to compensate for years of under-investment in child development. The CCDBG requirements prioritize serving children experiencing homelessness. The state should modify eligibility criteria to make all children eligible for child care subsidies, regardless of parental work status. Moreover, subsidy levels and child care contract funding should be increased to ensure that all pre-school and day care teachers and support staff are adequately compensated.[46]

Other Human Service Programs Face Cuts or Minimal Increases

The Executive Budget eliminates funding for 13 programs that were supported with OTDA-administered TANF initiative funds, totaling over $19.4 million in FY 2018. These include ACCESS-Welfare to Careers ($800,000), ATTAIN ($4 million), Career Pathways ($2.9 million), Centro of Oneida ($25,000), Child Care CUNY ($141,000), Child Care Facilitated Enrollment - Upstate ($2.7 million), Child Care Facilitated Enrollment - NYC ($6.2 million), Child Care - SUNY ($193,000), Preventive Services ($1.6 million), Rochester-Genesee Regional Transportation Authority ($82,000), Strengthening Families Through Stronger Fathers ($200,000), Wage Subsidy ($475,000), and Wheels for Work ($144,000).

[42] Winning Beginning New York, 2017 Child Care Background, January 2017.
[43] United Way ALICE report, November 2016.
[44] Winning Beginning New York, 2017 WBNY Child Care Background, January 2017.
[45] For more information regarding the CDCC, see FPI's chapter on Income Inequality and Taxes.
[46] Ibid.

The Executive Budget further proposes the following changes:

- Funding for the Summer Youth Employment Program (SYEP) would increase by $5 million (from $31 million to $36 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 funding remained about flat at $14.1 million (current funding of $15.4 million);
- Funding for Hunger Prevention and Nutrition Assistance Program (HPNAP), would remain at the FY 2017 level of $34.5 million; and
- The cost-of-living adjustments for nonprofit human services providers would be eliminated.

Health and Medicaid

Much of the concern for the future of healthcare in New York hinges upon changes with the new federal administration. There is a tremendous amount of uncertainty regarding the repeal of the Affordable Care Act and the potential implementation for Medicaid Block Grants.[47] Regardless of these uncertainties, the Executive Budget should carefully consider the following Medicaid-related proposals for their impact on eligible individuals and their families:

- Creating a price ceiling for certain high prescription drugs and limiting price increases for generic drugs to control rising prescription costs, as well as increasing prescription drug co-pays in the Medicaid program;
- Eliminating spousal/parental refusal so that spouses or parents are no longer able to "refuse" the income of their loved ones. This would result in no longer being Medicaid eligible and thereby no longer having access to needed long-term care services;
- Providing coverage for hundreds of thousands of low- and moderate-income New Yorkers through the Essential Plan, with premiums as low as $20/month. The governor's proposal, however, would needlessly impose the $20 premium on people with incomes between 138 and 150 percent of the Federal poverty level, and who currently have no premium;
- Eliminating the Prescriber Prevails initiative, which supports providers in determining the best course of treatment for patients, only covering some classes of medications; and
- Streamlining Long-Term Managed Care Eligibility to require a nursing home level of care determination rather than home-based or community-based care.

Furthermore, while the state provides billions of dollars to the hospital industry to foster Medicaid systems transformation, advocates support having 25 percent of the total funding allocated to community-based providers.[48]

[47] For more information regarding changes at the federal level, please refer to the Federal Funds chapter.
[48] Medicaid Matters NY, January 2017.

Local Governments

Local governments in New York State 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. Indicative of a declining capacity to provide services, total local government employment outside of New York City fell by 56,800 between 2009 and 2015, an 8.4 percent decline, with about 29,300 (-8%) jobs lost in public schools and about 27,500 (-9%) lost in other local government areas.

Fig 25. New York State and Local Government Employment, Including Public Schools

	2009	2015	% Change
NEW YORK STATE			
State Government Employment	261,200	249,600	4.4%⬇
Local Government Employment (except schools)	619,200	589,200	4.8%⬇
Local Schools Employment	516,600	484,900	6.1%⬇
NEW YORK CITY			
State Government Employment	49,400	43,500	11.9%⬇
Local Government Employment (except schools)	312,200	309,700	0.8%⬇
Local Schools Employment	149,900	147,500	1.6%⬇
REST OF NEW YORK STATE			
State Government Employment	211,800	206,100	2.7%⬇
Local Government Employment (except schools)	307,000	279,500	9.0%⬇
Local Schools Employment	366,700	337,400	8.0%⬇

ALL STATE AND LOCAL GOVERNMENT EMPLOYMENT 2009-2015

New York State	New York City	Rest of New York State
73,300 JOBS⬇	10,800 JOBS⬇	62,500 JOBS⬇

Source: Compiled by Fiscal Policy Institute, NYS Department of Labor, current employment statistics data, Oct. 2016.

For decades now, New York State has put local governments in a terrible bind. First the state reduced its contribution to joint state/local expenditures, while it simultaneously reduced state Aid to Municipalities (AIM) funding, forcing localities to either increase property taxes or cut services. In 2012, local government options were further restricted by placing a cap on the amount property taxes could be raised. Since the cap is the lesser of inflation or two percent growth—and inflation was fairly low from 2015 to 2016—the allowable property tax levy growth in 2017 will be only 0.68 percent. This follows a comparably miniscule growth factor of 0.73 percent in 2016.

