Economic and Fiscal Outlook 2020

New York's Pathway to Shared Prosperity

Local Government

Fiscal Policy Institute

Local Government

Governor Cuomo continues to misleadingly suggest that local governments can solve their fiscal dilemmas by finding substantial efficiencies. But after years of starvation diets, there is simply not much fat to cut. While there may be occasional efficiencies that can be found, the larger answer must be adequate revenues rather than cuts in spending.

Many locally provided services are jointly funded by the state and the locality, from education to Medicaid to social services. When the state abdicates responsibility for its share of funding, localities must step up to make up the difference. When local governments face significant obstacles to providing sufficient funding they have to make cuts to services.

The governor relies heavily on the notion that consolidating government services could save enormous amounts of money, yet consolidations that make sense have mostly already happened. While consolidation can be a useful tool, it is by no means a solution to the local fiscal crisis that is primarily a product of flawed state policies.

Many localities simply do not have the means to make up for the lack of sufficient state aid, and even those that might are constrained by the state-imposed property tax cap. Faced with a declining state share of funding, localities look to cut services that have already been constrained for years. Or they turn to even more unattractive sources of revenue, such as fees and fines. Using law enforcement agencies to raise money—what has come to be known as "revenue policing," is not only massively regressive fiscal policy, it also creates enormous tensions between law enforcement agents and the communities they serve.

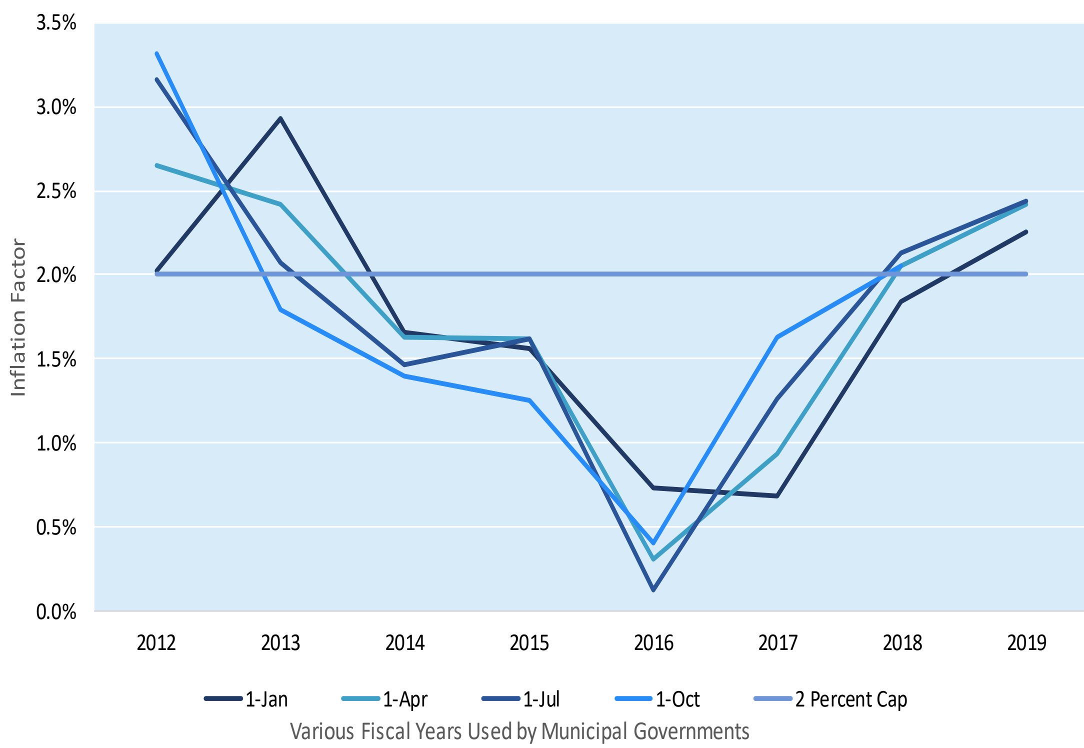
The governor is right that many New Yorkers face an unmanageably high property tax burden. However, a property tax cap is the wrong solution to the problem. Increasing the state share of joint state and local responsibilities is a more sensible way to address the problem, together with targeted relief through an improved property tax circuit breaker to those truly straining under a tax burden.

