

A SHARED OPPORTUNITY AGENDA

New York State
Economic and Fiscal Outlook
2015-2016





RON DEUTSCH

Executive Director

JAMES A. PARROTT, PH.D.

Deputy Director

& Chief Economist

DAVID DYSSEGAARD KALLICK

Senior Fellow and Director of the Immigration

Research Initiative

ELIZABETH MCNICHOL

Senior Fellow

BRYAN LAVIGNE

Director of Administration

& Development

BRENT KRAMER

Senior Economist

MICHELE MATTINGLY

Research Associate

CHIOMA OSUEKE

Research Assistant

HUI LIU

Research Assistant

FRANK J. MAURO

Executive Director Emeritus

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.

ONE LEAR JET LANE | LATHAM, NEW YORK 12110 | 518 786-3156

11 PARK PLACE, SUITE 701 | NEW YORK, NY 10007 | 212 721-5624

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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

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Executive Summary

GOVERNOR ANDREW CUOMO'S EXECUTIVE BUDGET PROPOSAL TAKES SOME POSITIVE steps forward in clearly acknowledging, for the first time in his tenure, the incredible child poverty and income inequality that exist in our generally affluent state and recognizing the need to give greater property tax relief to those who need it most rather than spreading it too thinly. However, for every step forward the governor takes in addressing some critical issues, he takes two steps back by continuing his austerity spending at a time when we need to be investing in New York and by conditioning positive proposals on toxic and often unrelated requirements.

The governor should put his austerity budgeting behind him by scrapping his self-imposed two percent state spending cap. Otherwise, his proposed new measures to address poverty will necessarily be paid for by cutting elsewhere in the budget important human services spending and state programs that serve the middle class. Weakness in the upstate economy continues, and its recovery is hampered by struggling local governments. Hardships affecting many with low and moderate incomes have mounted in recent years, and yet the state has turned its back. New anti-poverty initiatives must go hand-in-hand with meaningful funding restorations in human services, focusing school aid on high-needs districts (without making such aid dependent on reforms), expansion of opportunities in higher education, and new resources for fiscally stressed local governments.

State tax revenues, total wages, and personal income are projected to grow by four to six percent annually over the next four years. There is no reason to hold annual spending growth below two percent if it means that we are under-investing in education

and poverty reduction. The sheer magnitude of continued spending cuts forced by the two percent spending cap—\$1.7 billion in FY2017, \$3.3 billion in FY2018, and \$4.8 billion in FY2019—will inevitably 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.

In the governor’s “Let’s Make a Deal” budget proposal, too many of the otherwise good public policy initiatives are linked to the acceptance of bad policy that in some cases undermines the initial proposal and in others is utterly unrelated to it. This represents Albany wedge politics at its worst.

The governor proposes increasing education funding by \$1.1 billion (only half of the \$2.2 billion that nearly every education and student-focused organization in the state is demanding), but only if the legislature agrees to draconian education reforms that mistakenly blame teachers for poor student outcomes in underfunded, high need, low wealth districts. As our report suggests, we need more education funding in high needs districts and a serious investment of state funds in combatting child poverty if we are to improve graduation rates.

The governor proposes a property tax relief plan (Circuit Breaker) that wisely ties a family’s property tax burden to its income level, targeting relief to over one million New Yorkers that need it the most. However, he destructively links this relief to local compliance with a misguided property tax cap, and he funds the needed tax relief with future surpluses predicated on billions of unspecified future spending cuts that will be required by his self-imposed two percent state spending cap.

Similarly, the DREAM Act is a clear win for the state, with a modest cost and a strong return on investment. But, rather than support it outright, he ties it to the misguided and controversial Education Investment Tax Credit, which provides the greatest economic benefits to the wealthiest New Yorkers and allows private interests to dictate education spending.

This year, New York State faces the extraordinary situation of having a surplus of \$5.4 billion in funds resulting from settlements related to banking industry malfeasance. The governor proposes allocating a large portion of the \$5.4 billion in bank settlement funds to much-needed infrastructure repairs, as is highly appropriate. However, the Executive Budget also includes a proposal to divert \$1.5 billion of this money to a

“cut throat” competition among the seven upstate Regional Economic Development Councils (REDC), with all seven REDCs competing for three pools of \$500 million. Upstate economic development is a crucial state priority, but what’s needed is a smart overall strategy for development, not an approach that pits one region against another.

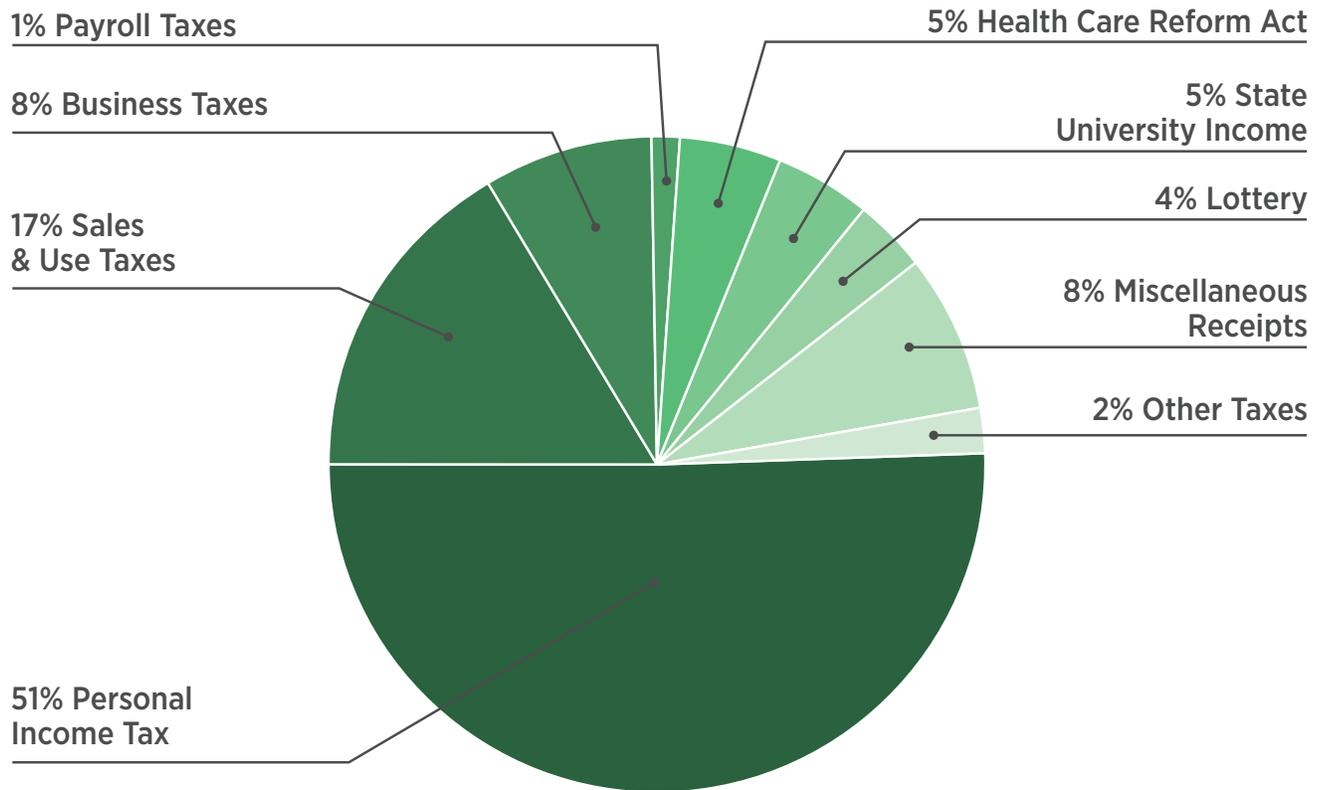
In the 1960s and early 1970s, toward the end of the three decades after World War II when the middle class was growing and living standards were rising, the minimum wage was half of the average wage. The governor’s proposed \$11.50 minimum wage for New York City and \$10.50 for the rest of the state is a good first step, but it would lift the minimum to about 30 percent of the average wage in New York City and statewide. We should aim higher, as several states and large cities are doing, as well as making sure that the minimum wage is automatically adjusted in the future to prevent inflation from eroding its value.

The governor dubs his budget an Opportunity Agenda for New York. There are, however, far too many missed opportunities in this budget proposal. What New York really needs is a Shared Opportunity Agenda that will benefit all New Yorkers. We must devote more resources and apply less politically encumbered policy—to our schools, to our communities, and to strengthening our safety net if we are to truly provide opportunity in our state. FPI’s Shared Opportunity Agenda includes recommendations in four areas: reducing income inequality, restoring the balance to the state/local fiscal relationship, investing in the state’s economic vitality, and making the state tax system more progressive.

NEW YORK STATE 2015-2016 EXECUTIVE BUDGET

OPERATING BUDGET - \$94 BILLION

Revenues

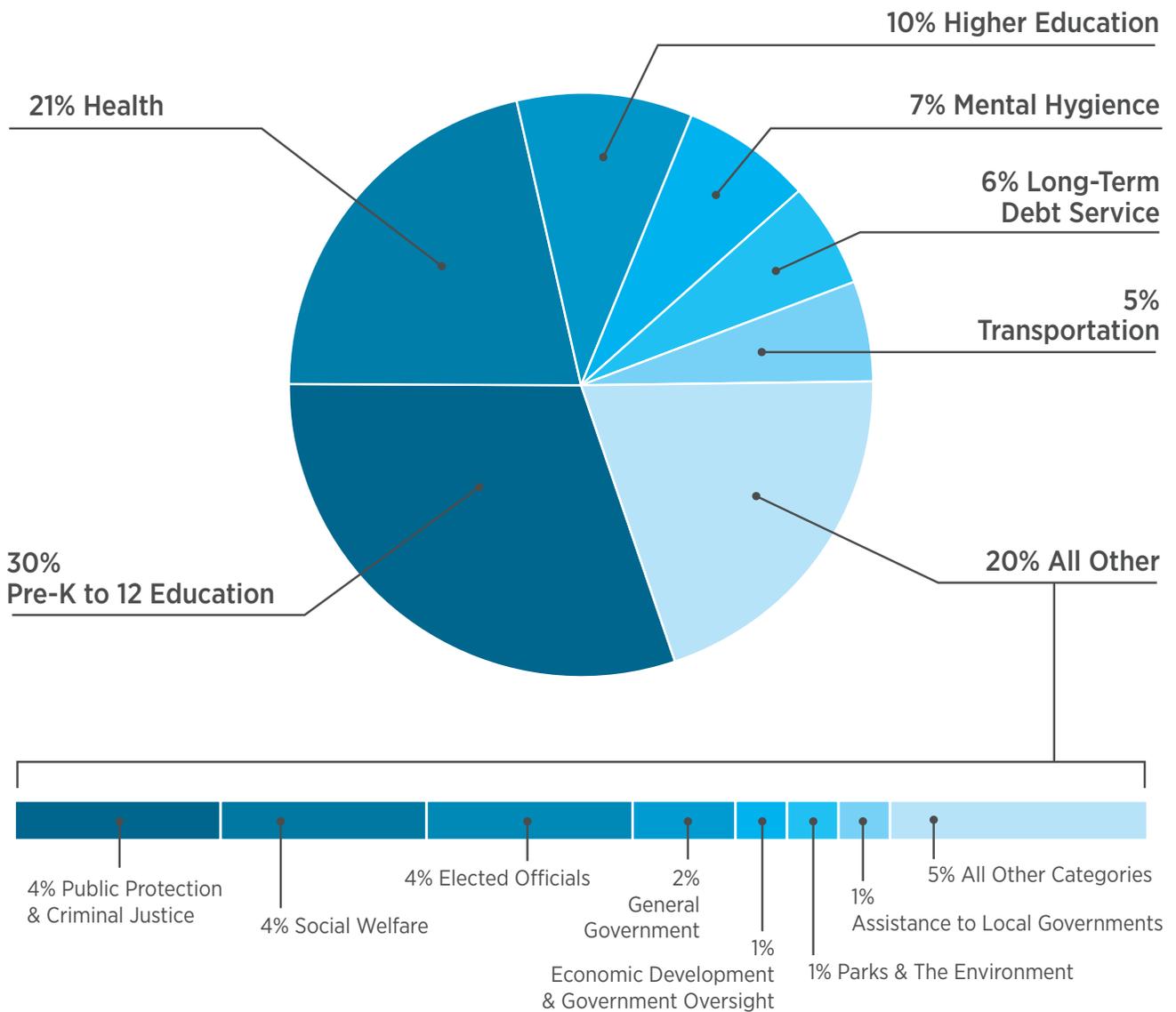


Components may not sum to totals due to rounding.

State Operating budget excludes \$48 billion in federal receipts for operating funds, and \$8.6 billion in capital funds (\$5.9 billion in state funds and \$1.7 billion in federal funds).

NEW YORK STATE 2015-2016 EXECUTIVE BUDGET
 OPERATING BUDGET - \$94 BILLION

Expenditures



Components may not sum to totals due to rounding.

State Operating budget excludes \$48 billion in federal receipts for operating funds, and \$8.6 billion in capital funds (\$5.9 billion in state funds and \$1.7 billion in federal funds).

A Financial Plan Based on Unforced Austerity

BOOSTED BY \$5.7 BILLION IN BANK SETTLEMENT FUNDS, THE TOTAL FY 2016 STATE BUDGET includes \$150 billion in spending. On a state operating funds basis, excluding federal funding and spending on capital projects, next year's budget is projected at \$94 billion. Since the state had already allocated \$275 million of settlement funds when the FY 2015 budget was adopted, there is \$5.4 billion in bank settlement-related surplus this year. (The state's proposed uses of those funds is discussed in the Bank Settlement Funds section.) Current-year tax collections through December were significantly greater than forecast, resulting in a FY 2015 General Fund operating surplus of \$525 million, which is being added to the state's rainy day reserves and used to prepay \$200 million in FY 2016 debt service.

State operating expenditures are projected to increase by only 1.7 percent in FY 2016 from the current year. Within the context of very slight overall spending growth, there are continued cuts in many areas of local assistance and most state program spending. This slight spending growth takes place at a time when tax receipts are projected to grow by 5.1 percent in FY 2016 and economic hardships continue to mount and probably affect more New Yorkers than ever before following five years of economic recovery.

This stark juxtaposition between moderate economic and tax receipt growth on the one hand, and a two percent spending limit on the other, define a budget policy best characterized as unforced austerity. It is austerity driven by a policy choice, not by a faltering economy.

Since he came into office four years ago Governor Cuomo has sought to tightly limit the growth in state spending to 2 percent a year or less, irrespective of growth in tax collections and total personal income. This unforced austerity budgeting has severely restrained services in many critical areas affecting New York's children, families, and their communities. When coupled with the governor's 2 percent local property tax cap,

this unforced austerity has meant that local government spending in most parts of the state has suffered, and this has resulted in deteriorating services and an inadequate public response to rising hardships afflicting many families.

- State spending on local assistance for social welfare, public health, housing programs, and people with disabilities has fallen by 10 percent or more in inflation-adjusted terms over the past four years, while a growing number of families with children experienced hardship. Outside of New York City, the number of people receiving aid from the Supplemental Nutrition Assistance Program (food stamps) has jumped by 88 percent (621,000 people) since the recession. Meanwhile, the number of people receiving safety net assistance, which is mainly funded by local governments, rose by almost half in the seven years since the recession began.
- Although state-funded local school aid rose this year (FY 2015), it is still nearly nine percent, or \$2 billion, lower in inflation-adjusted terms than it was in fiscal year 2011, and \$5.7 billion below where it should be according to the state's 2007 response to the final court ruling in the Campaign for Fiscal Equity (CFE) case.
- Local tax collections have fared poorly in most of the state, partly due to the property tax cap. However, state funding for local government assistance has not responded to rising needs even though state tax collections have increased 4 percent annually on average. On an inflation-adjusted basis, local government aid has fallen by nearly 8 percent over the past four years.

