



# 11. Local Government

## Overview

The 2015-16 Executive Budget continues Governor Cuomo's commitment to reducing property taxes, improving local government efficiency, and assisting distressed local governments, while maintaining core local government assistance.

Highlights include:

- **Providing Property Tax Relief to Those Who Need it Most.** Building on the success of the property tax cap and the property tax freeze credit, the Executive Budget creates a new Real Property Tax Credit available to households with incomes below \$250,000 whose property taxes exceed six percent of their income. This program will provide \$1.66 billion in direct relief to New York taxpayers.

- **Eliminating Duplicative and Overlapping Governments.** The Budget provides \$150 million from the Special Infrastructure Account to assist and encourage local governments and school districts to implement shared services, cooperation agreements, mergers, and other actions that permanently reduce operational costs and property tax burdens. This also includes continued funding for Financial Restructuring Board awards and other efficiency programs.

In addition to these reforms, the Executive Budget continues to provide \$715 million to local governments in unrestricted aid.

### **Keeping the Focus on Property Taxes**

New York residents face one of the country's highest property tax burdens. In his first year in office, Governor Cuomo advanced and secured approval of one of the strictest property tax caps in the country. In the first three years under the tax cap, property taxes grew an average of just 2.2 percent per year – less than half the average annual growth from 2000 to 2010.

Through the first three years of the cap, the average property tax payer has saved more than \$800, compared to if taxes had continued to grow at the

previous average rate of growth. If this trend continues, by 2017, the typical taxpayer will have saved more than \$2,100 in local property taxes.

The second phase of the Governor's property tax relief program was the Property Tax Freeze, enacted last year. The Property Tax Freeze provides direct relief to New York homeowners and addresses one of the drivers of the State's high property taxes – the outsized number of local governments. Over three years, the program will result in over \$1.5 billion in direct property tax relief, with the average New York taxpayer receiving approximately \$656. Equally important, the freeze is designed to incentivize local governments and school districts to seek efficiencies and share services to reduce their financial burden on the taxpayer.

In the first year (2014 for school taxes and 2015 for local government taxes), homeowners with incomes at or less than \$500,000 who reside in a school district or local government that stays within the tax cap will receive a State tax credit equal to the increase in property taxes. In order for their homeowners to get the tax credit in the second year, school districts and local governments must have continued to stay within the tax cap and have submitted a Government Efficiency Plan

that demonstrates savings through shared services, cooperation agreements, mergers, or efficiencies.

The 2015-16 Executive Budget takes the next step in reducing the property tax burden by creating a new Real Property Tax Credit available to households with incomes below \$250,000 and whose property taxes exceed six percent of their income. The credit is valued at up to 50 percent of the amount by which property taxes exceed the six percent threshold, depending on household income. When fully implemented, more than 1.3 million taxpayers will receive a credit averaging \$950, statewide. Outside of NYC, only the taxes levied by a tax cap-compliant jurisdiction are included in the credit calculation.

The Real Property Tax Credit also includes a renters' credit, based upon the estimate that 13.75 percent of annual gross rent is attributed to property taxes. The credit is available to taxpayers with incomes up to \$150,000 when the amount attributed to property taxes exceeds six percent of their income. This will ensure equity and fairness for approximately one million New Yorkers who – while not owning property – are still burdened by the State's high property tax rates.

## **Eliminating Duplicative and Overlapping Local Governments**

One of the drivers behind New York's high local government cost and property tax burden is its duplicative and overlapping local government structure. The property tax freeze attacks this issue by requiring local governments and school districts to develop a Government Efficiency Plan in order for their taxpayers to be eligible for the second year of the tax freeze. The Government Efficiency Plans are due in June 2015 and must identify recurring savings from shared services, cooperation agreements, mergers, and efficiencies.

The 2015-16 Executive Budget maintains and enhances the support for these activities through \$150 million from the Special Infrastructure Account. This will support:

- **Transformational Grants.** Funding will be awarded for one-time costs related to transformational projects that reduce the long-term cost of local government and school district services. This includes financing the implementation of high quality proposals identified in the Government Efficiency Plans.
- **Citizens Reorganization Empowerment Grants.** These grants provide funding of up to \$100,000 for local governments to cover costs

associated with planning and implementing local government reorganization activities, such as consolidations and dissolutions. Expedited assistance is given to local governments that have received a citizen petition for consolidation or dissolution.