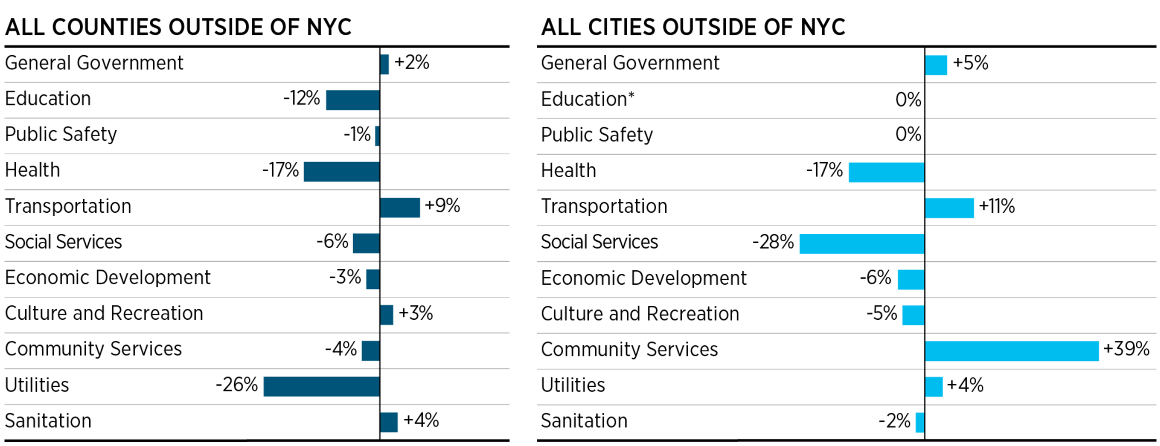
The state's agreement to take over increases in Medicaid expenses was a positive step that helped ease the pressure on local government to some degree, but it was not enough to offset the longstanding erosion of other forms of state aid to localities. Rather than recognizing the unreasonable fiscal strain 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 inevitable result has been a decline in local services. 2013 was the first full year the property tax cap was in effect, and in just the short period from FY 2012 to FY 2015, county governments around the state cut services substantially. In the 57 counties of New York State outside of New York City, after adjusting for inflation, county government spending on health care decreased by 17 percent, education (primarily community colleges, since school districts are city government entities) by 12 percent, and social services by 6 percent.[49]

City governments, again excluding New York City, are similarly down in most service categories, with a substantial increase only in community services. Social services are down by 28 percent, health care by 17 percent, economic development by six percent, and culture and recreation by five percent. These data reflect only city- and county-level spending, but towns, villages, fire districts, libraries and, most notably, school districts, are similarly affected.[50]As expected, local officials across the state report that these cuts are too severe to maintain the services citizens expect.[51]

Fig 26. As the State Cuts Back, Cities and Counties Are Squeezed

PERCENT CHANGE IN CITY AND COUNTY SPENDING OUTSIDE OF NEW YORK CITY 2012 TO 2015



** See related footnote for further information.*

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

[49] The county-level analysis excludes three extreme outliers in the data: Economic Development spending in Nassau and Suffolk, and Culture and Recreation spending in Erie.
[50] Expenditure data for local governments is available from the State Comptroller, https://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm.
[51] Facing Fiscal Challenges: Moving Toward a New York State and Local Government Partnership (Ithaca, NY: Cornell University, 2015).

Meanwhile, the need in many parts of the state is extremely serious. Metro areas in upstate New York stand out dramatically, as evidenced in a 2015 Century Foundation report (see the following figure). Looking at segregation and concentration of poverty in the 100 largest metropolitan areas of the United States, the report finds that Syracuse, Rochester, and Buffalo are among the top 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.

Fig 27. 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.

Percent of African Americans Living in High-Poverty Neighborhoods

1.	**Syracuse, NY**	**65.2**
2.	Detroit, MI	57.6
3.	Toledo, OH	54.5
4.	**Rochester, NY**	**51.5**
5.	Fresno, CA	51.4
6.	**Buffalo, NY**	**46.4**
7.	Cleveland, OH	45.5
8.	Gary, IN	45.2
9.	Milwaukee, WI	44.8
10.	Louisville, KY	42.6

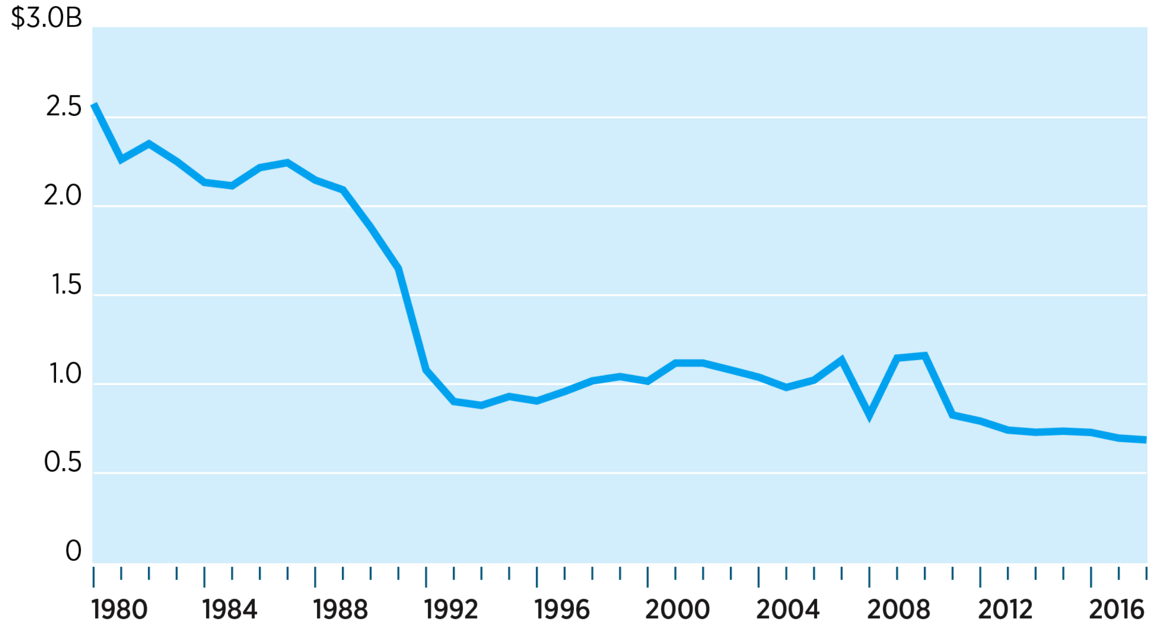
Percent of Hispanics Living in High-Poverty Neighborhoods