Let's Not Make the Property Tax Cap Permanent

In December 2018, Governor Cuomo announced his Justice Agenda, invoking Franklin D. Roosevelt's New Deal and the importance of his four freedoms as a model. Incongruously, in his executive budget this year, the governor urges the legislature to make the service-strangling property tax cap permanent. Additionally, the budget proposes to eliminate Aid and Incentives to Municipalities (AIM) funding for 1,306 municipalities, but not cut it at all for municipalities for which AIM comprises more than two percent of their budget. The dissonance is stunning. Spending cuts and property tax limits have more in common with the conservative taxpayer revolt in the 1970s California than with the progressive FDR agenda that set our country on a path to middle-class growth for decades.

The Fiscal Policy Institute has for years argued that the property tax cap is the wrong way to fix the glaring inequities in our state and local tax structure. The state has reneged on its funding commitments to both schools and local governments. The state has yet to provide adequate school funding to address the shortfall in foundation formula funding for school aid that was the resolution the Campaign for Fiscal Equity law suit, and currently amounts to $4.1 billion. It has also squeezed local governments by for years flatlining AIM funding, and now cutting it by $52 million or 7.2 percent. The better solution is for the state to act as a reliable partner and carry more of the costs they push down to school districts and local governments. Then, the state can also enact meaningful, targeted property tax relief in the form of a circuit breaker that will provide more substantial property tax relief to those who really need it.

Figure 1. Property Tax Cap: The Allowable Growth Has Been *Under* Two Percent



Source: Fiscal Policy Institute analysis of NYS Comptroller data, February 2019.

The property tax cap is altogether too blunt an instrument: eliminating it would be better than extending it. For as long as the cap is in place, however, there are ways its damage could at least be mitigated. First, we should make it a true two percent cap. The cap should be set at two percent or the rate of inflation, whichever is higher, not whichever is lower as is current law. The higher of the two thresholds is how Massachusetts—the model for New York's tax cap—encourages low growth budgets from its municipalities. Establishing a property tax cap that is the higher of the two thresholds, inflation and two percent, would give local governments and school districts the certainty of a floor and allow them to better plan their budgets on an annual basis.

The state should also remove the undemocratic supermajority provision for school budgets and allow exemptions for matters beyond the control of local governments and school districts.

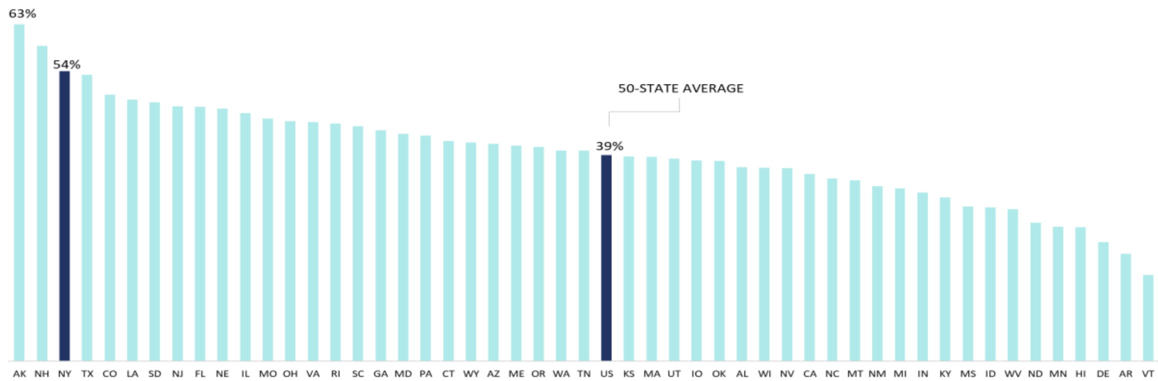
Exemptions for schools should also be made for BOCES services and program costs, enrollment growth (which is surging in some localities, especially on Long Island), payments and projects related to natural disasters, school safety and school resource officers, PILOTS (to mitigate the effects of IDA decisions on school districts), tuition payments for both general and special education, maintenance and repair of school buildings, retirement and healthcare costs, cost of energy (fuel for heating, cooling and transportation) and the effect of failed add-on ballot propositions.

Exemptions for local governments should include emergency expenditures resulting from damage to municipal infrastructure or equipment, expenses related to capital improvements for local governments and infrastructure investments intended to enhance the economic development capacity of a community, such as improvements related to municipal water, sewer, or transportation.

Increase AIM Funding to Decrease the Pressure on Local Governments

Local governments in New York carry a portion of the shared state/local expenses that is nearly unparalleled in the rest of the country. Figure 2 shows that the local share of combined state/local funding responsibilities is higher in New York State than in almost all other states.

