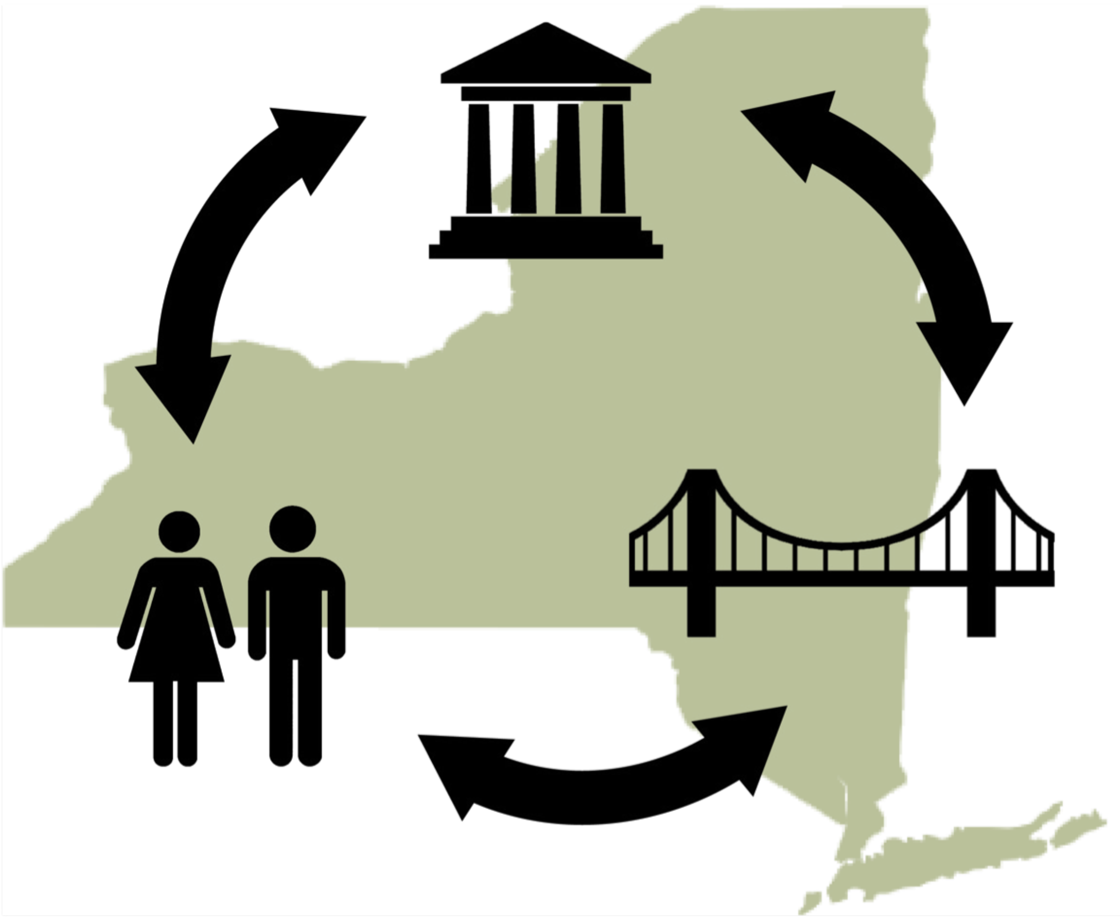
Local Fiscal Stress

State Austerity Policy & Creative Local Response

Facing Fiscal Challenges:

Moving Toward a New York State and Local Government Partnership

City and Regional Planning   Cornell University   Ithaca, NY   December 2015



Cornell University

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By:

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and Dr. Mildred Warner

Cornell University

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http://www.mildredwarner.org/restructuring/fiscal-stress

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Executive Summary

Local governments in New York State (NYS) are facing increasing fiscal stress. A research team at Cornell University, under the direction of Dr. Mildred Warner, sought to investigate sources of fiscal stress, and local government revenue and service delivery responses. The team held focus groups with local government officials across the state in Fall 2015. This report discusses the sources and responses to fiscal stress recorded in those focus groups. The perspectives of local government officials are reinforced by NYS government reports and the academic literature.

Local governments' experiences and responses to stressors are varied; however, common trends regarding fiscal challenges emerged. This report focuses on three sources of fiscal stress: State government policy, demographic challenges, and the deteriorating link between infrastructure and economic development. We move beyond simply articulating the problem and identify ways the State government can build a supportive partnership with local government to address fiscal challenges. We identify three themes in this report: Cracking Under Stress, Connecting Old and Young for Our Common Future, and Investing in Our Future.

1. **Cracking Under Pressure:** Fiscal stress among local governments in NYS is due in large part to the State passing down administrative responsibilities (mandates) without funding, and usurping local authority regarding service delivery and revenue generation. State policies encourage service sharing, but do not provide an administrative support structure. We recommend the State provide mandate relief and partner with municipalities to mitigate administrative costs of shared services.

2. **Building Equity: Connecting Old and Young for Our Common Future:** An aging population, outmigration, and high rates of child poverty create significant demographic stress for some communities. Demographic stress leads to a declining tax base that makes it difficult to finance basic services. We recommend that the State help upstate communities address demographic challenges by increasing aid, especially to municipalities facing greater demographic stress. We also recommend that the State partner with local governments to work towards a shared vision that addresses the common needs of children, families and an aging population.

3. **Investing in Our Future:** High quality physical and social infrastructure is essential for economic development. Deteriorating infrastructure creates a vicious cycle where under investment inhibits future economic development and erodes the future tax base. NYS can counter this vicious cycle by reforming the tax cap to allow exemptions for municipal capital expenditure. Our economic future depends on it.

Localities and the State share a similar goal: to serve the people of New York in an effective and efficient manner. But a new partnership between the State and local government is needed to overcome the fiscal challenges facing local government. This report calls upon the State to build a supportive partnership with local governments in meeting the needs of New York's communities.

