

Mandate Relief and Local Government Aid

Overview

Building on the significant mandate relief enacted for 2012-13, the Executive Budget provides local government officials with additional tools to manage their finances in a responsible manner. This Budget contains several new proposals to continue to assist localities during this difficult economic period. Highlights include:

- **Stable Rate Pension Contribution Option.** While pension relief for local governments and schools will continue to grow over time as a result of the landmark Tier VI pension reform, these entities continue to face recurring and significant near-term increases in employer contribution rates brought by the 2008 market crash and the subsequent recession. The Executive Budget offers local governments and schools a bridge to the long-term savings of Tier VI, as well as greater predictability, through a Stable Rate Pension Contribution Option.
- **Local Sales Tax Rate Renewals.** The Executive Budget allows counties to renew their existing sales tax authority without action by the State Legislature. The current process creates unpredictability that makes it difficult for local officials to manage their budgets. The Executive Budget proposes making this solely a local responsibility.

These tools will help municipal leaders meet the pressures of the prolonged economic downturn, constrained local revenues, and rising expenses. In addition to these reforms, the Executive Budget continues to provide \$715 million to local governments in unrestricted aid, and an additional \$79 million for grants to promote greater efficiency.

Implementing Mandate Relief

The 2012-13 Budget provided local governments with major structural mandate relief reforms. These included a takeover by the State of growth in the local share of Medicaid expenses; a new Tier VI in the State pension system; and Early Intervention reforms. These reforms will result in more than \$2.1 billion in financial relief to local governments and schools over the next five years. Tier VI savings for local government and schools will grow to more than \$60 billion over the next 30 years.

New York State also provides unrestricted aid to local governments, the primary vehicle of which is the Aid and Incentives for Municipalities (AIM) program. From 2004-05 to 2012-13, unrestricted aid to local governments outside New York City grew from \$465 million to \$715 million under the AIM program, an increase of 54 percent.

In 2011, the State enacted several initiatives totaling \$79 million to promote and reward local efforts to reduce the property tax burden through increased governmental efficiency and performance, consolidation/dissolution, or shared services, including \$40 million for the Performance and Efficiency Program and \$35 million for Citizens Reorganization Empowerment Grants and Citizen Empowerment Tax Credits.

Building on the significant mandate relief enacted in 2012, the Executive Budget provides new tools for local governments to address financial strain.

- **Stable Rate Pension Contribution Option.** Tier VI, enacted last year, is providing pension relief to local government and schools with each new employee hired under the new system. However, these entities continue to face recurring and significant near-term increases in employer contribution rates resulting from the 2008 market crash and the subsequent recession. If faced with continued, unfettered growth in near-term pension costs, some local officials believe that their city, town, village or school will approach functional and fiscal insolvency.

With Tier VI in place, there is now an opportunity to adopt an alternate pension funding mechanism – a Stable Rate Pension Contribution Option to provide local governments and school districts with immediate access to the long-term savings of Tier VI, as well as greater stability.

Local governments and school districts would be given the option to “lock in” long-term, stable rate pension contributions for a period of years determined by the Comptroller and the Teachers’ Retirement System (TRS) in order to achieve full funding in each system. The proposed stable rates would be 12 percent for the New York State Employees’ Retirement System (ERS), 12.5 percent for TRS, and 18.5 percent for the Police and Fire Retirement System (PFRS). Absent this option, the system average 2013-14 rates (inclusive of Group Life Insurance) would be 20.9 percent for ERS, 16.5 percent for TRS, and 28.9 percent for PFRS.

These stable rate pension contributions will dramatically reduce near-term payments for employers, but will require higher than normal contributions in the latter years. This proposal is fiscally neutral to the retirement funds over the full length of the period.

These immediate and significant savings, combined with the stability offered through this proposal, will provide immediate access to the savings of Tier VI and offer local governments and school districts needed relief, improving their ability to maintain necessary services to their residents and students. Local governments who opt in would avoid significant volatility in contribution rates and be better able to plan for the future.