Not surprisingly, state budget austerity has led to a steep decline in state and local government employment in recent years—the number of state and local jobs is down by 74,000 since 2009. In addition to resulting in reduced services, government layoffs cost jobs that provide solid middle incomes with benefits. Total job growth upstate has averaged only 0.4 percent a year during the recovery, one-fourth of the rate of job growth downstate or in the United States overall.

Spending Cap Will Result in Over \$10 Billion in Future Cuts

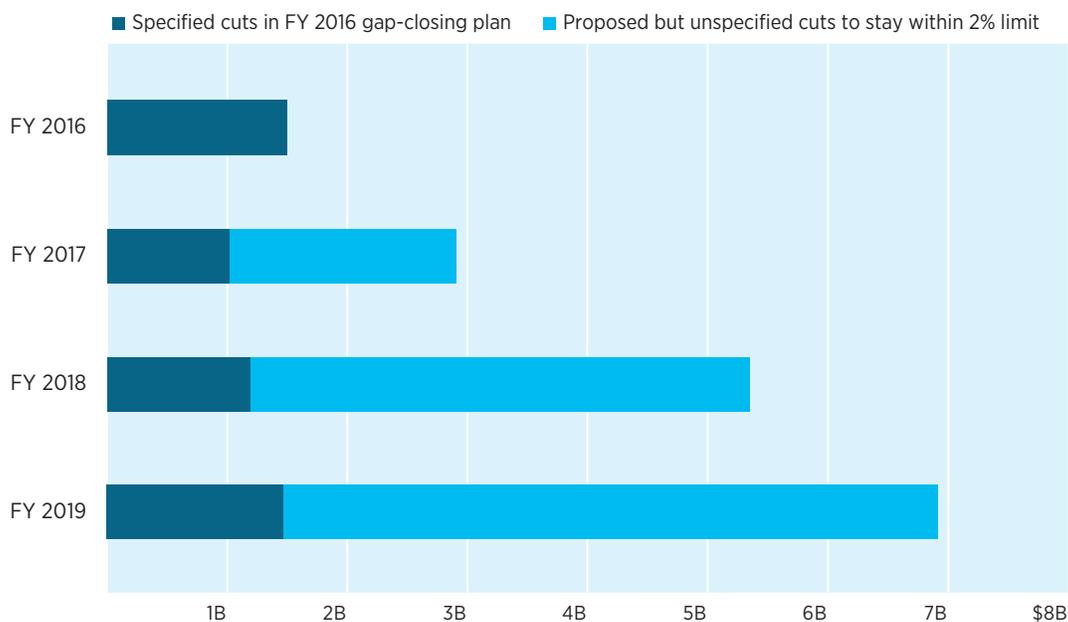
To keep within the unnecessarily self-imposed 2 percent spending cap, the governor proposes further cuts in many areas of local assistance in the FY 2016 budget. Even in areas where state spending in nominal dollars is increasing, it is often nonetheless lower in real terms after adjustment for inflation. In most cases, the state is committing less in real funding support compared to FY 2011, despite five years of a recovering

economy. Continued adherence to a 2 percent spending cap in the later years of the state’s financial plan—FY 2017, 2018 and 2019—means that, unless the policy is changed, unforced austerity will continue.

Some of these future-year cuts to social welfare, public health, and support for people with disabilities are built into the proposed financial plan as a result of the state’s gap-closing plan. On top of these cuts, however, substantial further budget cuts will be layered on in order to keep within the 2 percent spending limit. These as-yet unspecified cuts total \$11.5 billion or an average of \$3.8 billion a year. The figure below shows the budget cuts that are detailed by program area as part of this year’s proposed gap-closing program, as well as the additional unspecified cuts in future years that will be needed to stay within the state’s 2 percent spending cap.

With Medicaid and school aid likely to increase moderately over the next three years, most of the \$3.8 billion annually in further cuts almost certainly will be concentrated in the remaining areas of the state budget—social welfare, higher education, public health, parks and environment, housing, and aid to local governments. For these budget areas taken as a whole, further spending reductions of \$3.8 billion a year translate into a staggering 17 percent reduction.

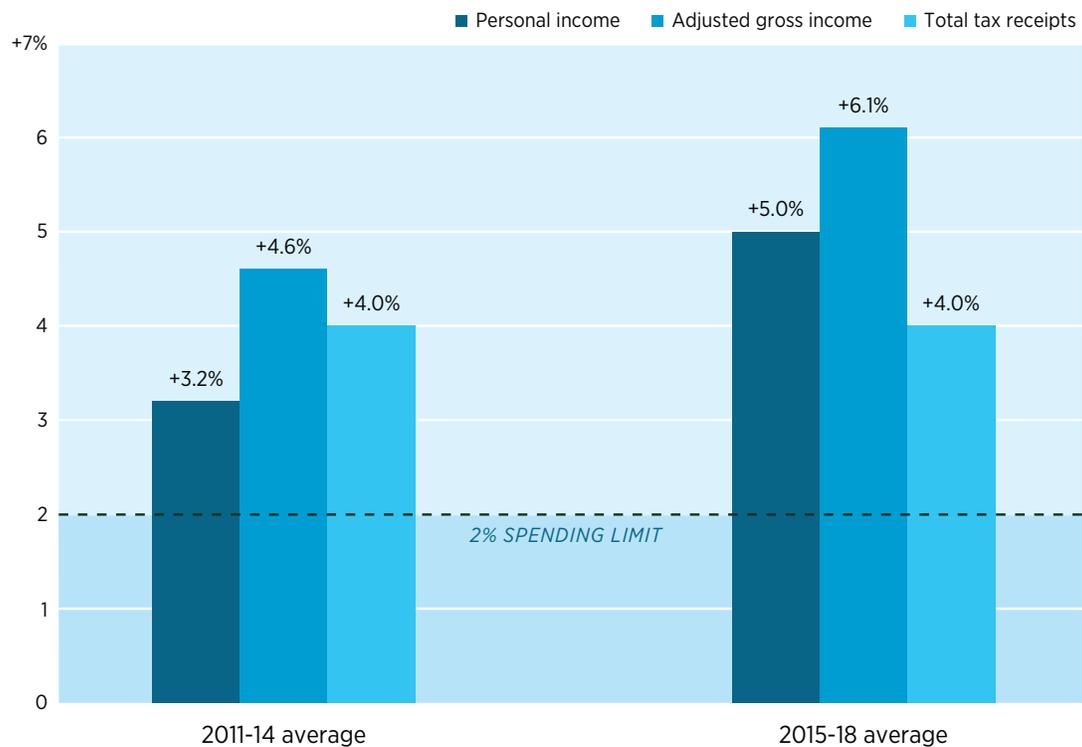
Gap closing plus spending cap will bring steep spending cuts in local assistance and state agencies.



Source: FY 2016 Executive Budget Financial Plan, January 2015.

This unforced austerity means the state is not making up for several years of harmful budget cuts and not addressing a host of critical human needs that have mounted in the wake of the Great Recession and the historically weak recovery. The figure below illustrates that New York clearly has the overall income and tax receipt wherewithal to do better. Various measures of the state’s tax capacity have been growing considerably above 2 percent over the past four years, and these measures are projected to grow even more on an annual basis in 2015 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 5 to 6 percent annually from 2015 to 2018. New York’s total tax receipts, including the tax cuts already enacted and assuming the various proposed tax cuts were enacted, are projected to grow by four percent annually, twice the 2 percent spending limit. Without the proposed tax cuts, tax collections would be increasing by 4.8 percent annually. The difference between 2 percent and 4 percent growth in tax receipts translates into \$1.5 billion a year.

New York’s Economic Ability to Pay Well Exceeds the Governor’s 2% State Spending Limit

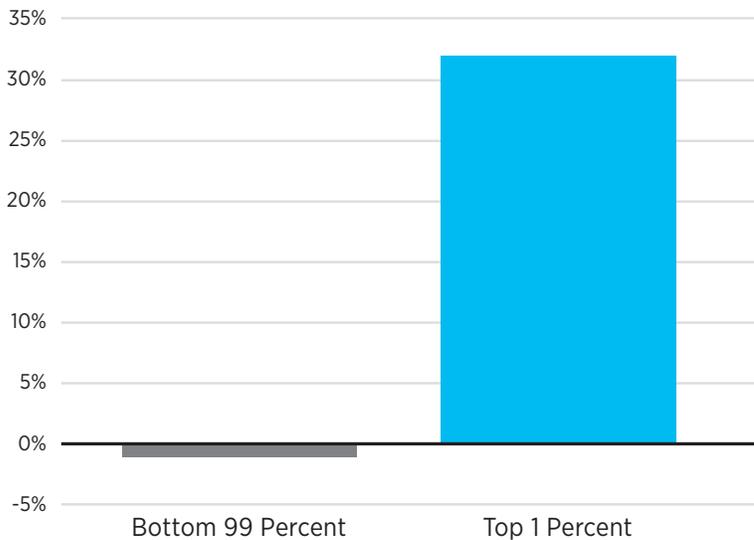


Source: Personal income and adjusted gross income (AGI), NYS Division of the Budget; tax receipts (including net enacted and proposed tax policy changes) from NYS Department of Taxation and Finance and Division of the Budget. Personal income data for calendar years, AGI for tax years, tax receipts for subsequent fiscal year.

New York's Profound Income Polarization & Regressive Tax Structure

INCOME GROWTH HAS BEEN EXTREMELY LOPSIDED IN THE RECOVERY FROM THE GREAT Recession. The incomes of the top 1 percent of Americans grew faster than the incomes of the bottom 99 percent in every state except West Virginia during the recovery's first three years. The incomes of the top 1 percent of New Yorkers rose by 32 percent from 2009 to 2012, while the average incomes of the remaining 99 percent declined by 1.1 percent.¹

The Top 1 Percent Received All of New York's Incomes Gains from 2009 - 2012



Source: *The Increasingly Unequal States of America*, Economic Policy Institute EARN Report.

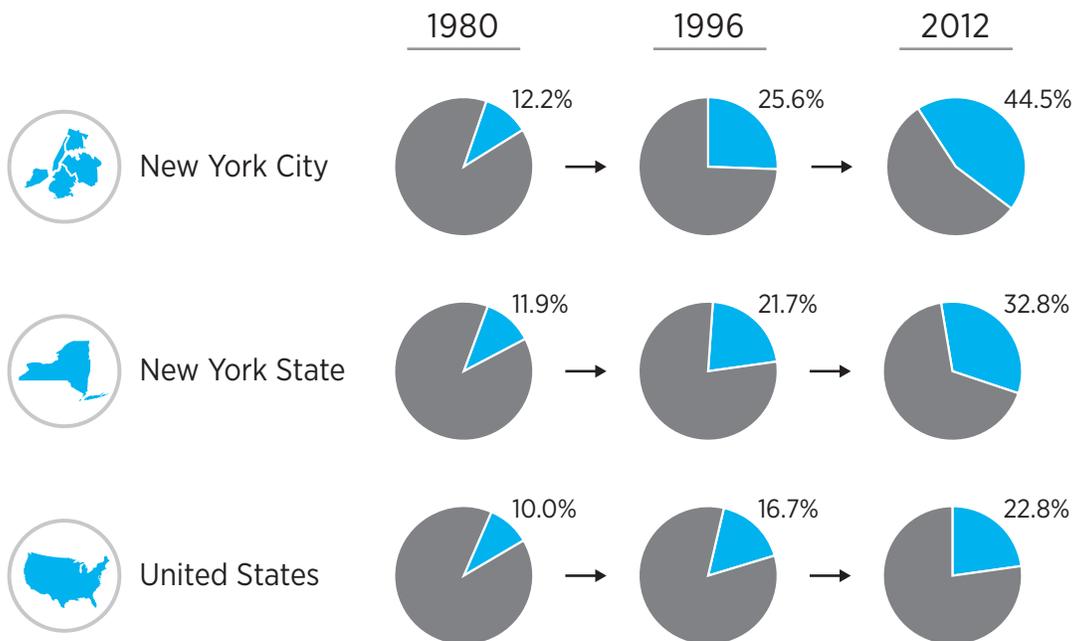
In the United States overall, the income of the top 1 percent of tax filers is 30 times higher than the average income of the remaining 99 percent, a staggeringly high figure. Yet, in New York, the same ratio is 48 to 1, higher than in any state except Connecticut.

New York's Top 1 Percent by the Numbers (2012)

- The average income of New York's wealthiest 1 percent was \$2.13 million, compared to \$44,050 for the remaining 99 percent.
- In New York, those with incomes of \$506,000 and above are in the top 1 percent. Even within the top 1 percent there is polarization; the wealthiest 1/100th have average incomes of \$69.6 million
- New York's top 1 percent had nearly a third (32.8 percent) of all income in the state, slightly greater than the 32.6 percent share at the 2007 high point right before the financial crash.
- In New York City, the share of income going to the wealthiest 1 percent was 44.5 percent, nearly double the share of the nation's one percent.

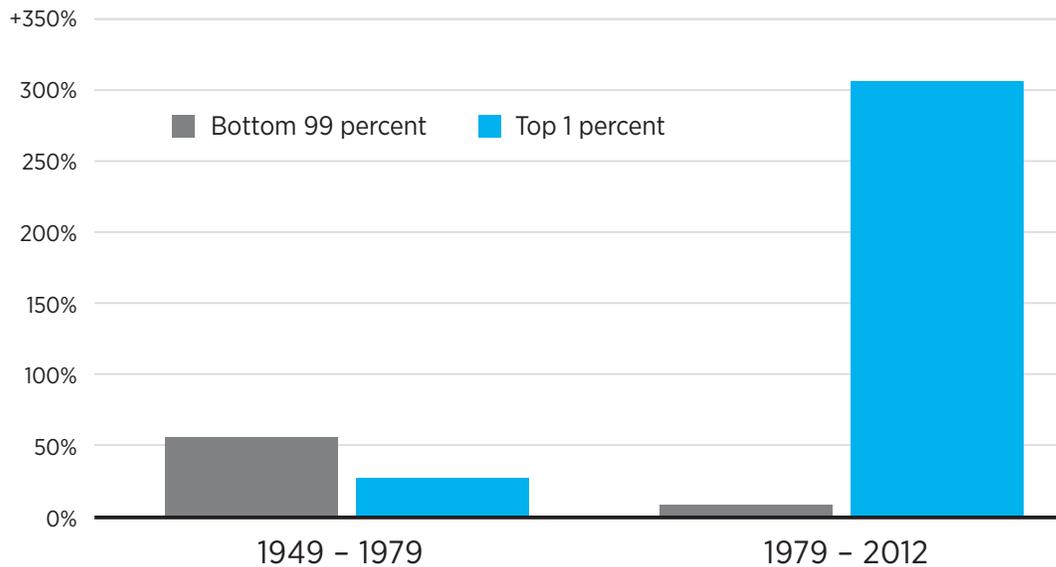
A Bigger Slice of the Pie

The Growing Share of All Income Going to the Top 1 Percent



Source: Economic Policy Institute EARN Report; FPI calculations of EPI EARN data.

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



Source: Economic Policy Institute EARN Report.

