

10. LOCAL GOVERNMENT

The FY 2017 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.

Overview

New York's local government assistance programs provide general purpose aid to municipalities, as well as targeted grant programs and incentives for local government efficiency and consolidation actions. The Aid and Incentives to Municipalities (AIM) program provides unrestricted, general purpose aid to cities, towns, and villages.

Grant and incentive programs that provide funding related to municipal shared services, efficiencies, and consolidations include: the Citizens Reorganization Empowerment Grants, Citizen Empowerment Tax Credits, Local Government Efficiency Grants, and the Local Government Performance and Efficiency Program.

Other programs provide aid to specific local governments, including Aid to Municipalities with Video Lottery Gaming Facilities (VLT Impact Aid), Miscellaneous Financial Assistance, and Small Government Assistance.

The Financial Restructuring Board for Local Governments assists distressed municipalities by conducting Comprehensive Reviews to develop recommendations for restructuring and improving fiscal stability. The Board may offer grants or loans to help implement its recommendations.

Addressing the Property Tax Burden

New York residents face some of the highest property tax burdens in the nation. Since taking office Governor Cuomo has focused on fighting this burden by capping property taxes, improving local government efficiency, restructuring distressed local governments, and relieving mandates.

In his first year in office, Governor Cuomo advanced and secured approval of one of the strongest 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. It is estimated that if these growth trends continue, the typical taxpayer will have saved more than \$2,100 in local property taxes by 2017.

To provide further relief, the Governor proposed the Property Tax Freeze. Enacted in 2014, the Property Tax Freeze provides New York homeowners an average of \$525 in direct relief over three years, bringing the combined average savings from the property tax cap and the Property Tax Freeze to \$2,625. The Freeze program also encourages local shared services, cooperation agreements, mergers, and efficiencies. 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 stayed within the tax cap received a State tax credit equal to the increase in their 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 an approved Government Efficiency Plan that demonstrates savings through shared services, cooperation agreements, mergers, or efficiencies.

As a result of the Property Tax Cap and the Property Tax Freeze program, local taxpayers will have saved more than \$17 billion through 2016. To ensure that this savings continues, at the end of the 2015 Legislative session, the Governor and Legislature extended the property tax cap through 2020.

In June, 2015, an additional program was enacted to provide direct relief to struggling New York taxpayers – the Property Tax Credit. The program is progressively structured so that taxpayers with lower incomes receive a higher benefit.

Credits will be remitted in the fall of each year, close to when the majority of New York homeowners have to pay their largest property tax bill – their local school district property taxes. All STAR-eligible homeowners with incomes below \$275,000 who live in school districts that comply with the property tax cap will be eligible to receive the credit. In the first year, 2016, the program will be coupled with the third and final installment of the Property Tax Freeze credit. Upstate homeowners will receive \$185 from the program, while taxpayers in Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester counties will receive \$130 from the new program. Beginning in 2017, the

program will provide property tax relief based on a percentage of a homeowner's STAR benefit, with lower incomes receiving a larger percentage. When the program is fully phased-in for benefits provided in 2019, it will provide \$1.3 billion of property tax relief and an average credit of \$530.

Improving Local Government Efficiency

One of the drivers behind New York's high local government cost and property tax burden is its duplicative and overlapping local government structure. To address this problem, the State provides a variety of grant and incentive programs for local governments.

As part of the FY 2016 Budget, Governor Cuomo advanced and secured approval of the Municipal Restructuring Fund, a program that provides funding to help local governments implement transformational projects that contribute to lower operating costs and reduced property tax burdens on a permanent basis. Representatives from the Department of State met with local leaders at regional roundtables and held a Local Government Innovation Conference in Albany in order to best structure the program to ensure that it meets

the needs of local governments. Applications for grants will be accepted beginning in early 2016.

In addition to the Municipal Restructuring Fund grants, the Budget continues funding for other programs that improve local government efficiency. This support will empower local governments and school districts to implement actions that reduce the property tax burden on their taxpayers.

- **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. This program shares a \$35 million appropriation with the Citizen Empowerment Tax Credits.
- **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. This program shares a \$35 million appropriation with the Citizens Reorganization Empowerment Grants.

- **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 implementing 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. A \$4 million appropriation supports this program.
- **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. There is \$80 million in Local Government Performance and Efficiency Program reappropriations available for these awards.

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. Based on this information, the Board may make recommendations on restructuring municipal operations to improve the local government's 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 to implement the recommendations. To receive the aid, the local government must agree to fulfill the terms of the recommendations.

The Board has undertaken Comprehensive Reviews for twelve local governments: the cities of Rochester, Albany, Utica, Jamestown, Elmira, Lockport, and Fulton, the villages of Alfred, Owego, Hoosick Falls, and Wilson, and the Town of Fishkill. Additional Comprehensive Review requests are expected.