Methodology

This research was conducted in collaboration with the Community and Regional Development Institute of Cornell University, the Fiscal Policy Institute, and local government associations (New York State Association of Counties (NYSAC), Association of Erie County Governments, Dutchess County, New York Conference of Mayors (NYCOM), Association of Towns of the State of New York). We sought to understand the impacts of fiscal stress on New York State local governments. Focus groups were held in Fall 2015 and were conducted as semi-structured round-table discussions. Focus groups allow for interaction among participants, which builds on their collective strengths and helps articulate their points of view (Kitzinger, 1994; Liamputtong, 2011).

We met with representatives from all levels of government in NYS during the four focus groups conducted in Fall 2015:

- September 21 | Lake Placid, NY

  : 9 county representatives from NYSAC

- September 24 | Amherst, NY

  : 42 village, town, county and state government representatives from the Association of Erie County Governments

- September 28 | Poughkeepsie, NY

  : 14 village, town and county government representatives from across Dutchess County

- November 16 | Albany, NY

  : 8 village and city officials from NYCOM

The following questions were used to guide the focus group discussions:

1. What are the main causes of fiscal challenges for your government?
2. How has your government responded to revenue challenges?
3. What are some changes your government has made in service delivery to address fiscal challenges?

These discussions alerted the research team to themes and issues regarding the impacts of fiscal stress. The focus groups provided an on-the-ground view into fiscal pressures and challenges. The unique insight of local officials' experiences and responses to fiscal stress has helped guide our analysis. The research team expanded upon these themes to describe and analyze the situations of county, city, town, and village governments, and identify potential policy responses to address and remedy fiscal challenges.

1

Cracking Under Pressure[1]

The State's Solution to a High Tax Problem

It is no secret that New York residents have a high property tax burden, ranking fifth overall in the United States (Tax Foundation, 2013). In 2014, Governor Cuomo suggested that this burden was a result of the "waste and duplication" of over 10,000 local governments, and ran his re-election campaign on a platform targeting local government inefficiency (Team Cuomo, 2014). The State's proposed solution for reducing the high level of property taxes and promoting government efficiency was to implement a property tax cap, provide relief from state mandates, and encourage service sharing among local governments. Passed in 2011, the tax cap restricts the tax levy growth to 2% or the inflation rate, whichever is lower. For 2016, the cap for most municipalities will be close to zero.[2] Substantive mandate relief has yet to occur as of 2015. The Local Government Efficiency Program and the Property Tax Freeze Credit Program were implemented to encourage municipalities to share services and consolidate. However, they ignore the history of shared services in NYS and regional differences.

Mandate Relief: An Unfulfilled Promise

As of 2015, significant mandate relief has yet to occur for local governments in New York State. In focus groups held across upstate New York in 2015, local government leaders report that they struggle to comply with mandates and maintain quality public services their residents need and use on a daily basis.

The New York State Association of Counties has identified nine mandates that account for 100% of county budgets in New York State (NYSAC, 2015). These mandates, and their costs to New York counties in 2014 are:

- Medicaid – $2.25 billion (outside of NYC)
- Safety Net/TANF – $353 million
- Child Welfare – $286 million
- Preschool Special Education – $246 million
- Indigent Defense – $155 million
- Probation – $148 million
- Early intervention – $76 million
- Youth Detention – $38 million
- Pensions – $1.2 billion (outside of NYC)

In focus group sessions, the provision of Medicaid was cited as the most onerous mandate. The Medicaid program currently accounts for 47.5% of the statewide county property tax levy, excluding New York City counties (NYSAC, 2015).

Death by 1,000 Cracks

Focus group participants highlighted smaller, unfunded mandates and restrictions that add up to significant burdens. These requirements incur additional administrative costs and add to the already existing fiscal stress faced by local governments. Simply put, the pressure of these mandates is cracking local governments' structure. One focus group participant expressed frustration saying "We're asked to do more when they're putting more restrictions on us every day, every year."

Examples of these mandates mentioned by focus group participants include the following:

- **New York State Department of Environmental Conservation (NYSDEC) Consent Orders**

  These consent orders require local governments to comply with Department of Environmental Conservation requirements. They are legally binding, and non-compliance is punishable by law, often through fees.

- **Financing Minimum Wage Increases**

  Many local governments have expressed full support for the anticipated increase in minimum wage. However, they have also expressed concern about financing these increases, and have called for assistance from the State.

- **Department of Motor Vehicles (DMV)**

  Based on the Opportunity Agenda in 2015, the DMV is on track to shift 50% more of its transaction volume to online and self-service technologies by 2016. This also shifts revenues from local governments, who traditionally received the user fees collected in physical DMV offices, to the state. Besides losing revenue, local DMV offices have to handle transactions on behalf of the state without compensation, such as scheduling operator tests, replacing stolen licenses, or handling changes of address, etc. (Finger, 2015).

Efficiency Plan or Another "Mandate"?

Established in 2014, the Property Tax Freeze Credit program requires local governments to comply with the tax cap and have an approved Government Efficiency Plan (GEP) in order for their homeowners to receive a tax freeze reimbursement from the state. The GEP requires municipalities to show they are efficient through cost savings of at least 1% of the property tax levy per year for three years (New York State Department of Taxation and Finance, 2015). Although local governments, especially upstate, have been sharing services for years (Homsy et al., 2013), the frustration of being "maxed-out on sharing" prevailed during focus group discussions. On the one hand, local governments get no credit for the real savings they have been providing their residents through existing sharing initiatives. On the other hand, it takes a significant amount of administrative costs to come up with a new GEP plan. One county representative expressed their situation saying, "I had to stop [everything else] and [work on] the GEP, which means that the other [responsibilities] had to be delayed." The political pressure to comply with the GEP and the associated costs make the combination of the Local Government Efficiency Program and the Property Tax Freeze Credit Program operate like an additional mandate.

Service Sharing Requires an Administrative Backbone.