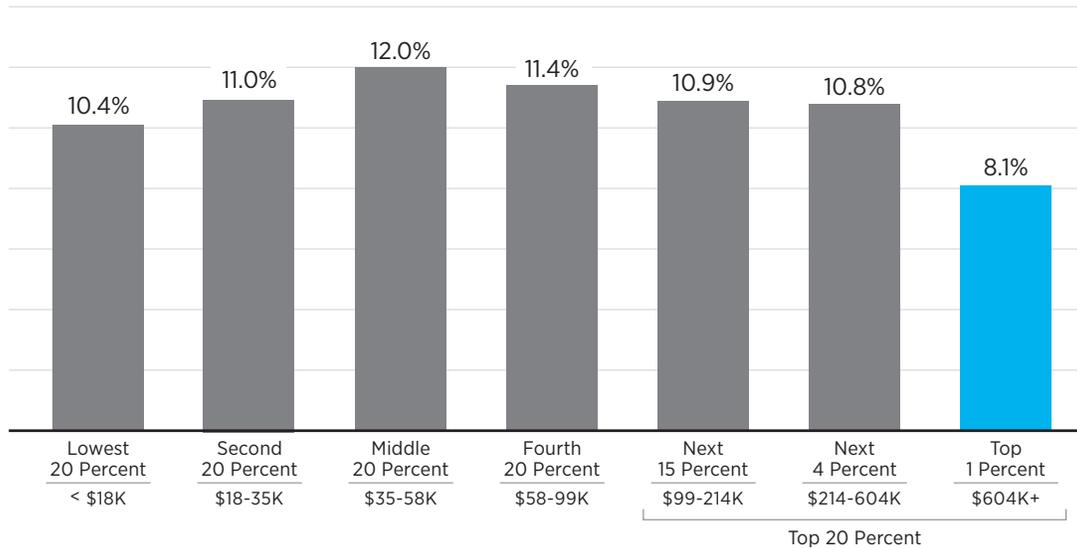
As with every state, New York's income inequality has been on the rise since 1979, a sharp reversal of the patterns of income growth that prevailed for more than three decades following World War II. During the 1949-to-1979 period, incomes rose across the board, with the middle class both expanding dramatically and experiencing fairly steady income gains. For the past three decades, most income gains have flowed to the very top.

One of the reasons incomes were so high for the wealthiest in 2012 was the acceleration of capital gains income in anticipation of higher federal income tax rates in 2013. Capital gains, which are profits from the sale of an asset such as a stock or a bond, are highly concentrated among the very wealthy. Still, data included in the FY 2016 Executive Budget show that the top 1 percent's share of New York personal income tax liability is expected to be nearly as high in 2015 as it was in 2012.²

New York's Tax Structure Further Benefits the Wealthy

Those in the wealthiest 1 percent are taking home the lion's share of income gains, yet they nevertheless pay a smaller share of their income in combined state and local taxes than lower and middle income families.³ New York households with incomes under

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 (ITEP), January 2015.

\$100,000 pay higher effective state and local tax rates, ranging from 10.4 percent to 12 percent, than the richest 1% of households, who pay 8.1 percent.

The fact that high-income people pay a lower share of their income in taxes than the rest of us is what makes New York's state and local tax system regressive. One reason the cumulative impact of state and local taxes is regressive is that most low- and middle-income New York families pay more in sales and property taxes than they do in income taxes. Our state income tax is mildly progressive, but not enough to offset the effects of highly regressive sales and local property taxes.

And, compounding this problem, New York funds a lower portion of joint state and local expenses compared to other states, which pushes localities to raise the only taxes they can raise on their own authority – regressive sales and property taxes. Among the 50 states, New York funds the third-smallest share of combined state and local spending.

New State Tax Reduction Proposals

IN MOST YEARS SINCE HE ASSUMED THE OFFICE, GOVERNOR ANDREW CUOMO HAS proposed a tax policy package very heavily weighted toward tax cuts, with some cuts for households and some for businesses. In his FY 2016 Executive Budget, the governor is proposing three major tax changes: a household property tax circuit breaker, an education tax credit, and a modest reduction in taxes on small corporations.

The circuit breaker is a good idea, though linking it to a locality's compliance with the property tax cap is highly problematic. The education tax credit is a fundamentally misconceived giveaway, and is also cynically linked to passage of the Dream Act. A tax rate reduction for small corporations has a modest cost that will be offset by three welcome measures to reduce tax avoidance and tighten up on a business sales tax credit.

Taken as a whole, the new tax package is projected to reduce tax collections by \$400 million in FY 2017, \$900 million in 2018, and \$1.4 billion in 2019. The circuit breaker accounts for almost all of this cost. While the idea is long overdue, a meaningful circuit breaker should not come at the cost of additional damaging budget and local assistance cuts. Instead, to pay for the circuit breaker the state needs to curtail some of its mushrooming business tax credits, fix some of the problems with last year's corporate tax "reform," and reject or roll back tax cuts benefitting wealthy households.

Property Tax Relief Credit: Circuit Breaker

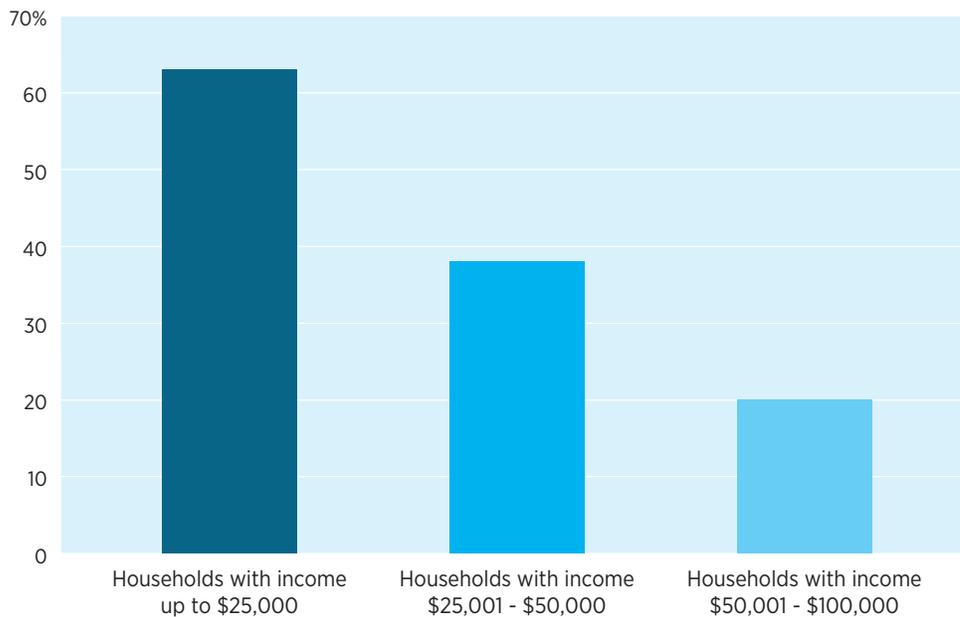
The governor takes a positive step forward in delivering property tax relief to homeowners and renters whose property taxes are high relative to their income. New

York has many high-income households, and many of those who own expensive homes do pay high property taxes. However, relative to their incomes, such taxes likely are not burdensome. On the other hand:

- Over 700,000 of New York’s lower and middle-income households, those making less than \$100,000 per year, are paying more than 10 percent of their income in property taxes, according to a Fiscal Policy Institute analysis of American Community Survey data.
- Of households with income of \$25,000 or less, 63 percent pay more than 10 percent of their income in property taxes.
- Nearly 240,000 households with income below \$50,000 a year pay more than 20 percent of their income in property taxes, and almost two-thirds of those have income below \$25,000.

Lower-income families face particularly high property tax burdens.

Percent of New York State Households Paying More than 10% of their Income in Property Taxes



Source: FPI analysis of 2011 American Community Survey. Analysis restricted to households living at least 5 years at current address.

Currently, 33 states and the District of Columbia provide some type of property tax circuit breaker relief to their residents. Most of these states provide circuit breaker relief with credits or rebates that reduce the amount of state income tax owed. A few administer stand-alone rebate programs. Most extend tax relief to both property owners and renters.

Over one million homeowners whose property taxes exceed six percent of their income would benefit from the governor's proposal, which would cost \$1.66 billion per year when fully phased-in. The circuit breaker further targets the most relief to lower-middle income households by capping the amount of the credit at a lower level for taxpayers with higher income and by excluding taxpayers with incomes over \$250,000. For example, 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 percent reduction in their property tax burden.

The Fiscal Policy Institute has long supported the enactment of a property tax circuit breaker and believes the governor's proposal is a good starting point. However, the proposal should not be linked to compliance with the local property tax cap, which among other problems will make tax relief for struggling homeowners contingent on circumstances they cannot control. The renter credit should also be redesigned to be better targeted to provide more relief to lower-income renters.

Education Tax Credit

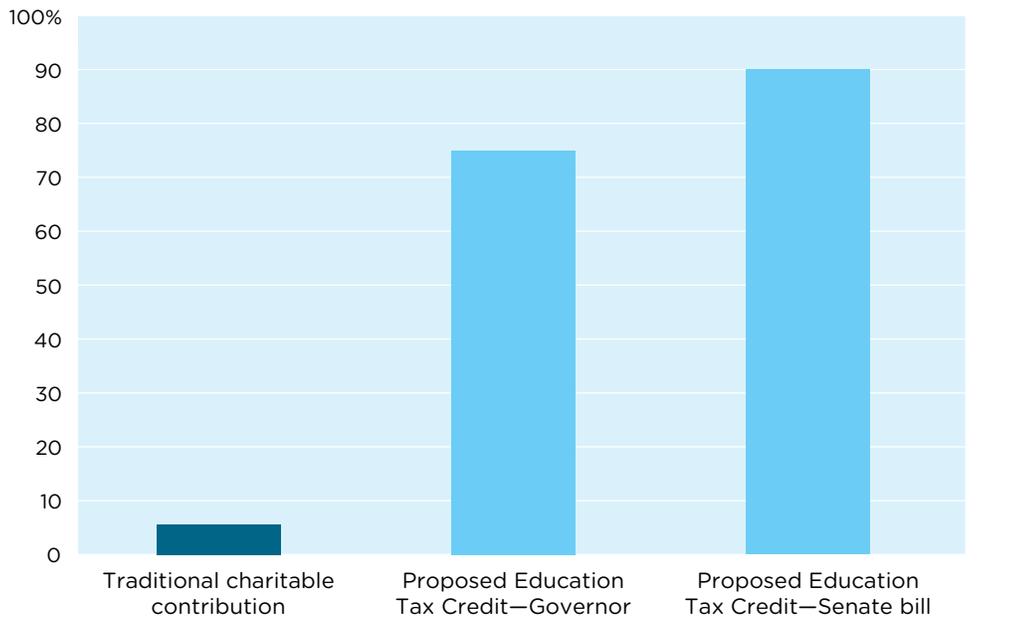
The Executive Budget also includes an Education Tax Credit that would provide individuals and businesses with a substantial credit against income taxes owed for donations to private and public schools, or scholarship organizations. The governor's legislation proposes a 75 percent credit rate, with individual credit amounts capped at \$1 million. Any unused credit could be carried over to a subsequent year but would not be refundable. Both businesses and individuals would be eligible to receive the credit on personal or corporate income tax returns. Total credits would be capped at \$100 million per year. A related bill that passed the senate January 21 which would allow a 90 percent credit rate and higher total credits per year would allow credits totaling \$675 million over the next three years.

The governor’s and the senate’s proposals to divert hundreds of millions of dollars to privately determined educational uses raise serious questions. With this tax credit, the state is essentially delegating its spending authority to private individuals. The Education Tax Credit proposal represents a misuse of public resources for private purposes and could potentially be in violation of section 7 of Article 7 of the state constitution that requires all appropriations to be “distinctly specified.”

Because it provides an unprecedented proportion (75 or 90 percent) of tax reduction relative to a contribution, it also has the potential to lessen charitable contributions for a wide range of worthy causes.

Since the proposed allocation process favors those submitting applications to make contributions early in the year, there is the possibility that wealthy donors,

The benefit of the proposed education tax credit is extremely large compared to the average tax credit on charitable contributions.



Tax Benefit as a Share of Contribution

corporations or financial partnerships would be able to claim all or a lion's share of the credits early each year. An application would have to be submitted prior to making a contribution, it would have to be approved by the Tax and Finance Department and the recipient educational organization would have to be approved by the State Education Department. The allocation process and the high donation limit of \$1 million would allow wealthy individuals or partnerships to potentially exhaust the \$100 million annual credit pool, freezing out smaller contributors.

The Education Tax Credit proposal flies in the face of sound, long-standing New York personal income tax policies. Most existing personal income tax credits in New York available to households are geared to lower-income households, or have fairly low maximum credit amounts or income eligibility limits. For example, expenses for mortgage interest payments or charitable contributions made by households are eligible for a deduction on state personal income tax returns. The effective value of the tax benefit for such deductions is a taxpayer's tax rate times the amount of the expense or contribution. Thus, at most, the effective tax credit "rate" for deductions is 8.82 percent, the state's top income tax rate. The state average effective income tax rate in 2010 was 5.6 percent—that is the benefit New Yorkers get on average for a charitable contribution. The state has also acted in recent years to limit the deductions for charitable contributions for high-income taxpayers.

A proposed tax credit of 75 or 90 percent is so extraordinary in the context of New York's tax system that it warrants particularly careful consideration. This proposal is very nearly an outright reimbursement for a private expenditure, and as such, is difficult to distinguish from an appropriation. It amounts to handing \$100 million to wealthy individuals or business interests and allowing them to determine how to spend it.

Small Corporation Tax Reduction and Measures to Improve Enforcement

The Executive Budget proposes reducing the net corporate income tax rate for businesses with fewer than 100 employees and net annual income below \$390,000. The tax rate on these small businesses would be reduced over three years from 6.5 percent to 2.5 percent. This would provide a savings, when fully implemented in FY 2018, of

four percent of net income. Last year the state acted to lower the corporate income tax rate from 7.1 percent to 6.5 percent for all non-manufacturing companies, and to reduce to zero the tax rate on manufacturers throughout the state. The proposed rate reduction for small business would cost \$26 million foregone revenues in FY 2016, increasing to \$32 million in FY2018 when the rate is reduced to 2.5 percent.

Fortunately, this tax cut would be offset by improvements in tax compliance. In response to the continued growth in online sales through marketplace providers like Amazon and eBay, the Executive Budget proposes that such providers be required to collect New York sales tax when they facilitate a sale between an out-of-state seller and a New York consumer. This measure is expected to yield nearly \$60 million a year beginning in FY 2017. A package of enforcement initiatives are proposed this year that would generate an estimated \$20 million in collections in FY 2016 and \$30 million the following year.

The Governor's Approach: Paying for Tax Cuts with More Budget Cuts

The proposed property tax circuit-breaker and Education Tax Credit, on the other hand, are not paid for with offsetting tax compliance measures or tax increases. The Executive Budget makes it perfectly clear what the state would have to do to manage more tax cuts: “[the tax cuts have] been sized to absorb much of the surplus that would otherwise be expected to occur if the state adheres successfully to the two percent spending benchmark in future years.” That is, another layer of as-yet unidentified spending cuts in local assistance, human services, and higher education would be necessary on top of gap-closing budget cuts that are already specified.

There is an alternative to spending cuts to finance the circuit-breaker. The state could rethink some of the tax cuts enacted in the previous years. Tax changes enacted since FY 2013 are currently reducing tax receipts by nearly \$1.2 billion a year and this number will continue to grow. (This number is lower in FY 2016, but will be more in FY 2018 as a result of a change in the form and timing of the family tax relief measure first enacted in 2013.) The amount of foregone taxes related to the estate tax changes enacted last year will continue to grow as the increase in the exemption is phased in.