- **Citizen Empowerment Tax Credits.** For cities, towns, or villages that consolidate or dissolve, these tax credits provide an annual aid bonus equal to 15 percent of the newly combined local government's tax levy. At least 70 percent of such amount must be used for direct relief to property taxpayers.
- **Local Government Efficiency Grants.** These competitive grants provide funding 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. The maximum implementation grant award is \$200,000 per municipality/\$1 million per grant consortium, and the maximum planning grant award is \$12,500 per municipality/\$100,000 per grant consortium.
- **Financial Restructuring Board Awards.** Grants and/or loans of up to \$5 million per municipality may be awarded by the Financial Restructuring Board for Local Governments.

This support will empower local governments and school districts to implement actions in their Government Efficiency Plans that reduce the property tax burden on their taxpayers.

### **Restructuring Distressed Local Governments**

The Financial Restructuring Board for Local Governments was created in 2013 to help distressed local governments restructure and regain solvency before the strict enforcement of a control board is needed. The ten-member board is chaired by the Budget Director and includes the State Comptroller, the Attorney General, the Secretary of State, and six other members appointed by the Governor. Of these six appointees, one is recommended by the Temporary President of the Senate, and one is recommended by the Speaker of the Assembly.

Any eligible county, city, town, or village may request a Comprehensive Review from the Board. The Review will assess the local government's operations, finances, and management structure and, based on this information, make recommendations on restructuring municipal operations to improve its finances and efficiency. In addition, the Board can offer grants and/or

loans of up to \$5 million per municipality through the Local Government Performance and Efficiency Program for implementing the recommendations. If the local government agrees to undertake the Board's recommendations, it will be contractually bound to fulfill those terms in order to receive the aid.

The Board has undertaken Comprehensive Reviews for seven local governments - the Cities of Rochester, Albany, Jamestown, and Fulton, the Villages of Alfred and Wilson, and the Town of Fishkill. Additional Comprehensive Review requests are expected.

### **Relieving Local Government Mandates**

The burden of local government mandates has existed for decades. These requirements have grown over time and are woven throughout statute and regulation. Governor Cuomo made mandate relief a priority and cut away at dozens of burdensome and expensive requirements. Reforms that have been enacted or are being advanced with the 2015-16 Executive Budget include:



- **Local Youth Facility Costs.** The 2015-16 Budget caps the mandated costs imposed on counties and New York City for the operation of New York State Office of Children and Family Services juvenile facilities. Billings would be capped at \$55 million annually through 2018-19, providing total local savings of \$425 million over this time period. New York City's savings would be reinvested in homeless assistance programs and services.
- **Medicaid Relief.** Medicaid is one of the biggest costs for counties and New York City. The State has eliminated growth in the local share of Medicaid, saving counties and New York City \$2.8 billion over five years (2014-15 – 2018-19). For 2014-15 and beyond, the cost of Medicaid to counties and New York City will not increase. Along with the expense growth, the State is also assuming Medicaid administrative responsibilities for counties. This will result in greater efficiencies and help achieve State and Federal health care reform initiatives.
- **Pension Reform.** In recent years, pensions have been one of the fastest growing costs for local governments and school districts. In 2012, a new pension tier was created in the State pension system that will save the State, local governments, and school districts more than \$80 billion over the next 30 years. In 2013, local governments and school districts were given the option to have a more stable pension contribution rate, which has greater

predictability and allows for access to the savings from the 2012 reforms.

- **Binding Arbitration.** After decades of local government calls for change to the binding arbitration process with police and fire unions, reforms were enacted in 2013 to require arbitrators to give significant weight to a distressed local government's ability to pay and to consider the property tax cap when making awards. This will help ensure that awards reflect the high burden already faced by property taxpayers in these communities.

These important reforms will help local governments manage their budgets and reduce the burden placed on property taxpayers.