Although service sharing can be beneficial, local governments are often challenged by lack of time and resources to design new sharing agreements. Administrative design costs are high due to state rules limiting sharing (Li, 2015) and the process of creating sharing agreements across partners (Homsy et al., 2013). According to a statewide survey conducted in 2013 by Cornell University in partnership with New York Conference of Mayors, New York State Association of School Superintendents, New York State Association of Towns, and New York State Association of Counties, service sharing with other municipalities was only found to result in cost savings about half the time (Homsy et al., 2013). This is because sharing is often pursued to promote improved service quality and regional coordination in service delivery. Analysis of the 2013 Cornell Survey shows sharing is higher when there is regional administrative and financial support (Wang and Warner, 2014; Qian and Warner, 2014).

To promote service sharing among schools, NYS set up the New York State Boards of Cooperative Educational Services (BOCES) to facilitate shared service agreements. While BOCES receives ongoing state aid to support service sharing, no such administrative support structure exists for local governments. When asked about adequate state assistance for shared services coordination, one representative mentioned, "[That's what] all counties and municipalities do, share services and coordination." The Local Government Efficiency Grant Program offered to municipalities by the Department of State only provides monetary support on a competitive grant basis. What is needed is an ongoing administration structure and funding mechanism to support service sharing. With support, counties or councils of government can provide an administrative backbone which mitigates the administrative and design costs faced by local governments, leading to effective shared service programs (Hymer and Tellman, 2014).

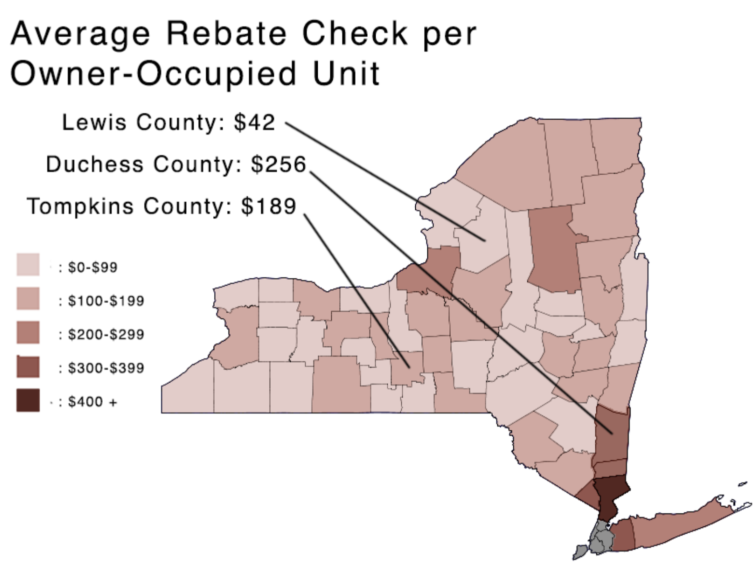
<u>County Leadership</u>

Counties often take a leadership role in organizing and designing shared services programs because of their regional capacity and influence on local municipalities (NYSAC, 2006). County governments help devise innovative programs which can benefit all municipalities in the region. A focus group participant remarked,

> *Innovation is important to think of even in the public sector. Most of the time you apply terms like innovation to industry and business, but I do think you can be innovative with government and try to think creatively about partnerships and frankly putting your resources where your values are.*

Two counties that exemplify such leadership are Tompkins County and Dutchess County. Their excellent leadership helps city, town, and village governments to achieve cost savings and efficiency through sharing services.

Figure 1.



Source: NYS Executive Budget 2013-2014, 2014 housing survey

Case Studies:

Dutchess County *Spend Money to Save Money*	**Tompkins County** *Real Savings Takes Time to Accumulate*
In 2013, Dutchess County created a formalized administrative structure for shared services through the Office for Central and Information Services (OCIS). As part of OCIS's effort to consolidate and share services, they launched the Municipal Shared Services and Grant Program. The grant program is financed by redistributing the shared sales tax. OCIS reached out to every supervisor, mayor, and non-profit executive director to market the program (Molinaro, 2014). The county also hosts an annual Shared Services Summit with over 100 local, county, and state officials. The summit is an excellent way for various government entities and organizations to come together and brainstorm ideas. Examples of shared services are shared highway equipment, tri-municipal wastewater treatment, consolidated salt spreading, IT services, and shared assessor services (Wrafter, 2014). If the County could not provide a service, they would simply ask municipal leaders, *"What would you like?"* in order to identify their needs. As a result, the OCIS provided services like website development and GIS. The County projects savings from their programs. However, it is important to note that in order to achieve these costs savings they had to spend money investing in design and implementation of shared service agreements.	The Tompkins County Council of Governments (TCCOG) is an association of local governments composed of six villages, nine towns, and one city. TCOGG has been in existence for nearly 10 years, and in June 2014, TCCOG created a shared services committee that worked on the Government Efficiency Plan. Examples of shared services facilitated by TCCOG are: the Consolidated Real Property Assessment, Tompkins County Digital Record Management Project, the Greater Tompkins County Municipal Health Insurance Consortium, the Tompkins County Area Transit (TCAT), and the Consolidated Emergency Dispatch 911 (Fu et al., 2015). The county has been working on various shared service initiatives for years (El-Samra, 2014). However, initially the State did not approve Tompkins County's Efficiency Plan because of the Governor's "look back period," which disqualifies programs beginning before January 1, 2012. This is not logical given that the Health Insurance Consortium has real savings of nearly 2% of the $91 million in property taxes levied by municipalities throughout the county (Fu et al., 2015:1). An official remarked, *"In essence, what happens is that those of us who are forward-thinking in shared services, get penalized by one year."* Undeterred, the TCCOG continues to explore new initiatives for sharing, the latest being research into a countywide shared courts system. The goal is improved service quality and cost savings for county residents.