1.	**Syracuse, NY**	**62.2**
2.	Philadelphia, PA	54.0
3.	McAllen, TX	51.8
4.	Detroit, MI	51.1
5.	Springfield, MA	49.3
6.	**Rochester, NY**	**45.7**
7.	Milwaukee, WI	43.2
8.	Fresno, CA	43.0
9.	**Buffalo, NY**	**41.6**
10.	Cleveland, OH	36.9

Source: Paul A. Jargowsky, Architecture of Segregation, The Century Foundation, 2015.

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 a whopping 73 percent since 1980.

Fig 28. Aid and Incentives to Municipalities has fallen by almost three-fourths since 1980.



Note: Adjusted for inflation, 2016 dollars. New York City last received this aid in state fiscal year 2010.

The state's commitment to absorb increases in Medicaid spending starting in FY 2014 has saved counties outside of New York City roughly $204 million in FY 2017. A better approach would be 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. New York is one of the only states that forces local governments to contribute to Medicaid. If New York were to pick up the full local share of Medicaid for upstate counties, it would provide over $2 billion in needed mandate relief to counties and allow them to actually reduce property taxes rather than limit their growth.

Extraordinary Proposals Linking Consolidation/Shared Services Plans to AIM Grants

This year's Executive Budget once again holds AIM funding flat at $715 million, the same level it has been for nearly a decade. Astonishingly, payment of this meager amount of aid may now become contingent upon the enactment of a new Countywide Shared Services Property Tax Savings Plan Initiative.

The FY 2018 Executive Budget continues the governor's misguided efforts to relieve the property tax burden by proposing a new initiative for voter-approved, county-wide shared services plans.

Under this plan, county leaders will be required to work with all local governments contained within their boundaries, as well as with community, labor, and civic leaders, to develop these shared service plans. According to the governor, plans must "generate real, recurring savings for taxpayers." Possible actions include sharing services such as joint purchasing, highway equipment, storage facilities, and plowing services. They can also establish energy and insurance purchasing cooperatives, reduce back-office administrative overhead, eliminate duplicative services, and improve service coordination. Plans would be presented to voters for approval in the next general election, and would be implemented after a majority vote of approval. If a plan were not approved by voters, it would be revised and resubmitted by the county for another vote in November 2018.

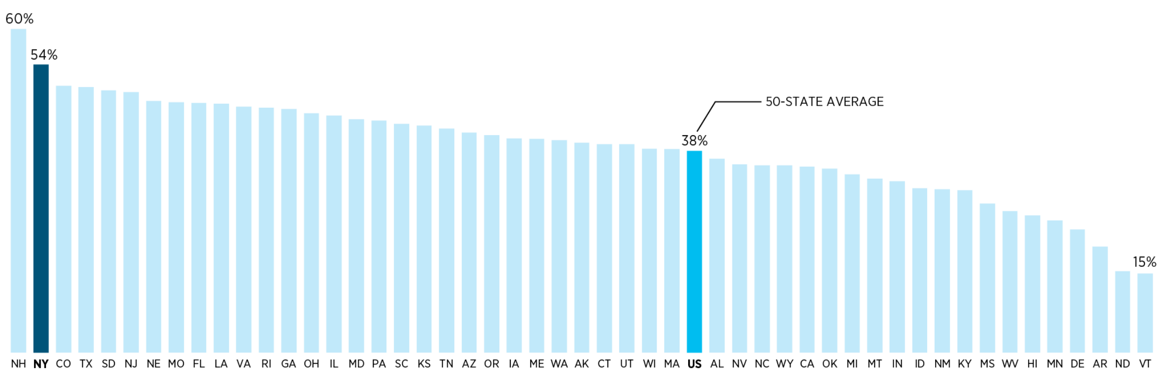
The state should dramatically increase AIM funding and not make funding contingent on voter-approved, county-wide shared service plans.

Reducing the High Burden New York State Places on Local Governments

Increasing fiscal pressures on New York's local governments come atop an already high burden 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, the following figure shows the local share of combined state/local funding responsibilities is higher in New York State than in any state but New Hampshire.

Fig 29. Localities in NY Carry Over 50% of State/Local Tax Burden; 2nd Highest in U.S.

LOCAL TAX REVENUES AS A SHARE OF ALL STATE AND LOCAL TAX REVENUES



Source: Fiscal Policy Institute analysis of Governor Cuomo's FY 2018 Economic and Revenue Outlook.

Governor Cuomo misleadingly suggests that local governments can solve their fiscal dilemma by finding substantial efficiencies. He relies heavily on the notion that consolidating government services could save enormous amounts of money.