- **Local Sales Tax Rate Renewals.** Under this proposal, counties would no longer be required to petition the State every two years to renew their current sales tax authority. This current process creates unpredictability that makes it difficult for local officials to manage their budgets. The Executive Budget proposes making this solely a local responsibility. Renewal of current sales tax rates would only require a majority vote of the county legislature, every two years. Any increase in the local sales tax or change to an existing statutory sharing arrangement would continue to require State Legislative approval.
- **Unnecessary Reporting Requirements.** All local government and school district reporting requirements would be eliminated on April 1, 2014 unless the Mandate Relief Council approves continuing them. This will place the burden of proof on State agencies and authorities to justify continuing a report rather than maintaining the status quo of local governments and school districts being required to regularly report.

- **Reform Early Intervention Program.** The Early Intervention (EI) program provides a comprehensive array of therapeutic and support services to children under the age of three with confirmed disabilities (e.g., autism, cerebral palsy) or developmental delays. The Executive Budget recommends a series of program modifications to expand insurance coverage and streamline eligibility determinations, without impacting services, that provide significant fiscal and administrative mandate relief to counties and generate cumulative local savings totaling more than \$60 million over five years.
- **Enhance General Public Health Work Program.** The General Public Health Work (GPHW) program provides State aid reimbursement to Local Health Departments (LHDs) for a core set of public health services. Reforms associated with the first major overhaul of this program since its enactment will promote State health priorities, incentivize performance, and provide administrative relief to counties. The Budget will achieve \$3.5 million in savings in 2014-15 and provide mandate relief for local governments of more than \$16 million over five years.
- **Reforms to Preschool Special Education.** To increase the incentive for local governments to find and recover fraudulent and inappropriate spending by providers, counties and New York City would be allowed to keep 75 percent of all recoveries from local audits – this is nearly double the 40.5 percent that they are currently allowed to retain. In addition, New York City will be given the authority to competitively negotiate rates with Preschool Special Education providers. These reforms will help local governments contain the cost of this program.
- **School District Mandate Relief.** As recommended by the Mandate Relief Council, the Executive Budget will create a new waiver process which will allow school districts to petition the State Education Department for flexibility from special education requirements. In addition, the burdensome requirement of maintaining an internal auditor for school districts with fewer than 1,000 students will be eliminated.
- **Reform Workers' Compensation.** The Executive Budget contains a series of reforms to reduce the cost of purchasing workers' compensation insurance without affecting the rights or benefits of workers. This will provide financial relief for all insured government entities.
- **Reform Unemployment Insurance.** The Executive Budget includes substantial reforms that will decrease costs to employers, including local governments.

Local Government Assistance

In addition to proposing mandate relief measures aimed at reducing local government costs and securing county revenues, the Executive Budget proposes to maintain all direct local government aid programs, including AIM for cities, towns and villages, at 2012-13 funding levels. This Budget also proposes continued level funding for grant programs which encourage and reward local governments for increasing their performance and efficiency.

The Executive Budget also proposes reforms to local government efficiency grant programs to improve their effectiveness. For the Local Government Efficiency Grant program and the Citizens Reorganization Empowerment Grant program, the local match for planning projects would be increased. If a project is later implemented, the local match would be refunded. This change would incentivize the implementation of projects that achieve taxpayer savings and promote greater efficiency. In addition, the maximum award for Local Government Efficiency Grant planning grants would be reduced to ensure that taxpayer resources primarily support implementation projects and achieve results.

Funding for the following local government programs would be maintained at current year levels:

