State Local Assistance Funding to New York City

After years of financial pressure necessitating various deficit reduction plans, the State Fiscal Year (SFY) 2016 budget will benefit from a one-time windfall of $5.1 billion in settlement revenue from financial institutions for actions related to the 2008 financial crisis. After accounting for the portion already projected for SFY 2016, the budget will have $4.8 billion of settlement resources. As of the mid-year update from the end of October, reflecting the first two quarters of SFY 2015, the State Operating Funds closing balance for SFY 2015 was projected to be $9.3 billion, almost double the SFY 2015 opening balance. Clearly, not all of these funds need to remain in reserve to carry into subsequent state fiscal years. The average opening balance for the four years from SFY 2011 through SFY 2014 was $4.2 billion. If the State continues carrying a State Operating Funds balance at that level, a surplus of $5 billion will roll into SFY 2016.

Due to the surplus, the State is entering a budget process that is different from any that we have seen in recent years; one in which the debate will center on how to allocate additional resources instead of how to address a deficit.

CLOSING THE STATE BUDGET GAPS THROUGH $14 BILLION IN LOCAL ASSISTANCE CUTS

New York State only provides direct services in a few areas, including transportation, parks and recreation, courts and correction. The majority of the State budget takes the form of pass-through funding to localities to provide state and federally mandated services. In recent years, the State has in large part addressed its budget deficits by cutting local assistance. Reductions in local assistance have forced New York City and other localities to use their own dollars to meet these mandates.

Looking at how the State closed its budget gaps in the last five fiscal years - SFY 2011 through SFY 2014 – illustrates that the budget was balanced in large part by local assistance cuts¹. Of the cumulative $27.5 billion gap closing measures during those years, over half – $14 billion – was achieved through cuts to local assistance funding. Localities had to absorb reductions to State funding for social services, including Safety Net Assistance (SNA) and shelter subsidies, criminal justice, and transportation funding. The State also reduced its local assistance spending by reducing its Medicaid costs.

Specifically, the State has failed to meet its promise of additional school aid based on the Campaign for Fiscal Equity (CFE) litigation. In SFY 2008, the State committed to phase in CFE funding but

¹ The State’s Local Assistance account funds grants to localities or State expenses on behalf of localities, contractual payments to localities; advances for reimbursable costs; and certain financial assistance to individuals and non-profit organizations.
ceased the phase-in after two years. Cumulatively, between FY 2008 and FY 2015, the City is $15.1 billion short of CFE funding. The shortfall to the City for the current fiscal year alone is $2.5 billion.

Aside from local assistance cuts, other measures taken by the State to close budget gaps have included reducing state operation costs, capital cost management to reduce debt service, revenue actions such as increased audits and the utilization of non-recurring resources.

Chart 1 shows the types of actions taken to achieve $27.5 billion in State gap closing measures over five State fiscal years.²

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Of the $27.5 billion in gap closing measures between SFY 2011 and SFY 2015, over half were Local Assistance cuts

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Chart 1: State Gap Closing Measures SFY 2011 - 2015

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² The cuts to local assistance would be even larger if not for a change to budgeting made by the New York State Division of the Budget (NYS DOB) in SFY 2012. NYS DOB began to show a capped baseline instead of a current services level baseline. The change depresses the magnitude of the cuts.
A CUMULATIVE $2 BILLION IN LOST REVENUE SHARING TO NYC SINCE FY 2007

Chart 2: Revenue Sharing Losses to NYC FY 2011 - 2014

Even prior to the local assistance cuts above, the City absorbed cuts to revenue sharing funding. In the eight years from FY 2007 and FY 2014, the City experienced two cuts and five years of exclusion from this aid. In FY 2010, New York City became the only locality to be completely eliminated from the statewide program, losing over $300 million of dollars a year. The cuts and elimination yield a cumulative loss of over $2 billion compared to what the City consistently received up until FY 2006.
Decline in the Share of the NYC Budget Funded with State Revenue

*Had the share of State revenue in the City’s Budget remained at 18.8%, the City would have realized an additional $2.8 billion in FY 2014*

Another lens through which to examine State support for mandated programs is to look at how much of the City’s budget is funded with State aid. Comparing City and State budgets directly is not a perfect parallel. The State budget operates on a cash basis and the City budget operates on a modified accrual basis. In addition, the State and City fiscal years do not align exactly, as the State fiscal year begins on April 1 and the City’s fiscal year begins on July 1. Nevertheless, the three-quarters of a given year overlap is sufficient to identify long-term trends.

