STATE OF NEW YORK CITIES:
CREATIVE RESPONSES TO FISCAL STRESS

Mildred Warner
Dept. of City and Regional Planning

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http://www.mildredwarner.org/restructuring
Global Context: Great Recession and Austerity

National and International Level
- Pass fiscal crisis down to the city level
- Prop up markets, leave cities to fend for themselves

City Level – varied response
- Hollowing Out
- Riding the Wave
- Pushing Back

Citizen Level – varied response
- Acquiescence (US)
- Push Back
  - Political Protest (more common in Europe)
  - New Forms of Service Delivery (more common in US)
City Responses: Hollowing Out

Fiscal Crisis – Housing foreclosure crisis leads to public budget shortfall

City Response: Austerity

- Cut Services
- Lay off workers (500,000 in local government sector across US)
- Attack public sector pensions & wages
- Raise User Fees
Innovations in Service Delivery

- **Shared Services**
  Now larger than privatization
  Promotes regional collaboration

- **Cautious Privatization**
  Insourcing, Reverse Privatization
  Now as big as new outsourcing

- **Mixed public/private delivery and hybrid public/private firms**
  For public control and labor ‘flexibility’

**Attract Private Capital for Public Services**

- Developer impact fees to fund public services
- Business Improvement Districts: growing rapidly & extending to Europe
Citizen and City Response – Push Back

Europe: Occupy Movement, Indignados
- Not trade union or party based,
- Direct people’s democracy
“We are not commodities in the hands of bankers and politicians”

Tea Party
- Libertarian
- Distrust of government

Alternative forms of production - Citizen
- Collaborative consumption (local food, car shares)

Alternative forms of service delivery – City
- Economic development policy that incorporates social objectives (small business and neighborhood revitalization, land trusts for foreclosed properties)
- Regional collaboration and shared services
### NYS Municipality Survey 2013

**Response Rate**

<table>
<thead>
<tr>
<th></th>
<th>Cities</th>
<th>Counties</th>
<th>Towns</th>
<th>Villages</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total – NYS</strong></td>
<td>62</td>
<td>57</td>
<td>932</td>
<td>556</td>
<td>1607</td>
</tr>
<tr>
<td><strong>Number of responses</strong></td>
<td>49</td>
<td>44</td>
<td>494</td>
<td>359</td>
<td>946</td>
</tr>
<tr>
<td><strong>Response rate</strong></td>
<td>79%</td>
<td>77%</td>
<td>53%</td>
<td>65%</td>
<td>59%</td>
</tr>
</tbody>
</table>
Fiscal Stress Faced by Municipalities

Significant

Moderate

Weak and None

- Cities (N=37)
- Counties (N=36)
- Towns (N=412)
- Villages (N=283)
NYS Municipalities’ Responses to Fiscal Stress

- Increase user fees: 41%
- Explore additional shared service arrangements: 34%
- Personnel cuts/reductions: 34%
- Reduce service(s): 22%
- Explore consolidation with another government: 18%
- Consolidate departments: 15%
- Deliver services with citizen volunteers: 11%
- Eliminate service(s): 10%
- Sell assets: 7%
- Consider declaring bankruptcy/insolvency: 0.4%
State Context

Cuomo’s Original Proposal

1. **Tax Cap** for governments and school districts
2. **Property Tax Freeze** - Tax Circuit Breaker for homeowners
3. **Mandate Relief**

**Need all three reforms for comprehensive relief**

1. Tax Cap without the other reforms **provides no real relief** to tax payers. It just **starves** the cities and citizens of services
2. Property Tax Freeze - Tax Circuit Breaker now proposed but with **strings attached**
   
   Requires new sharing arrangements, **ignores** prior history of sharing
3. Mandate Relief **still needed**
Tax Cap’s Contribution to Fiscal Stress

- Significant
- Moderate
- Weak
- None

Cities  Counties  Towns  Villages
Starving the Cities
If Tax Cap had been in place in 2000, expenditures today would be 23% less

<table>
<thead>
<tr>
<th>(millions)</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Observed Levy</td>
<td>18,897</td>
<td>19,356</td>
<td>20,277</td>
<td>21,949</td>
<td>23,454</td>
<td>24,795</td>
<td>25,771</td>
<td>26,727</td>
<td>27,533</td>
<td>28,459</td>
<td>28,972</td>
<td>29,823</td>
<td>4.23%</td>
</tr>
<tr>
<td>Allowable Levy with Cap</td>
<td>18,897</td>
<td>19,275</td>
<td>19,660</td>
<td>19,975</td>
<td>20,374</td>
<td>20,782</td>
<td>21,198</td>
<td>21,622</td>
<td>22,054</td>
<td>22,495</td>
<td>22,495</td>
<td>22,855</td>
<td>1.74%</td>
</tr>
<tr>
<td>Difference</td>
<td>0</td>
<td>-81</td>
<td>-617</td>
<td>-1,974</td>
<td>-3,080</td>
<td>-4,013</td>
<td>-4,573</td>
<td>-5,105</td>
<td>-5,479</td>
<td>-5,964</td>
<td>-6,477</td>
<td>-6,968</td>
<td>2.49%</td>
</tr>
</tbody>
</table>