The Combined Impact of Tax Cuts (Enacted and Proposed), FY 2013-2019

IMPACT ON STATE TAX RECEIPTS	FY 2013	FY 2014	FY 2015	FY2016	FY 2017	FY 2018	FY 2019	2013-19 CUMULATIVE
Enacted FY2013-2015 tax cuts	-\$45M	-\$516M	-\$1,084M	-\$840M	-\$1,213M	-\$1,708M	-\$1,022M	-\$6,428M
Proposed FY2016 tax cuts				\$9M	-\$398M	-\$901M	-\$1,404M	-\$2,694M
Combined impact on tax receipts/ liability/revenue	-\$45M	-\$516M	-\$1,084M	-\$831M	-\$1,611M	-\$2,609M	-\$2,426M	-\$9,122M

TAX CUTS BY BENEFICIARY	FY 2013	FY 2014	FY 2015	FY2016	FY 2017	FY 2018	FY 2019	2013-19 CUMULATIVE	SHARE OF TOTAL TAX CUTS
Moderate & Middle Income Households	\$0	-\$410M	-\$789M	-\$451M	-\$775M	-\$1,664M	-\$1,344M	-\$5,433M	60%
Businesses	-\$45M	-\$106M	-\$335M	-\$461M	-\$641M	-\$690M	-\$701M	-\$2,979M	33%
High income households	\$0	\$0	\$43M	\$78M	-\$195M	-\$255M	-\$375M	-\$704M	8%

Source: Division of the Budget reports, 2012-2015.

Last year was the big year for enacting business tax cuts, including corporate tax reform that combined the bank tax with the corporate franchise tax and eliminated the corporate tax for upstate manufacturers. When the state originally proposed corporate tax reform, it was advertised as “revenue neutral.” However, the “reform” package that was enacted in 2014 will cost the state \$440 million or more annually in reduced taxes when it is fully phased in. Proposals to scale back the investment tax credit were rejected and the capital base alternative tax was eliminated, which could result in some very large corporations paying a miniscule amount of tax relative to the volume of business they conduct in New York.

In contrast, when Mayor de Blasio recently proposed New York City’s version of corporate tax reform to conform to the state’s changes, he retained the alternative capital base tax and significantly raised the cap to \$10 million. This will help make the city’s corporate reform “revenue neutral.” Retaining the capital base tax ensures that large companies will still pay a reasonable tax in years when losses or tax management maneuvers might otherwise have substantially reduced a corporation’s tax liability.

Taking the tax changes enacted since FY 2013 together with the governor’s latest tax proposals, state taxes are estimated to be lower by \$1.6 to \$2.6 billion over the FY 2017-19 period. Roughly 60 percent of the net value of these tax cuts benefit moderate- and middle-income households. A variety of business tax breaks average about \$700 million over that period, with roughly two-thirds of that amount benefiting large financial and non-manufacturing corporations and about one-third geared

toward manufacturers and small corporations. (Unincorporated businesses, which include most small businesses as well as hedge funds and private equity funds, do not pay a separate business income tax to New York State; business income that flows through to personal income tax returns is taxed.)

Included in tax changes recently enacted or proposed are various measures to reduce tax avoidance and to increase compliance, including audits that raise about \$250 million a year.

Two tax changes—the estate tax cut enacted last year and the governor’s proposed Education Tax Credit— which have an average annual cost of \$275 million over the FY 2017-19 period benefit upper-middle and high-income households. The more expensive version of the Education Tax Credit that passed the Senate in January 2015 would provide a \$300 million tax benefit that would largely go to high-income households. (The governor proposed to cap that credit at \$100 million.)

The resources to pay for the circuit breaker should come from fixing some of the problems related to last year’s corporate tax reform, from eliminating or scaling back many of the state’s smorgasbord of business tax credits, and by rejecting the Education Tax Credit and limiting the increase in the estate tax exemption.

Bank Settlement Funds

IN AN UNPRECEDENTED DEVELOPMENT, NYS IS FACING A ROUGHLY \$5.4 BILLION SURPLUS in the current year's budget. This settlement surplus is occurring at a time when, under the governor's tight spending restraints, state operating fund disbursements are increasing by only two percent.

The surplus is entirely related to a series of financial settlements with banks in response to legal actions taken by the state in response to violations of state and/or federal laws. The bank settlement surplus results from these legal actions; it is not due to the state raising more revenues than are required to meet its spending needs. Separately, the state projects a \$525 million operating surplus for FY 2015 that results from higher-than-expected tax collections.

Principles for allocating one-time revenue windfall

One-time revenues should be used for non-recurring expenses, such as paying down debt, pay-as-you-go capital, or bolstering reserves that can be used in the future should the economy weaken and tax revenues falter. Bolstering reserves can help avert more damaging spending cuts in economically weak times. Generally, it is not advisable to use non-recurring revenues to pay for a recurring expenditure.

Priorities for use of these funds include infrastructure repairs (roads, bridges, public transit) throughout the state; assistance to local governments and school districts to pay down debt or replenish reserves; and bolstering State Rainy Day and other reserves.

1. Infrastructure

According to reports from the Office of the State Comptroller “competing needs for operations and infrastructure represent significant challenges to New York State, and the public authorities and local governments serving its citizens.”⁴

Several years ago, New York State agencies projected the investment needs for some of the major infrastructure systems. These studies detailed the investment needs of state and local transportation (\$175 billion), water (\$39 billion), and sewer (\$36 billion) systems over the next 20 years.⁵ The studies, which reported infrastructure needs for water, sewer and transportation totaling \$250.1 billion, did not include estimates for the Metropolitan Transportation Authority, the New York State Thruway Authority, or the New York State Bridge Authority.

Although the governor highlights his proposed use of the bank surplus for infrastructure, in fact he proposes using only \$1.8 billion for direct infrastructure investments. He allocates another \$500 million for broadband access in upstate, a very worthwhile infrastructure investment, though one that should be scrutinized to make sure the state gets the maximum use of its public dollars in a deal that involves private companies that stand to profit from the investment.

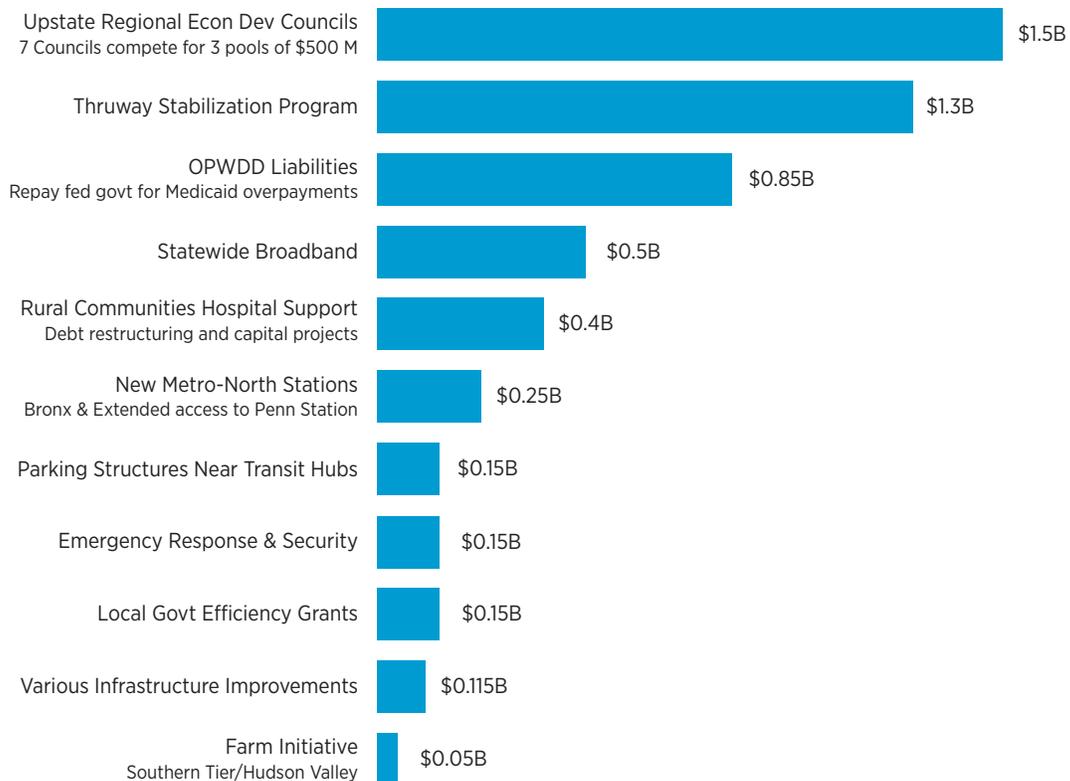
2. Assistance with school and local debt

The Executive Budget recognizes the importance of adding to state reserves. It would, by the same token, be prudent to use some of the bank settlement funds to increase school and local government reserves as well. Many school districts and local governments across the state depleted their reserve funds while attempting to stay under the property tax cap and still maintain local services. Having no reserve funds leaves schools and local governments in a dangerous fiscal situation. The State Comptroller reports that many local governments in New York State have precariously low budget reserves, and under the constraint of the property tax cap many school districts around the state have drawn down their reserves.

3. State Rainy Day Funds

A recent study by the Pew Charitable Trusts found that New York State was poorly positioned in terms of its state budget reserves. According to the study, New York State had less than 11 days’ worth of General Fund expenditures in reserve at the end of FY 2014, less than half of the national median of 23 days.⁶ To partially address this deficiency, the Division of Budget is using some of the operating budget’s tax revenue surplus to add \$315M to the state’s rainy day fund reserves at the end of this fiscal year. The financial plan states this is the “maximum amount allowable under current law,” but it still leaves New York far below other states. Measured as a share of the state budget, New York’s reserve balance is lower than all but 10 other states.⁷

Governor’s Proposed Use of \$5.4B in Bank Settlement Funds



The Executive Budget also proposes to hold in reserve \$850 million from bank settlement funds “for potential Financial Plan risks,” which could include repayment of Federal funds as a result of an audit of spending by the Office of People with Developmental Disabilities. That is a prudent use of the funds. In this budget, the governor also proposes increasing the cap on the state’s Rainy Day Fund from three percent of the General Fund to eight percent, which would allow for higher balances in the future.

Finally, the governor peels off a large portion of the bank settlement funds for one-time economic development initiatives in upstate New York, a laudable goal but one accompanied by a questionable strategic approach. A particular focus on the upstate region is highly appropriate given its longstanding challenges as well as recent lagging economic performance—upstate has only one quarter the rate of job growth of the nation in the recent economic recovery. The governor, however, suggests creating a cut-throat competition between seven regions of the state for only three pots of \$500 million, leaving four regions without any resources whatsoever. This plan is a misguided use of settlement funds and should be redirected for infrastructure repairs that would help address pressing infrastructure needs across all of the upstate regions.

Using funds to reduce local and school debt would also help upstate metro areas, where a fundamental problem is that central cities that have lost population have a legacy of schools, roads, bridges, and other infrastructure that must be maintained despite a smaller tax base. The result is a paradoxical combination of higher tax rates, lower tax revenues, and overstrained services that discourage people from moving to the city. Reduction in school and local government debt would help reverse this downward spiral.

Economic Development

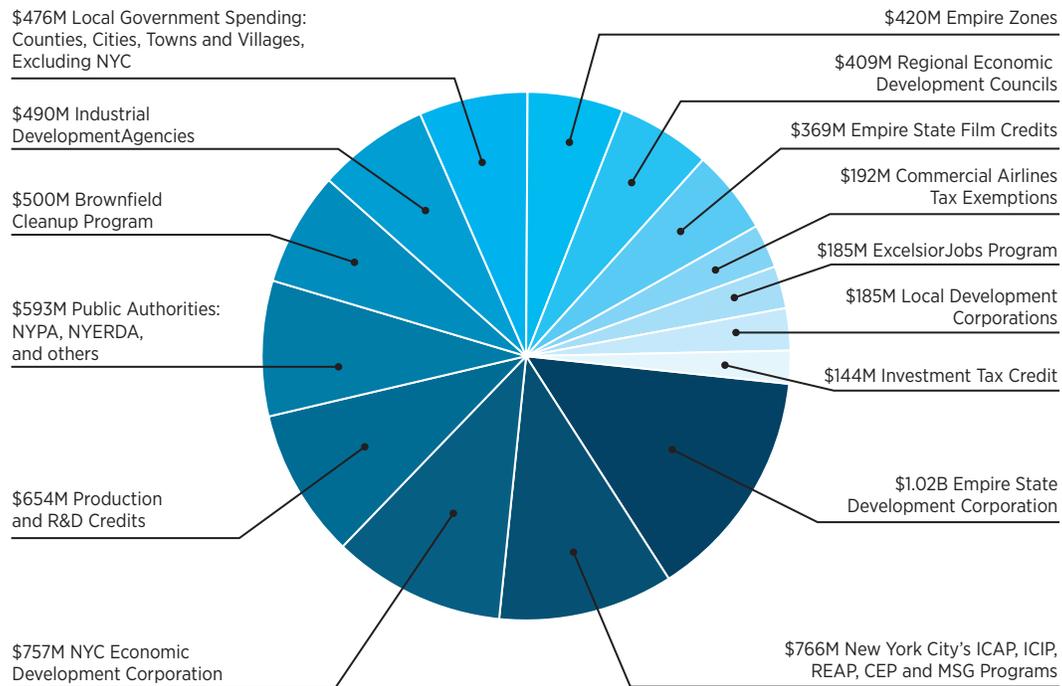
NEW YORK STATE AND ITS LOCAL GOVERNMENTS CURRENTLY SPEND APPROXIMATELY \$7 billion annually on a broad array of economic development programs throughout the state, according to a comprehensive report⁸ from ALIGN.⁹ There are dozens of different economic development programs that are intended to provide a myriad of benefits such as cash grants, tax exemptions, tax credits (including many that are refundable and paid in cash), and tax-exempt bonds. The vast majority of these benefits go to big businesses in the name of job creation and economic growth, but the results leave much to be desired.

Are New Yorkers getting a good bang for our buck? Given the enormous human needs and demand for physical infrastructure in our state, if we are going to put \$7 billion into economic development we need to make sure that the investment pays off. The majority of research on the programs in question, however, reveals that we are not getting a good return on our investment. For example, a detailed study of New York's business tax credits prepared in 2013 by economists Donald Boyd and Marilyn Rubin noted that "there is no conclusive evidence from research studies conducted since the mid-1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained absent the incentives."¹⁰

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

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. There must be overall economic growth, not the mere shifting of activity from one area or one state to another. Expanding the state venture capital fund is one promising initiative included in the Executive Budget.

\$7 Billion In Annual Economic Development Spending On Businesses



ALIGN, A Closer Look at New York's \$7 Billion Subsidy System, 2013.

As noted in the section on bank settlements, a focus on revitalizing the upstate region is welcome, but creating three \$500 million buckets and making upstate Regional Economic Development Councils fight over them is a recipe for conflict rather than shared prosperity. We suggest above how the one-time bank settlement funds could be better used to this purpose. In the same vein, a major component of the state's ongoing economic development policy should be a focus on revitalization of upstate cities. What would help most is for the state to take on an appropriate portion of the shared local/state expenses, which would allow fiscally-stressed cities to reverse the cycle of lower population, lower tax revenues, lower tax rates, and overstressed services.

The Governor's Economic Development Proposals

The Governor has also proposed the following mixed bag of economic development initiatives.

- Reform the Industrial Development Authority (IDA) Program**
 The Executive Budget proposes legislation to reform IDAs by developing an

oversight/approval process to ensure that state tax breaks provided by local IDAs are a good investment and do in fact create jobs. In order to receive assistance from an IDA, all newly participating businesses must be tax compliant and will be subject to a “clawback” of state sales tax benefits if job/investment targets are not met.

This is indeed a positive and long-overdue step. It ensures that the state has oversight of how local IDAs provide state sales tax benefits to local projects. The “clawback” provisions on the state portion of local IDA projects are also welcome.

