



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

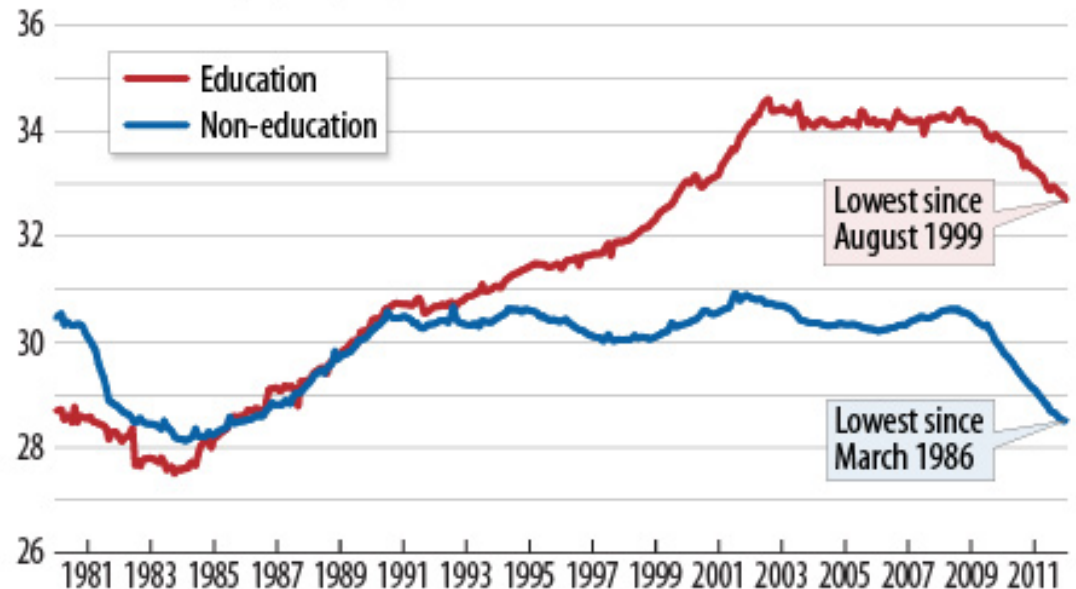
Fiscal Crisis – Housing foreclosure crisis leads to **public budget shortfall**

City Response: Austerity Budgets

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

Public Workforce Has Declined Sharply Since 2008

State and local employees per 1,000 residents



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

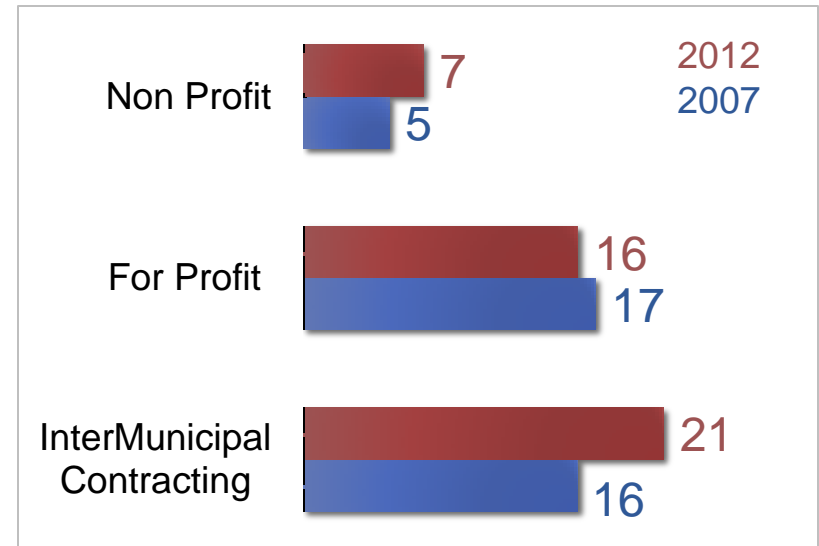
- **Mixed public/private delivery and hybrid public/private firms**