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.[52] 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

[52] 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).

literature indicates that there is no compelling evidence for consolidation except as warranted on a case-by-case basis."[53] There are indeed instances where consolidation may be a way to reduce costs, and there are often 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 of services is hardly an adequate solution.

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 a more sensible way to address the problem, together 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. For planning purposes, a two percent minimum would work best, rather than tying it to inflation, significantly straining local finances and services. Because of low inflation, the property tax cap will be 0.68 percent in the coming year instead of two percent, according to the state comptroller. This will result in the loss of millions of dollars in revenues 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. 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).

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

[53] Mark Holzer et al, "Literature Review and Analysis Related to Municipal Government Consolidation," Rutgers School of Public Affairs and Administration, May 9, 2009.

Immigration

In a powerful speech at the Abyssinian Baptist Church in Harlem, Governor Cuomo protested against the most recent wave of bigotry in the United States, saying "I wish I could say our beautiful state of New York was immune from this poison but it's not."

The governor also projected a strong vision for the state, and for the country, saying:

> *If you love this country, if you are an American, then you must act like one and these acts of division are the exact opposite of what America stands for. The divisiveness must stop and New Yorkers will not be bystanders to injustice. That is not the New York way. We will fight sexism and racism and bigotry wherever we see it. We will stand up for the rights of immigrants because we believe our diversity is a strength, not a weakness.*

The governor's Executive Budget hints at these soaring visions and goals, but does not always give them as full-throated an expression as they deserve.

Legal Assistance to Immigrants

One very positive proposal in the Executive Budget is the proposed State-Led Public-Private Legal Defense program, but a shortcoming is the lack of any specific proposed budget allocation. The governor and legislature should back up that proposal with clearly defined funding to ensure that the promise of legal assistance is also a reality.

Four million immigrants live in New York State, including about 800,000 unauthorized immigrants..[54] President Trump has promised an unprecedented effort to uproot and deport millions of unauthorized immigrants—people who have lived and worked in our communities for years, many with families that include U.S. citizens. While our immigration system is clearly broken and in dire need of repair, this is an answer that makes the system worse, not better, terrorizing communities and pushing people further underground.

The process of targeting so many people for deportation will inevitably be chaotic, and many people who are not deportable are likely to get caught up in nets that are widely spread. New York State cannot grant legal status to unauthorized immigrants. But, it can provide legal assistance to make sure that immigrants and others who get caught up in the machinery of deportation get legal assistance to ensure that they have a fair defense.

[54] Center for Migration Studies data tool, http://data.cmsny.org, using data for 2014.

In immigration court, an individual has a right to legal representation, but at the immigrant's own expense, regardless of their financial circumstances.[55] Between 2007 to 2012, only 34 percent of all immigrants and 14 percent of detained immigrants received legal representation.[56] Currently nonprofit organizations provide the majority of legal representation for immigrants. However, they are now experiencing a lack of funding and are likely to see a dramatic increase in demand, and for many low-income immigrant families, the high fees for private lawyers puts legal representation out of reach. The proposal for a First-in-Nation State-Led Public-Private Legal Defense Program would help achieve equality for immigrants in the court system in regards to legal representation, and would also help prevent the devastating effects that deportation has on families, such as emotional trauma and poverty.

But, providing adequate funding is critical to making sure the promise of legal services is a reality. The Safe Passage Project provides legal services using a public/private model, and estimates the costs of one case at $3,000 per year ($6,000 per case, with the average case taking two years).[57] It is unclear how many people—unauthorized immigrants and others—will be caught up in the sweeping immigration raids promised by the Trump administration. But, just to give an example, an annual allocation of $30 million per year would allow for about 10,000 unauthorized immigrants to get legal assistance, and $60 million would allow about 20,000 to get assistance.

New York State DREAM Act

For years the governor and the legislature have played games with the New York State DREAM Act, a very modest budget item that would allow unauthorized immigrant children who grew up in New York to get the support that their peers get to go to college. The DREAM Act would allow unauthorized immigrants who meet certain qualifications to apply to the state's Tuition Assistance Program on the same basis as others students. This would be good for those kids, whose earnings after they graduate would increase substantially. It would be good for the state budget, with those higher earnings translating into an increase in state tax revenues. And it would be good for New York businesses, who rely on a skilled labor force and benefit from a climate in which immigrants are welcomed and encouraged to thrive. This small state investment would pay rich returns for many years as graduates contribute to the economy and society of New York.

The governor includes in his Executive Budget $19 million for the New York State DREAM Act in FY 2018, and $27 million for subsequent years. This is very much in line with the Fiscal Policy Institute's estimates (in 2012, FPI issued a preliminary cost estimate suggesting that the cost of the DREAM Act would be about $17 million).[58] FPI calculated that if this were financed through an expansion of the state's personal income tax, it would cost the typical (median) New York State taxpayer 87 cents per year—considerably less than the cost of replacing the battery in a bedside clock every year. In the context of a national political climate in which immigrants have been under

[55] Center for Migration Studies data tool, http://data.cmsny.org, using data for 2014.
[56] Ingrid Eagly and Steven Shafer, "A National Study of Access to Counsel in Immigration Court," University of Pennsylvania Law Review 164 no. 1 (December, 2015): 1-91.
[57] Safe Passage Project estimates provided in correspondence to Fiscal Policy Institute by the executive director of the program, Richard Leimsider.
[58] "The New York State DREAM Act: A Preliminary Estimate of Costs and Benefits," Fiscal Policy Institute, March 9, 2012.

attack, the games should stop. The governor should press hard to finally get the New York State DREAM Act passed, and the senate and assembly should agree.

