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Center for an Urban Future

Sympathy, but no Support

Even after 9/11, Albany continues a decade-long pattern of shortchanging New York City

New York City is in the midst of its most serious fiscal crisis since the 1970s largely because of the attacks on the World Trade Center, the national recession and the dot com implosion. But the city wouldn't be in nearly as bad shape today if it weren't for a series of actions undertaken by Governor Pataki and the state Legislature over the past 5 to 10 years that have disproportionately benefited suburban and upstate areas at the city's expense and, in many cases, cost the city a fortune in lost revenue and increased expenses.

These actions—such as repealing the city's commuter tax; ending the "stock transfer" payment that the state had been making to the city every year since the 1970s; enacting several laws that force the city to significantly increase wages and benefits to certain municipal workers; and shortchanging the city on a litany of programs, including school aid, basic aid to local governments, the environmental bond act and the national tobacco settlement—have deprived the city of nearly $2 billion in revenue and made it extremely difficult for the city to help itself through this economic crisis.

The crowning blow has been the appalling little financial support Governor Pataki and legislative leaders have offered to the city since September 11. Following other disasters, like the 1989 earthquake that struck the San Francisco Bay Area, state governments supplemented federal aid with significant funds of their own. But the executive budget proposed by Governor Pataki earlier this year does not include any significant state aid for recovery efforts and actually shortchanges the city in several key areas, including economic development and education.

Ironically, the city almost single-handedly drove the state's economy during the boom years of the 1990's, accounting for more than half of all new jobs created statewide and a similar share of state tax revenues. At a time when upstate communities were losing residents and struggling financially, revenues from Wall Street, the city's then growing technology sector and tourism to the Big Apple provided the state with the surpluses that allowed the governor and Legislature to balance the budget, enact roughly $11 billion in politically popular tax cuts and provide about $728 million in emergency financial aid to municipalities outside of the city since 1996.

"You can make an argument that Albany has done more damage to the city's budget than 9/11 did."

The state is dealing with its own budget crunch and surely shouldn't be expected to come up with billions in new aid for the city this year. But the governor and legislative leaders haven't even shown a willingness to make it easier for the city to undo some of the harmful measures they enacted when the city was flush with money—and thereby let the city help itself. Moreover, the state would have more flexibility to aid the city if the governor and legislative leaders would reject less important programs, like the fiscally unsound Health Care Reform Act, and defer the state tax cuts that are set to take effect this year.

Albany's failure to come through with additional aid to the city—or to reverse prior decisions that have harmed the city, like the repeal of the commuter tax and the elimination of the stock transfer tax payment—has left Mayor Bloomberg with little choice but to propose painful budgetary actions like borrowing $1.5 billion to pay this year's expenses and making nearly $2 billion in spending cuts, including potentially harmful reductions to the school system.

"With a $4.8 billion deficit, it's very difficult to keep absorbing all of these hits," said one top official in the Bloomberg Administration. "Without any fiscal help, there's going to be real pain at the local level."

Mayor Bloomberg's executive budget points out that state actions enacted over the past three years have had more than $1 billion in financial impact on the city's budget. But $1 billion in hits to the city's budget is just the tip of the iceberg.

This report, based on a two-month study by the Center for an Urban Future, is the first comprehensive analysis of the gamut of state actions taken over the past decade that have negatively impacted the city. And in addition to simply documenting decisions that have cost the city revenue or imposed new financial mandates on the city, this report also catalogues spending programs, tax cuts and other

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initiatives that have benefited other parts of the state at the city's expense.

This report is not an attempt to get Albany to provide all the money the city needs to close its budget gap or a plea to increase overall spending in the state's 2002-2003 budget. And it is not intended to downplay or disregard the very real needs of many struggling upstate communities.

However, it does conclude that New York City isn't getting its fair share from Albany and that the state's bias against New York City has been getting worse in recent years.

"You can make an argument that Albany has done more damage to the city's budget than 9/11 did," said Adam Barsky, the city's budget director during the final years of the Giuliani Administration. "Credit agencies that monitor the city actually cite Albany as being more of a credit risk [to the city] than anything else in the economy—because it has a long track record of doing harmful things to the city and preventing the city from doing the things it needs to do to help itself."

Of course, the city isn't without blame. The Giuliani Administration squandered some of the financial benefits of the late '90s boom; using surpluses to significantly expand the city's workforce, dramatically increase overtime spending and freeing city teachers of administrative duties they previously performed. It skimped on city support for education and missed an opportunity to pay off a significant portion of the city's debt. And Mayor Giulaini rarely went up to Albany to demand a fair share of state aid.