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





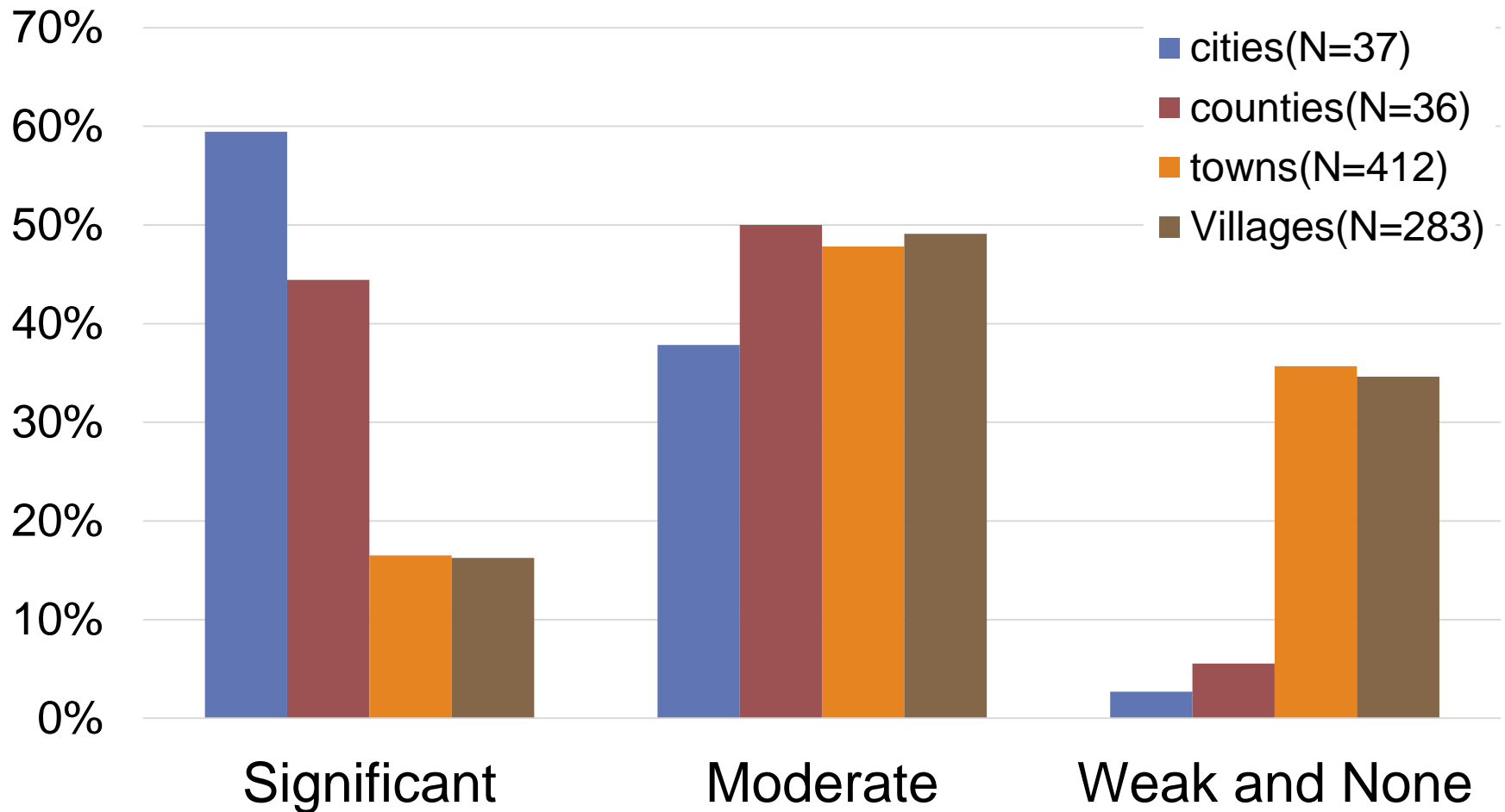
NYS Municipality Survey 2013

Response Rate