- **START-UP NY**

This program was established in 2013 to “transform” SUNY, CUNY, and private college and university campuses and communities across the state into tax-free zones, ostensibly to attract new businesses and to encourage existing businesses to expand. As of January 2015, the governor claimed a total of 73 businesses had been approved for START-UP NY participation and projected that they would create more than 2,400 new jobs.¹¹

This program’s focus on clustering businesses around universities is a smart recognition of these valuable resources for our state’s economic development. However, the idea that creating tax-free zones is a wise economic development model is fundamentally misguided.

Raising further red flags about the program, the governor has recently discussed expanding the program to cover some local airports. The state’s experience with Empire Zones should be a strong cautionary tale. Empire Zones were initially intended to help distressed areas of the state by giving benefits to companies that located there. Over the years, however, the number of Empire Zones multiplied, until eventually zones were designed around existing companies. Expanding “Start-Up New York” zones to new areas is not only a mistake, but it also underscores a problem with creating different state tax zones for different parts of the state as a way of approaching economic development.

According to the governor, Start Up NY companies have promised “more than \$104 million” in new investments. However, the state already has spent nearly \$150 million—nearly 150 percent of this sum—on TV ads promoting the

program across the country. The governor proposes appropriating an additional \$50 million for another round of Open for Business marketing ads by sweeping funds from the New York Power Authority. When the state spends more on ads than is promised in investment, one has to question the wisdom of continuing such a program.

Rather than continuing the failed “designated special tax zone” policies of the past, New York needs a smarter approach to economic development. The state can leverage the resources of academic institutions, spur growth in areas that sorely need it, and help improve our overall business climate instead of providing a decade of tax-free operation for select businesses.

- **Entrepreneurial Assistance Program and Community Development Financial Institutions**

The budget holds funding flat for the Entrepreneurial Assistance program at \$1.764 million and reduces funding for the Community Development Financial Institutions program from \$1.795 million to \$1.495 million. These two programs assist entrepreneurs in developing and funding small businesses, and they have a proven track record of being able to create jobs and provide an excellent return on investment.

- **Innovation Hot Spots and Incubators Program**

The Executive Budget authorizes new funding, \$5 million annually when fully phased in, to continue to foster innovation by offering start-up companies valuable business support services to help use academic research for commercial enterprises and promote further collaboration between business and academia.

- **Expand Venture Capital Funding**

The governor appropriately proposes in his Executive Budget to expand the New York State Innovation Venture Capital Fund from \$50 million to \$100 million. These funds will accelerate technology commercialization in New York State by making equity investments in high-growth technology companies that leverage the state’s strengths and take advantage of existing industrial clusters. This program is conceptually superior to many other economic development programs that give funds to companies without a careful assessment of the specific benefits to the state. With well targeted equity investments, the state (and taxpayers) stand to benefit.

Education

BY PROPOSING AN INCREASE OF \$1.1 BILLION IN SCHOOL AID, THE GOVERNOR RECOGNIZES the critical need for additional state support for our schools, although his proposal falls short of the state's existing but unrealized commitment under the terms of the legislative response to the Campaign for Fiscal Equity lawsuit.

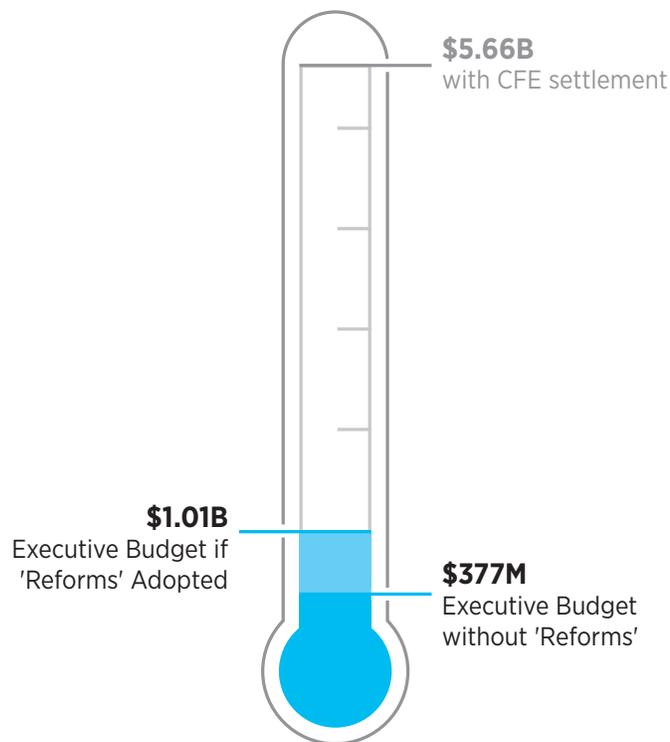
In addition, the governor makes even this aid contingent on legislative approval of problematic and controversial changes to teacher evaluation, tenure procedures, and other measures. Aid to individual school districts is then further contingent on local adoption of the new procedures. This link jeopardizes approval of the much needed and already inadequate aid. If these changes are not adopted, the Executive Budget increases school aid by just \$377 million.

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

School aid was to be distributed to districts based on the relative wealth of the district and the number of students with high needs. However, years of austerity budgets have undermined the promise of the CFE settlement legislation; school districts are just about where they were in FY 2006-2007 and far behind where they were supposed to be by FY 2015-2016. Total Foundation Aid is currently some \$5.7 billion below where it would have been if aid had been fully implemented at levels specified after the enactment of the CFE settlement legislation. Even the higher level of conditional school aid funding included in the budget would not close this gap.

By focusing on teacher evaluation procedures, the Executive Budget fails to address the fact that high-needs districts throughout the state are straining under inadequate funding. A primary cause of poor school outcomes is high levels of child poverty. A

School Aid Funding Falls Short of Promise of the Campaign for Fiscal Equity Settlement

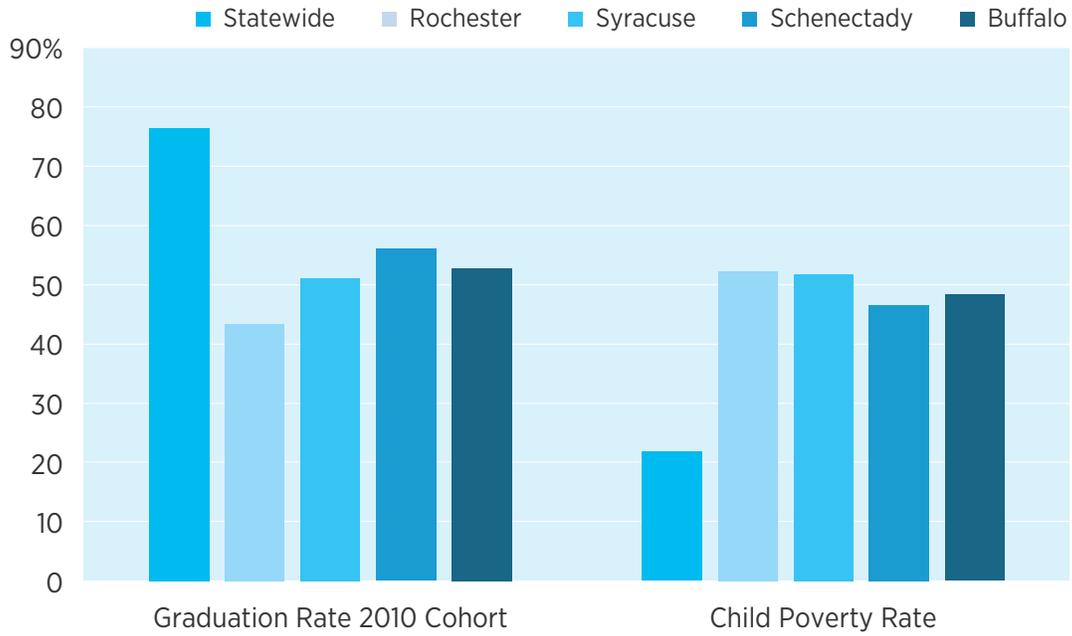


Source: FPI calculation, 2015-2016 Executive Budget Financial Plan.

considerable body of research shows that students who grow up poor do less well in school than those from more advantaged households.¹² New York is no exception.

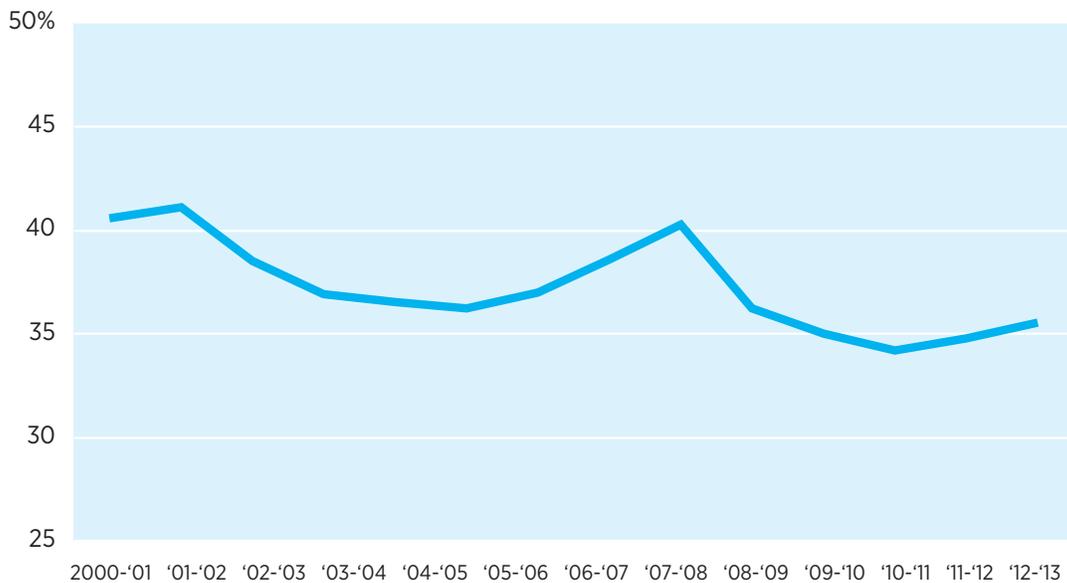
For example, the figure below shows that the large school districts in upstate New York have lower high school graduation rates than the state average and a much higher proportion of children in poverty. Policies such as requiring teacher evaluations to be based on test scores and the promotion of charter schools fail to directly address the educational challenges faced by low-income students. Teachers cannot control the backgrounds of their students, and they cannot overcome the resulting disadvantages on their own. Broad-based solutions that address the academic, social, and health needs of students and engage the local community are needed.

Higher Poverty and Lower Graduation Rates in Large Upstate School Districts



Source: New York State Education Department, Graduation Rates: Students Who Started 9th Grade in 2010, Dec. 2014, U.S. Census American Community Survey, 2011-2013.

State support for schools has declined. 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.

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 compensate for loss of state funds.¹³ This reinforces inequities as wealthier school districts are better able to increase local funding.

Universal Pre-Kindergarten Funding Inadequate

Early learning programs are a proven way to boost children's learning skills and improve their future prospects. The Universal Pre-Kindergarten program for four-year-olds enacted last year continues in FY 2015-2016 but with no increase in the state funding level of \$340 million.

The state received a \$25 million federal grant for pre-kindergarten in high-need districts last year. In addition to the funds for four-year-old pre-kindergarten, this year's Executive Budget includes \$25 million over two years to expand pre-kindergarten programs for three-year-olds in high-need districts.

The funding for pre-kindergarten falls far short of the amount needed to fully implement this important program across the state. The bulk of the budgeted funds (\$300 million) are designated for New York City, leaving only \$40 million for the rest of the state. New York City Mayor Bill de Blasio estimates that providing universal pre-kindergarten in New York City alone would cost \$1.7 billion over 5 years. The Executive Budget projects funding of \$1.5 billion over five years for the entire state. The Board of Regents has recommended an additional \$251 million in FY 2015-2016 for pre-kindergarten funding.

Charter Schools Limit Raised

The Executive Budget would expand the number of charter schools allowed by 100—from 460 to 560—and make the limit applicable statewide. Currently there is a designated number for New York City, where most charter schools are located. The budget also includes a small increase (\$75) in per-pupil aid for charter schools. Allowing more charter schools and providing incentives suggests that competition is the way to improve the existing non-charter public schools where 97 percent of the state's children are educated. This approach diverts attention from measures that address the real problems facing many public schools, namely, the disadvantages faced by their students and inadequate resources to address them.

Higher Education Funding Fails to Stem Years of Declines

The “Get On Your Feet” Loan Forgiveness program advanced by the governor would provide a two-year buffer on loans for a relatively narrow group of students: students from New York who go to college in New York, remain in the state after graduation, and earn less than \$50,000 after graduation.

Assisting low-income students with college expenses is an important goal, but this program is not an effective use of state dollars because of its narrow focus and short-term relief. A better use of these resources would be to expand and modernize the Tuition Assistance Payment (TAP) program that provides targeted aid to students that need it the most. Modernizing TAP could include increasing the maximum award, raising income thresholds, eliminating the requirement that students attend full-time for a year before gaining eligibility to part-time TAP, and increasing the number of years for which students can get TAP.

In addition, providing adequate aid to the state’s public colleges and universities is a clear way to make higher education more affordable for students, while also reducing pressure on university budgets, creating a better educational environment on overstretched SUNY and CUNY campuses. State support for SUNY has declined by almost 36 percent since SY2007-2008 after adjusting for inflation. State support increased for CUNY over the same period, but enrollment increased even more, resulting in lower state funding per student after accounting for inflation.

DREAM Act Proposal Comes with Strings Attached

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 flawed Education Investment Tax Credit is a fatal flaw. The DREAM Act should be a legislative priority on its own merits.

Underinvesting in Education Will Limit Future Growth

The ‘savings’ from inadequate education funding may cost a great deal in the long run in terms of diminished economic growth. Businesses need a well-educated workforce to prosper, and a well-functioning civil society requires an informed and educated electorate. New York’s failure to adequately invest in education will weaken that future workforce by diminishing the quality of elementary and high schools. At a time when the nation needs to produce workers with the skills to master new technologies and adapt to the growing complexities of a global economy, large cuts in funding for basic education undermine a crucial building block for future prosperity.

Health Care and Medicaid

THE EXECUTIVE BUDGET EXTENDS THE MEDICAID GLOBAL CAP, A SPENDING LIMIT FIRST enacted in FY 2012 until March 31, 2017. Under the cap, Medicaid spending growth is limited to the ten-year rolling average of the medical component of the CPI, currently 3.6 percent.

New York is expected to receive the following **additional federal funding**:

- \$2 billion during FY 2015-2016 (the second year of a total of \$10 billion over five years), as a result of the Federal Medicaid Waiver. This will be used for alternative care models, primary care access, and health workforce development.
- \$100 million over four years for a State Health Innovation Plan (SHIP) to improve access to high-quality and coordinated care.

The budget includes \$1.4 billion over the next five plus years for **construction and debt restructuring for specific hospitals**, including \$700 million in capital financing for health care facilities in Brooklyn, \$300 million to create an integrated health care delivery system in Oneida County financed through the state's capital plan, and \$400 million for debt restructuring and other capital projects in rural communities using settlement funds.

The Executive Budget includes **implementation of the Basic Health Program (BHP)** enacted last year that will provide health insurance coverage to people with incomes between 133 and 200 percent of the federal poverty level. Over 400,000

New Yorkers will likely enroll, including over 200,000 legal immigrants for whom the state presently pays full costs of care without federal reimbursement. Under the BHP, authorized by the Affordable Care Act, the federal government will share in the costs of providing coverage for these individuals resulting in significant savings for New York State.