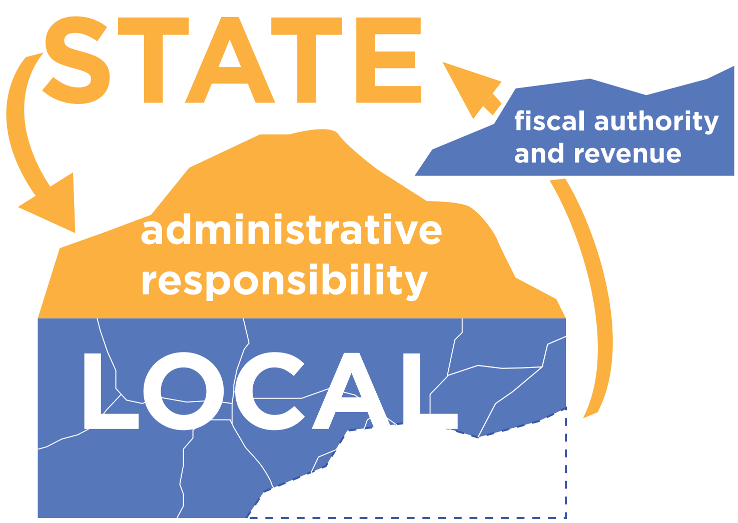
Despite the state's intention to alleviate tax burdens for residents and promote government efficiency, current reforms require a supportive State partner. A tax cap without mandate relief undermines local government's ability to deliver adequate public services. Requiring additional service-sharing initiatives without providing administrative support stifles innovation. Given this, we provide two suggestions to increase the efficiency and the effectiveness of government within New York State.

First, don't penalize early innovators. Geography matters. Upstate communities have a long history of sharing services , but many downstate communities have lower rates of sharing (Qian and Warner, 2014). The arbitrary "look back period" for the Government Efficiency Plan penalizes upstate New York communities for their historical leadership in service sharing. In addition, the property tax rebate checks received by citizens of localities that both abide by the tax cap and submit a successful GEP vary significantly in value. The map depicted in Figure 1, created with figures from the Public Policy & Education Fund, shows that downstate communities, where sharing has historically been lowest, stand to benefit the most from the rebate scheme (Public Policy

& Education Fund, 2014). We recommend that the state take these regional differences into consideration when implementing policies and programs aimed toward increasing the efficiency of local governments in New York.

Second, the state should act as a supportive ally to local governments. While local governments are the major service providers to citizens, they cannot pay for state-mandated functions without State financial support. One focus group participant explained that the State has been downloading some of its responsibilities onto local government as if they were using someone else's "charge card," adding new services, and putting the cost on someone else's card. Even small mandates can incur a significant cost; simply put, it is death by 1,000 cracks. In order for the Tax Cap to be effective and help local governments provide better quality services, the State must keep its promise of significant mandate relief.

Figure 2.



Different levels of government have different roles to play when it comes to service provision. Each role is vital to achieve the common goals of efficiency, effectiveness, and quality. The twin process of the state dumping administrative responsibilities on local governments and usurping fiscal authority will eventually hollow out local governments' capability to provide New York's residents with the quality services they expect. This disrupts the partnership needed between different levels of government and citizens, and may ultimately crack the foundation upon which New York State is built.

[1] This section was written by Hien Dinh, Jieun Kim, Jessica Masters, Kaitlyn Olbrich, Jubek Yongo-Bure

[2] The cap for counties, towns, and most cities will be 0.73% and 0.12% for villages (Office of the New York State Comptroller, 2015a).

2

Building Equity: Connecting Old and Young for Our Common Future[3]

Demographic Stress

Demography is a second source of fiscal stress facing New York's local governments. Local governments across New York State are experiencing aging, outmigration of younger adults, and high poverty, especially among children in cities and rural areas. Vibrant communities need people of all ages to ensure long-term economic stability (Israel and Warner, 2008), but focus group participants report that upstate communities are struggling to retain their workforce. One focus group participant cautioned,

> *"Kids are leaving the state as there are no jobs. They are looking for out-of-state jobs."*

Upstate New York lost about 20% of its 25-34 year olds between 1980 and 2000 (Blakely-Armitage and Vink, 2013). Meanwhile, the Baby Boom generation whose many members are leaving the workforce are aging in place (McMahon, 2012). By 2030, 20% or more of the population in three-quarters of New York's upstate counties will be over the age of 65 (The Federal Reserve Bank of New York, 2006).

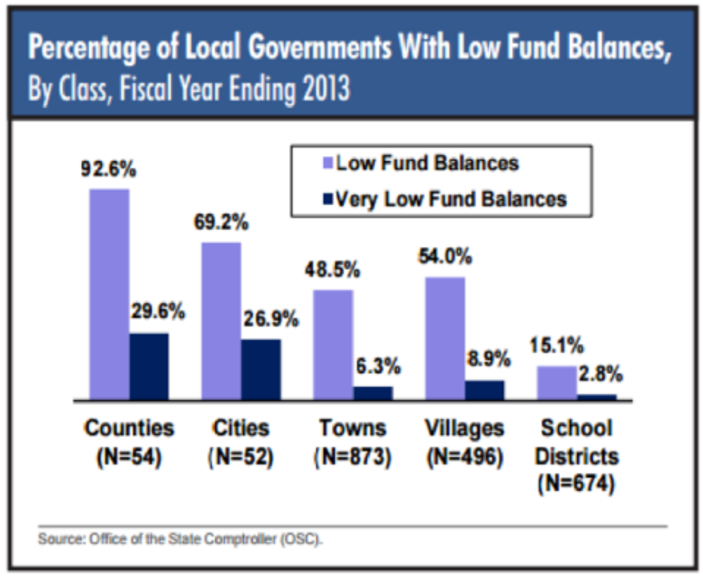
In addition, scholars warn that family and overall poverty rates have climbed to "profound" levels in both the inner cities and rural fringe, especially among racial minorities (Bacheller, 2015). On average, families in the cities of Buffalo, Rochester, and Syracuse have a significantly lower than average income when compared to the nation and their respective metropolitan areas. For example, in Rochester, the average city family earned $49,812, well below Monroe County ($86,275) and national ($86,973) averages (US Census Bureau American Community Survey, 2014). This trend disproportionately affects historically disadvantaged groups and their children; in both upstate cities and their surrounding counties, the poverty rate among people of color is around two to three times higher than it is for white residents (Bacheller, 2015). Based on American Community Survey data, Bacheller (2015) found in the cities of Buffalo, Rochester, and Syracuse nearly 50% of all children under 18 live in poverty. This explains most of the difference in educational performance for inner city schools. The proportion of families with children under 18 facing poverty is increasing at much faster rates in the inner city than in the surrounding suburbs—about three times the average increase for upstate counties and twice the national average (Bacheller, 2015; US Census Bureau American Community Survey, 2014). Higher poverty places more fiscal stress on inner city and rural communities than on richer suburbs (New York State Comptroller, 2011). These communities require more state aid and more regional approaches to ensure equitable services and financing.