In the twenty-five years between 1985 and 2009, the share of State aid in the City’s budget remained relatively stable, with five-year rolling averages ranging from 18.1% to 19.3%, and an average of 18.8%. Between FY 2010 and 2014, the five-year average was only 16.6%, a substantial decline from historical norms.

In FY 2010, State revenue as a share of the City’s budget began to decline, falling between 0.5% and 1.6% a year. By FY 2014, total State revenue comprised just 15% of the City’s budget. If State revenue had remained 18.8% of the City’s budget, the City would have received an additional $2.8 billion in FY 2014 to provide vital government services.³

**Chart 3: Share of City Budget Supported by State Aid**

³ Had the City received its 18.8% share for FY 2010 – FY 2014, it would have received an additional cumulative $7.7 billion.
Actual State Revenue Dollars in City Budget

State revenue in FY 2014 was $1.2 billion less than in FY 2009

While analyzing the portion of the City’s budget funded by State aid captures effective State aid fluctuations, it also reflects changes in the growth to the City’s budget. Focusing directly on the State aid revenue received by New York City helps isolate specific historical changes to State revenue.

State aid to localities is paid through the State Operating fund through a multitude of distinct programs and revenue streams. The State Operating Funds budget excludes capital funds and is the conceptual equivalent of the City’s General Fund. State revenue dollars that flow through the City’s budget do not include all local assistance spent by the State for the benefit of the City. For example, Medicaid expenditures above the local capped amount, and State spending such as State highway work on city roads are not reflected in the City’s State aid receipts. The State revenue amount in the City’s budget is still a precise measure of direct State aid received by the City compared to prior years. The last five years show a dramatic decline in the State revenue received directly in New York City’s budget.

The City received $1.2 billion less in State revenue in FY 2014 compared to FY 2009. The yearly decline from $12.1 billion to $10.9 billion is shown on the red line on Chart 4, below.

In each year of that five-year period, New York City received between $87 million and $479 million less than the previous year. By FY 2014, the City experienced an almost 10% decline in State revenues.4

Between SFY 2009 and SFY 2014, State Operating Funds, as shown by the blue line in Chart 4, grew by almost 16%. If State revenue in the City’s budget had grown at the same rate as the State’s Operating Funds budget, the City would have had an additional $3.1 billion to meet its expenses in FY 2014.5

Projected State revenue for FY 2015 is budgeted at about $12.5 billion in the City’s Financial Plan, an improvement to the recent trend. Since the City is still in FY 2015, the final outcome depends on a number of factors including the Enacted State SFY 2016 Budget.

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4 The FY 2014 State revenue amount reflects a larger write down in prior-year receivables compared to historical amounts.

5 If State revenue in the City’s budget had grown at the same rate as State Operating Funds grew, the City would have realized a cumulative $10.7 billion in additional funds in FY 2010 through FY 2014.
Chart 4: State Operating Funds Trend vs. State Revenue in NYC Budget
New York City’s Fair Share of the State’s SFY 2015 Budget Surplus

January 21st marks the start of the SFY 2016 budget season. The Executive Budget will present a balanced SFY 2016 utilizing the current SFY 2015 surplus in the upcoming fiscal year for infrastructure projects, tax breaks and new programs.

As the plan on how to spend the surplus is discussed and debated, it is key that New York City receive its fair share of this funding to benefit its citizens, the region and ultimately the State. New York City makes up 43.4% of the State’s population and contributes over 46% of New York State revenues generated by the Personal Income Tax and over 42% of the Sales Tax - the State’s most important revenue streams.

As a result, the City should receive at least 43.4% of the $5 billion surplus; $2.2 billion. These funds would benefit public housing, education and homeless services costs with specific emphasis on capital and infrastructure spending and other one-time investments in order to align with the non-recurring nature of the settlement funds. Now is the time for the State to reinvest in the economic engine of the Empire State: New York City.