Funding for English Language Programs

The diversity of immigration in New York State is a tremendous advantage for the state, but it also poses a challenge. Making sure that every person in the state who wants to learn English as a second language should be offered the opportunity to do so. Most of the students would be immigrants, but there are also U.S.-born New Yorkers who would benefit—Spanish-speakers from Puerto Rico, for example, or second-generation kids whose English may not be as strong as another language spoken at home. Making sure there are high-quality programs to learn English for everyone who wants them would seem like an obvious benefit, not just to those who take the classes but also to the state's social, political, and business climate.

A good place to start would be by dramatically expanding funding for Adult Literacy Education. In FY 2017, Adult Literacy Education received $7.3 million. The governor should increase this funding substantially. A proposal by the New York Immigration Coalition to expand funding to $17.2 million makes good sense for New York State.

Driver's Licenses

There is no lack of political argument about how the federal government should approach unauthorized immigrants in the United States. But, there is no doubt that 11 million people will not be deported tomorrow, nor is tomorrow the day they will be given a pathway to citizenship.

In this context, it makes sense for New York State to protect its own interests by making sure that driver's licenses are broadly accessible, irrespective of immigration status. This is just smart public policy that would ensure that everyone on the road is licensed, tested and insured. It would modestly improve local economies, since having good transportation options will allow for a better job match between employers and employees. And, it would improve the daily lives of undocumented immigrants by allowing them to perform daily activities such as grocery shopping, driving to doctor appointments and their children's schools, as well as to their jobs.

Expanding access to licenses would allow an estimated 265,000 unauthorized immigrants in New York to get licenses—including 150,000 in New York City, 53,000 in the Hudson Valley, 51,000 on Long Island, and 11,000 in Northern and Western New York.[59]

New York would hardly be alone in adopting this policy: 12 other states, the District of Columbia, and Puerto Rico already allow unauthorized immigrants to apply for driver's licenses. If New York adopted this policy, 44 percent of all unauthorized immigrants would live in an area where they can apply for drivers licenses (up from 37 percent today).

[59] David Dyssegaard Kallick and Cyierra Roldan, "Expanding Access to Driver's Licenses: Inclusion of Immigrants Without Regard to Legal Status," (New York: Fiscal Policy Institute, 2016).

The cost of this proposal would be more than offset by added revenues, but it would make sense for the governor and legislature to allocate funding to the Department of Motor Vehicles to allow it to hire and train staff ahead of the demand.

FPI estimates that there will be a total of $57 million in combined annual government revenue, plus $26 million in one-time fees. The annual revenues include $28 million to New York State, $21 million to county governments, $8.6 million to the MTA, and $288,000 to upstate mass transit authorities. Revenues come from the fee for driver's licenses, the gas tax paid when refilling the tank, and the purchase of cars—which is not just a shift in spending but an added revenue if immigrants pay for the cars out of higher earnings from a better job.[60]

Upstate Cities and Economic Revitalization

Across the country, there is growing awareness on the part of mayors, county officials, and governors that immigrants are an asset to their communities and to their economy—180 degrees at odds with a federal government that seems intent on seeing immigrants as a drain.

State and local leaders are no doubt driven in part by a sense that who we are as Americans is deeply connected with the history of immigrants coming to this country to seek refuge and to realize their dreams. But they are increasingly also frequently driven by a hard-nosed understanding of the economic benefits of having a diverse labor force and multicultural places that are attractive for a wide range of residents and companies. And in cities that have seen a declining population, public officials are seeing the important role immigrants are playing in stemming or reversing population loss—places around the country like Detroit, Pittsburgh, Cleveland, St. Louis, and upstate New York cities like Buffalo, Rochester, Syracuse, Albany, Utica and Binghamton.

As the federal government seems to be moving toward a more hostile attitude toward immigration, state and local governments have the opportunity to expand their focus on immigrants as valuable resources for a community, often in collaboration with groups such as Upwardly Global, Welcoming America, or the Welcoming Economies Global Network.

A particularly interesting opportunity to explore the role immigrants can play in helping spur economic growth is in connection with the governor's proposed use of $100 million of the New Monetary Settlements for a Downtown Revitalization Initiative. The initiative is focused on ways to increase "attractiveness and livability of the downtown, including the presence of developable mixed-use spaces, housing at different levels of affordability and type, commercial and retail main street businesses, including healthy and affordable food markets, walkability and bikeability, and public parks and gathering spaces."[61]

The Downtown Revitalization Initiative, which funds projects through the Regional Economic Development Council process, could do more to recognize the ways immigrants can make an important contribution to these efforts if they are fully included in the planning. The entrepreneurial spirit of immigrants is broadly recognized; what has become clearer in recent years is the

[60] Ibid.
[61] Web site of the governor, https://www.governor.ny.gov/news/governor-cuomo-launches-100-million-downtown-revitalization-initiative, accessed on January 31, 2017.

connection between immigrant entrepreneurship and “Main Street” businesses. Main Street businesses are the storefronts that often give a neighborhood its character, such as restaurants, grocery stores, retail shops, and beauty salons. And, while immigrants nationally make up 13 percent of the population, 16 percent of the labor force, and 18 percent of business owners, they make up a highly disproportionate 28 percent of Main Street business owners.[62]

Similarly, if part of the downtown revitalization is finding ways to convert distressed properties to occupied homes, immigrants should also be part of that effort. A tool developed by the Fiscal Policy Institute and the Welcoming Economies Global Network shows that in Buffalo, there are 3,000 immigrants who are not currently home owners but would be eligible to buy and rehab a distressed property if the cost were $50,000. In Rochester, there are about 2,500 potentially eligible immigrants, and in Syracuse 2,800. In all cities, immigrants are at least as likely as others to be eligible for home purchase, and in some cases they are more likely to be eligible.[63] Yet immigrants—as well as others, particularly people of color—often face barriers in the housing market, or are overlooked by officials thinking about economic development, land banks, or other revitalization efforts. Challenges that could be addressed simultaneously for immigrants and other excluded groups include obtaining loans for distressed property, a history of redlining, and having credit histories that are not recognized by local banks.