The Executive Budget proposes **consolidation of 41 health and awareness programs** into five pools of similar programs. Overall funding for these programs in total is cut by 15 percent. While this structure may provide some additional flexibility for human service providers, reduced funding through the creation of block grants raises concerns.

Human Services

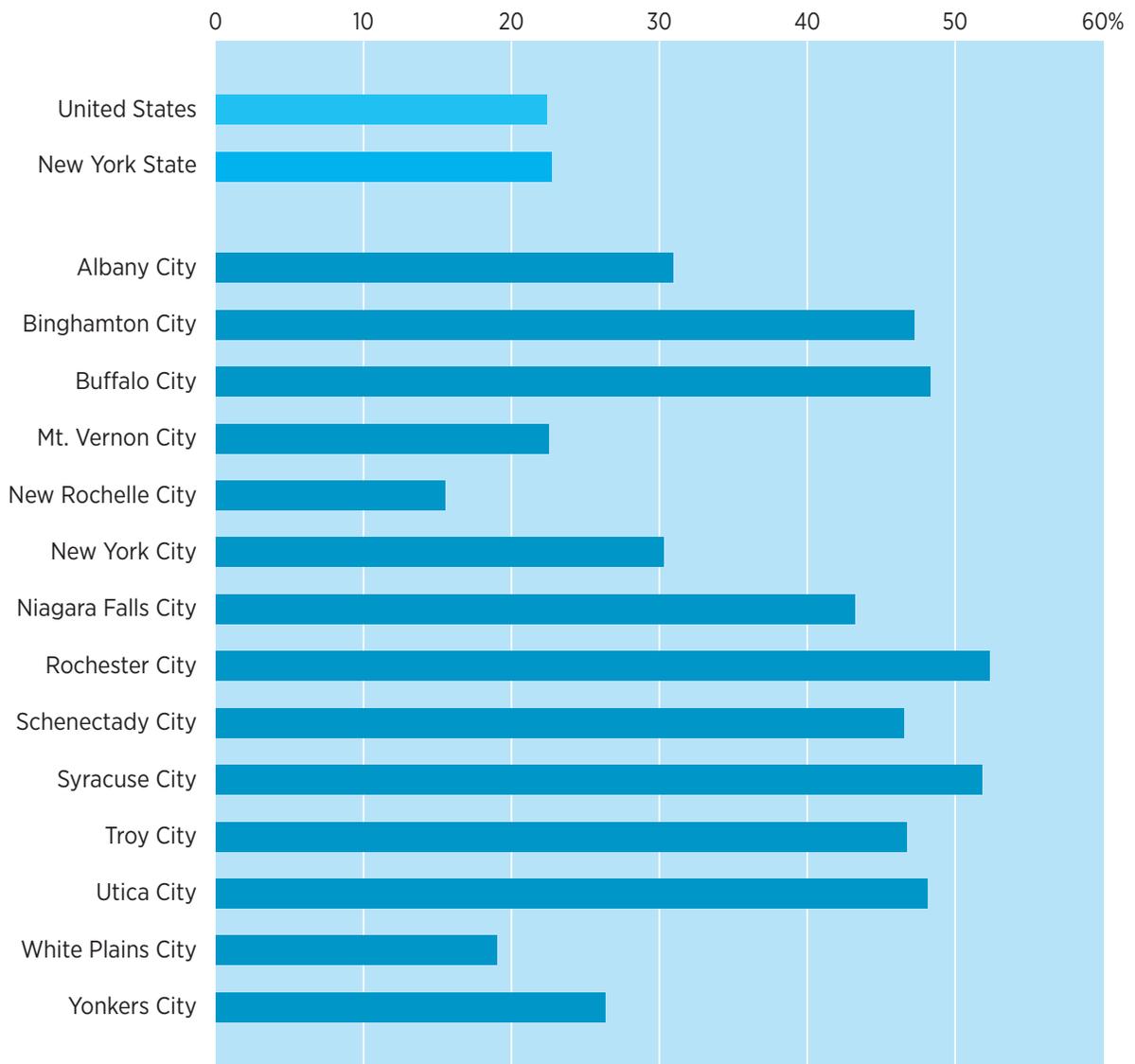
THERE ARE MANY POSITIVE ELEMENTS TO THE GOVERNOR'S AGENDA TO ADDRESS poverty in New York. The governor acknowledges that high levels of poverty and growing inequality are holding back the state's future economic growth. Raising the minimum wage and providing property tax relief tied to income are steps in the right direction to addressing the problem of uneven growth.

But much more needs to be done, and the effects of many of the proposed measures are limited by the strings attached to them. In addition, staying under the self-imposed two percent spending limit means that the governor's proposed new measures to address poverty will necessarily be paid for by cutting spending elsewhere in the budget. The Executive Budget cuts funding to a number of important human service programs. This is on top of over \$1 billion in cuts to human services since 2009, despite growing need. Child poverty rates in New York State have reached epic levels in many of our upstate cities. Currently more than one in five children throughout the state live in poverty.

Small Increase in Social Welfare Agency Funding

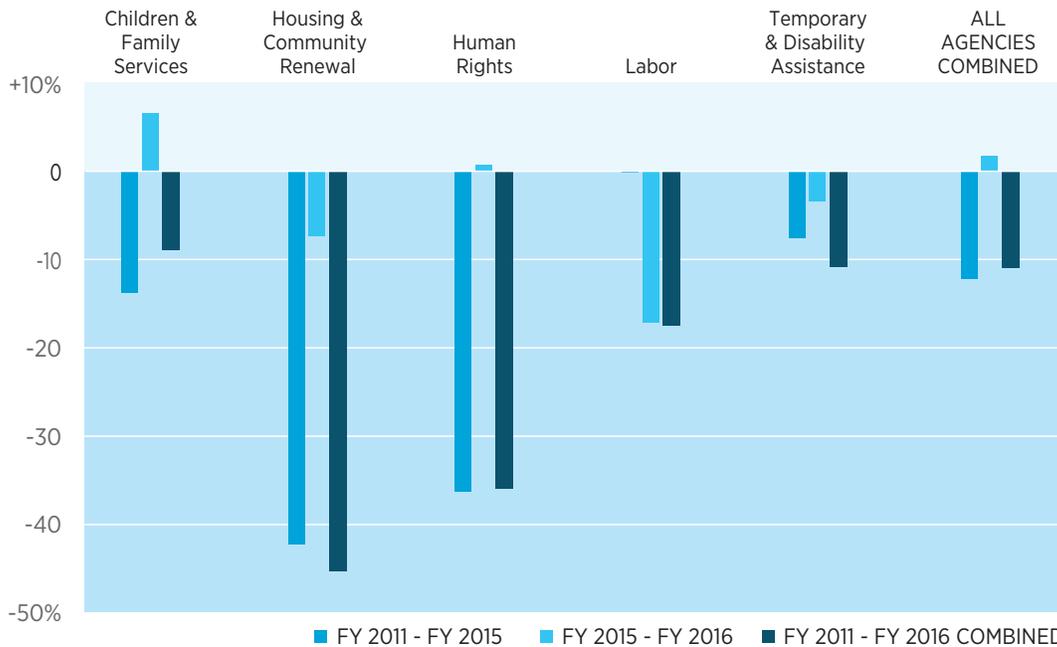
In total, the budget includes a small increase in state operating funds for social welfare programs in FY 2015-2016 (1.7 percent after adjusting for inflation).¹⁴ However, this comes after a 12 percent decrease since the governor took office in 2011, as can be seen in the following Figure. In addition, these programs will undoubtedly be subject to additional budget cuts in future years in order to meet the two percent spending limit. State operating fund support for social welfare agencies for FY 2015-2016 would remain \$400 million below FY 2010-2011 levels in real (inflation-adjusted) terms.

Child Poverty Rates in Many Upstate Cities are Double or More Than the State Average



Percent of children living below the federal poverty line
 Source: FPI analysis of American Community Survey 2011-2013 three-year data.

Falling Funding for Social Welfare Agencies

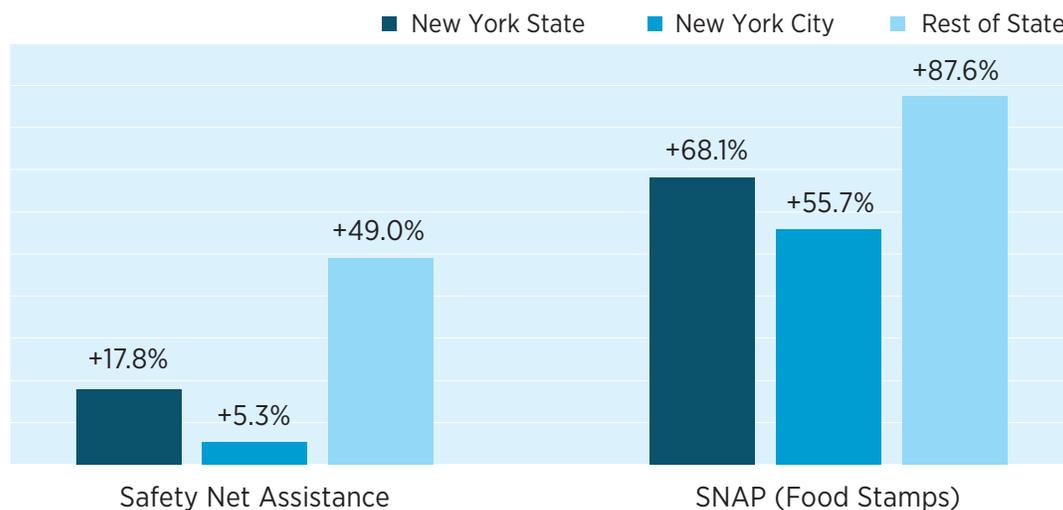


Percent change in state operating funds, inflation-adjusted
 Source: FPI Calculations of 2015-2016 Executive Budget Financial Plan data.

The Office of Housing and Community Renewal and the Office of Human Rights were especially hard hit between 2011 and 2015, with cuts of 42 percent and 36 percent in state operating funds, respectively, after adjusting for inflation. Funding has been reduced by over 14 percent for the Office of Children and Family Services, the agency responsible for administering child welfare services and child care assistance. The proposed budget includes some additional funding for the Office of Children and Family Services and for the Department of Labor but not enough to offset previous cuts. Meanwhile, other agencies are slated for cuts. In the proposed budget, Housing and Community Renewal would lose an additional seven percent, and the Office of Temporary and Disability of Assistance would lose three percent, after inflation.

These cuts are proposed while need remains high in the state. For example, the number of recipients of SNAP (the Supplemental Nutrition Assistance Program, formerly known as Food Stamps) has grown by over two-thirds in the state since October 2007.

The Number of Safety Net and SNAP Recipients Has Grown Dramatically Since 2007



Percent Change Oct. 2007 to Oct. 2014

Source: NYS Office of Temporary and Disability Assistance

Initiatives to Address Lack of Affordable Housing and Homelessness Are Less than They Appear

The budget proposes a number of initiatives to combat the lack of affordable housing and growing homelessness. The governor acknowledges the serious problem that exists in the state. For instance, the homeless population in New York currently exceeds 80,000 people. The budget does include increased funding for state housing programs, including rental assistance for people and families with special needs and the homeless, as well as some new funds to create housing units.

The amount, however, of new funding is not as great as it appeared in the budget presentations. In some cases, the budget simply moves funding for existing programs from one source to another, and often the funding is spread out over multiple years.

- The Executive Budget highlighted an investment of \$183 million to support housing programs. A large share of this amount is replacing General Fund support with JP Morgan funds, and the use of JP Morgan settlement funds does provide a more stable source of funding than does General Fund dollars. But while there is \$66 million in new funding, it is spread over five years.

- An additional \$220 million in funds for addressing homelessness with rental assistance in New York City was noted in the Executive Budget. Rather than an appropriation, these represent funds that the city will save over the next four years as a result of the state capping the amount of money that localities are required to reimburse the state for operation of secure youth facilities. The budget requires the city to use these funds (plus a city match) for rental assistance.
- Similarly, the \$486 million to be invested in housing for vulnerable New Yorkers includes some new funds and new initiatives, but a significant share is made up of funds that were allocated to this purpose last year. This funding is spread over a number of years.

Child Care Subsidies Remain Flat; Family Leave Is Not Addressed

Quality child care contributes to child development, child safety, and the state's economic development, the latter by helping low-income parents participate in the workforce. Funding for childcare subsidies remains flat compared to FY 2014-2015. (General Fund spending is increased by \$39.2 million, but this represents a change in funding sources, not an increase. An increase of \$5.1 million in TANF funds is offset by a reduction in state funding of the same amount, and the net increase of \$34 million in General Fund spending continues funding that was added separately in last year's budget.) Flat funding addresses neither the rise in the cost of child care in the state nor the increase in need.

The governor's budget also fails to address the issue of paid family leave. New York should enact paid family leave in order to address the changing demographics of working families. Paid leave would allow families time to bond with a new child, care for ill family members, and meet added responsibilities when a family member is absent due to military service.

Other Human Service Programs Face Cuts or Minimal Increases

- **The Executive Budget eliminates funding for 23 programs** that were supported with OTDA-administered TANF initiative funds, totaling over \$25 million in FY 2014-2015. These include:
 - Non-residential Domestic Violence Services

- Advanced Technology Training and Information Network (ATTAIN)
 - Services for persons with HIV/AIDS
 - Food Banks of New York
 - A portion of the funding (\$500,000) for the Advantage After School program.
-
- **Funding for the Summer Youth Employment Program (SYEP) would increase by \$2.5 million.** A minimum of \$27.5 million must be spent by local social service agencies on the program. An additional \$2.5 million is allocated to the agencies, but it can be transferred to the Flexible Fund for Family Services if it is not spent. This level of funding may not be sufficient to serve the same number of youth as in previous years. In addition, if the minimum wage increase is approved, as would be a wise step for the state, SYEP funding may need to be increased further to accommodate the wage floor hike without decreasing the number of youth jobs available.
 - **The Youth Development and Delinquency program is cut by \$1.3 million,** to \$14.1 million from current funding of \$15.4 million. Adult Literacy Education is cut from \$6.3 million to \$5.3 million.
 - The budget includes **an additional \$4.5 million for the Hunger Prevention and Nutrition Assistance Program (HPNAP),** increasing funding to \$34.5 million.
 - The budget only includes sufficient funding to maintain at 62 percent **the state share of the Open-Ended Preventive Funding program** used for supportive services to reduce the need for foster care placement of children. This is a reduction from the 65 percent standard in statute and would reduce the number of families counties could serve.
 - The second year of annual two percent increases in **cost-of-living adjustments for non-profit human services providers** is included in the budget. These increases are overdue but are still not sufficient to offset five years of freezes.

