



LOCAL GOVERNMENT





The Executive Budget continues to deliver core local government aid, including Aid and Incentives to Municipalities (AIM), and an array of shared service and efficiency-based funding, as well as advances several mandate relief actions to improve county and local operations. The Executive Budget also reflects the distribution by the State of extraordinary federal aid for local governments.

OVERVIEW

These past two tumultuous years have required sustained extraordinary efforts from the State and every level of local government to provide necessary services amidst the pandemic. The State and local governments shouldered large public health efforts to protect, test, trace, treat, and vaccinate millions of New Yorkers.

To support these services, and at the encouragement of Governor Hochul and other officials at the State, federal, and local levels, the federal government is providing municipalities with much needed funding from the American Rescue Plan Act (ARPA). Additional State funding is available for local governments to help with the infrastructure necessary to carry out pandemic response activities.

The combination of these State and Federal aid programs, along with resilient local revenues and the realization of mandate relief benefits, has led most local governments to recover and achieve firm financial footing.

The State's elimination of the internet tax advantage has generated more than \$1 billion for local governments outside of New York City from FY 2020 through FY 2022.

The State's takeover of local Medicaid cost increases has saved counties and New York City more than \$30 billion through FY 2022, an amount those local governments would have otherwise had to bear.

Even with the improved financial outlook of most municipal budgets, the Executive Budget continues incentives that bolster efficiency and multi-governmental collaboration across all levels of government.

Grant and incentive programs that provide funding related to municipal shared services, efficiencies, and consolidations include the County-Wide Shared Services Initiative, Local Government Efficiency Grants, Citizens Reorganization Empowerment Grants,

Citizen Empowerment Tax Credits, the Municipal Restructuring Fund, and the Local Government Performance and Efficiency Program.

The Aid and Incentives to Municipalities (AIM) program provides general purpose aid to cities, towns, and villages. Other programs provide aid to specific local governments, including Small Government Assistance, Miscellaneous Financial Assistance and support for Municipalities with Video Lottery Gaming Facilities.

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.

The overall impact of the Executive Budget on local governments can be measured in two ways. First, and most fundamentally, total assumed spending on behalf of local governments in FY 2023 can be compared to that of the prior fiscal year. This view reflects that State spending on behalf of local governments can go up or down because of budgetary changes, but also by increases in caseload or statutory automatic inflators.

Total spending on behalf of local governments through major local aid programs and savings initiatives is expected to total over \$48 billion in FY 2023 under the Executive Budget. This represents an increase of \$2.5 billion over the prior year, predominantly due to increases in School Aid.

The second way of measuring the impact of the Executive Budget on local governments is reflected on the traditional local impact table. In this view, increases in caseload or statutory automatic inflators are excluded, and only new changes proposed in this Executive Budget are considered.

Under these narrower criteria, actions taken in the Executive Budget result in a year-to-year net positive local impact of \$2.4 billion for municipalities and school districts for their fiscal years ending in 2023.

- **Support for New York City.** Total State spending on behalf of New York City through major local aid programs is expected to total nearly \$20 billion in FY 2023 under the Executive Budget. This includes \$2.6 billion attributable to the State takeover of

local Medicaid growth and nearly \$12.4 billion in School Aid. Total support for New York City is higher than FY 2022 by over \$700 million, in large measure due to a year-to-year Foundation Aid increase of \$345 million as well as an over \$185 million increase in expense-based and categorical School Aid. New York City will also receive a significant increase in a variety of transportation aid, including transit operating aid and CHIPs, as well as increases for General Public Health Work.