Refugee Resettlement

President Trump’s executive order halting all refugee resettlement for 120 days and then cutting the expected number of future refugees in half is a humanitarian tragedy. It is also a move that will have deep consequences for a number of areas in New York, particularly in upstate cities.

New York has a long and proud tradition of refugee resettlement. In New York, immigration is concentrated in the downstate area, and refugee resettlement is highly focused in upstate New York.

Last year, for example, New York State settled 5,028 refugees, over 90 percent of whom were settled in upstate New York. The counties with the highest number of refugees settled last year are Erie (1,800), Onondaga (1,242), Monroe (737), Albany (457) and Oneida (411). Last year, just 283 refugees were settled in New York City.[64] This is a longstanding pattern based on where housing costs are lower, where refugee resettlement agencies have capacity to help resettle newcomers, and where cities wrestling with declining populations and underutilized housing and other infrastructure often welcome the opportunity to bring new residents, especially since their initial settlement and rent is supported with funding from the federal government.

Upstate cities have come to rely on a strong network of refugee resettlement agencies as anchor institutions. Not only do these institutions provide assistance to refugees, but they provide workforce development that aids employers and often also provide services to a wide range of

[62] David Dyssegaard Kallick, Bringing Vitality to Main Street: How Immigrant Businesses Help Local Economies Grow, (New York: Fiscal Policy Institute and Americas Society/Council of the Americas, 2015).
[63] See Fiscal Policy Institute/Welcoming Economies Global Network data tool at http://www.weglobalnetwork.org/landbank/. For an analysis, see also David Dyssegaard Kallick and Steve Tobocman, Do Immigrants Present an Untapped Opportunity to Revitalize Communities? (Welcoming Economies Global Network and Fiscal Policy Institute, 2016).
[64] Data are from the Bureau of Refugee and Immigrant Assistance, and are for Federal Fiscal Year 2016. See: https://otda.ny.gov/programs/bria/documents/population-report.pdf.

immigrants and U.S.-born people in need beyond what their federal funding supports. The resettlement agencies are themselves employers, renters or owners of property, and provide a stream of people to rent homes that might otherwise stay empty.

The absence of funding from the federal government for the expected refugees during a 120-day gap would be a local disaster. Resettlement agencies are charities that run on a very narrow margin. Many are already laying off workers. Some would undoubtedly close. Some would have to cut back staff dramatically, and then try to hire staff back after the 120-day gap.

A better alternative would be for the governor and the legislature to step in to help sustain these resettlement agencies against the onslaught of federal policy. The costs should not be overwhelming. If refugees were to come at the same pace as the average for last year, a 120-day stop would mean about 1,700 fewer refugees. Refugee resettlement agencies receive about $950 per refugee in federal funds to cover administrative costs related to resettling the refugees. To cover the 120-day gap might cost about $1.6 million; to cover the shortfall for the year might be an added $2 or $3 million—a very modest state investment that would have a huge impact on these local areas being adversely impacted.[65]

There is no lack of need within these organizations. They could, for example, step up their work with refugees already in their system, perhaps helping with entrepreneurship or job training or more sustained job-oriented English language classes or help with rehabbing homes or encouraging home ownership among earlier groups of refugees. That way, when the federal funding stop is over, they could still have staff on hand with connections to the communities and to the organizations.

Blue Ribbon Panel

Governor Cuomo proposed in his Executive Budget that the state convene a Blue Ribbon Panel on Immigrants, to consider ways to support the economic integration and success of the four million foreign-born residents in New York. The number of immigrants in New York certainly justifies this kind of intensive attention, as does the wide range of needs and complex new challenges faced by immigrants under the Trump administration.

The risk of any Blue Ribbon Panel is that it can be a way to study an issue without acting on it. Making sure there is not just study, but also follow-through and funding—where appropriate—will be key to making the promise of added attention to immigrants a reality.

[65] Estimated federal funds for administrative costs are based on communitications with the International Institute of Buffalo and the Mohawk Valley Resource Center for Refugees.

A Shared Opportunity Agenda

The 2018 Executive Budget takes some positive steps in acknowledging and addressing the needs of struggling low-income and working class families in New York State, as well as in making the investments that will be good for all New Yorkers. 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. New York has the greatest level of income inequality in the nation. We must do more to create enhanced opportunities for struggling families.

Reduce Income Inequality

Aid Those In Poverty and Build The Middle Class

- **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 workers not raising children in the home, as well as those ages 21-24 and 65-66, and to increase amounts for childless couples.

