Policy Brief

Local Governments

February 2017

Local governments in New York State have come under tremendous pressure in recent years to cut expenses, with a real cost to the quality of life and economic well-being of communities around the state. Indicative of a declining capacity to provide services, total local government employment outside of New York City fell by 56,800 between 2009 and 2015, an 8.4 percent decline, with about 29,300 (-8%) jobs lost in public schools and about 27,500 (-9%) lost in other local government areas.

Fig 1. New York State and Local Government Employment, Including Public Schools

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

ALL STATE AND LOCAL GOVERNMENT EMPLOYMENT 2009-2015

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

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

For decades now, New York State has put local governments in a terrible bind. First the state reduced its contribution to joint state/local expenditures, while it simultaneously reduced state Aid to Municipalities (AIM) funding, forcing localities to either increase property taxes or cut services. In 2012, local government options were further restricted by placing a cap on the amount property taxes could be raised.

Since the cap is the lesser of inflation or two percent growth—and inflation was fairly low from 2015 to 2016—the allowable property tax levy growth in 2017 will be only 0.68 percent. This follows a comparably miniscule growth factor of 0.73 percent in 2016.

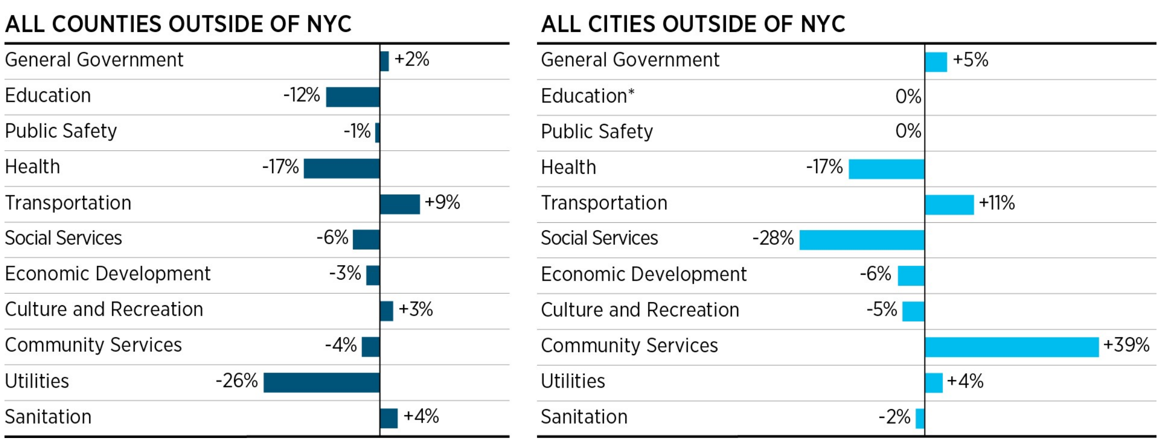
The state's agreement to take over increases in Medicaid expenses was a positive step that helped ease the pressure on local government to some degree, but it was not enough to offset the longstanding erosion of other forms of state aid to localities. Rather than recognizing the unreasonable fiscal strain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

The inevitable result has been a decline in local services. 2013 was the first full year the property tax cap was in effect, and in just the short period from FY 2012 to FY 2015, county governments around the state cut services substantially. In the 57 counties of New York State outside of New York City, after adjusting for inflation, county government spending on health care decreased by 17 percent, education (primarily community colleges, since school districts are city government entities) by 12 percent, and social services by 6 percent.[1]

City governments, again excluding New York City, are similarly down in most service categories, with a substantial increase only in community services. Social services are down by 28 percent, health care by 17 percent, economic development by six percent, and culture and recreation by five percent. These data reflect only city- and county-level spending, but towns, villages, fire districts, libraries and, most notably, school districts, are similarly affected.[2]As expected, local officials across the state report that these cuts are too severe to maintain the services citizens expect.[3]