Figure 2. The Local Share of Combined State and Local Taxes Is Very High in New York



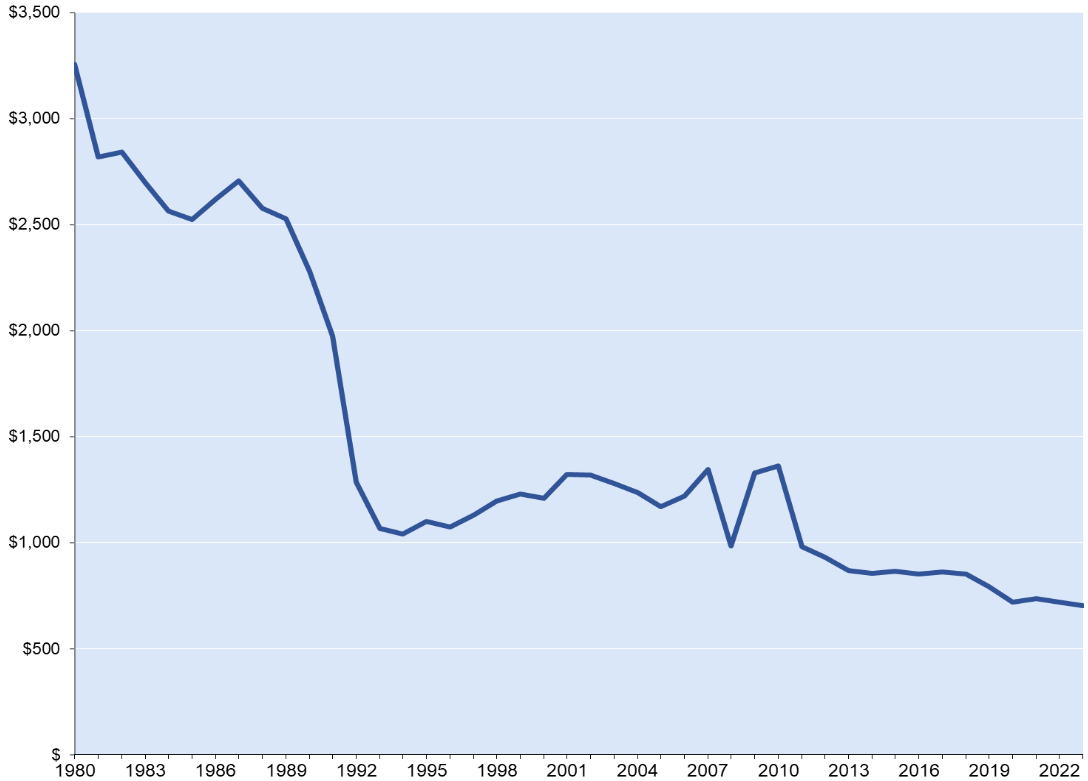
Note: Tax burden per $100 personal income.
Source: Governor's FY 2020 Economic and Revenue Outlook, data for 2016.

Decreases in funding for general-purpose Aid and Incentives to Municipalities, as the governor has proposed in his executive budget, will only further exacerbate the difficulty localities have in addressing the challenges they face. AIM funding has been flat in nominal terms for many years, which means that it is down significantly in inflation-adjusted terms, and by well over 75 percent since 1980. This year, the governor seeks to cut funding overall by $52 million or 7.2 percent. This is accomplished by eliminating AIM for the 1,306 municipalities that AIM comprises less than two percent of their budget. However, under the governor's proposal, if a municipality is receiving more than two percent of its budget in AIM, it will not face any cuts.

For example, the village of Camillus, in Onondaga County, received AIM funding the equivalent of 1.98 percent of its budget in 2017, so the proposal would cut all of their $27,677 in funding. The village of Wampsville, in Madison County, gets to keep all its AIM funding, because it comprised 2.03 percent of its budget. If their AIM funding were $76 less, they would have lost all of it, under the governor's proposal.[1]

Rather than continuing to put more fiscal pressure on local governments the state should dramatically increase AIM to make up for years of inadequate funding levels.

Figure 3. General Purpose Aid to Local Governments Has Fallen by Over Three-Fourths Since 1980



Source: Fiscal Policy Institute of NYS Division of the Budget Executive Budget FY19-20, January 2019. Measures unrestricted Aid and Incentives to Municipalities. Amount of aid is adjusted for inflation.