Relieving Local Government Mandates

Governor Cuomo made mandate relief a priority and has eliminated dozens of burdensome requirements, including many of the most expensive. These important reforms are helping local governments manage their budgets and reduce the burden placed on property taxpayers. Reforms that have been advanced by the Governor and enacted include:

- **Medicaid Relief.** The State has eliminated growth in the local share of Medicaid, saving counties \$800 million over five years (FY 2015-2019). For FY 2015 and beyond, the cost of Medicaid to counties subject to the property tax cap will not increase – all growth in the Medicaid program for these counties is being absorbed by the State. 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. The Budget extends these reforms for three years.

Summary of Spending

| Category | FY 2016 (millions) | FY2017 (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 |
| Total AIM | 714.7 | 714.7 | 0 | 0 |
| Citizens Empowerment Tax Credits and Grants* | 1.9 | 2.4 | 0.5 | 29 |
| Local Government Efficiency Grants* | 9.3 | 5.5 | (3.8) | (40) |
| Local Government Performance and Efficiency Program* | 9.9 | 16.7 | 6.8 | 68 |
| VLT Impact Aid | 29.3 | 29.3 | 0 | 0 |
| Miscellaneous Financial Assistance | 16.2 | 0.8 | (15.4) | (95) |
| Village Per Capita Aid | 2.0 | 0.0 | (2.0) | (100) |
| Small Government Assistance | 0.2 | 0.2 | 0 | 0 |
| Buffalo/Erie Efficiency Grants** | 1.6 | 0.0 | (1.6) | (100) |

* For FY 2017, Citizens Empowerment Tax Credit and Grants, Local Government Efficiency Grants, and the Local Government Performance and Efficiency Program are being funded out of the Special Infrastructure Account instead of the General Fund.

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

Proposed FY 2017 Budget Actions

- **Downtown Revitalization Initiative.** The Budget provides \$100 million for a new initiative to fund transformative housing, economic development, transportation, and community projects designed to attract and retain residents, visitors, and businesses to downtowns. Ten communities that are currently experiencing population loss and/or economic decline will be able to submit revitalization plans for their downtown area, developed in collaboration with policy and planning experts.
- **Municipal Consolidation Competition.** To further encourage local government consolidation, the Budget creates a new \$20 million consolidation competition designed to empower counties and other local governments to pursue opportunities for consolidation, shared services, and other changes that permanently reduce the property tax burden. This competition is designed to bring forth aspirational consolidation ideas that will change the structure of local government.
- **Continue Restructuring Programs.** The Budget continues funding to support the Municipal Restructuring Fund, the Local Government Performance and Efficiency Program, Citizen Empowerment Tax Credits, Citizens Reorganization Empowerment Grants, and Local Government Efficiency Grants. These programs will be funded through the Special Infrastructure Account, as authorized in the FY 2016 Budget.

- **Maintain Local Government Aid.** The Budget maintains most local government aid programs at FY 2016 levels, including: \$715 million in unrestricted AIM funding to cities, towns, and villages; \$29.3 million in VLT Impact Aid; and \$217,300 in Small Government Assistance. Legislative adds, such as Miscellaneous Financial Assistance and Village Per Capita Aid, are discontinued.

Overall Fiscal Impact on Local Governments

The Executive Budget results in a year-to-year net positive local impact of \$1.3 billion for municipalities and school districts for their fiscal years ending in 2017. This net local benefit is primarily the result of a statewide school aid increase of \$991 million, including competitive school grants, and the continuation of the State's Medicaid growth takeover with adjustments to the program. The benefit is primarily offset by an impact to New York City related to rationalizing funding and governance for CUNY senior colleges while providing CUNY contract funding.

| Impact of the FY 2017 Executive Budget on Local Governments (Local Fiscal Year Ending in 2017) (\$ in millions) | | | | | |
|--|----------------|--------------|---|-----------------|----------------------|
| | Total | NYC | School Districts (non-NYC) | Counties | All Other |
| School Aid | 963.0 | 364.0 | 599.0 | 0.0 | 0.0 |
| Other Education | (95.1) | (185.1) | 90.0 | 0.0 | 0.0 |
| Revenue Actions | (13.0) | (13.0) | 0.0 | 0.0 | 0.0 |
| Medicaid | 349.5 | 145.9 | 0.0 | 203.6 | 0.0 |
| Health | 20.9 | 12.5 | 0.0 | 8.4 | 0.0 |
| Mental Hygiene | (1.5) | (2.0) | 0.0 | 0.5 | 0.0 |
| Municipal Aid | (1.6) | 0.0 | 0.0 | 0.0 | (1.6) |
| Environment | (0.9) | (0.1) | 0.0 | (0.8) | 0.0 |
| Other | (2.8) | 0.0 | 0.0 | (2.8) | 0.0 |
| Subtotal FY 2017 Executive Budget Actions | 1,218.5 | 322.2 | 689.0 | 208.9 | (1.6) |
| Wastewater Infrastructure Funds | 50.0 | 0.0 | 0.0 | TBD | TBD |
| New Competitive School Grants | 28.0 | TBD | TBD | 0.0 | 0.0 |
| Municipal Consolidation Competition | 20.0 | 0.0 | 0.0 | TBD | TBD |
| Grand Total FY 2017 Executive Budget Actions | 1,316.5 | 322.2 | 689.0 | 208.9 | (1.6) |