LOCAL GOVERNMENT REFORM: THE NEED FOR A STATE PARTNER

Cornell University

Mildred Warner

Department of City and Regional Planning

December 9, 2014 at Gideon Putnam Resort, Saratoga Springs, NY

Global Context: Great Recession & Austerity

• National and International Level
  • Prop up markets, leave localities to fend for themselves
  • Pass fiscal crisis down to the local level

• Local Level – varied response
  • Hollowing Out – cut services, laying off staff
  • Riding the Wave – explore service delivery reforms
  • Pushing Back – reassert role of public service

• Citizen Level – varied response
  • US: Acquiescence or Tea Party
  • Europe: Political Protest (Occupy Movement)

View from Europe: Austerity in Spain

Austerity Policy
Cuts to health and education
The white tide – doctors and nurses
The green tide – teachers

Spain
Unemployment 24%
54% among youth
Youth outmigration undermines the future
A View from New York

• The Problem
  • High taxes
  • Slow growth upstate
  • Outmigration of elderly

• The Governor’s Solution
  • Cut Taxes
  • Cut Aid to Local Governments
  • Cut Education Funding
  • Underinvest in Infrastructure
  • Increase Tax Breaks to Firms

Will these approaches promote growth?

Research evidence says “No.”

Austerity policy undermines economic growth
Policy Proposal vs. Reality

1. Tax Cap for governments and school districts
2. Property Tax Freeze - Tax Circuit Breaker for homeowners
3. Mandate Relief
New York State Context

Need all three reforms for comprehensive relief

• Tax Cap without the other reforms provides no real relief to taxpayers.
  It just starves the cities and citizens of services

• Property Tax Freeze - Tax Circuit Breaker now proposed but with strings attached
  Requires new sharing arrangements
  Ignores prior history of sharing, this especially hurts upstate which already has a long history of sharing

• Mandate Relief still needed
  New York shifts more expenditures to local level than other states
Local Governments are controlling expenditures

Average Expenditure of Local Government, NY
Constant U.S. Dollars, 2009=100

Data Source: New York Comptroller Local Government Finance Data 03-13
Property Taxes are Flat (even before the tax cap)

Average Property Tax of Local Government, in NY
Constant U.S. Dollars, 2009=100

Data Source: New York Comptroller Local Government Finance Data 03-13

Changing the Narrative

Research and findings under the direction of Dr. Mildred Warner, Department of City and Regional Planning
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! (5<sup>th</sup> highest in the nation)
  - 83% of education expenditure is local (1<sup>st</sup> in nation)

- These are primary drivers of high local property taxes in NYS

<table>
<thead>
<tr>
<th>State</th>
<th>State Decentralization</th>
<th>Local Share of Education Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>NY</td>
<td>0.64</td>
<td>0.83</td>
</tr>
<tr>
<td>PA</td>
<td>0.55</td>
<td>0.75</td>
</tr>
<tr>
<td>NJ</td>
<td>0.54</td>
<td>0.72</td>
</tr>
<tr>
<td>CT</td>
<td>0.48</td>
<td>0.74</td>
</tr>
<tr>
<td>MA</td>
<td>0.44</td>
<td>0.72</td>
</tr>
<tr>
<td>VT</td>
<td>0.38</td>
<td>0.61</td>
</tr>
</tbody>
</table>

State Aid has fallen since the recession

Average State Aid to Local Government, in NY
Constant U.S. Dollars, 2009=100

Data Source: New York Comptroller Local Government Finance Data 03-13
Local Government Response

Hollowing Out
• Cut services, lay off workers

Riding the Wave
• Shared Services
  Now larger than privatization
  Promotes regional collaboration
• Cautious Privatization
  Insourcing equals Outsourcing

Design New Forms of Service Delivery
• User fees, impact fees to fund public services, Co-production
• Economic Development Strategies: Anchor institutions, Land trusts

NY shared services > national average
ICMA 2007, 2012 surveys
## NYS Shared Services Surveys 2013

<table>
<thead>
<tr>
<th></th>
<th>Cities</th>
<th>Counties</th>
<th>Towns</th>
<th>Villages</th>
<th>School Districts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total NYS</td>
<td>62</td>
<td>57</td>
<td>932</td>
<td>556</td>
<td>675</td>
<td>2282</td>
</tr>
<tr>
<td>Number of Responses</td>
<td>49</td>
<td>44</td>
<td>494</td>
<td>359</td>
<td>245</td>
<td>1191</td>
</tr>
<tr>
<td>Response Rate</td>
<td>79%</td>
<td>77%</td>
<td>53%</td>
<td>65%</td>
<td>36%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Conducted in collaboration with

- New York Conference of Mayors
- New York State Association of Towns
- New York State Association of Counties
- New York State Council of School Superintendents
NYS Municipal 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%
New York is a Leader in Shared Services

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. Why?
  • Limited economies of scale
  • Design and management costs
  • Improved service quality
Cost savings only occur if:
- economies of scale exist
- administrative costs are low

