News from the
Fiscal Policy Institute

For immediate release

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Preliminary Analysis: Budget Takes One Step Forward and Two Steps Back

Fiscal Policy Institute Response to Executive Budget Proposal

Ron Deutsch, Executive Director
"The Governor's proposal takes some positive steps forward to deliver targeted property tax relief and address poverty in the state. However, for every step forward we take two steps back if we don't dramatically increase aid to our fiscally stressed schools and local governments and commit substantial resources to ending child poverty in our state."

James Parrott, Deputy Director and Chief Economist
"To really help the poor and the middle class, we need to scrap the 2% spending cap to restore education investments and expand opportunities for those struggling to lift themselves out of poverty."

Executive Budget Financial plan

The Governor should put his austerity budgeting behind him by scrapping his self-imposed 2% state spending cap. Otherwise, his proposed new measures to address poverty will necessarily be paid for by cutting important human services spending elsewhere in the budget. These important new initiatives must go hand-in-hand with meaningful funding restorations in human services and higher education along with targeted school aid to high-needs districts (not dependent on reforms) and new resources for fiscally-stressed local governments.

State tax revenues, total wages and personal income are projected to grow by 4-5% annually over the next four years. There is no reason to hold annual spending growth below 2% if it means that we are under-investing in education and poverty reduction. The sheer magnitude of continued spending cuts forced by the 2% spending cap—$ 1.7 billion in FY2017, $3.3 in FY2018 and $4.8 in FY2019—will starve our schools and public universities and prevent our state from making the investments needed to expand opportunities for those struggling to lift themselves out of poverty.

Minimum Wage

Seven states and the District of Columbia have a higher minimum wage than New York State, so it is understandable that the Governor is proposing to increase New York's minimum wage to $10.50 by the end of 2016, and to increase the minimum in New York City to $11.50 an hour given the city's high cost of living.

Education Investment Tax Credit (EdITC)
The governor's proposal will divert $100 million to privately determined educational uses. It raises serious questions about whether it is smart tax policy for the state to delegate its spending authority to private individuals.

The bill passed in the Senate today would divert $675 million over the next three years to privately-determined educational uses. Such a tax credit represents a misuse of public resources for private purposes and could be in violation of section 7 of Article 7 of the Constitution that requires all appropriations to be "distinctly specified." Because it provides an unprecedented proportion of tax reduction relative to a contribution (90%), it also has the potential to lessen charitable contributions for a wide range of worthy causes.

Property Tax Relief Credit: Circuit Breaker
The governor proposed a property tax relief plan that links homeowners and renters income to their property tax burden. The $1.66 multi-year proposal would deliver means-tested relief to over one million homeowners whose property taxes exceed 6% of their income. A family making $50,000 per year and paying $6,000 annually in property taxes would see a $1,500 annual credit—or a 25% reduction in its property tax burden. Regrettably, only homeowners who live in tax cap-compliant areas will receive relief and the funding mechanism is based on cutting future budgets.

$5.4 Billion Bank Settlement Surplus:
The governor has proposed using the bank settlement surplus as follows:
- Upstate Regional Economic Development Councils: $1.5 billion (7 Councils to compete for 3 pots of $500 million)
- Statewide broadband: $500 million
- Thruway system $1.285 billion (keep tolls down and fund Tappan Zee Bridge)
- Support debt restructuring and other capital projects for hospitals in rural communities: $400 million
- Build new Metro-North stations in the Bronx and extend access to Penn Station: $250 million
- Construct parking structures near transit hubs: $150 million
- Local government efficiency grants: $150 million
- Emergency response/security: $150 million
- Upstate ports/state fair: $115 million
- Medicaid OPWDD liabilities (money needed to repay federal government): $850 million

With regard to the upstate Regional Economic Development Councils proposal, the Fiscal Policy Institute does not support asking regions to compete for funds in this manner and believes it is a poor use of resources. The governor should instead use the majority of settlement funds for infrastructure investments throughout the entire state (through a fair formula) and for replenishing the State's Rainy Day fund.

Education
K-12 School Aid
The governor is proposing an increase of $1.1 billion in school aid funding but this increase is contingent on the legislature's approval of far-reaching changes in teacher evaluation and retention policies. Aid to financially strapped schools should not be contingent on the governor's reform agenda. Since 2011, state aid has been at historically low levels as a share of total school spending.

Universal Pre-K
The Universal Pre-Kindergarten program for four year olds enacted last year continues in fiscal year 2016 with $365 million funding in fiscal year 2016 (funding is projected to total $1.5 billion over 5 years). In

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addition, the executive budget includes $25 million in new funds for Pre-K in "targeted" high needs districts.

Higher Education
The "Get On Your Feet Loan Forgiveness" program advanced by the governor would provide a two-year buffer on loans, with certain conditions, but is not an effective use of state dollars. A better use of these resources would be to provide more funding for the Tuition Assistance Payment program that provides targeted aid to students that need it the most.

The proposed budget doesn't make up for the steep inflation-adjusted decline in state aid to SUNY in recent years.

New York State DREAM Act
The New York State DREAM Act is a long-overdue measure that would cost little ($27 million in the governor's budget) and would have a very strong return on investment, as reports from FPI and the state comptroller have shown. The governor has long said he supported the measure. To finally put this in a budget is welcome, but to link it to the unrelated and deeply misguided Education Investment Tax Credit, reflects typical Albany wedge politics. The DREAM Act should be a legislative priority on its own merits.

Human Services
The governor is taking steps in the right direction with a sensible but modest anti-poverty agenda. Unfortunately, these initiatives will not be effective if we continue to adhere to the state 2 percent spending cap that has resulted in significant cuts in human services spending over the past four year. The executive budget projects a decrease in funding to critical human service programs. This is on top of over $1 billion in cuts to human services since 2009. Child poverty rates in NYS have reached epic levels in many of our upstate cities. Currently more than 1 in 5 children throughout the state live in poverty.

Local Government (Consolidation/Efficiency/AIM)
Efficiency proposals
The Executive Budget includes $150 million in incentives to encourage efficiencies, shared services, mergers and consolidations across local governments. Potential savings from efficiencies/consolidation are generally exaggerated. For example, a review of the literature on experience with consolidations in the U.S. and internationally found mixed results on whether consolidation resulted in costs savings. Adequate state assistance to localities for the services they provide is a more effective way to reduce property taxes.

AIM (Aid and Incentives to Municipalities)
The executive budget holds funding flat for Aid and Incentives to Municipalities (AIM) at $715 million. Reduced state aid has put pressure on local property taxes. This unrestricted state support to cities, towns, and villages has dropped by 75% in inflation-adjusted dollars since the 1980s. The rate of decline has slowed in recent years but funding for this program has continued to erode, after accounting for inflation.

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.

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