- **AIM for Cities, Towns and Villages.** Consistent with 2012-13, the Executive Budget would maintain \$715 million in unrestricted AIM funding to cities, towns and villages.
- **Citizen Empowerment Tax Credits.** Funding to incentivize local government consolidation or dissolution under Governor Cuomo's Empowerment Tax Credits is continued at existing levels, providing a bonus equal to 15 percent of the newly combined local government's tax levy, of which at least 70 percent of such amount must be used for direct relief to property taxpayers.
- **Citizens Reorganization Empowerment Grants.** Funding is maintained for grants up to \$100,000 for local governments to cover costs associated with studies, plans and implementation efforts related to local government reorganization activities. To improve the effectiveness of this grant program, the local match for planning or study grants initiated by the local government would be increased from 10 percent to 50 percent. Upon approval of the local government reorganization, this 40 percentage point increase in local match would be refunded. This change would encourage the implementation of local government re-organization activities. There would be no change in the 10 percent local match for planning or study grants in response to a citizen petition, or for implementation grants. These grants share a \$35 million appropriation with the Citizen Empowerment Tax Credits.
- **Local Government Performance and Efficiency Program.** A \$40 million appropriation is continued for competitive one-time awards of up to \$25 per capita, capped at \$5 million, which recognize local governments that have achieved efficiencies and performance improvements.
- **Local Government Efficiency Grants.** Funding of \$4 million would continue to be provided to help cover costs associated with local government efficiency projects, such as planning for and/or implementation of a functional consolidation, shared or cooperative services, and regionalized delivery of services. To improve the effectiveness of this grant program, the local match for planning or study grants would be increased from 10 percent to 50 percent. As with the current grant program, if a local government implements a previously completed planning project, the local match from the planning project would be refunded (up to the local share for implementation). In addition, the maximum award for planning grants would be reduced from \$25,000 per municipality to \$12,500 per municipality and from \$200,000 to \$100,000 per grant. These changes would focus funding on implementation and further incentivize local government efficiency improvements.
- **Other Local Government Programs.** Other programs will be maintained at existing levels, including Video Lottery Terminal (VLT) Impact Aid, Miscellaneous Financial Assistance for Madison and Oneida counties, Small Government Assistance Grants for Essex, Franklin and Hamilton counties, and Efficiency Incentive Grants for Erie County and the City of Buffalo.

Summary of Spending

Category	2012-13 (\$ in millions)	2013-14 (\$ in millions)	Change	
			Dollar (in millions)	Percent
AIM – Towns and Villages	67.6	67.6	0	0
AIM – Cities Outside NYC	647.1	647.1	0	0
Total AIM	714.7	714.7	0	0
Citizens Empowerment Tax Credits and Grants	1.2	1.7	0.5	42
Local Government Performance and Efficiency Program	4.3	12.6	8.3	193
Local Government Efficiency Grants	8.0	5.2	(2.8)	(35)
VLT Impact Aid	25.9	25.9	0	0
Miscellaneous Financial Assistance	2.0	2.0	0	0
Small Government Assistance	0.2	0.2	0	0
Buffalo/Erie Efficiency Grants	7.0	4.5	(2.5)	(36)

Overall Fiscal Impact on Local Governments

The 2013-14 Executive Budget results in a year-to-year local impact of over \$943 million for municipalities and school districts for their fiscal years ending in 2014. These savings are primarily the result of an \$889 million increase to school districts, including \$561 million in allocated school aid. Local governments including New York City will benefit from \$27.4 million from various sales tax and income tax proposals, \$21.1 million from higher downstate transit assistance, and \$4.3 million from Early Intervention program reforms. The mandate relief reforms will deliver continued and increased relief in future years.

Impact of the 2013-14 Executive Budget on Local Governments (Local Fiscal Year Ending in 2014) (\$in millions)					
	Total	NYC	School Districts (non-NYC)	Counties	All Other
Allocated School Aid	561.0	224.0	337.0	0.0	0.0
Revenue Actions	27.4	21.6	0.1	4.8	0.9
Human Services	0.3	0.0	0.0	0.3	0.0
Transportation	21.1	9.4	0.0	11.7	0.0
Health	5.9	2.5	0.0	3.4	0.0
Subtotal	615.7	257.5	337.1	20.2	0.9
School Aid - Fiscal Stabilization Fund	203.0	TBD	TBD	0.0	0.0
School Aid - State of the State Initiatives	75.0	TBD	TBD	0.0	0.0
School Aid - Performance Grants	50.0	TBD	TBD	0.0	0.0
Total 2013-14 Executive Budget Actions	943.7	257.5	337.1	20.2	0.9

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Impact of the 2013-14 Executive Budget on Local Governments (Local Fiscal Year Ending in 2013 - 2016) (\$in millions)				
	LFY Ending in 2013	LFY Ending in 2014	LFY Ending in 2015	LFY Ending in 2016
NYC	7.7	257.5	294.0	408.1
School Districts (non – NYC)	0.0	337.1	382.2	563.2
Counties	12.9	20.2	26.5	28.3
All Other	0.3	0.9	1.0	1.0
Subtotal	20.9	615.7	703.7	1,000.6
School Aid - Fiscal Stabilization Fund	0.0	203.0	0.0	0.0
School Aid - State of the State Initiatives	0.0	75.0	75.0	75.0
School Aid - Performance Grants	0.0	50.0	50.0	50.0
Total 2013-14 Executive Budget Actions	20.9	943.7	828.7	1,125.6