Estimates based on total local government expenditures in NYS (current dollars) (Reed Van Beveran)

CAGR = Compounded annual growth rate, representing year-over-year growth rate over a specified period of time. Calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.
Property Tax Freeze/Circuit Breaker and Shared Services

2013 NYS survey shows service sharing is already common among NYS municipalities

- Of 29 services measured, sharing rate was 27%
- Public works, public safety, parks and recreation showed highest levels of sharing
- **Cost savings** were only one goal – and *only achieved half the time*.
  - Other goals include **improved service quality** and **regional coordination**.
- This is similar to international studies which show cooperation is **not primarily driven by cost savings** and cost savings are not always found.
## Results of Inter-municipal Shared Services

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Cost savings</th>
<th>Improved service quality</th>
<th>Improved regional coordination</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>56%</td>
<td>50%</td>
<td>35%</td>
</tr>
<tr>
<td>Public Works &amp; Transport.</td>
<td>53%</td>
<td>56%</td>
<td>39%</td>
</tr>
<tr>
<td>Administrative/Support</td>
<td><strong>70%</strong></td>
<td>39%</td>
<td>25%</td>
</tr>
<tr>
<td>Recreation &amp; Social Services</td>
<td>44%</td>
<td>59%</td>
<td>38%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>48%</td>
<td>54%</td>
<td>38%</td>
</tr>
<tr>
<td>Economic Dev. &amp; Planning</td>
<td>51%</td>
<td>52%</td>
<td>46%</td>
</tr>
</tbody>
</table>
## Shared Services and Cost Savings

Results of Regression Models – controlling for population, density, metro status (models by Bingxi Qian)

<table>
<thead>
<tr>
<th>Service</th>
<th>Total Expenditure if Shared Service</th>
<th>Per Capita Expenditure if Shared Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Expenditures</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Solid Waste</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Roads and Highways</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Police</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Libraries</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Elder Services</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Fire</td>
<td></td>
<td>+</td>
</tr>
<tr>
<td>Water</td>
<td></td>
<td>-</td>
</tr>
</tbody>
</table>

(EMS, Administration, Planning and zoning, economic development, youth recreation, sewer show no significant difference in cost if shared)
What Happened to Mandate Relief?

- NYS has the highest level of state decentralization of fiscal responsibility of any state in the region.
  - 64% of all state and local expenditures are handled at the local level in NYS!

- This is the primary driver of high local property taxes in NYS

<table>
<thead>
<tr>
<th>State</th>
<th>State Decentralization 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>NY</td>
<td>0.64</td>
</tr>
<tr>
<td>PA</td>
<td>0.55</td>
</tr>
<tr>
<td>NJ</td>
<td>0.54</td>
</tr>
<tr>
<td>CT</td>
<td>0.48</td>
</tr>
<tr>
<td>MA</td>
<td>0.44</td>
</tr>
<tr>
<td>VT</td>
<td>0.38</td>
</tr>
</tbody>
</table>

State Aid has fallen in real terms since the recession

Total State Aid 2000-2012
Constant U.S. Dollars, 2009=100

Presenter analysis based on data from: Office of the New York State Comptroller, 2014 www.osc.state.ny.us/localgov/index.htm
Cities are controlling their expenditures

Expenditures, 2000-2012
Constant U.S. Dollars, 2009=100

Presenter analysis based on data from: Office of the New York State Comptroller, 2014
www.osc.state.ny.us/localgov/index.htm
Property Taxes Flat or Falling (even before the Tax Cap)

Property Tax Revenue, 2000-2012
Constant U.S. Dollars, 2009=100

Presenter analysis based on data from: Office of the New York State Comptroller, 2014 www.osc.state.ny.us/localgov/index.htm
We need new alternatives

Need a State Level Partner

- Recentralize fiscal responsibility for services to the state level
  - Bring level of decentralization in line with other states to increase local government competitiveness

Give local governments more flexibility

- In sharing services with other municipalities and districts
- In co-production with citizens
- In collaboration with labor unions

Provide an administrative structure to facilitate sharing

- A ‘BOCES’ for local government (see Hayes’ report)

Need Regional Approaches

- Cities cannot solve this on their own (due to poverty, tax-exempt tax base, regional structure of the economy)
Promote Economic Development

Tax breaks rose dramatically in the recession – but economists know they are *not* effective economic development policy.

Need community development investments.

Case Studies show a balanced approach.

Resources – found at www.mildredwarner.org/restructuring

- Intermunicipal Sharing: BOCES helps Towns and Schools Cooperate across New York, Hayes
- Cost Savings from Cuomo Consolidation Plan? Probably Not, Warner
- Inter-municipal cooperation and costs: Expectations and evidence, Bel and Warner
- Business Incentive Adoption in the Recession, Warner and Zheng
- Marketisation, public services and the city: the potential for Polanyian counter movements, Warner and Clifton