Families with children are key to the vitality of any community (Warner and Baran-Rees, 2012). A workforce population diminished by outmigration or the experience of poverty signals further challenges for upstate New York communities to be able to provide the transportation, health, recreation, and housing support systems continually demanded by the growing ranks of retirees. The New York State Comptroller finds that a one percent population increase (or decrease) tends to be accompanied by a proportional 3 percent increase (or decrease) in property values (2011). As a result, government officials have difficulty maintaining the social services that citizens continue to demand. Some constituencies will not tolerate service cuts; as one focus group participant explained,

> *"[Medical transportation] is a non-mandated service, but go try to tell my residents I'm not going to provide ambulance service!"*

The New York State tax cap further constrains the service delivery capacity of local governments. New York's towns and villages are most severely affected by the tax cap because they rely more heavily on the property tax to fund basic services (Rivera and Xu, 2014). Local governments across New York State have made major expenditure cuts in all areas except for employee benefits. Focus group participants report that the combined fiscal effects of this revenue restraint and the demographic shifts taking place in New York are moving many county and local governments to dip into their budgetary reserves. In 2013, approximately 93% of counties and 69% of cities in the state had low or very low total fund balances (20% or less of one year's expenditures). A quarter of these counties and cities had very low fund balances (30% and 27%), meaning there is little or no money remaining in budgetary reserves.[4] Low fund balances are prevalent among a majority of local governments since the imposition of the tax cap (see Figure 3).

Figure 3.



Source: Fiscal Stress Close-Up: Fund Balance, Office of the New York State Comptroller, Division of Local Government and School Accountability, June 2015. p.3. Note that "Low Fund Balance" numbers include "Very Low Fund Balances" for each category.

In an effort to cut costs, some local governments have replaced some full-time employees with part-time workers and cut personnel. Personnel cuts among local governments across the nation deepened after the Great Recession (Lubhy, 2011), but now local officials report they can't cut personnel further without hurting service quality. As one focus group participant said,

> *"2014 was the tipping point where if we had cut any more [personnel], then we were going to be less effective in delivering the services that people deserve… By laying off someone, you're better off just sacking the department because [if you cut anymore personnel] you can't deliver [the service anymore]."*

Another focus group participant pointed to the need to maintain service quality:

> *"We haven't cut services; we still deliver them. I think village satisfaction is more important. I don't want to cut services, but to make communities more livable."*

Focus group discussions revealed that in some cases, local governments resort to cutting social services, especially senior services, to balance budgets. It appears that service cuts are not yet widespread, and there is no data currently available to describe the extent of this pattern.[5] However, representatives of local governments from across the state report that auxiliary services *"like Meals on Wheels, Boys and Girls Club, senior services, and celebration committees may be cut. We have to focus on basic services first."* Other focus group participants reported that to save money in their communities, they had to defer maintenance on public infrastructure and eliminate or consolidate public bus routes. Cutting these services disproportionately affects the young, the elderly and the low-income populations that rely on them most; indeed the New York State Comptroller's Office finds that demand for social services is greater in communities that have experienced fiscal stress and economic decline (2011).

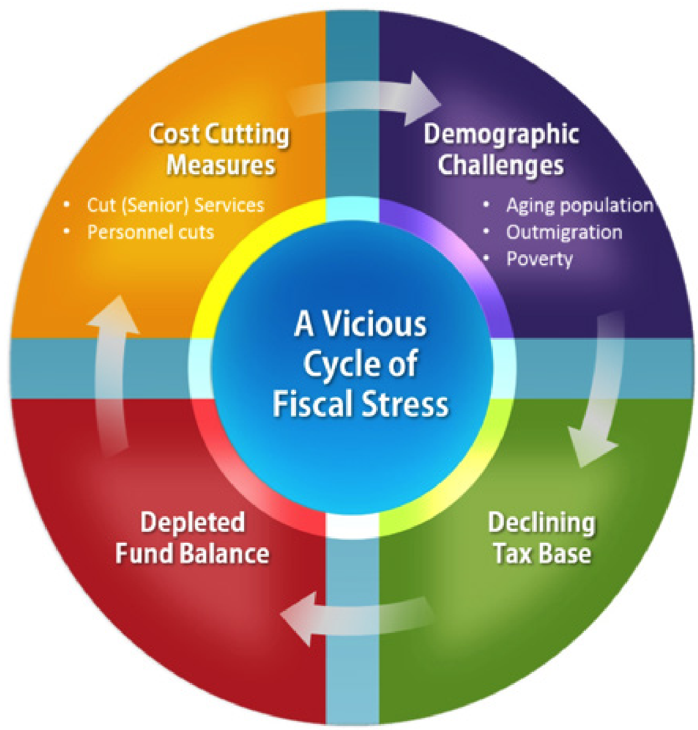
Ending a vicious cycle: A multigenerational approach to ensuring a vibrant future

The current protocol for responding to fiscal stress, in which local governments deplete fund balances before resorting to unpopular and inequitable service cuts, undermines the future of New York State communities. Should demographic challenges continue unaddressed, a vicious cycle in which local governments grapple with fiscal stress by cutting the necessary social services that support vulnerable groups will result in a negative feedback loop (see Figure 4). As one focus group participant stated,

> *"I've got a whole list of services that we've merged over the years, restructuring efforts, come up with every possible idea for generating revenue off of the property tax line item, and there's no place to go because we have a weak economy and rotten property values."*

Currently, the state's economic development initiatives do not specifically target cities with high need or the poor (Bacheller, 2015). A multigenerational approach to addressing the demographic challenges facing upstate New York lies in a state and local government partnership to address the overlapping needs of children, working-age families and the elderly.

