

Local Government

Overview

The 2014-15 Executive Budget continues Governor Cuomo's commitment to lowering property taxes, improving local government efficiency, and assisting distressed local governments while maintaining core local government assistance. Highlights include:

- **Freezing Property Taxes.** The Executive Budget includes a two-year freeze on property taxes for homeowners in school districts and local governments that stay within the property tax cap. To ensure that officials are working together to eliminate waste and duplication, local governments and school districts will be required to develop regional efficiency plans in order for their residents to receive the second year of the tax freeze. The results of those efficiencies should lead to further property tax reductions.
- **Eliminating Duplicative and Overlapping Governments.** Funding of \$39 million is included to provide grants for implementing consolidations and regional services as well as tax credits to residents of local governments that fully dissolve or consolidate.
- **Assisting Distressed Local Governments.** Available funding for the Financial Restructuring Board is maintained at \$80 million to provide grants or loans to local governments that implement restructuring initiatives identified by the Board.

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

Freezing Property Taxes

New York residents face one of the nation'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 two years under the tax cap, property taxes grew at an average annual rate of just 2.5 percent – 40 percent lower than the average annual growth from 2000 to 2010.

The 2014-15 Executive Budget takes the next step in reducing this burdensome tax by freezing the increase in property taxes for homeowners in local governments and school districts that stay within the cap for the next two years. This will be effective for school districts and the Big 4 cities starting with the 2014-15 fiscal year and for all other local governments in fiscal years beginning in 2015.

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 continue to stay within the tax cap and must develop a plan for sharing or consolidating services and eliminating duplication and overlap. For local governments and dependent school districts, this plan will be coordinated by the county. For independent school districts, it will be coordinated by the school district with the largest enrollment in the BOCES district.

Each plan must achieve savings, in the aggregate, in an amount of at least one percent of participating entities' levy in the year following the second year of the credit. This percentage increases to two percent

and three percent in subsequent years. These savings must be applied to tax reduction. Failure to achieve planned savings could result in recapture of State aid to the local government or school district. When fully implemented, local governments and school districts could provide property tax relief of up to \$1 billion. New York City is not subject to the cap.

Eliminating Duplicative and Overlapping Local Governments

The property tax freeze is intended to serve as a catalyst to drive New York's numerous and overlapping layers of local governments to find efficiencies and reduce property taxes. In previous years, grant programs were created and reformed to aid and encourage local governments and their residents to consolidate and merge services. The 2014-15 Executive Budget continues this commitment by appropriating an additional \$35 million for the Citizen Empowerment Tax Credits and Citizens Reorganization Empowerment Grants as well as another \$4 million for the Local Government Efficiency Grant program.

- **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, and the maximum planning grant award is \$12,500 per municipality/\$100,000 per grant.

Assisting Distressed Local Governments

With his 2013 State of the State address, Governor Cuomo called for new way to help distressed local governments regain solvency before the strict enforcement of a control board is imposed. To meet this need, the Financial Restructuring Board for Local Governments was created.

The Board is a ten-member panel available year round to offer assistance to eligible municipalities. It 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. This 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.

In November 2013, the Board accepted its first two comprehensive review requests, and additional requests are anticipated.

The Board also can serve as an alternative arbitration panel for eligible municipalities and municipal unions to resolve contractual disputes through binding arbitration (e.g. police, fire, or deputy sheriff unions). An eligible municipality and municipal union may jointly agree to have the Board serve as its binding arbitration panel. After reviewing the evidence submitted, the Board, by majority vote, will make a just and reasonable determination of the matters in dispute. The determination will be final and binding on the municipality and municipal union.

The 2014-15 Executive Budget maintains funding of \$80 million available under the Local Government Performance and Efficiency Program for the Financial Restructuring Board to provide grants and loans to local governments as a condition of implementing recommended efficiency initiatives. It also provides \$2.5 million to support the Board's review of local governments.

Enhancing Local Revenues through the Upstate New York Gaming & Economic Development Act

Last year's passage of Proposal One – Upstate New York Gaming & Economic Development Act - was a major victory for local governments and school districts. As a result of New Yorkers voting to authorize up to seven gaming resorts in the State, new revenue will be allocated to local governments and much needed property tax relief will be provided. The Act also authorized 2,000 Video Lottery Terminals (VLTs) at Off-Track Betting facilities on Long Island.

