

Mandate Relief and Local Government Aid

To combat New York's high property tax burden, Governor Cuomo is proposing sweeping structural reforms to relieve local governments of State mandates that drive up local costs. These reforms, which address the largest cost-drivers for local governments, will help municipal leaders meet the pressures of the prolonged economic downturn, constrained local revenues, and the property tax cap that limits increases in local tax levies to 2 percent.

- **Medicaid Relief.** The takeover by the State of growth in the local share of Medicaid expenses will save counties and New York City \$1.2 billion over five years. In addition, the Executive Budget proposes a phased take over of Medicaid administrative responsibilities for counties which will result in greater efficiencies and help achieve State and Federal health care reform initiatives.
- **Pension Reform.** The Executive Budget proposes creating a new tier in the State pension system that will save local governments \$79 billion over the next 30 years; and
- **Early Intervention and Preschool Special Education Reform.** Executive Budget reforms to the Early Intervention and Preschool Special Education systems that will save \$19 million in local fiscal year 2013.

In addition to these reforms, the Executive Budget provides \$715 million to local governments in unrestricted aid, and an additional \$79 million in grants to promote greater efficiency.

History/Context

The State relies on its municipalities and school districts to deliver vital services to its residents and has often prescribed exactly how these services should be provided. When mandated costs rise, local governments have limited flexibility to control them. While local governments have been consistently vocal about this issue, their objections have traditionally fallen on deaf ears in Albany.

The major structural mandate relief reforms within this Budget are supplemented by a new Mandate Relief Council that will review and refer statutory and regulatory mandates to the Legislature and Executive agencies for modification and repeal. Their work will begin immediately and is a continuation of the work of a team created by Governor Cuomo in 2011, which led to \$125 million in annual mandate relief.

In addition, the State's Enterprise Shared Services effort, aided by legislation proposed with this budget, will help local governments to reduce purchasing costs and save money by allowing them to buy from State contracts that leverage the buying power of the whole State.

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 2011-12, 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 grant programs 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.

Proposed 2012-13 Budget Actions

In addition to reducing local government costs through mandate relief, the Executive Budget proposes to maintain all aid programs, including AIM for cities, towns and villages, at 2011-12 funding levels. This Budget also proposes continued level funding for grant programs which encourage and reward local governments for increasing their performance and efficiency.

Overall, the actions in this Budget will benefit local governments in the amount of \$942 million in their local fiscal year 2013, primarily as a result of an \$805 million school aid increase, \$45 million in savings from implementing a new Pension Tier VI, \$15 million through Preschool Special Education reforms, up to \$28 million in AIM acceleration for the City of Rochester, and \$24 million from the first phase of takeover of the 3 percent Medicaid growth factor.

Major Initiatives

- **State Relief for Local Medicaid Expenses.** The Executive Budget provides substantial relief in health care spending for all counties and the City of New York. The Budget proposes to take over growth in the local share of Medicaid costs and implement a phased takeover of local government Medicaid administration expenses. In 2013-14, local government Medicaid growth will be reduced to 2 percent, then reduced by an additional one percent annually over the subsequent two years so that in 2015, counties' and New York City's Medicaid expenses will no longer grow. The takeover of the 3 percent Medicaid growth factor will save counties and New York City \$1.2 billion over five State fiscal years.

The phased takeover of local government administration of Medicaid will accomplish statewide economies of scale, lead to associated savings and help New York achieve reforms proposed at the State and Federal level.

- **Tier VI Pension Reform.** Enacting fair and equitable pension reform is critical to providing State and local governments with fiscal relief over the years to come. A Tier VI pension design proposal for new public employees will save public employers — counties, school districts, cities (including New York City), towns and villages — an estimated \$79 billion over 30 years. Changes include increasing employee contributions in a progression fashion based on salary, raising the retirement age, decreasing the pension multiplier, excluding overtime and other payments from the formula used to calculate final average salary for pension allowances, and by making a defined contribution option available to all employees. The defined contribution option offers a portability and vesting feature not currently available, and requires both employees and employers to share in the risks and rewards of market volatility.
- **Reform Early Intervention Program.** The EI program provides a comprehensive array of therapeutic and support services to children under the age of three with confirmed disabilities (i.e., autism, cerebral palsy) or developmental delays. The program serves approximately 72,000 children annually and is jointly financed by Federal, State and local governments. The Executive Budget recommends a series of program modifications to reduce costs and relieve

administrative burdens on localities, while protecting vital services. In addition, with the enactment of these program modifications, the State will reinvest its savings to reduce local reimbursement payment lags, beginning in 2014-15. In total, these initiatives will generate cumulative local savings totaling \$99 million over five years.