Fig 2. As the State Cuts Back, Cities and Counties Are Squeezed

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



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

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

Meanwhile, the need in many parts of the state is extremely serious. Metro areas in upstate New York stand out dramatically, as evidenced in a 2015 Century Foundation report (see the following figure). Looking at segregation and concentration of poverty in the 100 largest metropolitan areas of the United States, the report finds that Syracuse, Rochester, and Buffalo are among the top ten metro areas with the most concentrated poverty for both black and Hispanic residents. Nearly two thirds of both African Americans and Latinos living in metro Syracuse live in high-poverty neighborhoods, more than in any other metro area of the United States. Metro Rochester ranks fourth in the country for African Americans living in high-poverty neighborhoods and sixth for Latinos; metro Buffalo is sixth for African Americans and ninth for Latinos.

Fig 3. New York Needs to Address the High Concentration of Black and Latino Poverty in Upstate Metro Areas

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

Percent of African Americans Living in High-Poverty Neighborhoods

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

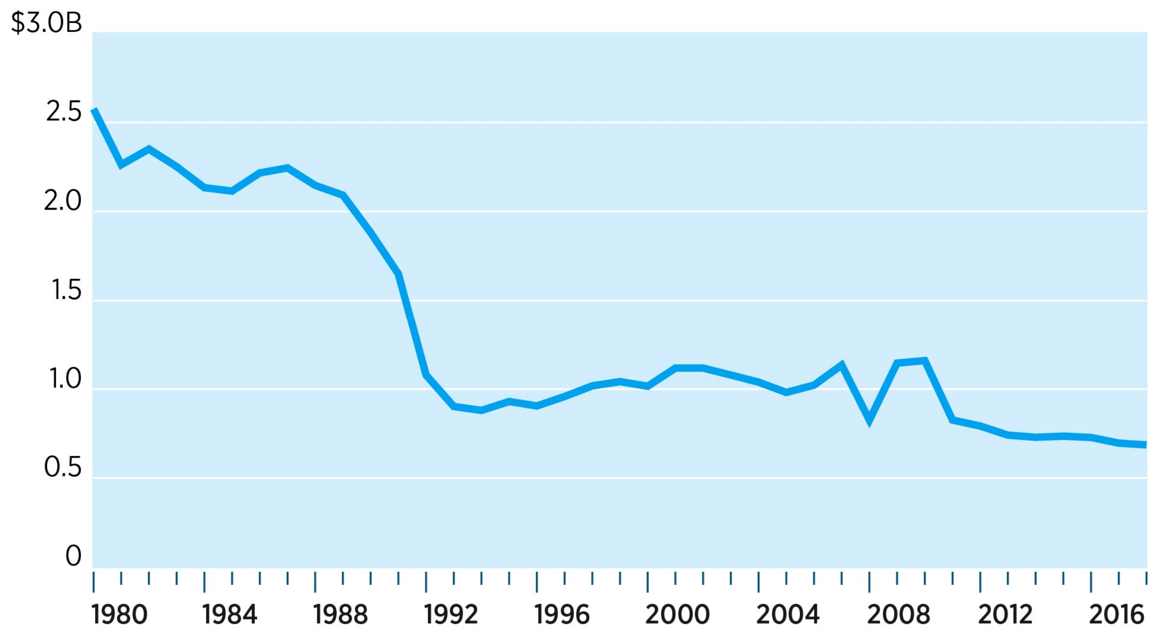
Percent of Hispanics Living in High-Poverty Neighborhoods

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

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

Decreases in funding for general-purpose Aid to Municipalities only further exacerbates the difficulty localities have in addressing the challenges they face. AIM funding is flat in nominal terms, which means that it is down in inflation-adjusted terms by a whopping 73 percent since 1980.

Fig 4. Aid and Incentives to Municipalities has fallen by almost three-fourths since 1980.