- **Increase the Child and Dependent Care Credit**

  New York's low- and moderate-income families should receive enhanced child and dependent care credit benefits. The governor's proposal increases the average credit for middle income families by 123 percent, but provides no adjustment for families with incomes below $50,000. Doubling the credits (a 100 percent increase) would benefit nearly 200,000 struggling families with incomes below $50,000 at a cost of approximately $142 million. Such an adjustment would disproportionately benefit blacks and Latinos, who are heavily concentrated among the state's low-income families. The child and dependent care tax benefit enhancements should be effective this tax year (2017) to begin providing immediate relief to New York's working families.

- **Execute the Supportive Housing Initiative Memorandum of Understanding**

  Investing in supportive housing produces better outcomes for those being helped, and is sorely needed to support New Yorkers across the state living with mental illness, HIV/AIDs or other serious health concerns. It is imperative that the senate, assembly and the governor come to an agreement about the remaining $1.82 billion out of the planned $2.5 billion from the FY 2017 Executive Budget. With a meager $150 million released in June 2016—from an already committed $10 billion in total funding—for supportive housing alone, advancing the creation of 6,000 supportive housing units will ultimately decrease the growing homelessness population in the state.

- **Implement Home Stability Support Program to Reduce Homelessness**

  The Home Stability Support (HSS) program would be a new statewide rent supplement for families and individuals who are eligible for public assistance benefits and who are facing eviction, homelessness, or loss of housing due to domestic violence or hazardous living conditions. HSS would be 100% federally and state-funded, and would replace all existing optional rent supplements. The rent supplements would be a bridge between the current shelter allowance and 85% of the fair market rent determined by HUD. Local districts would have the option to further raise the supplement up to 100% of the fair market rent, at local expense. To address the fact that the heating allowance has not been increased in 30 years, and assistance currently available doesn't go far enough to help pay for heat, HSS would have a heating differential for homes that do not include heat in the rent.

- **Invest in the Human Services Sector**

  The rise in the state minimum wage to $15 will require the state to increase funding for human services contracts, as well as change Medicaid reimbursement rates that apply to home health care, workers providing services for the developmentally disabled, and others. State budget adjustments have been made for many Medicaid-funded services to bring workers up to $15 an hour over time, but the state has yet to commit to increasing funding for human services contracts. Advocates have pressed the need for additional funding to raise pay above $15, arguing that such essential care-giving public services should not be considered "minimum wage work." FPI further urges the state to ensure that when they contract with nonprofits to provide critical services, they reimburse them for the real cost of providing those services.

- **Reform Unemployment Insurance**

  The Executive Budget includes legislation to reform unemployment insurance for part-time workers. While that is an important step in the right direction, the state also needs to accelerate the phase-in for the maximum weekly benefits and accelerate an increase in the taxable wage base. New York's average weekly unemployment insurance benefits are below the national norm, even though average weekly wages are second highest in the country.

- **Increase Funding for the Empire State Poverty Initiative**

  The Executive Budget includes no new funding for the 16 Empire State Poverty Initiative communities. The cities included in the initiative would still be eligible for state funding from the prior year's $25 million grant pool (to be used with matching private funding for anti-poverty programs). While we applaud the initiative, it's imperative that it is funded on a level commensurate with the magnitude of the challenges local communities face, including extraordinarily high child poverty and concentrated overall poverty.

- **Expand Investments in Early Childhood Development and Child Care**

  Child development advocates have modestly suggested that a minimum of $156 million in additional funds is needed in the FY 2018 Executive Budget ($56 million to support immediate costs associated with new federal regulations and $100 million to add subsidized child care slots). The state can reasonably sustain more than that, and it would be appropriate to allocate at least $300 million more annually to compensate for years of under-investment in child development. Current funding requirements prioritize serving children experiencing homelessness. The state should modify eligibility criteria to make all children eligible for child care subsidies, regardless of parental work status. Moreover, subsidy levels and child care contract funding should be increased to ensure that all pre-school and day care teachers and support staff are adequately compensated.

- **Increase Funding for Universal Pre-Kindergarten**

  The expansion of Pre-Kindergarten programs over the last few years is a step in the right direction to ensuring that New York's youngest public school students are able to develop learning skills and have better overall education outcomes. However, the $5 million in additional funding falls far short of the amount needed to fulfill the need across the state. Many school districts already have waiting lists and/or are forced to use lotteries to award seats to eligible children. This year, 70 districts submitted proposals for Pre-K funding. By maintaining all current funding levels for Pre-K programs, and adding at least $150 million to expand access to high-needs districts outside New York City, New York will effectively add full-day seats and ensure programs have the resources and technical assistance to meet the quality standards.

- **Increase Funding for After-School Programs**

  After-school programs provide safe, educational space for children to go after the school day ends in urban, suburban, and rural communities. Successful high-quality after-school programs increase student engagement and attendance, as well as improve test scores and reduce negative behaviors, among other benefits. The 2018 Executive Budget invests an additional $35 million in public after-school programs in the state's 16 Empire State Poverty Reduction Initiative (ESPRI) communities. This new funding will create an additional 22,000 spots for students in after-school programs. With these new investments, more students in ESPRI communities will receive after-school care in the 2017-18 school year.

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 precarious position. First they had to choose between raising taxes and cutting local services, and more recently, only had the option to cut services with 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 more than 2 percent 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, poverty reduction, and other critical needs. The Division of the Budget projects inflation of 2.7 percent in 2017 and 2.6 percent next year. This unforced austerity—that is, budget decisions driven by policy choice rather than by the economy—has already caused the state to underinvest in several critical areas. The continuation of the cap serves only to guarantee further harmful cuts to local governments, education and human services programs.