Figure 4.



The first component of this partnership should involve increasing state aid, especially to municipalities facing greater demographic stress. However, state aid to municipalities has fallen in real terms since the Great Recession (Rivera and Xu, 2014). In 2015, the total Aid and Incentives for Municipalities (AIM) was only

$726 million. This is less than the increase in school aid for that year ($1.4 billion; New York State Division of Budget, 2015). While school aid is critical for educational equity, aid to municipalities is essential to ensure equity in a broader set of services that benefit the entire population. New York State must help its upstate communities address their demographic challenges. They cannot do so on their own.

Limited resources do not imply a conflict between meeting the needs of children, families and an aging population. Multigenerational approaches can build the political will for investments that promote efficiency and benefit all ages (Myers, 2007; Warner and Morken, 2013). A 2014 AARP report found that NYS residents age 50+ desire comprehensive social services to assist their retirement. These services include increased construction of subsidized affordable housing units, affordable public and alternative transportation, health and community services, and employment opportunities (AARP, 2014). Working families have similar needs - affordable housing, mass transit, healthcare, and jobs (Warner et al., 2010). A state and local government partnership built around recognition of these common needs could fund programs to meet these demands. Because upstate communities have varying levels of need and face different levels of fiscal stress, this partnership should allocate state aid differentially to communities on the basis of poverty rate, population loss, and concentration of vulnerable age and racial groups.

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[3] This section was written by Kyra Spotte-Smith, Keaton Wetzel, Disha Mendhekar

[4] The Fiscal Stress Monitoring System threshold for very low fund balance is 3.33% available or 10% of total fund balance (Office of the New York State Comptroller, June 2015).

[5] Data on the extent and type of service cuts are limited and should be collected through future surveys.

3

Investing in Our Future[6]

Infrastructure and Economic Development

Infrastructure is essential for economic development. Our everyday lives depend on the roads that get us from point A to point B, the health care structures that keep our families well, the water systems that are essential for survival, and the educational institutions that produce the future workforce. We depend on our local governments to provide and maintain these systems for our communities. In many communities across New York fiscal stress is producing a vicious cycle of infrastructural disinvestment, degraded tax bases and economic decline. As a result, serious concerns regarding the future growth potential of New York State arise. In this section we argue for increased investment in infrastructure and for the state to partner with local governments and become a positive leader for change. As one focus group participant put it,

> *"Infrastructure is crumbling, and we can't offset the costs."*

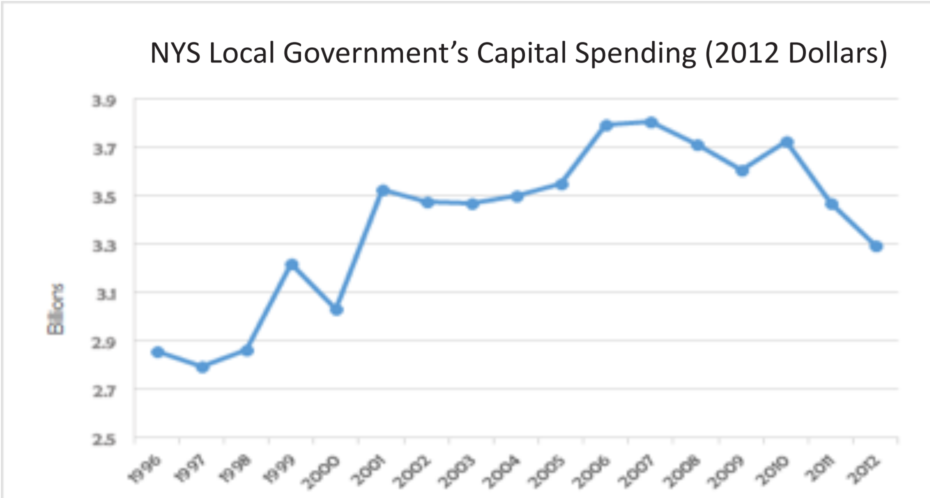
Crumbling Infrastructure

Crumbling infrastructure in New York State, although not always visible, is well noticed by both academic reports and citizens (ASCE, 2015; Burgess et al., 2014; DiNapoli, 2014a). But local governments' ability to meet the physical and human infrastructure needs of their communities is limited by a lack of support from the state. Local government capital spending has been declining since the Great Recession, but more steeply since adoption of the Tax Cap in 2011 (See Figure 5).

State aid, which has been a traditional source of infrastructure debt financing in NYS, has been dropping in real terms (See Figure 6). As a result, while localities finance capital expenditures through debt, dwindling funding sources, especially state aid, impede their ability to repay this debt. Consolidated Local Street and Highway Improvement Program (CHIPs) funding is not keeping pace with local governments' needs (Grassroots Advocacy Campaign, 2015; NYS Senate, 2015a).