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

The state's commitment to absorb increases in Medicaid spending starting in FY 2014 has saved counties outside of New York City roughly $204 million in FY 2017. A better approach would be to provide Medicaid funding relief in a way that recognizes the differences in ability to pay at the local level, and to increase the amount provided. As it stands, the Medicaid spending is a positive development but not enough to offset the fiscal strain of other state actions. New York is one of the only states that forces local governments to contribute to Medicaid. If New York were to pick up the full local share of Medicaid for upstate counties, it would provide over $2 billion in needed mandate relief to counties and allow them to actually reduce property taxes rather than limit their growth.

Extraordinary Proposals Linking Consolidation/Shared Services Plans to AIM Grants

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

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

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

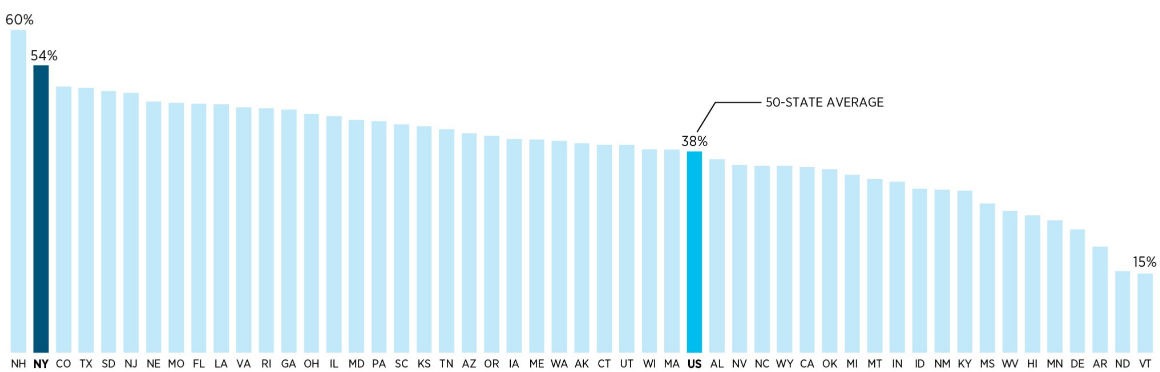
The state should dramatically increase AIM funding and not make funding contingent on voter-approved, county-wide shared service plans.

Reducing the High Burden New York State Places on Local Governments

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

Fig 5. Localities in NY Carry Over 50% of State/Local Tax Burden; 2nd Highest in U.S.

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



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

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

Across the state, numerous local government services are provided through sharing arrangements, but a recent Cornell University study found that lower costs were reported only about half the time.[4] The academic literature on consolidation in the United States and internationally found mixed results on whether consolidation resulted in cost savings, concluding that "overall, the literature indicates that there

[4] G Homsy, B. Qian, Y. Wang and M. Warner, "Shared Services in New York State: A Reform that Works, Summary of Municipal Survey in NYS," (Ithaca, NY, Shared Services Project, Department of City and Regional Planning, Cornell University, 2013).

is no compelling evidence for consolidation except as warranted on a case-by-case basis."[5] There are indeed instances where consolidation may be a way to reduce costs, and there are often good arguments for consolidation, such as equity in services between different municipalities. But as a response to the fiscal strain the state has placed localities under, consolidation of services is hardly an adequate solution.

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

The property tax cap should be removed entirely. If, however, the property tax cap is not removed, it should, at a minimum, be amended. For planning purposes, a two percent minimum would work best, rather than tying it to inflation, significantly straining local finances and services. Because of low inflation, the property tax cap will be 0.68 percent in the coming year instead of two percent, according to the state comptroller. This will result in the loss of millions of dollars in revenues to school districts and local governments at a time when they are already stretched thin.

The property tax cap currently contains exclusions for a small portion of local pension costs, PILOTs, BOCES capital costs, and settlement expenses arising from tort actions. Several additional exclusions would make just as much sense. Among them:

- emergency expenditures resulting from damage to municipal infrastructure or equipment;
- expenses related to capital improvements for local governments;
- infrastructure investments intended to enhance the economic development capacity of a community (such as improvements related to municipal water, sewer, or transportation); and
- costs related to increased enrollment in schools (especially in high-needs urban school districts).

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

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

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