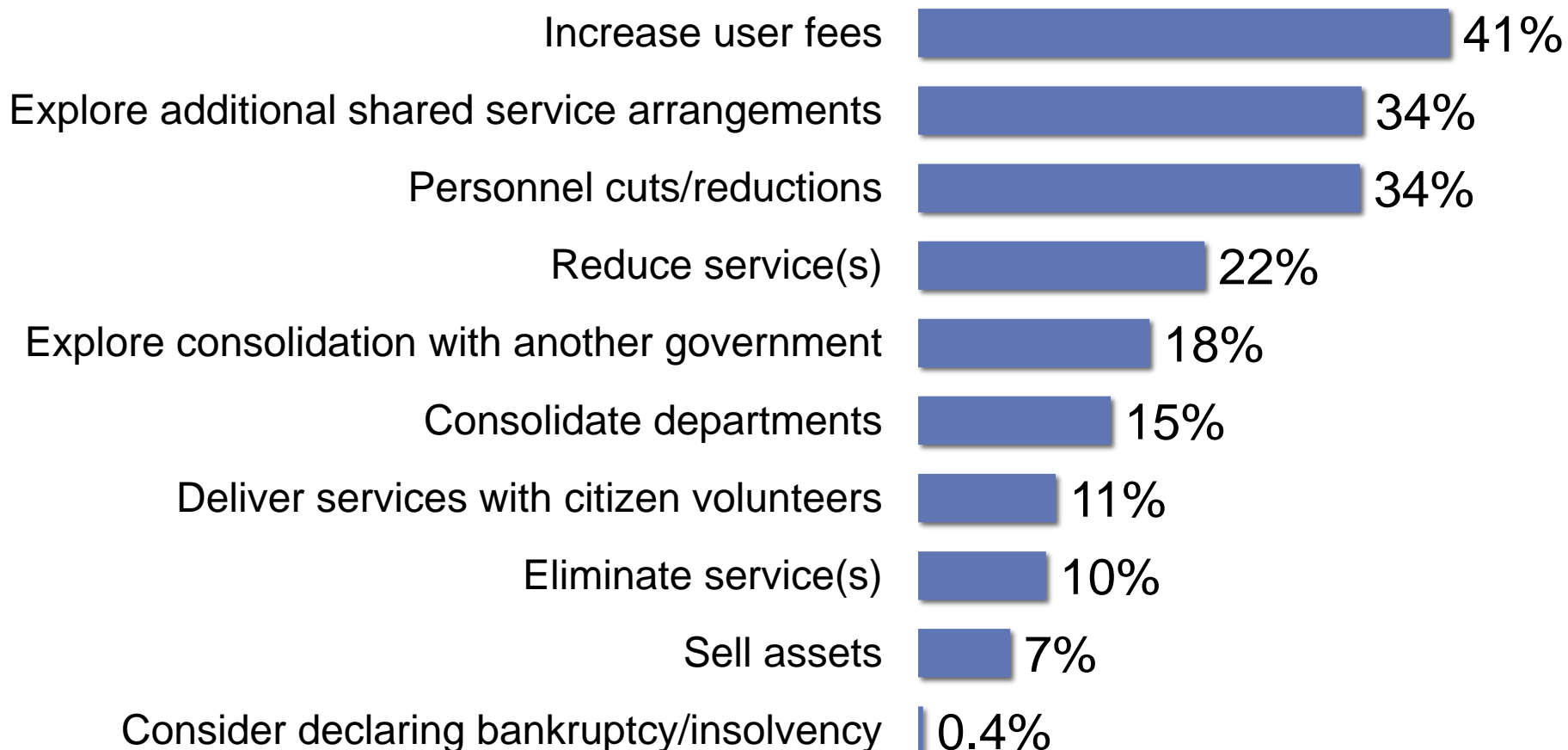
	Cities	Counties	Towns	Villages	Total
Total – NYS	62	57	932	556	1607
Number of responses	49	44	494	359	946
Response rate	79%	77%	53%	65%	59%