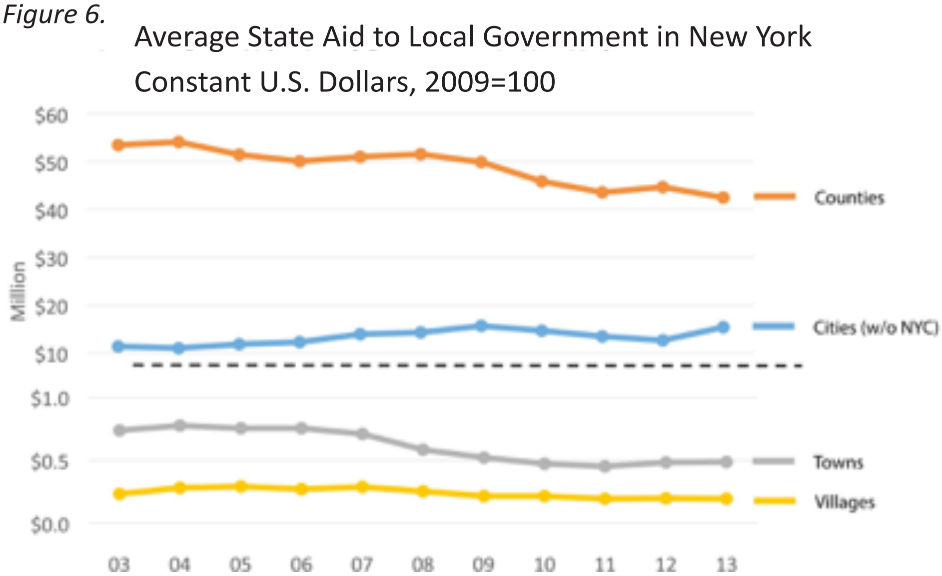
Furthermore, within the Dedicated Highway and Bridge Trust Fund (DHBTF), funds are misallocated towards debt and various other State-imposed costs and away from projects where they are desperately needed (DiNapoli, 2014b). On top of all this, the property tax cap impedes local governments' ability

Figure 5.



Source: Data from local government and school accountability 1996-2012, Burgess et al. (2014) based on Comptroller data on local government and school accountability 1996-2012

Figure 6.



Source: Warner (2014) based on New York Local Government Finance Data 2003-2013, Office of the Comptroller

to raise funds for both infrastructure updates and expansion (DiNapoli, 2014a; Rivera and Xu, 2014).

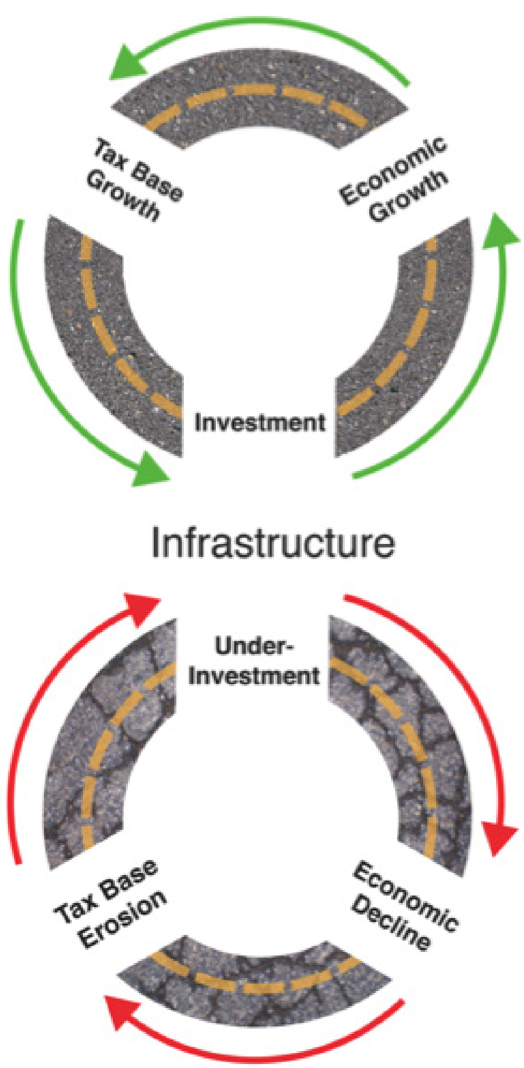
So how are local governments dealing with this situation? In light of fiscal burdens and inadequate funding, local government officials at focus groups described their increasing reliance on short-term fixes while deferring major maintenance projects. A *"paper clips and bubblegum approach,"* as one focus group participant put it, is becoming a popular strategy for addressing infrastructure maintenance. Another participant described how some localities are *"kicking the can down the road,"* a reference to the deferral of capital expenditures. But failing to maintain adequate physical and social infrastructure will have significant negative effects on long-term economic growth. If not immediately addressed, neglected infrastructure systems will continue to crumble and require more costly solutions further down the road.

The Vicious Cycle

Infrastructure matters. Its influence extends to "people, place and business" (Agyeman-Budu et al. 2014). For example, businesses and households depend on quality water and sewer provision; roads and bridges facilitate travel and the movement of goods; and companies need educated and healthy workers. This interaction between infrastructure, economic growth, and the taxpayer can be understood as a simple cycle that has the potential to spiral upwards toward growth in a virtuous cycle or downwards in a vicious cycle of decline (See Figure 7), (Xu and Warner, 2015).

Figure 7.

Which Road Will New York State Take?



The New York State government has referenced this vicious cycle, and emphasized the importance of infrastructure investment for economic growth and development (Cuomo, 2013; DiNapoli, 2010; DiNapoli, 2012). Yet, many of the State's practices contradict its rhetoric.

The State is continuing to privilege an economic development agenda that is not backed by an adequate focus on infrastructure investment. Instead, it is working on the faulty logic that economic development precedes infrastructure growth as opposed to the other way round.

Take for example the cases of Buffalo and Syracuse. The "Buffalo Billion" invested in projects such as Solar City that target economic growth through building business and industry (Western New York REDC, 2013). By contrast, Syracuse proposed a "Syracuse Billion" focused on investments in infrastructure as the foundation for economic development (Syracuse Office of the Mayor, 2014). As Mayor Miner stated in her 2014 proposal:

> *The Syracuse of tomorrow must have a plan to build and maintain itself as a center of innovation and growth. The only way to do this is to invest in infrastructure. By doing so in a smart and strategic way, we will be able to stimulate economic growth, improve social mobility, and have long-term competitiveness (1).*

Governor Cuomo's backing of the Buffalo Billion, but rejection of the Syracuse Billion demonstrates how economic growth is often emphasized over infrastructure even when the physical structures that support growth are not in place (Weaver, 2015).

This continues to be seen in the Upstate Revitalization Competition, where seven upstate regions competed for three awards of $500 million. While the seven Regional Economic Development Council (REDC) plans mention physical and human capital, their overriding focus is on business growth and economic development rather than the basic infrastructure on which this development depends (New York State, 2015).