New York City isn't getting its fair share from Albany, and the state's bias against the city has been getting worse in recent years.

To be sure, the city has been promised more than $20 billion in aid from the federal government for rebuilding damaged infrastructure in lower Manhattan. But these funds won't help the city's budget recover from the loss of more than 100,000 jobs since 9/11, the relocation of corporations to safer suburban locations or the steep decline in international tourism.

This report argues the city needs—and deserves—substantially more financial support from Albany. It also urges the state to address its long-time practice of enacting spending programs, tax cuts and other initiatives that deprive the city of its just share of state resources.

Among the report's major findings:

• **After September 11, Governor Pataki** and legislative leaders reached a budget agreement that included no significant package of state aid for rebuilding efforts or fiscal relief and no restoration of the commuter tax to enable the city to help itself. In sharp contrast, soon after earthquake that hit the San Francisco Bay Area in October 1989—which was then the nation's costliest natural disaster—the California Legislature and the state's Republican governor enacted a temporary quarter-cent rise in the state's sales tax as a way to raise nearly $1 billion for disaster relief, supplementing the funds already allocated by Congress.

• **In October 2001, even though** it was clear that the city would be facing a monumental budget deficit, Albany officials finalized a deal to end the $114 million payment the state had been making to the city since the elimination of the stock transfer tax in the mid-1970s.

• **The budget proposed by Governor** Pataki in early January 2002 contained virtually no new financial assistance to the city and shortchanged the five boroughs in many key areas, including education and economic development. For instance, the governor's $750 million new economic development investment program—the Empire Opportunity Fund—would benefit all areas of the state except New York City.

• **New York City sends far more** money to the rest of the state each year than it gets back from Albany. A 1999 report by the Rochester-based Center for Governmental Research found that New York City sent $2.6 billion more revenue to Albany than it received in spending during fiscal years 1992-1997. In an interview, the author of this report said it was likely that the disparity would be even greater if the study had been carried out to the present day, based on the fact that the city's economy continued to accelerate after 1997 and a greater share of state aid has gone to other parts of the state during this period.

• **Several major programs enacted in** Albany over the past decade have benefited upstate and suburban communities at the city's direct expense. For instance, the STAR program (School TAx Relief) delivered about $70 per pupil to the city in 2000, compared to a statewide average of $413 per pupil; the state agreement to split up monies from the national tobacco settlement provides counties outside the city with 145 percent of their damages and New York City with just 74 percent of its damages; the city has received just 23 percent of funds from the 1996 Environmental Bond Act and the state's Environmental Protection Fund, even though the city accounts for roughly 44 percent of revenues that support these environmental programs.

• **The city receives 32% less** municipal aid from Albany today than it did a decade ago. The reduction is largely attributable to a decision by Governor Cuomo in 1991 to reduce state "revenue sharing" aid to New York City and all other municipalities around the state by 50 percent. Basic revenue sharing aid to all municipalities has gradually increased since then, but upstate and suburban localities have experienced a proportionately larger increase due to actions undertaken by Governor Pataki and the Legislature during the past five years. Total state municipal aid over the past decade has actually increased by 173 percent in Yonkers; 96 percent in Syracuse; 74 percent in Buffalo; 46 percent in Rochester; 37 percent in Troy; and 28 percent in Utica.

• **In 1996, the state instituted** a new category of aid to municipalities called aid to distressed cities—money provided on top of basic revenue sharing aid. Now called "supplemental municipal aid," the program has channeled $728 million in aid to municipal governments since its inception. However, New York City has never received a dime from the program and is not slated to receive any of $183 million that the governor proposes in his current budget plan. Among the recipients of this type of aid in fiscal year 2000: Buffalo ($48 million), Yonkers ($46 million), Syracuse ($25 million) and Rochester ($21 million).

• **In 2000, Governor Pataki and** legislative leaders increased "revenue-sharing" aid to all localities outside the city by 5 percent but froze the amount of revenue sharing aid to New York City at existing levels. The decision cost the city approximately $28 million in the 2000-2001 fiscal year and $16.5 million annually in subsequent years.

• **The state has enacted at** least half a dozen laws since 1994 requiring the city to boost salaries or pension payments to certain municipal workers. The measures, which cost the city hundreds of millions of dollars, were widely criticized by budget watchdogs and editorial boards for circumventing the city's collective bargaining process and decried as payoffs for politically connected unions.