Ten percent of the revenues from the new casinos will be split equally between the host municipality and the host county with an additional ten percent going to other counties in each region. The remaining 80 percent of the State's tax revenues, after making up for reduced revenues from the Video Lottery Gaming program, will be used statewide for elementary and secondary education or property tax relief. Also due to the amendment's passage, ten percent of the net gaming revenue received by the State from Native American gaming facilities in each respective exclusivity zone will be distributed to the zone's non-host counties.

The total statewide fiscal impact, when fully implemented, of the new casinos, VLT's and Native American compacts is estimated to be \$430 million annually, with approximately \$192 million in local government assistance being provided to counties and host municipalities.

Reducing Mandates on Local Governments and Taxpayers

The burden of mandates is not a new one. These requirements have grown over decades and are marbled throughout statute and regulation. Significant progress has been and continues to be made to eliminate these mandates to provide real, recurring relief to local governments, school districts, and their taxpayers. Such reforms include:

- **Medicaid Relief.** Medicaid is one of the biggest costs for counties and New York City. The State is absorbing the growth in the local share of Medicaid growth, saving counties and New York City \$1.2 billion over five years. 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 \$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 locals to access 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.
- **Affordable Care Act Funding Acceleration.** The 2013-14 Budget used State funds to lower County Medicaid Cap contributions by \$86 million through an advancement of enhanced FMAP for the period January 1, 2014 through March 31, 2014 associated with childless adults under the Affordable Care Act.
- **Early Intervention.** Reforms to the Early Intervention program enacted with the 2012-13 budget will save local governments \$54 million over five years.

In addition to these major reforms, dozens of other reforms have been enacted and are being advanced, including:

- **Reforming Preschool Special Education.** Because of the reforms enacted last year, counties are now able to keep all recoveries from local audits of preschool special education providers (instead of 40.5 percent). To further address significant program expense growth and improve service delivery, the Executive Budget will include targeted reforms to the Special Education Itinerant Teacher (SEIT) services component of preschool education. These reforms include limiting reimbursement to services delivered, establishing regional rates, and empowering New York City to negotiate rates with providers.
- **Transforming Information Technology Operations.** As part of Governor Cuomo's ongoing initiatives to improve efficiencies and reduce costs, the State has invested in consolidating information technology and implementing shared services. In partnership with the College of Nanoscale Science and Engineering, the State is nearing completion of the first phase of a data center consolidation. This state of the art data center serves as a foundation for offering services to State agencies. The Executive Budget will include provisions for accessing the data center and other IT services by local governments. Specifically, the end user computing and collaboration tools used by State agencies will be offered to localities. Local governments will be able to control or save costs by avoiding the need to procure, operate and maintain their own independent systems. In the future, application solutions in the areas of Health and Human Services, Real Estate, and Public Safety will be deployed statewide and maintained centrally to support local government business processes.
- **Improving Local Public Safety.** The Division of Homeland Security and Emergency Services (DHSES) is assisting counties in developing a single public safety communications network that will allow all of the State's emergency responders to seamlessly communicate with each other. DHSES has already awarded \$200 million in grants to counties, and will invest another \$75 million toward this initiative in 2014-15. In addition, the State will invest \$10 million over the next three years in the New York State Protection Cloud, a technology sharing initiative for State

and local law enforcement. By making a single solution available to all law enforcement agencies, the State will increase local crime-fighting capabilities, eliminate barriers to effective information sharing, and support coordinated responses across jurisdictions.

- **Providing Procurement Flexibility.** Local governments have been provided with expanded procurement options, such as the authority to "piggyback" on Federal General Services Administration contracts and county public works contracts. This year's Executive Budget extends this authorization for an additional six years. In addition, the Executive Budget will expand to all counties and cities, towns and villages with populations above 50,000 the authorization to undertake infrastructure projects using the design-build method previously authorized for the State.
- **Reforming Workers' Compensation and Unemployment Insurance.** Recent reforms have reduced the cost of purchasing workers' compensation and unemployment insurance, providing financial relief to all employers, including local governments.
- **Authorizing Efficient School Transportation.** Schools are authorized to provide student transportation based on patterns of actual ridership.