- **Reforms to Preschool Special Education.** The State's investment in Preschool Special Education has doubled over the past ten years to a projected State cost of nearly \$1.1 billion for the upcoming school year. The Executive Budget proposes several changes to both rationalize the existing Preschool Special Education financing system and limit the ability of some providers to reap excessive financial benefits to maximize the amount of funding that goes to direct services. These proposals include equally assigning any county growth (excluding New York City) above 2011-12 school year costs to the State, the county, and school districts, and eliminating potential conflicts of interest inherent in the current evaluation system. For counties outside of New York City, these reforms will result in \$20 million in cumulative reduced liabilities for the 2013 local fiscal year.

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

- **AIM for Cities, Towns & Villages.** Consistent with 2011-12, 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 re-organization activities. 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.
- **Other Local Government Programs.** Other programs will be maintained, including Video Lottery Terminal (VLT) Impact Aid, Miscellaneous Financial Assistance for each of 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.

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Summary of Spending

Category	2011-12 (\$ in millions)	2012-13 (\$ 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	0.4	3.2	2.8	700
Local Gov't Performance & Efficiency Program	0.0	13.3	13.3	-
Local Government Efficiency Grants	6.1	9.3	3.2	52
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	9.1	7.8	(1.3)	(14)

Overall Fiscal Impact on Local Governments

Mandate relief reforms and school aid increases in this Executive Budget result in a year-to-year local impact of \$942 million for municipalities and school districts for their fiscal years ending in 2013. These savings are primarily the result of an \$805 million school aid increase, \$45 million in savings from implementing a new Pension Tier VI, \$15 million through Preschool Special Education reforms, and \$24 million from the phased takeover of the 3 percent Medicaid growth factor. The mandate relief reforms will deliver continued and increased relief in future years.

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**IMPACT OF THE 2012-13 EXECUTIVE BUDGET ON LOCAL GOVERNMENTS
(LOCAL FISCAL YEAR ENDING IN 2013 - \$ IN MILLIONS)**

	Total	NYC	School Districts (non-NYC)	Counties	All Other
Allocated School Aid	555.0	224.0	331.0	0.0	0.0
Preschool Special Education	14.9	0.0	(5.0)	19.9	0.0
Revenue Actions	1.8	0.9	0.0	0.8	0.1
Human Services	2.2	(1.9)	0.0	4.1	0.0
Transportation	17.5	7.5	0.0	10.0	0.0
Health / Medicaid	27.9	12.3	0.0	15.6	0.0
Tier VI / All Other Local Impacts	72.6	TBD	24.6	12.0	36.0
Subtotal	691.9	242.8	350.6	62.4	36.1
School District Performance Grants	250.0	TBD	TBD	0.0	0.0
Total 2012-13 Executive Budget Actions	941.9	242.8	350.6	62.4	36.1

**IMPACT OF THE 2012-13 EXECUTIVE BUDGET ON LOCAL GOVERNMENTS
(LOCAL FISCAL YEAR ENDING IN 2013 - 2015 - \$ IN MILLIONS)**

	LFY Ending in 2012	LFY Ending in 2013	LFY Ending in 2014	LFY Ending in 2015
NYC	2.2	242.8	547.9	948.0
School Districts (non – NYC)	4.0	350.6	733.8	1,209.9
Counties	21.7	62.4	135.4	233.0
All Other	9.9	36.1	16.4	25.2
Subtotal	37.8	691.9	1,433.5	2,416.1
School District Performance Grants	0.0	250.0	100.0	100.0
Total 2012-13 Executive Budget Actions	37.8	941.9	1,533.5	2,516.1