• **Earlier this year, Governor Pataki** proposed $70 million this year, and $300 million over the next five years, to the financially struggling Yonkers school system—on top of the district's regular state school aid. In 2000, the state agreed to a $45 million bailout of the Buffalo school system. The same year, when the Schenectady school district was facing a large budget deficit, the state provided the district with $10.6 million bailout and a one-time 22 percent increase in school aid, more than two times the state average. In contrast, the governor is now appealing a 2001 state court decision that said Albany's formula for funding school districts cheats students in New York City.

• **Largely using tax revenues from** New York City, the state enacted a series of tax cuts over the past eight years that will total $11 billion by fiscal year 2003. As a result, the state is now ranked 30th out of 50 in state taxes per $1,000 of personal income. At the same time, however, the state refused to allow the city to adopt local tax cuts it wanted, such as a refundable earned income tax credit and elimination of local sales tax on clothing costing more than $110. Local taxes in New York State are still the highest in the nation.

• **In addition to the many** recent state initiatives that have negatively impacted the city, the city bears the costly burden of having to pay for half of the nonfederal share of Medicaid costs—a requirement that localities are forced to carry in only a handful of other states. As a result, the city paid a whopping $3.1 billion for its share of Medicaid in fiscal year 2000.

NYC: The Economic Engine of the State

For years, many upstate residents perceived New York City to be a net drain on the state's resources. But the truth is that the city provides the rest of the state with significantly more revenues than it receives back in spending. Without the large amount of new tax revenues produced by Wall Street bonuses, Manhattan hotels and real estate deals during the past six years, Albany officials never would have been able to reduce state taxes as dramatically as they have or provide $728 million in emergency aid to municipalities around the state since 1996.

Without a doubt, the rest of the state needs a strong New York City as much as the city needs fair treatment from Albany lawmakers.

To begin with, the city is the economic engine of the state, a status that has only been more apparent during the past decade. In fact, the city accounted for 51 percent of the new jobs created statewide during the boom years of the 1990s—from 1994 to 2000. (Another 28 percent of the new jobs created statewide during this time were in Westchester, Nassau and Suffolk Counties—suburbs whose fortunes are closely tied to the city's economy. Only 20 percent of the new jobs were created in the rest of the state.)

The city does receive a significant amount of state dollars in social services, but this is primarily because the city has a disproportionate share of state residents who are living in poverty or who have special needs. When revenues and expenditures are measured together, it's clear that the city gives a lot more than it gets.

A 1999 report by the Center for Governmental Research, a Rochester-based policy institute, examined the "balance of payments" across the state's major cities and metropolitan areas during the fiscal years ending March 31, 1992 to March 31, 1997. It found that New York City paid roughly $2.6 billion more in revenues per year to Albany during this period than it received in state spending.

In contrast, the Buffalo-Niagara Falls area received $300 million to $400 more in state expenditures each year than it sent to the state in revenue, while Syracuse received $380 million to $450 million annually more than it gave. Among upstate metropolitan areas, only Rochester is a net contributor to the state—it sent about $100 million more to the state every year than it received.

Looking at things another way, the city contributed about 47 percent of total revenue during the six study years—well above the city's 40 percent share of the state's population. Meanwhile, the city received roughly 40 percent of total state spending during this time.

Between 1992 and 1997, New York City paid roughly $2.6 billion more in revenues per year to Albany than it received in state spending.

According Kent Gardner, executive director of the Center for Governmental Research and author of the 1999 report, it's likely that the disparity would be even greater if the study were expanded to include recent fiscal years. After all, tax revenue from Wall Street bonuses, increases in real estate values and hotel rates was significantly higher in the final years of the decade. "I suspect that that if you pushed it through to 2000, when the market bubble burst, New York City's net contribution to the state would have increased," says Gardner.

Inadequate State Financial Support to NYC After September 11

New York City expects to receive more than $20 billion in aid from the federal government for disaster relief, cleaning up the World Trade Center site and rebuilding infrastructure in lower Manhattan. These funds could go a long way toward eventually restoring the city's second largest business district to its former prominence, but they won't help the city close its $4.8 billion budget gap or help the city recover from the loss of economic activity caused by the attacks.