- Traditional local impacts presented in the Executive Budget reflect a net positive impact of \$503 million for the 2023 City Fiscal Year, including positive impacts of \$531 million for school aid and \$108 million in increased transportation aid, including increasing the CHIPs base, increased transit operating aid, providing Extreme Wintery Recovery and State Touring Routes aid, increasing PAveNY and Operating Pave Our Potholes. These increases are partially offset by a \$200 million negative impact as a result of making permanent the sales tax intercept for distressed health provider assistance.
- **Support for County Governments.** Total State spending on behalf of counties outside of New York City through major local aid programs is expected to total nearly \$5.5 billion in FY 2023 under the Executive Budget. This includes \$2.5 billion attributable to the State takeover of local Medicaid growth.

Traditional local impacts result in a net positive impact of \$207 million, including \$146 million in increased transportation aid, including increasing the CHIPs base, increased transit operating aid, providing Extreme Wintery Recovery and State Touring Routes aid, increasing PAveNY, and Operation Pave Potholes. There is also a \$35.8 million net impact due to various human service proposals, including increasing adoption support and maintaining the childcare market rate. These increases are partially offset by a \$50 million negative impact as a result of making permanent the sales tax intercept for distressed health provider assistance.

- **Support for Other Cities, Towns and Villages.** The Executive Budget provides nearly \$1.3 billion in support for towns, villages, and cities other than the City of New York. Traditional local impacts result in a net positive impact of over \$200 million. The most notable local impacts for such local governments in the FY 2023 Executive Budget are increases in transportation funding,

including increasing the CHIPs base, increased transit operating aid, providing Extreme Wintery Recovery and State Touring Routes aid, and increasing PAveNY. In LFY 2022, the City of Albany will be provided \$15 million in Miscellaneous Financial Assistance.

Beginning September 2022, the FY 2023 Executive Budget would change the AIM funding source to the General Fund for certain town and villages that currently receive AIM-Related Payments funded by local sales tax.

- **Support for School Districts.** In School Fiscal Year 2023, the Executive Budget increases Foundation Aid for school districts outside New York City by nearly \$1.3 billion and expense-based and categorical aid by \$278 million. Partially offsetting this impact, the Budget also makes permanent the school districts' share of the residential cost for Committees on Special Education (CSE) placements, which results in a \$28.6 million negative impact in the 2023 school year.

RESPONDING TO THE PANDEMIC

Governor Hochul is taking a science-based, collaborative approach to combating the COVID-19 virus and safely re-opening the economy. Recognizing the vital role played by local governments in providing core pandemic-related services, the State made resources available to bolster response infrastructure. In August of 2021, Governor Hochul announced \$65 million for local health departments across New York State to support the quick and reliable distribution of booster shots. In December of 2021, the Governor announced an additional \$65 million for counties to help with the costs associated with administering vaccines and boosters and enforcing the mask-or-vaccine mandate for indoor public places.

But the magnitude of this pandemic and the economic fallout would exceed State and local capabilities absent a federal partnership. Governor Hochul and other officials from across all levels of governments encouraged Congress to join in support of State and local pandemic responses, an effort that ultimately proved successful.

The American Rescue Plan Act (ARPA) provided \$350 billion for eligible state, local, territorial, and tribal governments to respond to the COVID-19 emergency, including \$10.7 billion in relief for New York State's local governments.



While larger municipalities received their funding directly from the U.S. Treasury Department, the State is responsible for distributing allocations on a per-capita basis to Non-entitled units of government (NEUs) – cities, towns and villages that did not receive a direct payment. On June 16, 2021, the Division of the Budget launched a website and application and began the process of reaching out to all NEUs to encourage participation. By August 2021, \$387.1 million was distributed to 1,453 municipalities.

The Federal requirements, including the Treasury Department's Final Rule released January 6, 2022, allow New York's cities, towns, and villages receiving ARPA funds to use this aid to:

Support public health expenditures. For example, funds may be used for COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff.

Address negative economic impacts caused by the public health emergency. This includes economic harms to workers, households, small businesses, impacted industries, and the public sector.

Replace lost revenue. Funds may be used to provide government services to the extent of the reduction in revenue experienced due to the pandemic.