As local governments in New York State have come under tremendous pressure in recent years to cut expenses, it has come at a real cost to the quality of life and economic well-being of communities around the state. Government employment just began to turn around in 2016; both in New York City and in the rest of the state, there have been very moderate increases in government jobs. There is clearly a long way to go, however, as total local government employment outside of New York City fell by 37,600 between 2009 and 2018, a 5.6 percent decline, with 4,300 of these lost jobs in local school systems (-1.2 percent) and 33,000 of them in other local government positions (-10.8 percent).

Figure 3. State and Local Government Employment, Including Public Schools

NEW YORK STATE	2009		2018	% Change
State Government Employment	261,200	→	257,400	-1.5%
Local Government Employment, excluding schools	619,200	→	584,600	-5.6%
Local Elementary and Secondary School Employment	516,600	→	514,800	-0.3%
NEW YORK CITY				
State Government Employment	49,400	→	43,000	-13.0%
Local Government Employment, excluding schools	312,200	→	310,900	-0.4%
Local Elementary and Secondary School Employment	149,900	→	152,400	1.7%
REST OF NEW YORK STATE				
State Government Employment	211,800	→	214,400	1.2%
Local Government Employment, excluding schools	307,000	→	273,700	-10.8%
Local Elementary and Secondary School Employment	366,700	→	362,400	-1.2%

CHANGE IN TOTAL STATE AND LOCAL GOVERNMENT EMPLOYMENT 2009-2018

New York State	New York City	Rest of New York State
-40,200 JOBS	-5,200 JOBS	-35,000 JOBS

Source: New York State Department of Labor, Current Labor Statistics, Fiscal Policy Institute analysis, January 2019.

Adopt a Middle-Class Circuit Breaker

In the long run, New York State needs to dramatically reverse the fiscal pressure it puts on local governments by covering its fair share of the shared local/state expenses. That is the best way to reduce property taxes, and it would also help reduce the use of fees and fines as a source of revenue rather than a tool of governance.

As it moves toward this long-term goal, however, the state should also provide immediate aid to those who need relief from an unsustainably high property tax bill right now. The best way to do this is with a property tax circuit breaker.

A property tax circuit breaker is a targeted form of property tax relief. The name "circuit breaker" is used to describe this type of tax credit since it is designed to prevent households from being overburdened by property taxes just as electrical circuit breakers interrupt the flow of electrical current when a circuit becomes overloaded. A property tax circuit Breaker has several key elements. It should:

- Set an "affordability threshold" as a percentage (such as 6-9 percent) of household income.
- Calculate a household's property tax "overload": the portion of the property taxes (on the household's primary residence) in excess of the "affordability threshold."

- Set a "benefit" percentage (such as 70 percent). A household's circuit breaker credit would then be calculated by multiplying the household's "overload" by the benefit percentage. The benefit level should be high enough to provide meaningful relief to overburdened households.

The following table shows how a circuit breaker with an "affordability threshold" of nine percent of household income and a benefit percentage of 70 percent would affect households with different incomes and different property tax bills on their primary residences.

Figure 4. Circuit Breaker Scenario for Property Tax Relief with a 9 Percent Affordability Threshold and a 70 Percent Benefit, for Households at Different Income Levels

Total Household Income	Property Tax Bill on Household's Primary Residence	Affordability Threshold Percentage	"Overload"	Benefit Percentage	Circuit Breaker Benefit
$35,000	$6,000	9%	$2,850	70%	$1,995
$35,000	$8,000	9%	$4,850	70%	$3,395
$55,000	$6,000	9%	$1,050	70%	$735
$55,000	$8,000	9%	$3,050	70%	$2,135
$75,000	$6,000	9%	$0	70%	$0
$75,000	$8,000	9%	$1,250	70%	$875

Source: Fiscal Policy Institute calculations, February 2019. Note: "overload" is the portion of tax bill above threshold percentage of income; circuit breaker benefit is the "overload" multiplied by the benefit percentage.

Renters are also affected by the high burden of property taxes—even though they do not directly pay the tax, they indirectly cover its cost through their rent payments. A well-designed circuit breaker should make sure that the effect of high property taxes on renters is also considered.

A well-designed circuit breaker should not need to have different rules for people in different age groups or different geographic areas. And, the circuit breaker should include all the income of all the members of a household in calculating the household's eligibility benefit.

[1] New York State Division of the Budget, https://www.budget.ny.gov/pubs/archive/fy20/exec/local/aim/fy20aim-villages.pdf