In some instances following major disasters, states have supplemented federal aid with significant funds of their own. However, apart from a relatively small amount of grant money it provided to businesses in lower Manhattan and a slightly larger investment to promote tourism in the Big Apple, New York State hasn't gone this route. The following contrasts how California responded after two major earthquakes with New York State's response after the September 11 tragedy:

In the days after the 7.1 magnitude earthquake that rocked the San Francisco Bay Area in October 1989, California Governor George Deukmejian, a Republican, and the state's Democratic legislative leaders convened an emergency session of the Legislature. In response to what was then the costliest natural disaster in U.S. history, the Governor and the Legislature passed a 12-bill package of disaster relief legislation that would supplement the multi-billion dollar allocation already approved by Congress with roughly $1 billion in state funds to help pay the cost of repairing highways, homes, businesses and public buildings. Among the measures signed into law was a quarter-cent increase in the state's six percent sales tax for 13 months, a decisive action by a Republican governor who had steadfastly refused to raise any taxes in his first six years in office.

After the devastating earthquake that hit the Los Angeles area in January 1994, another Republican governor of California—Pete Wilson—authorized a ballot initiative asking voters of the state to approve $1 billion in bond-issued borrowing to pay for earthquake recovery costs and another $1 billion to seismically strengthen endangered highway bridges statewide.

In New York, however, state leaders weren't quite as willing to back up their emotional support to the city after September 11 with a generous financial commitment. After the terrorist attacks, New York's governor and legislative leaders made sincere statements of grief for the victims of the terrorist attacks on the World Trade Center and quickly moved to end the political stalemate over the 2001-2002 budget. But that budget agreement included no significant package of state aid for rebuilding, no restoration of the commuter tax to boost city revenues and no indication that a bond act would be forthcoming.

By the time the governor and legislative leaders sat down together in October 2001 to amend the "bare bones" budget that was passed earlier in the year, it was certainly clear that the September 11 tragedy was forcing tens of thousands out of work in the five boroughs and producing an unprecedented gap in the city's budget. But aside from approving a paltry $10 million in incentives for businesses in lower Manhattan, the October budget pact did little for the city.

In fact, that October, with a dark cloud hanging over the city's economy, the governor and legislative leaders formally eliminated the annual payment the state had been making to the city since the stock transfer tax payment was eliminated in the 1970s, which had helped offset the city's revenue losses from the tax. In 2001, the payment to the city would have been $114 million.

When Governor Pataki initially proposed getting rid of this payment to the city in January 2001, his rationale was that the city was healthy enough economically that it no longer needed the money. The city's economic fortunes had clearly changed by October, but the governor and the legislature left this harmful provision in the budget.

In the following months, a number of city officials and business leaders began calling for the reinstatement of the city's commuter tax, which provided roughly $400 million in annual revenues to the city until it was repealed by the legislature and the governor in 1999 (when the city's economy was still booming). But in December 2001, Senate Majority Leader Joseph Bruno made it abundantly clear that he would block any attempt to restore this tax on suburbanites who work in the city.

In addition, the budget agreement the governor and the legislature hashed out last October increased school funding statewide by about $700 million, but only about 21 percent of the new funding went to the city, despite the fact that it has roughly 38 percent of the state's public school students.

Another Slight: the 2002-03 Budget Plan

By January 2002, it was no secret that the city's economy was in a shambles. Economic reports issued around that time projected that the city would lose, or already had lost, around 100,000 jobs as a result of the attacks on the World Trade Center and the city's budget deficit for 2002-03 would grow to about $4.7 billion. Yet the budget proposal unveiled by Governor Pataki in early January not only failed to adequately aid the city in its time of distress; it blatantly shortchanged the city in many key areas.

According to a March 2002 report by the Citizens Budget Commission: "The Executive Budget does not include any special state-supported assistance to the city of New York for recovery efforts. There are no new programs of assistance that benefit New York City, many existing aid programs are cut in real terms, and the disproportionate burden placed on localities generally (and the city of New York in particular) due to New York State's unusual system for financing Medicaid and public assistance is unaltered."

Economic Development

On economic development, an area in which the city is in desperate need of help, the governor proposed large amounts of new state funding for upstate areas, but almost nothing for the city. He proposed creating an ambitious new economic development program—the "Empire Opportunity Fund"—that would help localities around the state pay for development projects. But the $775 million program totally excludes New York City. At the same time, the governor proposed $250 million to create "Centers of Excellence" around the state that would promote high-tech and biotech research, but the lion's share of the money would go to projects upstate and on Long Island.