Provide premium pay for essential workers. Additional support may be offered to those who have and will bear the greatest health risks because of their service in critical sectors.

Invest in water, sewer, and broadband infrastructure. Funds may be used to make necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet

A second distribution will be made in 2022, following the Treasury Department's expected release of remaining ARPA NEU funding.

The Property Tax Cap: Providing Stability in Uncertain Times
Since enactment of the cap, property taxes have grown by an average of just 1.96 percent per year – less than half the average annual growth from 2000 to 2010. Taxpayers have saved \$74 billion as a result of the cap, with the typical taxpayer saving \$9,900.

As the pandemic has added uncertainty to the lives and finances of many families, the stability provided by the tax cap, which is now permanent law, is more vital for homeowners than ever. Especially in any areas of the State that are experiencing rapid increases in property values, the tax cap guards against significant escalations in property tax levies.

REDUCING PROPERTY TAXES AND SUPPORTING LOCAL GOVERNMENTS THROUGH SHARED SERVICES AND EFFICIENCIES

By working together, local governments can capture efficiencies, save money, and protect programs and services. The Budget continues support for a variety of local government restructuring and efficiency grants, including the following:

County-Wide Shared Services Initiative. Local governments in each county are required to meet to discuss and pursue opportunities to share and consolidate services that will permanently reduce the local property tax burden. The initiative requires the chief executive officer of each county to create a shared services panel composed of representatives from all the cities, towns, and villages in each county, with schools and special districts as optional members. The panels are tasked with creating property tax savings plans that consist of new shared services actions. Through 2020, countywide plans have identified more than 1,000 projects with recurring local property tax savings. The Executive Budget includes over \$200 million in appropriations to support State matching grants for these collaborations.

Local Government Efficiency Grants. Competitive grants help cover costs associated with local government efficiency projects, such as consolidation or shared 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.

Citizens Reorganization Empowerment Grants. Funding of up to \$100,000 is available to local governments for planning and implementing reorganization activities, such as consolidations and dissolutions.

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 must be used for direct relief to property taxpayers.

RESTRUCTURING DISTRESSED LOCAL GOVERNMENTS

The Financial Restructuring Board for Local Governments helps distressed local governments restructure and regain solvency before the strict enforcement of a control board is needed. The 10-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, which the Executive Budget continues support. To receive the aid, the local government must agree to fulfill the terms of the recommendations. To date, the Board has completed Comprehensive Reviews for 26 local governments.

PROPOSED EXECUTIVE BUDGET ACTIONS

The Executive Budget seeks to enact measures to both lessen existing mandates on local governments and improve fiscal operations.

Local Government Revenue

- **Grant Permanent Sales Tax Authority.** All counties would be provided permanent authority to set a local sales tax rate of up to four percent, or their current rate, if greater, consistent with New York City. Most counties collect sales tax at four percent, currently, but the authority must be periodically renewed. This action would provide counties with revenue certainty while alleviating an administrative burden.

- **Resume General Fund AIM for Towns and Villages.** Currently, 846 towns and 479 villages receive a total of \$59.1 million in AIM-Related payments funded through local sales tax collections. The Executive Budget ends this practice and resumes State General Fund support for these towns and villages through the traditional AIM program, allowing local governments to retain a greater amount of local sales tax revenue, annually.
- **Achieve Sales Tax Parity for Vacation Rentals.** In order to create a level playing field between traditional hospitality industry participants such as hotels, motels, and B&Bs and the growing vacation rental sector, the Executive Budget subjects all vacation rentals to State and local sales taxes, as well as the New York City hotel unit fee. This action will allow counties outside New York City to collect an estimated \$9 million in additional sales tax revenues, annually.