### **Maintaining Core Local Government Aid**

In addition to freezing property taxes and providing grants to help local governments consolidate and restructure, the 2015-16 Executive Budget proposes to maintain most direct local government aid programs, including the Aid and Incentives for Municipalities (AIM) program for cities, towns, and villages, at 2014-15 funding levels.

- **AIM for Cities, Towns, and Villages.** The 2015-16 Budget maintains \$715 million in

unrestricted AIM funding to cities, towns, and villages.

- **Consolidation and Restructuring Programs.** The Budget maintains funding to support the Citizens Reorganization Empowerment Grants, the Citizen Empowerment Tax Credits, and the Local Government Efficiency Grants. It also maintains funding to be awarded by the Financial Restructuring Board through the Local Government Performance and Efficiency Program.
- **Small Government Assistance.** The Budget maintains Small Government Assistance Grants for Essex, Franklin, and Hamilton counties at existing levels.

The 2015-16 Executive Budget discontinues funding for several legislative programmatic additions including Village Per Capita Aid, Miscellaneous Financial Assistance, and the 2014-15 increase to Video Lottery Terminal Impact Aid.

## Summary of Spending

Category	2014-15 (millions)	2015-16 (millions)	Change	
			Dollars (millions)	Percent
AIM – Cities Outside NYC	647.1	647.1	0	0
AIM – Towns and Villages	67.6	67.6	0	0
<b>Total AIM</b>	<b>714.7</b>	<b>714.7</b>	<b>0</b>	<b>0</b>
Citizens Empowerment Tax Credits and Grants	1.6	2.0	0.4	25
Local Government Performance and Efficiency Program	14.3	14.8	0.5	3
Local Government Efficiency Grants	6.4	6.6	0.2	3
VLT Impact Aid	29.3	27.2	(2.1)	(7)
Miscellaneous Financial Assistance	5.8	0.4	(5.4)	(93)
Village Per Capita Aid	2.0	0.0	(2.0)	(100)
Small Government Assistance	0.2	0.2	0	0
Buffalo/Erie Efficiency Grants*	3.2	0.0	(3.2)	(100)

\*Spending will be reduced to zero as the programs reach completion.

## Overall Fiscal Impact on Local Governments

The 2015-16 Executive Budget results in a year-to-year local impact of over \$1.1 billion for municipalities and school districts for their fiscal years ending in 2016. These savings are primarily the result of a statewide school aid increase of nearly \$1.1 billion. Local governments including New York City will also

benefit by \$54.4 million from various sales tax and income tax proposals, \$9.9 million from human services proposals, and \$15.6 million from higher Downstate transit assistance. These benefits will be partially offset by a \$3.7 million reduction in municipal aid and a \$600,000 public protection reduction.

<b>Impact of the 2015-16 Executive Budget on Local Governments (Local Fiscal Year Ending in 2016) (\$in millions)</b>					
	<b>Total</b>	<b>NYC</b>	<b>School Districts (non-NYC)</b>	<b>Counties</b>	<b>All Other</b>
School Aid*	1,063.5	TBD	TBD	0.0	0.0
Revenue Actions	54.4	22.6	0.4	26.7	4.7
Human Services**	9.9	(20.8)	0.0	30.7	0.0
Transportation	15.6	6.9	0.0	8.7	0.0
Municipal Aid	(3.7)	0.0	0.0	(0.6)	(3.1)
Public Protection	(0.6)	(0.6)	0.0	0.0	0.0
<b>Total 2015-16 Executive Budget Actions</b>	<b>1,139.1</b>	<b>8.1</b>	<b>0.4</b>	<b>65.5</b>	<b>1.6</b>

\* The specific distribution of this new aid will be determined in the Enacted Budget.

\*\*This does not reflect the \$220 million in savings for New York City through 2018-19 due to capping Youth Facility charge backs, as New York City would be required to reinvest these savings in homeless assistance programs.

Note: Due to the inability to determine the precise impacts by class of government as well as the anticipated timing by fiscal year, these totals do not include the following actions affecting local governments: Up to \$150 million in settlement funds for municipal restructuring, a potential \$10 million benefit from auditing NYSHIP dependent eligibility, and \$5 million in grants for local water fluoridation systems.