STATE OF NEW YORK CITIES:
CREATIVE RESPONSES TO FISCAL STRESS

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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

Source: Bureau of Labor Statistics (seasonally adjusted data) and US Census Bureau.
City Response – Riding the Wave

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>Total - NYS</td>
<td>62</td>
<td>57</td>
<td>932</td>
<td>556</td>
<td>1607</td>
</tr>
<tr>
<td>Number of responses</td>
<td>49</td>
<td>44</td>
<td>494</td>
<td>359</td>
<td>946</td>
</tr>
<tr>
<td>Response rate</td>
<td>79%</td>
<td>77%</td>
<td>53%</td>
<td>65%</td>
<td>59%</td>
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</table>
Fiscal Stress Faced by Municipalities

- **Cities (N=37)**
- **Counties (N=36)**
- **Towns (N=412)**
- **Villages (N=283)**

- Significantly stressed: 
  - Cities: 60% 
  - Counties: 50% 
  - Towns: 40% 
  - Villages: 30%

- Moderately stressed: 
  - Cities: 40% 
  - Counties: 30% 
  - Towns: 20% 
  - Villages: 10%

- Weak or None: 
  - Cities: 10% 
  - Counties: 5% 
  - Towns: 5% 
  - Villages: 10%
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**
  - Cities
  - Counties
  - Towns
  - Villages

- **Moderate**
  - Cities
  - Counties
  - Towns
  - Villages

- **Weak**
  - Cities
  - Counties
  - Towns
  - Villages

- **None**
  - Cities
  - Counties
  - Towns
  - Villages
**Starving the Cities**
If Tax Cap had been in place in 2000, expenditures today would be 23% less

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Observed Levy</strong></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><strong>Allowable Levy with Cap</strong></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><strong>Difference</strong></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 Category</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>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>
Shared Services and Cost Savings

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

<table>
<thead>
<tr>
<th></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.
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