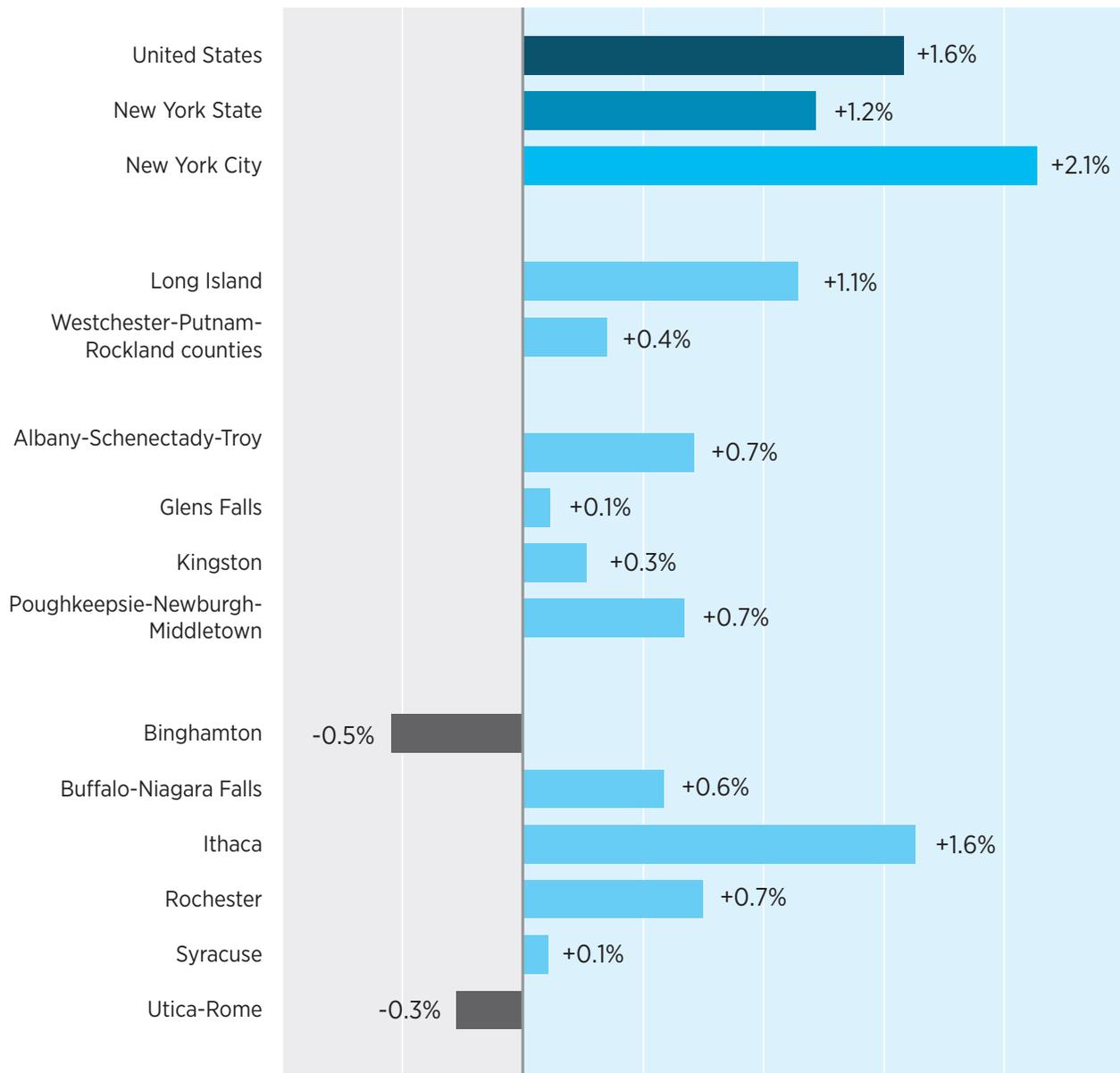
Regional Job Trends and the Decline in State and Local Government Employment

NEW YORK STATE'S JOB GROWTH HAS TRAILED THE NATION'S SINCE 2011, WITH HIGHLY uneven job growth across the state. The total employment picture in New York was not as bleak as in the nation overall during the Great Recession of 2008-09, partly because the unprecedented financial sector bailout helped stem steep job losses in the downstate area.

Jobs started to recover at the very end of 2009, and in the five years since then New York City added jobs at an annual pace of 2.1 percent, faster than the 1.6 percent annual increase for the United States as a whole. The only other area in the state to match the national job growth pace is the Ithaca metro area. Most upstate New York metro areas have had slower job growth during the recovery than in New York City, Long Island, or the nation overall. In the northern suburbs of Westchester, Rockland, and Putnam counties, and for the 52-county upstate area overall, job growth has averaged only 0.4 percent a year over the past five years.

State and local government employment in New York State has fallen by 74,000 since 2009. New York State's austerity budgets have had a lot to do with this falloff in employment. More than three-fourths of the drop in New York's state and local government employment has been at the local level, with much of that concentrated in elementary and secondary schools, as tens of thousands of teachers and other school employees lost their jobs. This personnel decline has led to larger classes and fewer enrichment and extra-curricular programs, and it stems from state school aid reductions and the property tax cap. Similarly, the decline in town, city, and county government jobs around the state has resulted in a reduced level of public services, with cutbacks in services from libraries to parks, road maintenance, transportation services, and youth and senior programs.

Job growth is slower in most upstate New York metro areas.
Average Annual Employment Growth Across New York State, 2009-2014



Source: Bureau of Labor Statistics, total non-agricultural establishment employment, Dec. 2009-Dec. 2014.

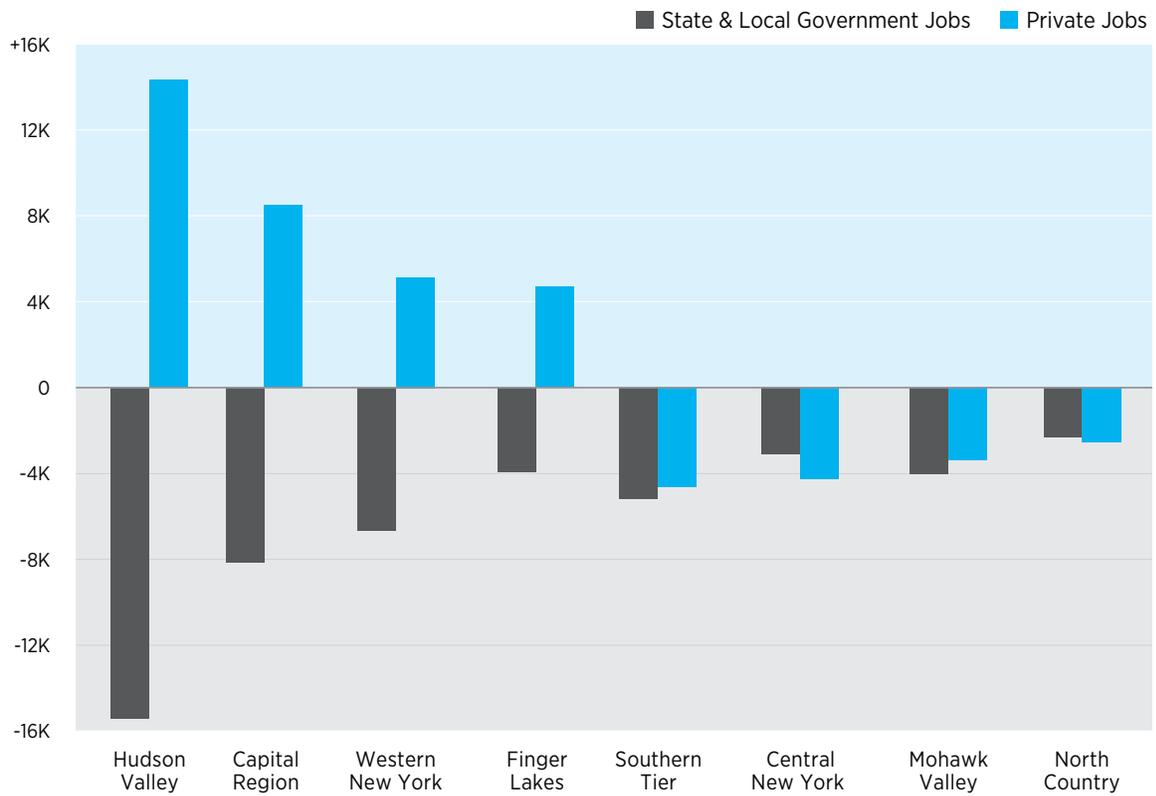
While the drop in state government employment accounted for about a quarter of the overall number of state and local government jobs lost, the percentage job loss—jobs lost as a share of existing jobs—was greater for state employment than at the local level. The number of state government jobs declined by 7.7 percent from mid-2009 to mid-2014, compared to a 5.3 percent loss in local government jobs. This drop in the number of government workers occurred at the same time as the state’s population rose, growing by 1.9 percent from 2010 to 2014 and increasing the demands on government. The population is aging, as well, implying increased need for health care and human services geared to an older population.

The loss of solid middle-income state and local government jobs, not to mention the corresponding decline in services, has made it more difficult for many upstate regions to regain an economic footing coming out of the recession. Between mid-2009 and mid-2014, the steepest local government employment declines occurred in the Southern Tier (an 11 percent drop), and in the Hudson Valley, Central New York, and the Capital Region (all of which experienced 10 percent declines).

In many cases, the loss in state and local government jobs has been accompanied by a decline in private sector employment. In other cases, the loss of government jobs has offset a comparable number of net new private jobs. As a result, most upstate regions were left without any net total job growth during five years of recovery. State budget austerity and the local property tax cap have contributed to this bleak economic picture at a local level.

The continued erosion of state and local employment in New York during the recovery is not typical across the country. In 22 states and the District of Columbia there are more state and local government jobs today than at the end of 2009. For the nation overall, there has been a net state and local government job decline of 2.2 percent, less than half the 5.1 percent decline in New York over this period. New York saw the fifth greatest decline among all states; only Louisiana, New Hampshire, Michigan, and Pennsylvania experienced steeper state and local government job declines. Because New York is larger than these states, no state has seen a greater absolute decline in state and local government employment in the past five years.

State and local government job losses are associated with little to no job growth in upstate New York during five years of recovery.



Source: FPI analysis of NYS Department of Labor Quarterly Census of Employment and Wages data (4-quarter averages, 2008:Q3-2009:Q2 to 2013:Q3-2014:Q2).

Local Governments

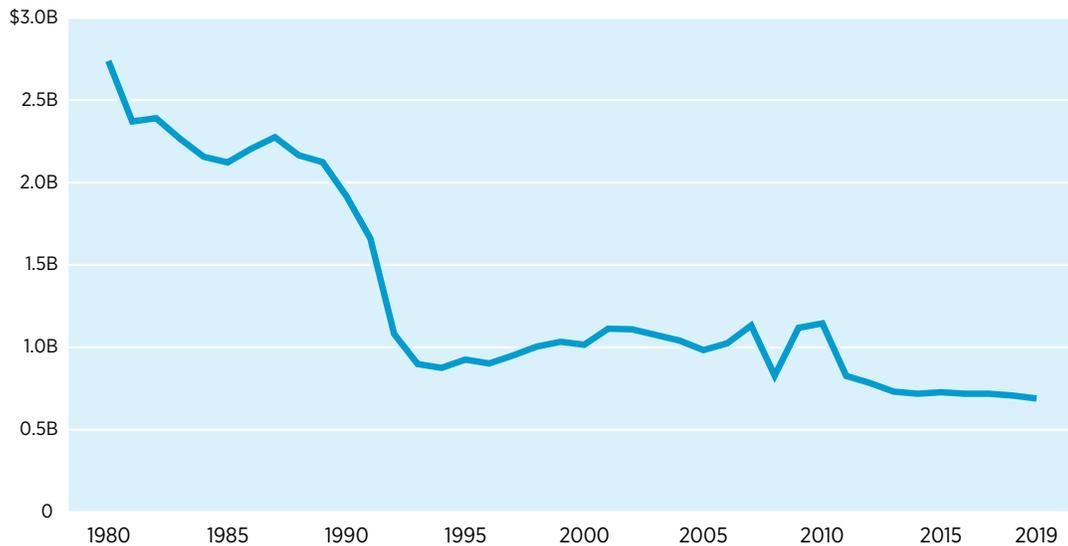
THE GOVERNOR CLAIMS THAT “LOCAL GOVERNMENTS USE TAXPAYERS AS A PIGGYBANK” and refuse to cut costs, thereby driving up property taxes.¹⁵ But the reality is starkly different.

New York State has been renegeing on revenue sharing commitments for more than two decades, and the state share of overall school funding is today at a historic low. It is disingenuous at best for the governor to place blame at the feet of local governments. The state has not been a reliable partner, and has shifted costs to local governments, placing more pressure on the property tax that he suggests is the problem.

New York State currently ranks third lowest among all 50 states in the share of combined state and local government spending that is funded by the state. New York’s relatively small commitment to funding shared state/local responsibilities is a problem for all localities, and puts particular strain on those with smaller property tax bases relative to community needs. This context goes a long way toward understanding the high level of property taxation in localities around the state.

The governor’s insistence on a property tax cap and the property tax freeze are not helping the situation and are indeed just creating more pressure at the local level. The state is pulling back on its share of funding while simultaneously telling localities they cannot raise property taxes, leaving local governments in the precarious position of having to greatly reduce services and employees.

New York State's General Purpose Aid to Municipalities Has Fallen By 73% Since 1980



*Note: Aid and Incentives to Municipalities (AIM) adjusted for inflation, 2014 dollars.
New York City last received this aid in state fiscal year 2010.*

Two things are needed to address the pressure on the property tax.

- First, the state should pick up a larger portion of the shared state/local service funding than it does now, as is common around the rest of the United States.
- Second, a circuit breaker should be put in place to give real, targeted relief to those New Yorkers who face a truly unmanageable property tax burden. (Discussed above in the “Tax” section.)

If the state were to invest more in education aid, pick up a greater share of local Medicaid costs and restore revenue sharing to localities there would be less pressure on the property tax. As the state has cut back on its share of support for jointly funded services, cities, towns, and villages have been cutting spending on various vital services like public safety, social services, general government, sanitation and transportation, as well as making significant workforce reductions in order to make up for the loss of state aid given the inability to increase local property taxes. Localities would be able to restore and improve services without raising local property taxes if the state were to pay its fair share.

Eliminate or Amend the Property Tax Cap and Property Tax Freeze

The property tax cap is the wrong solution to the problem, and it should be eliminated. Short of being eliminated, there are modifications that would make sense to minimize its damage.

Increasing the state's share of funding to localities would, of course, take the pressure off the property tax. A tax cap in Massachusetts is sometimes used as a comparison point for New York, but in comparing the two it is important to note that in Massachusetts state aid to localities increased at the time it passed the tax cap while in New York state aid was reduced, though later Massachusetts cut state aid from that higher level.

The cap currently contains limited exclusions for a small portion of local pension costs and settlement expenses arising from tort actions. If the cap is to remain in place it would make sense to amend the law to allow for additional exclusions and changes.

Exclusions to the cap should include:

- Emergency expenditures resulting from destruction of or 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)
- Cost related to increased enrollment in schools (especially high needs urban school districts)

The cap should be amended to allow for a simple majority override (as in Massachusetts) rather than a 60% supermajority, especially in the case of school districts. The state should not penalize school districts if the override attempt fails.

The state should eliminate the property tax freeze as well and instead redirect those funds to support circuit breaker tax relief. If, however, the ‘freeze’ is to remain in place we should allow local governments to include in their Government Efficiency Plans (required under the Property Tax Freeze law), any efficiency or cost savings initiatives that have been implemented over the past decade. Currently, the Division of the Budget is allowing a look-back only to 2012.

Consolidation

The governor proposes using \$150 million in bank settlement monies to fund a municipal restructuring initiative that he claims will “fund and enhance programs that encourage local government efficiencies.” He argues that “These programs help lower the cost of government and reduce the burden placed on property taxpayers.” The Executive Budget proposes using these funds for grants and tax credits designed to incentivize local governments to engage in planning processes, merge, consolidate and provide ‘efficiency plans.’

Will consolidations of this kind really result in efficiencies that allow for substantial savings of tax dollars without cutting badly needed services in the community?

The governor suggests that there are 10,500 governments in New York State, but he begins this argument on the wrong foot by overstating the number. A closer look reveals there are: 1,607 General Local Governments, 1,811 Special Purpose Governments, and 1,302 Other Entities. There are, in other words, a total of 4,720 actual governments. The governor’s inflated estimate includes 5,780 special tax districts—paper governments with no employees that are mere accounting entries that allow communities to tax certain areas of a town or county for services they receive, such as lighting. Consolidation of these, more than half of the governor’s total count, would not result in any real savings.