Strengthen the Tax Cap by Allowing Exemptions for Infrastructure

Although the current tax cap has an exclusion for debt financing, it does not exempt capital expenditure for local governments. Tax caps in other states, including Massachusetts and California, have capital outlay exemptions to support infrastructure needs (Wen, 2015; McMahon, 2011). Without this exemption, NYS local governments are increasingly relying on debt financing to meet their infrastructural needs (DiNapoli, 2014a). Allowing capital expenditure exemptions for local governments will provide greater fiscal flexibility for investments.

Capital exemptions have been available to schools since the tax cap was passed in 2011. More recently, this exemption was extended to New York State Boards of Cooperative Educational Services (BOCES) (Fiscal Policy Institute, 2015; New York State Senate, 2015b). Capital exemptions have allowed school districts in NYS to raise revenues to respond to their infrastructure needs (Bakeman, 2014). As one focus group participant said,

> *BOCES [capital outlay exemption] really is a good fix. It strikes me as not fair that school districts can exclude capital projects, municipalities cannot. That's just not right and so where I see a problem [is the] neglect of just regular maintenance and buildings as time goes on. We're seeing that in a lot of districts, no question.*

Leaders of the statewide local government associations, in a letter titled, "Fix the Cap Before You Keep the Cap" (NYSAC, 2015) requested that the State:

> *Provide an exclusion from the cap for municipal expenditures on public infrastructure, just as schools and the state have from their respective caps.... This combination of local austerity, minimal mandate relief, and lack of robust state aid has a price. The quality-of-life in our communities is suffering and local infrastructure, roads and bridges, water and sewer systems is in arguably its worst condition in a generation.*

Another way to reform the tax cap to promote economic development is to allow exemptions for special districts such as Business Development Districts (BIDs). States such as California have exemptions to support special districts. While New York City has a proliferating number of BIDs, localities in upstate New York are struggling with how to fund BIDs now that those revenues are also included under the tax cap (Nunn, 2015).

Underinvestment in infrastructure is hampering the State's future growth prospects. The state implemented the tax cap to protect citizens from high property taxes, but this is undermining infrastructure investment, which negatively impacts citizens. Currently, the State lacks a sound justification for excluding local governments from capital expenditure exemptions. A balanced tax cap will allow all municipalities, school districts and the State to grow together as a partnership that supports infrastructure investments and promotes long-term economic development throughout the region.

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[6] This section was written by Khadija Anjum, Hannah Bahnmiller, and Alia Fierro

4

Conclusion: The Need for A State Partnership

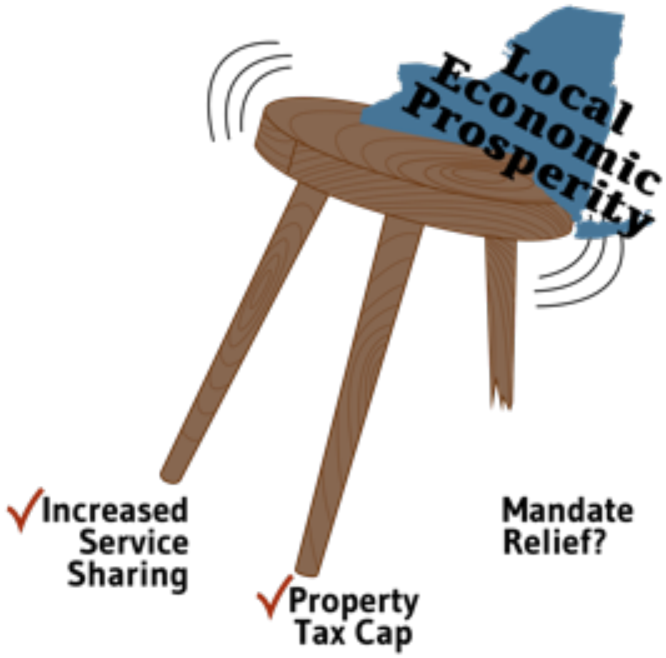
Our study reveals that the State's three-pronged reform (tax cap, mandate relief and service sharing) has increased stress on New York's local governments without providing the tools needed to promote true innovation. The reform was intended to alleviate tax burdens and promote government efficiency. What is lacking is a supportive State partnership with local government and a long term vision for New York State's collective future. While the tax cap and service sharing are embedded in State policy, mandate relief is the broken leg of the reform stool (see Figure 8). The State has not provided the mandate relief needed to help local governments ensure adequate public service provision that meets their residents' needs. As a result, New York's economic recovery is at risk.

Aside from the large unfunded State mandates, there are many smaller, "invisible" mandates that together result in significant administrative and fiscal stress on local governments. Moreover, in order for more service sharing initiatives to be implemented, State support for an administrative backbone and county leadership is needed.

Demographic stress resulting from an aging population, outmigration of working-age people, and high child poverty, requires increased state aid to municipalities (especially poorer areas of the state) and regional approaches to service delivery to promote equity. By investing in our local communities and in services that benefit all generations – children, families and the elderly – New York can build the foundation for a positive future.

Communities across New York suffer from crumbling infrastructure. The tax cap exacerbates this situation for municipalities by failing to exempt capital expenditures. The vicious cycle of underinvestment in infrastructure, economic decline and degraded tax bases can only be turned into a virtuous cycle of self-perpetuating growth when the State plays a supportive partnership role. This requires mandate relief, increased state aid to municipalities and reforms to strengthen the viability of the tax cap by allowing exemptions for capital expenditures and for special districts like BIDs.

Figure 8.



Source: Warner, M (2015). Local Government Reform: The Need for a State Partner.

Across the state, local government officials are calling for the State to join with local governments as a supportive partner to effectively solve the fiscal, demographic and infrastructure challenges that New York's communities face. This requires a long-term vision and a State partnership to jointly address our needs. As one focus group participant noted:

> *We need to go forth with some of these things that can truly have a positive impact on local governments, and thus have a positive impact on the entire state, because we are a state cumulatively. It's not what happens up on the hill…It's what happens throughout the 49,000 square miles, and all the local governments.*

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