Fiscal Stress Faced by Municipalities



NYS Municipalities' Responses to Fiscal Stress



State Context

Cuomo's Original Proposal

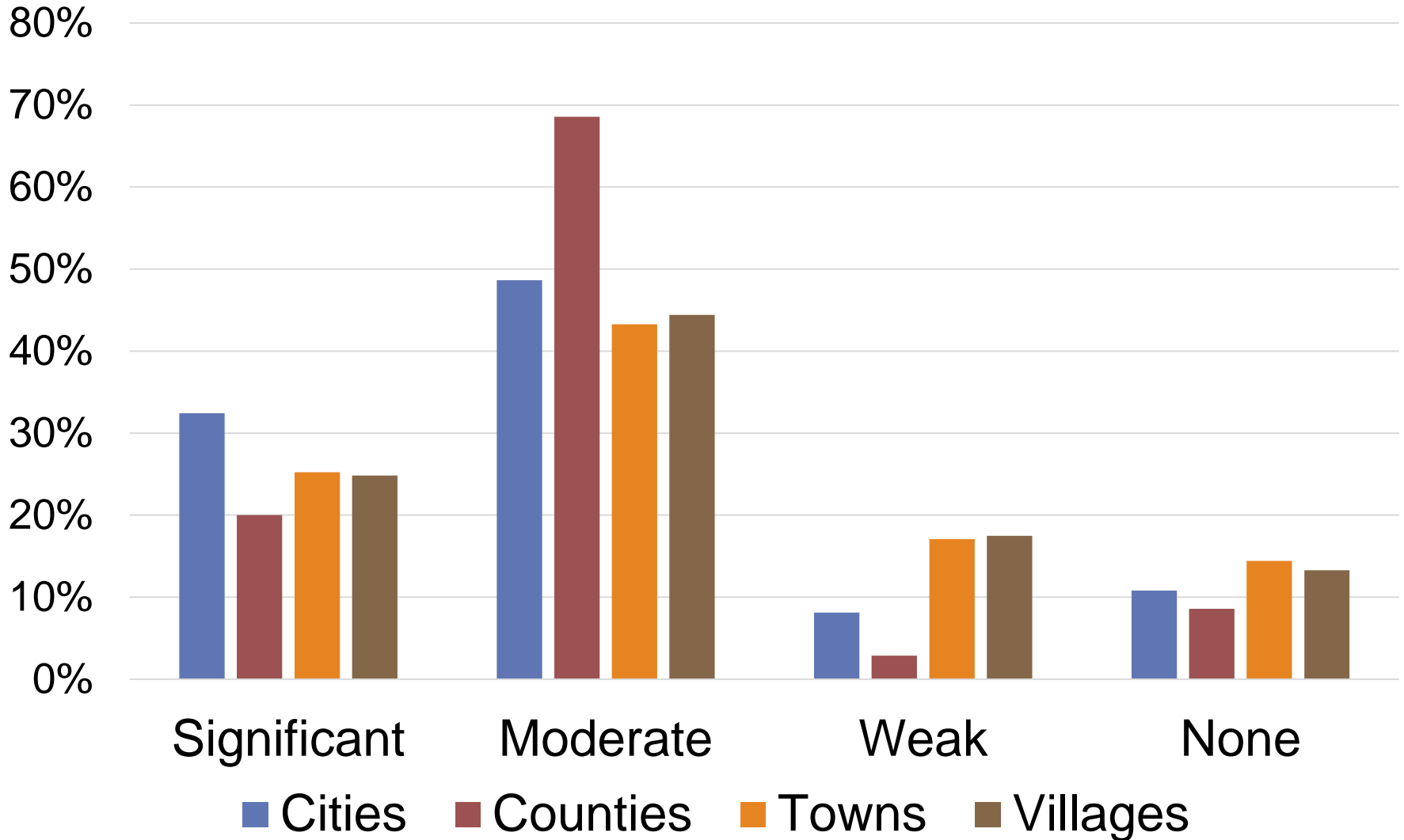
1. **Tax Cap** for governments and school districts
2. **Property Tax Freeze** - Tax Circuit Breaker for homeowners
3. **Mandate Relief**