Health

- **Continued Medicaid Relief.** The Executive Budget shoulders \$5.2 billion in Medicaid cost increases on behalf of local governments as part of the takeover of local Medicaid growth. In FY 2022 alone, New York City is saving \$2.4 billion from the State takeover, and counties across the State are saving another \$2.4 billion. From FY 2013 when the State takeover of Medicaid growth began, through FY 2022, the State has assumed more than \$30 billion in Medicaid costs that counties and New York City would have otherwise had to bear.
- **Increase County Public Health Funding.** The state is investing \$26 million in FY 2023 (\$51 million in FY 2024) for counties to increase all General Public Health Work (Article 6) county base grants, as well as allow LHDs to claim fringe benefits expenses to assist in the hiring and retention of staff.

Local Government Finance

- **Continue County-Wide Shared Services Initiative Match.** The Executive Budget continues the effort to relieve the property tax burden by providing a State match of first-year savings from county-wide shared services plans. Counties that implemented shared services plans in 2021 are eligible to receive matching funds from the State beginning in calendar year 2022. In



addition, legislation would encourage realization of shared services initiatives by allowing projects included in previous local plans that are not yet implemented to be eligible for State matching funds when they are implemented.

- **Provide a Market-Rate of Interest on Court Judgments.** For court judgments paid by public and private entities, the Executive Budget allows a variable market-based interest rate, providing mandate relief for local governments and lower State taxpayer costs. The market-based interest would be the weekly average one-year constant maturity treasury yield, which is the same rate utilized by the Federal court system. Currently, the interest rate on judgments is established at a fixed rate of as much as 9 percent annually. A prevailing market rate will help ensure that neither side in a lawsuit will be disadvantaged by an interest rate that is above or below what otherwise could be earned while cases are being adjudicated.

- **Provide Additional Cybersecurity Funding.** The Executive Budget will include an additional \$44 million to further strengthen State and Local cyber defense and response efforts. Investments in hardware and software security tools and cyber personnel will enhance protection of State and Local systems and reduce risk and vulnerabilities.
- **Continue Local Government Restructuring Programs.** The Executive Budget continues funding to support the Municipal Consolidation and Efficiency Competition, the Municipal Restructuring Fund, the Local Government Performance and Efficiency Program, Citizen Empowerment Tax Credits, Citizens Reorganization Empowerment Grants, and Local Government Efficiency Grants.
- **Provide 100 Percent Reimbursement for Restructuring/Efficiency and Shared Services Grants.** In FYs 2021 and 2022, certain efficiency and shared service program payments were reduced by 5 percent. The Executive Budget restores full funding.

AMERICAN RESCUE PLAN ACT (ARPA) FUNDING FOR LOCAL GOVERNMENTS (MILLIONS OF DOLLARS)

ENTITY	SFY 2022 ALLOCATION	SFY 2023 ALLOCATION
New York City	2,939	2,939
Counties	1,140	1,140
Big Four Cities (Buffalo, Rochester, Syracuse, Yonkers)	372	372
Other Entitled Cities	342	342
Entitled Town and Villages	178	178
Non-Entitled Cities	25	25
Non-Entitled Towns and Villages	362	362
TOTAL	5,359	5,359

SUMMARY OF ALL FUNDS LOCAL GOVERNMENT STATE SPENDING

CATEGORY	FY 2022 (MILLIONS OF DOLLARS)	FY 2023 (MILLIONS OF DOLLARS)	DOLLAR CHANGE (MILLIONS OF DOLLARS)	PERCENT CHANGE (%)
Aid and Incentives to Municipalities	714.7	714.7	0.0	0.0
County-Wide Shared Services Initiative	25.0	31.0	6.0	24.0
Citizens Empowerment Tax Credits and Grants	6.3	7.0	0.7	11.1
Local Government Efficiency Grants	3.1	5.1	2.0	64.5
Local Government Performance and Efficiency Program	8.3	12.9	4.6	55.4
VLT Impact Aid	28.9	28.9	0.0	0.0
Miscellaneous Financial Assistance	3.8	18.8	0.0	0.0
Small Government Assistance	0.2	0.2	0.0	0.0