Education

In January 2001, Manhattan State Supreme Court Judge Leland DeGrasse ruled that the existing state funding formula was cheating students in the city and depriving them of a "sound basic education." Governor Pataki is not only appealing this decision; his 2002-03 executive budget continues the longtime bias against the city's schoolchildren.

While his budget authorizes a bond sale to make a one-time $204 million payment to the city to be used for education, this isn't new funding. It is money the state owes the city from previous expenses that weren't reimbursed. The governor's budget would reduce other forms of education aid to the city by approximately $11 million.

According to the Citizens Budget Commission report, the city would receive just 35.4 percent of total school aid when funds from the STAR (School TAx Relief) program are factored in. STAR funds have accounted for more than half of the growth in state school aid since the program was implemented in 1998-99, but the city has received a disproportionately small share of this aid.

Finally, the governor's budget admirably proposes enough funding to the State University of New York (SUNY) and the City University of New York (CUNY) to avoid tuition increases. Yet it proposes cutbacks in state support to the Tuition Assistance Program (TAP), an initiative that largely benefits poor students from the city. For example, the reduction in TAP aid would force disadvantaged CUNY students to pay another $1,000 in tuition before graduating.

Mental Health

Governor Pataki's budget proposal fails to restore funding to the mental health community reinvestment act, a successful initiative that resulted in the development of hundreds of new units of housing for mentally ill people in New York City and throughout the state. The program, which expired last September, required the state to use any savings from reducing the number of beds at underused psychiatric hospitals to construct community based, supported housing units for the mentally ill.

A History of Discrimination

This isn't the first year that state leaders have proposed, or enacted, a budget that is biased against New York City. In fact, many of the new spending initiatives and tax cuts enacted during the mid and late 1990s disproportionately benefited upstate and suburban areas, usually at the city's expense.

Of course, it's hard to argue that upstate communities weren't in need of a helping hand from Albany during this time. The city's economy was booming, jobs were plentiful and the city was enjoying a fiscal surplus. At the same time, a host of upstate cities were struggling to make-do because of the loss of both companies and residents.

However, even in these boom times, New York City had many structural problems lurking below the surface—including relatively high unemployment rates, high poverty rates, low school test scores, among the highest local taxes in the nation and a mounting debt burden. As important as it was to help upstate communities get through their economic troubles, the state's upstate bias deprived the city of resources the city could have used to address these nagging structural problems.

The following are some of the major policy programs and recent state initiatives that are biased against the city:

• **New York City receives 32%** less "revenue sharing" aid from Albany today than it did a decade ago. The reduction stems from a decision made by Governor Cuomo in 1991 to reduce state "revenue sharing" aid to the city and all other municipalities statewide by 50 percent. Basic revenue sharing aid has gradually increased since then. But in the last five years, due to decisions made by Governor Pataki and the Legislature, upstate and suburban districts have experienced a proportionately larger increase than the city. According to the New York Conference of Mayors, total state municipal aid over the past decade has actually increased by 173 percent in Yonkers; 96 percent in Syracuse; 74 percent in Buffalo; 46 percent in Rochester; 37 percent in Troy; and 28 percent in Utica.

• **In 2000, Governor Pataki and** the Legislature increased "revenue-sharing" aid to localities outside the city by 5 percent but froze the amount of revenue sharing aid to New York City at existing levels. The decision deprived the city of approximately $28 million in the 2000-2001 fiscal year and $16.5 million annually in subsequent years.

• **In January 2001, State Supreme** Court Judge Leland DeGrasse ruled that the state's formula of distributing nearly $14 million in state aid to public schools is unconstitutional and inherently unfair to students in New York City. Judge

CHANGE IN STATE AID TO MAJOR NY CITIES, 1989-90 to 2000-01*

CITY	% CHANGE FROM '89-'90 to '00-'01	% CHANGE FROM '94-'95 to '00-'01
Yonkers	173.7%	289.5%
Syracuse	96.3%	226.9%
Buffalo	73.9%	173.2%
Rochester	46.0%	129.4%
Troy	36.7%	127.6%
Utica	27.6%	100.5%
Binghamton	-0.5%	65.8%
White Plains	-8.5%	43.7%
Schenectady	-15.0%	41.6%
Albany	-27.9%	20.0%
New York City	**-31.6%**	**9.2%**

Source: NY Conference of Mayors.
* Includes "revenue sharing" aid and "supplemental municipal aid".