The governor argues that smaller governments are by their very nature a more costly and less efficient way to provide government services. This view is not uncommon, but research suggests that the assumption that bigger is always more efficient is not correct. Costs do not necessarily vary based on government size. A recent study by Rutgers University of municipal governments in New Jersey, for instance, found that the per capita cost of government does not differ significantly by size of municipality.¹⁶ A review of the literature on consolidations in the United

States and internationally found mixed results on whether consolidation resulted in costs savings. The authors concluded, “Overall, the literature indicates that there is no compelling evidence for consolidation, except as warranted on a case-by-case basis.”¹⁷

Consolidation comes with costs, as well, including transition costs and the costs of merging salary schedules and overlapping services. Consolidation may bring a need for additional facilities and equipment.¹⁸ These costs should not be ignored when considering the costs and benefits of consolidation.

One common theme in the literature on consolidation is that there is no cookie cutter way to merge local governments. Overstating the potential benefits of consolidation takes attention away from other ways to reduce local government costs. And promoting consolidation may be counterproductive and generate resistance to proven cost-saving solutions such as service sharing. New York localities recognize the benefits of sharing services and participate in many sharing arrangements. But even there the potential for additional cost savings is limited. Some 27 percent of 29 services are provided through sharing arrangements, according to a recent Cornell University survey, but only about half of these resulted in cost savings. Because most local government services are labor intensive per unit costs do not decline with sharing.

Reducing local property taxes requires a broader solution than consolidation including additional state assistance in providing services like education and healthcare and improving roads and transit.

Local Government Assistance

Counties

The state’s counties vary greatly in terms of the local property tax effort necessary to cover the local share of Medicaid costs. Some counties simply have much less taxable value per capita and per needy resident than others. The cap in the growth of local

Medicaid costs institutionalizes this inequity. A far better approach would be for the state to provide Medicaid funding relief in a way that recognizes the differences in ability to pay at the local level.

Safety Net Assistance is another joint state and local responsibility where the state should be contributing more, and more fairly. The program is imposing greater costs on local social services districts (or counties, with the exception of New York City which is the local social service district for the five counties which compose it) since the local share of these costs was increased from 50 percent to 71 percent three years ago.

In FY 2016, the counties and New York City will receive \$2 billion in relief as the result of the three percent Medicaid growth cap, together with the state's further takeover of all the growth in counties' Medicaid expenditures and the state's assumption of the local share of Family Health Plus costs. This is a good example of the sort of constructive funding commitment to local governments that is sorely needed.

Cities, Towns and Villages

While counties have received some fiscal relief, school districts and general purpose municipalities also have service obligations. It is good that the state has provided relief to counties in the form of taking over growth in their Medicaid costs, but this does not make up for cuts in school aid and revenue-sharing, the unrestricted aid that cities, towns and villages receive from the state (now Aid and Incentives for Municipalities, AIM).

Even without adjusting for inflation, revenue sharing in FY2015 was lower than in FY1980; \$715 million vs. \$829 million. Taking into account changes in the cost of living, the decrease is much more dramatic; total revenue sharing in 1980 was \$2.7 billion in 2014 dollars compared to \$715 million in 2015.

Of the total \$715 million AIM allocation proposed in the FY2016 budget, cities receive 90.5 percent, towns receive 6.7 percent and villages receive 2.7 percent of funds.

Minimum Wage

THE GOVERNOR PROPOSES AN INCREASE IN THE STATE MINIMUM WAGE TO \$11.50 IN NEW YORK CITY and \$10.50 in the rest of the state. The minimum wage is currently \$8.75 and is scheduled to increase to \$9.00 by the end of 2015.

Once a leader among states in terms of forward-looking employment practices, New York has watched as a growing number of states and large cities move ahead in establishing higher minimum wages. Seven states and the District of Columbia already have higher minimum wages than New York, and Washington, Oregon, and California are considering increases in the \$12-\$13 range. Chicago, Seattle, and San Francisco have already approved increases that will reach \$13 to \$15 an hour in coming years.

Local governments in our state, including New York City, do not currently have the authority to establish their own minimum wages. Legislation introduced in Albany last year would allow local governments to set a wage floor up to 30 percent above the state's minimum wage. In seeking a higher minimum for New York City, the governor noted the higher cost of living in the city compared to most of the rest of the state.

While the latest increases proposed by Governor Cuomo are a step forward, they would still leave a minimum wage worker far behind average pay in New York City and the rest of the state. In the 1960s and early 1970s, toward the end of the three decades after World War II when the middle class was growing and living standards were rising, the minimum wage in New York was half of the average wage. If the governor's proposal were enacted, the \$11.50 per hour New York City minimum wage would be about 35 percent of the projected statewide average wage in 2017, and the \$10.50 hourly minimum wage for the rest of the state would be 32 percent of the statewide average wage.

Fifty percent of the projected 2017 statewide average wage would be \$16.33, or \$15.57 for 2015. That is a reasonable target level but would have to be achieved in stages, allowing businesses time to adjust, as is being done in Seattle and elsewhere. Our approach should be to peg the minimum to the average wage and see that the minimum wage automatically adjusts as wages rise in the broader economy.

The governor has the authority to raise the minimum wage on his own, and he should be prepared to use that authority if the legislature fails to enact his proposal. Raising the minimum wage is central to making his Opportunity Agenda one that benefits low-wage workers and to taking a decisive step in addressing rising income inequality.

There is no question that the current minimum wage is woefully inadequate throughout New York State. A full-time, year-round minimum wage worker makes \$18,200. The current minimum wage is well below the poverty line for a family of three (\$20,090) or four (\$24,250). Moreover, the current minimum wage is just a fraction of what a family needs to meet basic expenses for housing, food, child care, clothing, transportation, and other necessities.

Some businesses invariably object to raising the minimum wage. However, a growing number of both large and small firms are taking action to support higher minimum wage laws, in part because raising the wage floor makes it harder for other businesses seek a competitive edge by under-paying their workers. There is also a growing body of rigorous economic research that finds that higher wage floors boost worker pay and living standards without causing job losses.¹⁹ And there is a burgeoning business management literature that observes that a growing number of companies are opting to pay higher wages to reduce turnover and improve productivity and customer service.²⁰

A higher minimum wage would bring short- and long-term benefits to the state's economy. Research from the Economic Policy Institute (EPI) identified the many beneficial economic impacts enacting the governor's minimum wage proposal would have, including boosting wages for affected workers by \$3 billion and a net gain of over 14,000 jobs. EPI also determined that parents who would benefit from the increases account for over half of their family's incomes and that 940,000 New York children have a parent who would see a wage increase.

Impact of the Governor’s Minimum Wage Proposal by the Numbers

	INCREASE TO \$10.50 OUTSIDE OF NYC	INCREASE TO \$11.50 IN NYC
Number of affected workers	962,000	1,011,000
As % of all wage employees	21%	29%
Increased wages for affected workers	\$1.0 Billion	\$2.0 Billion
Share of family income from an affected worker	51%	63%
Number of children with at least one parent benefitting	424,400	515,100
Jobs impact (full-time equivalents)	+4,800	+9,500
GDP impact	\$633.9 Million	\$1.3 Billion

Source: Economic Policy Institute, January 2015.

Social science research on early childhood development offers strong support for raising the minimum wage. For example, one prominent researcher found that each additional \$3,000 in annual family income in early childhood is associated with an additional 135 hours of annual work as a young adult and an additional 17 percent in annual earnings.²¹

The state should go further than the proposed minimum wage increase by raising it to a reasonable level and then indexing it to rise with inflation or, better, pegging it to a sensible ratio of the average wage. Without an automatic mechanism, the purchasing power of the minimum wage will begin to erode in 2017. In addition, New York should join other states like California and Minnesota and eliminate separate, and inferior, treatment for tipped workers.

Finally, New York should repeal the ill-advised Minimum Wage Reimbursement Tax Credit enacted two years ago—its projected \$8 million cost last year almost certainly will rise further. There was never any testimony or evidence to show that it was needed or that it was sensible public policy to subsidize companies that pay the minimum wage to teenage students. There is every reason to believe that the biggest potential beneficiaries of this credit are likely to be large low-paying national chain discount stores.²²

A Shared Opportunity Agenda

THE 2016 EXECUTIVE BUDGET TAKES SOME POSITIVE STEPS IN ACKNOWLEDGING AND addressing genuine challenges for New York State: a shrinking middle class, real poverty in the midst of our generally affluent state, and the high burden property taxes pose for some New Yorkers. But, for every step forward the governor takes in addressing some critical issues he takes two steps back by continuing his austerity spending at a time when we need to be investing in New York and by conditioning positive proposals on toxic and often unrelated requirements. The following are a series of recommendations to bolster New York's economy and to ensure more broadly shared prosperity.

Reduce Income Inequality

AID THOSE IN POVERTY AND BUILD THE MIDDLE CLASS

- **Increase the minimum wage**
Phase in gradual increases to make the minimum wage 50 percent of the average wage (that would make it \$15.57 in 2015), and then peg it to 50 percent of the average wage so that inflation does not erode its purchasing power. The state also should eliminate the tipped minimum, and authorize New York City to set a higher rate. And, if the legislature does not act on these measures, the governor should do so on his own authority.
- **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 families out of poverty. State EITC benefits should also be expanded to aid workers ages 20-24 and 65-66, and to increase amounts for childless couples.

- **Enact paid family leave insurance**
Working families should not have to choose between caring for a newborn or seriously ill family member and losing their job. The state should modernize our Temporary Disability Insurance program to provide family leave and raise benefits, frozen since 1989, to adequate levels.
- **Reform unemployment insurance**
Correct shortcomings in how the state structures partial benefits, accelerate the phase-in for the maximum weekly benefit to equal 50 percent of the average weekly wage by 2020, and accelerate an increase in the taxable wage base to \$15,000 by 2020.
- **Improve services and aid to people in poverty**
Provide substantial funding to the state's existing anti-poverty efforts, and restore cuts to critical human service programs that have been decimated by years of austerity budgeting. The Rochester Poverty Task Force is a sound concept; it should be expanded to other cities around the state that have high child poverty rates, and paired with resources to address recommendations. Increasing funding for the Non-Profit Infrastructure Capital Investment from the proposed \$50 million would help nonprofit groups meet the needs of New Yorkers living in poverty.
- **Expand childcare subsidies**
Significantly increase the number of subsidized slots to assist families in maintaining employment. A \$100 million investment would create 13,000 new slots for families that are currently waiting for child care subsidies.
- **Increase funding for universal Pre-Kindergarten**
A \$150 million investment in upstate Pre-Kindergarten would support access to 15,000 more children and a \$70 million investment would assist NYC in meeting its goal to provide universal service in 2015-2016.

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 blamed them for raising taxes in order to address a problem the state has largely created in the first place.
- **Scrap the state spending cap**
Eliminate the governor's self-imposed two percent cap on state spending. State tax revenues, total wages, and personal income are projected to grow by four to six percent annually over the next four years. There is no reason to hold annual spending growth below two percent if it means that we are under-investing in education and poverty reduction. This unforced austerity will cause large unspecified cuts to local governments, education and human service programs.
- **Eliminate or amend the property tax cap**
The property tax cap is the wrong solution to the state/local tax problem, and it should be eliminated. Short of being eliminated, there are modifications that would at least minimize its damage to schools and local governments. The cap should be amended to allow for a simple majority override rather than requiring a 60 percent supermajority. The cap should also have exclusions for local expenditures for emergencies, capital improvements, infrastructure, and enrollment.
- **Increase K-12 school aid**
Make a serious down payment on meeting the commitments of the Campaign for Fiscal Equity settlement by increasing aid by \$2.2 billion and distributing it through the foundation formula to ensure funds are targeted to high-needs school districts with high child poverty rates. Do not link increases in school aid to controversial and misdirected education reform proposals. The state share of school spending has been shrinking for decades and disparities between high- and low-wealth districts have grown.
- **Increase Aid and Incentives to Municipalities**
Help fiscally stressed local governments, by increasing AIM aid. Funding has been flat for far too long; over the past 30 years AIM funding has eroded by 75 percent in inflation-adjusted dollars.

- **Enact circuit breaker tax relief**
Build on the governor’s proposed circuit breaker property tax relief program for homeowners and renters. Do not link the circuit breaker to local compliance with tax cap. Increase the residency requirement to more than 6 months, so that aid is targeted to families who have bought homes and then seen their property value, and property tax, rise. Increase the maximum credit so that the circuit breaker provides meaningful aid. Target more relief to low-income renters.
- **Improve low-wage jobs in non-profit social service agencies working under state contract**
Recognize that these workers provide critical public services and are, in effect, indirect state employees. Funding for state human service contracts should be increased to provide these workers with a living wage, and access to career advancement opportunities.

Invest in the State’s Economic Vitality

ECONOMIC GROWTH BUILT ON NEW YORK’S STRENGTHS

- **Reform and curtail business tax credit programs**
Reduce the amount of money ill-used in the name of economic development and redirect it to bolster economic growth. Tax credits have tripled to \$1.8 billion in the past decade, yet they have a negligible impact on job creation. The governor’s own tax commission recommended curtailing the scattershot use of tax credits. These funds can be better used as investments in smart economic development.
- **Redirect \$1.5 billion in bank settlement funds**
Instead of the governor’s plan to pit upstate regions against each other, this valuable one-time funding source should be directed to infrastructure repairs across the upstate area. Infrastructure repairs are desperately needed throughout the entire region and those improvements will help attract business by improving local conditions.
- **Increase Aid to SUNY/CUNY**
Build on the tremendous resource of SUNY and CUNY campuses around the state by putting them on a sound financial footing. There are numerous benefits to providing a good public education, but it is undeniable that gains to the

local economy are among them. Expand and modernize the Tuition Assistance Payment (TAP) program that provides targeted aid to students that need it the most by increasing the maximum award, raising income thresholds, and easing eligibility for part-time TAP.

- **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. Ensuring that New York is a state in which talent does not go to waste, and signaling that we are a state that welcomes immigrants, will not only help these students, it will also good for the state’s overall economic growth. Do not link its passage to the misconceived Education Tax Credit.
- **Expand transitional and public service jobs**
Widen access to transitional employment to better assist welfare recipients and the unemployed while protecting against the displacement of existing public sector workers.

Make the State Tax System More Progressive

IMPROVE THE INCOME TAX, CLOSE LOOPHOLES, AND FIX “CORPORATE TAX REFORM”

- **Add progressivity to the Personal Income Tax (PIT)**
New York’s overall state and local tax system is regressive. The state personal income tax should be made more progressive to lessen the overall tax system’s regressivity. The top personal income tax bracket and the slightly-lowered middle income brackets are set to expire in 2017 and should be made permanent, along with an additional bracket for incomes between \$500,000 and \$2 million at 7.85 percent (which was removed in the 2011 changes to the “millionaires tax”).
- **Do not pass the misguided Education Tax Credit**
This proposal is nothing more than a \$100 million diversion of taxpayer resources to privately determined educational uses. It would provide an unprecedented 75 percent tax reduction relative to a contribution and has the potential to lessen charitable contributions for a range of worthy causes. There is no provision to avert a situation where wealthy donors, corporations, and financial partnerships would claim all or a lion’s share of the credits.

- **Fix “corporate tax reform”**

Changes should be made to improve the corporate tax reform that was enacted last year. The changes were meant to be revenue neutral, but in fact wound up costing nearly \$500 million. 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 last year.

- **Eliminate the exemption for carried interest under the New York City Unincorporated Business Tax**

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

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Fiscal Policy Institute

WWW.FISCALPOLICY.ORG

One Lear Jet Lane | Latham, New York 12110 | 518 786-3156

11 Park Place, Suite 701 | New York, NY 10007 | 212 721-5624