- **Eliminate or Amend the Property Tax Cap**

  The property tax cap should be eliminated, as it is the wrong solution to the state/local tax problem. Short of being eliminated, there are modifications that would at least minimize its damage to schools and local governments. The cap should, at the very least, 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. If the cap is to remain in place, the state should make the cap a true two percent cap, rather than tying it to inflation, ensuring that local governments and school districts can have greater certainty in their local funding.

- **Increase K-12 School Aid and Maintain the Foundation Formula**

  Make a serious down payment on meeting the commitments of the Campaign for Fiscal Equity settlement by increasing aid by at least $2 billion and distributing it through the foundation formula. This would ensure funds are targeted to high-needs school districts with high child poverty rates. The foundation formula should be maintained, not eliminated as proposed by the governor.

- **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 financial burden relative to their ability to sustain the local cost share. One of the best ways to relieve the pressure of high property taxes on middle-income households and small businesses would be to have the state gradually pick up the entire local share of Medicaid costs over a period of time.

- **Increase Aid and Incentives to Municipalities (AIM) and Don't Link to County-Wide Shared Service Plan**

  This year's Executive Budget once again holds Aid and Incentives for Municipalities (AIM) funding flat at $715 million, the same level for nearly a decade. Funding is down by a whopping 73 percent over the past 30 years. Astonishingly, payment of this meager amount of aid may now become contingent upon the enactment of a new Countywide Shared Services Property Tax Savings Plan Initiative. The state should dramatically increase AIM funding and not make funding contingent on voter-approved, county-wide shared service plans.

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 $1.9 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 to create jobs if invested in infrastructure or picking up more costs the state currently pushes down to the local level.

- **Excelsior Scholarship Program and Increased Aid to SUNY and CUNY**

  This year, Governor Cuomo made headlines by proposing what he called "free tuition." The title is misleading; in fact, this is a proposal to provide financial aid to students who come from families whose income is above the threshold for current aid programs. That is a fine idea and speaks to addressing affordability for the families who qualify. However, it is limited in its scope, it does not address the pressing needs of lower-income students, and it does not begin to address the question of quality of education. In short, the Executive Budget does not provide a corresponding investment in expanding capacity or ensuring quality of education at the state's chronically underfunded universities. As real-dollar operational funding for SUNY and CUNY has declined on a per-student basis for some time (measured on a full-time equivalent basis), both entities are in need of restoration of public funding in order to address the systematic disinvestment in academic quality. Before enrollment increases with the promise of free tuition, it is critical to preserve quality by ensuring that student-faculty ratios are more optimal, capital improvements occur, and better working conditions for underpaid adjunct and part-time faculty are implemented.

- **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.

- **Fund the Promised Legal Defense for Immigrants**

  Governor Cuomo boldy promised legal assistance to immigrants, a desperately needed service as the federal government prepares to cast a very wide net in immigration enforcement. However, the Executive Budget lacks any funding to make this promise a reality. There are about 817,000 unauthorized immigrants in New York State. At a rough estimate, $30 million could provide legal services for 10,000 a year, and $60 million could provide services for 20,000 a year. The governor and the legislature should evaluate the need and provide adequate funding to make this promise a reality.

- **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 (TAP). The governor's inclusion of this measure in the Executive Budget is welcome. Leading it through the legislature would not only send the message that New York is a state that welcomes immigrants, but a state in which talent is valued as well. The Executive Budget estimates the cost at $19 million in FY 2017 and $27 million in future years. This is a very small cost to the state with a very high return on investment.

- **Fund English Language Programs**

  Teaching English to immigrants and other New Yorkers who don't speak it as a first language is an obvious boon to the state. Yet the state has chronically underfunded English Language programs that would help the English language learners, boost employee productivity, and ease social integration. There is a big shortfall in the design and funding of these programs. A good place to start in this year's budget would be to expand Adult Literacy Education funding from $7.3 million to $17.2 million, as immigration and education advocates have proposed.

- **Help Refugee Resettlement Agencies Bridge the Trump Administration Funding Gap**

  The Trump Administration's 120-day stoppage in refugee resettlement and plan to cut the number of refugees accepted next year in half is a real threat to upstate New York's resettlement agencies. Upstate cities have come to rely on these agencies as anchor institutions. These institutions provide assistance to refugees, workforce development aiding employers, and services to a wide range of people beyond what their federal funding supports. The agencies are themselves employers, renters or owners of property, and they provide a stream of people to rent homes that might otherwise stay empty. The state could bridge the 120-day gap for roughly $1.6 million, and address the full year's shortfall for just $2 to $3 million.

Make the State Tax System More Progressive

Improve The Income Tax, Close Loopholes and Fix "Corprate 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. Governor Cuomo has proposed extending the current millionaires' tax for another three years. FPI believes this does not go far enough and proposes that the state increase the number of brackets from eight to 12, and make the new structure permanent. The 1% Plan retains the middle class tax reductions passed in 2016, 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 $2.5 billion more than the governor's proposed extension, with 17 percent of that paid by out-of-state residents. If the millionaires' tax is not extended, the richest 1 percent of families in New York State would get a $3.7 billion tax windfall. FPI supports the recently released assembly plan to expand the millionaires' tax, which is similar to FPI's 1% Plan.

- **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 the income of thousands of smaller businesses, and modify the state nonresident personal income tax to include New York income received from investment management services, which is currently not taxed.

Fiscal Policy Institute
WWW.FISCALPOLICY.ORG

1 Lear Jet Lane, Suite 1A | Latham, New York 12110 | 518 786-3156

11 Park Place, Suite 701 | New York, NY 10007 | 212 414-9001