Costs can rise – level up to the higher cost neighbor

Bel and Warner (2014) Inter-Municipal Cooperation and Costs, *Public Administration*
### Shared Services & Cost Savings

- Regression Results across NY Municipalities –
- Municipal expenditures (NYS Comptroller data) controlling for service sharing, population, density, metro status

#### Lower Cost if Shared Service vs. No Cost Difference if Shared Service

<table>
<thead>
<tr>
<th>Service</th>
<th>Quality and Coordination are Important Reasons for Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solid Waste</td>
<td>Administration</td>
</tr>
<tr>
<td>Roads and Highways</td>
<td>EMS</td>
</tr>
<tr>
<td>Police</td>
<td>Youth Recreation</td>
</tr>
<tr>
<td>Libraries</td>
<td>Elder Services</td>
</tr>
<tr>
<td>Sewer</td>
<td>Fire</td>
</tr>
<tr>
<td>Water</td>
<td>Planning and Zoning</td>
</tr>
<tr>
<td></td>
<td>Economic Development</td>
</tr>
</tbody>
</table>

Service quality and coordination are important reasons for sharing.
## Outcomes of Inter-municipal Shared Services

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Cost savings</th>
<th>Improved service quality</th>
<th>Improved regional coordination</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 29 Services</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>70%</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>
## NY Shared Services Survey

Research and findings under the direction of Dr. Mildred Warner, Department of City and Regional Planning

### Administrative & Support Services

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Municipalities Engaged in Sharing</th>
<th>Average Length in Years</th>
<th>Most Common Agreement</th>
<th>Cost Savings Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax assessment</td>
<td>39%</td>
<td>17</td>
<td>MOU</td>
<td>71%</td>
</tr>
<tr>
<td>Energy production or purchase</td>
<td>25%</td>
<td>10</td>
<td>MOU</td>
<td>88%</td>
</tr>
<tr>
<td>Purchase of supplies</td>
<td>17%</td>
<td>14</td>
<td>MOU</td>
<td>88%</td>
</tr>
<tr>
<td>Health insurance</td>
<td>12%</td>
<td>10</td>
<td>MOU</td>
<td>79%</td>
</tr>
<tr>
<td>Liability insurance</td>
<td>6%</td>
<td>12</td>
<td>Joint ownership</td>
<td>76%</td>
</tr>
<tr>
<td>Information technology</td>
<td>8%</td>
<td>7</td>
<td>MOU</td>
<td>73%</td>
</tr>
</tbody>
</table>
Factors Predicting Sharing Among Municipalities

Regression Model Results

• Larger municipalities share more
• Management factors (increase sharing)
• Obstacles and incompatible data and budget systems (reduce sharing)
• Social networks increase sharing
  • Councils of Government, tenure of sharing agreement
  • Inter-municipal competition is not a barrier
• Heterogeneity by income, race, age, property tax (reduces sharing)

Qian and Warner, 2014, Do Municipalities Share with Poorer Neighbors?
NY Municipalities Less Likely to Share Across Difference

Service Sharing & Income Heterogeneity by County 2013

Percentage Sharing
- 9.5%-17.9%
- 17.9%-23.4%
- 23.4%-28.4%
- 28.4%-35.6%
- 35.6%-45.3%

Income Heterogeneity Index*
- 0.09-0.18
- 0.18-0.25
- 0.25-0.33
- 0.33-0.41
- 0.41-0.49

*Heterogeneity in income is an index to measure inequality between municipalities in the same county. A higher index means high income inequality among municipalities in the same county.

Created by: Clint McManus on 26 November 2014

Research and findings under the direction of Dr. Mildred Warner, Department of City and Regional Planning
Factors Predicting School/Community Sharing

Community Services: Recreation Facilities, Preschool, Health, Nutrition

Administrative Services: Payroll, Transportation, Purchases, Health Insurance, SRO

Regression Model Results

• Smaller school districts share more
• Small cities and rural places share more
• Management issues, budget accountability and obstacles reduce sharing
• Formal contracts increase sharing
• Schools with more poor children share less

Wang & Warner, 2014, Sharing ... Least where need is greatest
Need an administrative structure to promote sharing

- Design, finance, management and oversight
  - Empower Counties
  - Empower Councils of Government
  - Expand BOCES’ remit to include municipal services
- State aid to promote sharing with poorer partners

State rules limit sharing

- Restrictions on service sharing between local governments and special districts (fire, schools)
  - Contract rules promote leveling up of costs among partners
- Most commonly listed obstacles to service sharing
  - Liability, accountability and state rules
We Need a State Level Partner

Mandate Relief and State Aid

- Recentralize fiscal responsibility for services to the state level
- Increase state aid to municipalities and school districts

Give local governments more flexibility

- In sharing services with other municipalities and districts
- In cooperative purchasing
- In contract design

Provide an administrative structure to facilitate sharing

- A ‘BOCES’ for local government (see Hayes’ reports)
Regional equity and service coordination needed for economic growth.

Equity is a Superior Growth Strategy

Research and findings under the direction of Dr. Mildred Warner, Department of City and Regional Planning