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



Starving the Cities

If Tax Cap had been in place in 2000, expenditures today would be 23% less

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

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



	Cost savings	Improved service quality	Improved regional coordination
All	56%	50%	35%
Public Works & Transport.	53%	56%	39%
Administrative/Support	70%	39%	25%
Recreation & Social Services	44%	59%	38%
Public Safety	48%	54%	38%
Economic Dev. & Planning	51%	52%	46%

Shared Services and Cost Savings

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

	Total Expenditure if Shared Service	Per Capita Expenditure if Shared Service
All Expenditures	-	
Solid Waste	-	
Roads and Highways	-	-
Police	-	-
Libraries	-	-
Elder Services	+	
Fire		+
Water		-

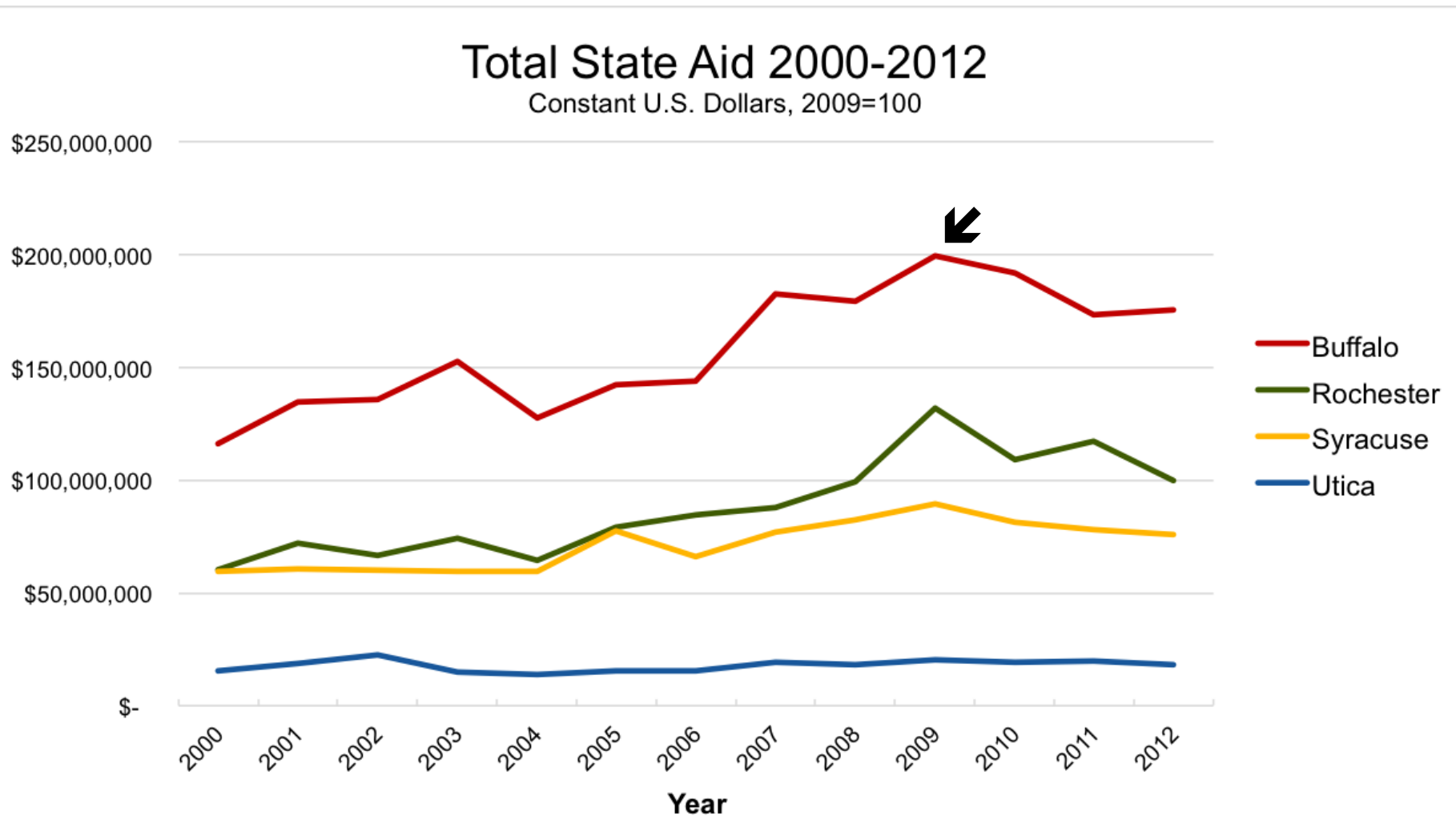
(EMS, Administration, Planning and zoning, economic development, youth recreation, sewer show no significant difference in cost if shared)