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 2014-15 Executive Budget proposes to maintain most direct local government aid programs, including AIM for cities, towns and villages, at 2013-14 funding levels.

- **AIM for Cities, Towns and Villages.** The Executive Budget maintains \$715 million in unrestricted AIM funding to cities, towns and villages.
- **Consolidation and Restructuring Programs.** The 2014-15 Executive Budget maintains \$39 million in funding to support the Citizens Reorganization Empowerment Grants, the Citizen Empowerment Tax Credits, and the Local Government Efficiency Grants. It also maintains \$80 million in funding to be awarded by the Financial Restructuring Board through the Local Government Performance and Efficiency Program.
- **Other Local Government Programs.** Other programs will be maintained at existing levels, including Video Lottery Terminal (VLT) Impact Aid, Small Government Assistance Grants for Essex, Franklin and Hamilton counties, and Efficiency Incentive Grants for Erie County and the City of Buffalo.

Program Reductions

- **Miscellaneous Financial Assistance to Villages.** The Executive Budget discontinues Miscellaneous Financial Assistance to Villages. This aid stream was created in the 2013-14 Budget and provided arbitrary aid amounts to four villages established after the creation of the Aid and Incentives for Municipalities (AIM) program.

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- Village Per Capita Aid.** The Executive Budget discontinues Village Per Capita Aid. This aid stream was created in the 2013-14 Budget to provide villages with aid payments totaling \$0.80 per capita. The median 2013-14 payment was \$1,416 and 85 percent of the payments to villages were less than \$5,000. The largest payment of \$42,955 represented approximately 0.06 percent of that village's budget.

Summary of Spending

Category	2013-14 (\$ in millions)	2014-15 (\$ in millions)	Change	
			Dollar (in 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	1.2	1.2	0.0	0
Local Government Performance and Efficiency Program	4.2	12.5	8.3	198
Local Government Efficiency Grants	8.0	5.2	(2.8)	(35)
VLT Impact Aid	27.2	27.2	0	0
Miscellaneous Financial Assistance	3.4	0.0	(3.4)	(100)
Village Per Capita Aid	1.5	0.0	(1.5)	(100)
Small Government Assistance	0.2	0.2	0	0
Buffalo/Erie Efficiency Grants*	5.5	2.7	(2.8)	(51)

*All reapropriations are maintained. Lower anticipated spending is due to slower claims as programs near completion.

Overall Fiscal Impact on Local Governments

The 2014-15 Executive Budget results in a year-to-year local impact of over \$638 million for municipalities and school districts for their fiscal years ending in 2015. These savings are primarily the result of a \$608 million increase in allocated school aid. Local governments including New York City will benefit from \$35 million from various sales tax and income tax proposals, \$5.0 million from higher Downstate transit assistance and \$5.1 million in savings from preschool special education reforms.

In addition, the Executive Budget recommends a \$2 billion general obligation bond act, to be brought before voters in November 2014, and commits to invest \$1.5 billion over five years for phase-in of a Statewide Universal Full-Day Pre-Kindergarten program and \$720 million over five years to expand after-school programs.

Impact of the 2014-15 Executive Budget on Local Governments (Local Fiscal Year Ending in 2015) (\$in millions)					
	Total	NYC	School Districts (non-NYC)	Counties	All Other
Allocated School Aid	608.0	231.0	377.0	0.0	0.0
Preschool Special Education	5.1	2.8	0.0	2.3	0.0
Revenue Actions	35.2	37.1	0.0	(1.6)	(0.3)
Human Services	(10.0)	(10.0)	0.0	0.0	0.0
Transportation	5.0	2.2	0.0	2.8	0.0
Municipal Aid	(4.6)	0.0	0.0	(3.0)	(1.6)
Subtotal	638.7	263.1	377.0	(0.5)	(1.9)
Smart Schools Bond Act	2,000.0	783.0	1,217.0	0.0	0.0
Total 2014-15 Executive Budget Actions	2,638.7	1,046.1	1,594.0	(0.5)	(1.9)

This table does not reflect allocation of \$1.5 billion over five years for phase-in of a Statewide Universal Full-Day Pre-Kindergarten program and \$720 million over five years to expand after-school programs. Those details require an analysis of statewide needs that is ongoing.