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Fiscal Policy Institute

Policy Brief

Shared Opportunity

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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.

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The Fiscal Policy Institute (www.fiscalpolicy.org) 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..