What Happened to Mandate Relief?

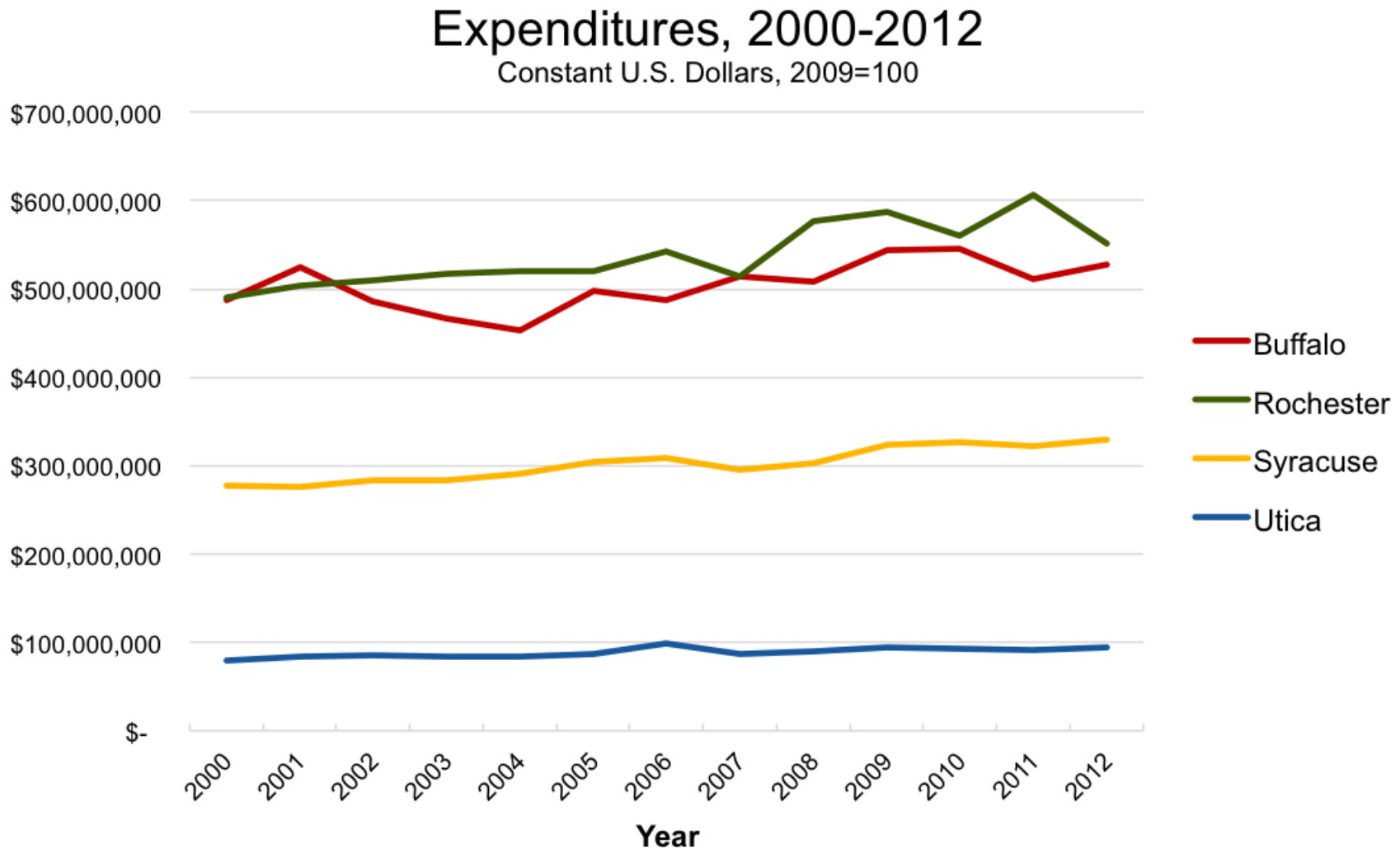
- NYS has the highest level of state decentralization of fiscal responsibility of any state in the region.
 - 64% of all state and local expenditures are handled at the local level in NYS!
- This is the primary driver of high local property taxes in NYS

State	State Decentralization 2007
NY	0.64
PA	0.55
NJ	0.54
CT	0.48
MA	0.44
VT	0.38

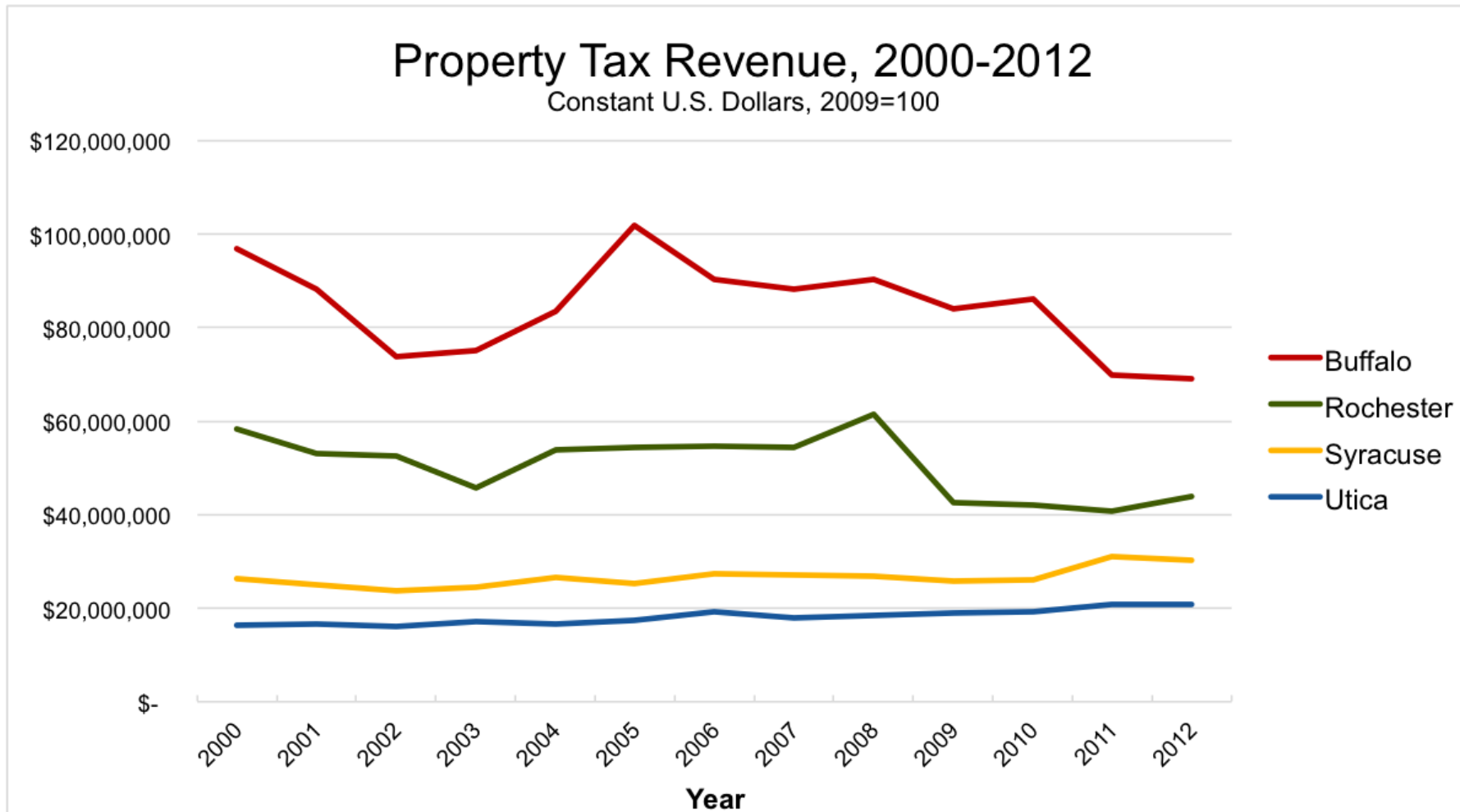
State Aid has fallen in real terms since the recession



Cities *are* controlling their expenditures



Property Taxes Flat or Falling (even before the Tax Cap)



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

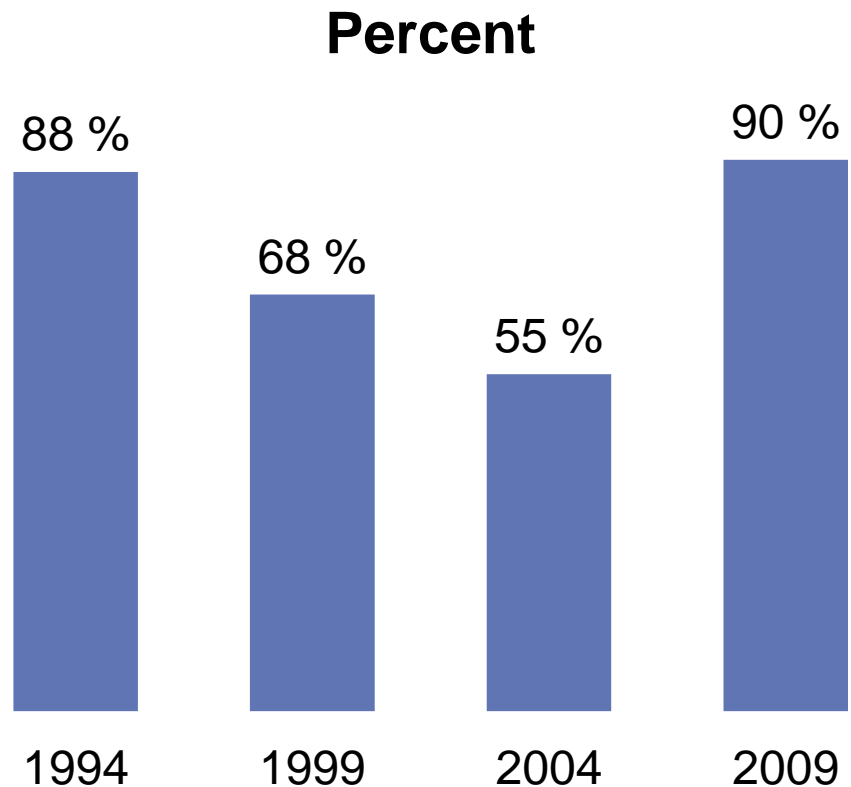
- Cities cannot solve this on their own (due to poverty, tax-exempt tax base, regional structure of the economy)

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



Source: ICMA Economic Development Surveys, 1994-2009, US Municipalities.

Resources – found at www.mildredwarner.org/restructuring

- [Intermunicipal Sharing: BOCES helps Towns and Schools Cooperate across New York](#), Hayes
- [Shared Services Report: Shared Services in New York State: A Reform That Works](#), Homsy et al.
- [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