DeGrasse ruled that the longtime aid formula deprives city students "sound, basic education" guaranteed by the State Constitution. The Campaign For Fiscal Equity, which initiated the 8-year legal battle on behalf of city students, argued that the average per-pupil spending in New York City is only $8,934, while the statewide average is $9,810 a year and the average in large cities such as Yonkers and Buffalo is $10,013. Instead of making the school aid formula more equitable, Governor Pataki decided to appeal the court decision. A decision is expected soon.

• **In 1997, the Legislature approved** Governor Pataki's $2.6 billion School TAx Relief (STAR) program as a way to provide school tax relief to New York's homeowners through a state-funded property tax exemption as well as additional local personal income tax cuts in New York City. However, from the beginning, the STAR program has disproportionately benefited wealthy suburban districts and provided only a paltry amount to New York City. A Newsday analysis in March 2001 found that the STAR program delivered about $70 per pupil to the city in 2000, compared with a statewide average of $413 per pupil and a high of $864 per pupil in Westchester County. The STAR program has accounted for more than half of the total growth in state school aid since it was implemented in fiscal year 1998-99.

• **The national tobacco settlement provided** New York State with $25 billion over 25 years to address tobacco-related health-care costs paid by the state and localities. However, the formula for distributing the $25 billion initially provided counties outside the city with 145 percent of their damages and the state with 105 percent of its damages. The city received just 74 percent of its damages, even though it has 65 percent of the state's Medicaid recipients. At the time, Attorney General Dennis Vacco attempted to restructure the formula to give the city a larger share, but Governor Pataki blocked that move. As a result, the city will reportedly lose $700 million over the life of the settlement.

• **A disproportionately small share of** the money allocated from the $1.75 billion Environmental Bond Act approved by state voters in November 1996 has gone to projects in New York City. A report by the New York City Environmental Justice Alliance found that between 1996 and July 2000, a period in which 75 percent of the bond act monies were appropriated, the city received just

23 percent ($222 million) of funds from the bond act and the Environmental Protection Fund, the state's permanent funding stream for environmental improvement projects. The report, which used figures supplied by the New York League of Conservation Voters, pointed out that the city would have received an additional $172 million from the state during this period if the bond act and EPF funds were appropriated in proportion to population. The study also pointed out that New York City real estate transactions account for roughly 44 percent of the state's real estate tax revenue, which is the primary funding source for the EPF and for payment of debt service resulting from the bond act. Thus, the city is paying a large share of the bill, but getting only a small slice of the benefits.

• **A 1997 study found that** the state's mental health budget was biased against New York City. It showed that while there were 100 more mentally ill patients in the city's five state psychiatric hospitals than in the 11 upstate psychiatric hospital, the city's psychiatric hospitals had 1,500 fewer staff and a combined budget that is $63 million less than the upstate hospitals. Moreover, the state hasn't demonstrated a commitment to building new community residences for mentally ill people—the single biggest mental health need for New York City. In 1994, the State Office of Mental Health identified a need for 20,000 community beds for mentally ill patients, mostly in the city. Yet, Governor Pataki consistently submitted budgets that contained little or no funding for developing new supported housing units.

Commuter Tax Repeal

No decision coming out of Albany in recent years has discriminated against the city as much as the May 1999 law that repealed the city's commuter tax on suburban residents who work in the city. The tax, which imposed a rate of just .45 percent, provided the city with a steady stream of revenue since it was first imposed in 1966—including about $400 million in 1999. But lawmakers in both the Assembly and Senate—Republicans and Democrats—completely overlooked the importance of that revenue stream to the city and merely viewed the repeal as an attempt to swing the outcome of a special election for an open State Senate seat in Rockland County.

The repeal, which was passed over the vehement objections of Mayor Giuliani and the New York City Council, initially provided an annual savings of $88 million to Nassau County residents, $70 million to Westchester County residents, $30 million to Suffolk County residents and a total savings of $210 million statewide. The New York law opened the door for New Jersey and Connecticut residents to get out of paying the tax as well, by challenging the constitutionality of the city taxes out-of-state commuters when it doesn't tax in-state commuters. Overall, the loss of commuter tax revenue from all three states will cost the city $410 million in fiscal year 2002 and $516 million in fiscal year 2005.

Many lawmakers justified their votes to repeal the commuter tax by citing the $2 billion surplus the city enjoyed at the time. However, many of the same legislators now oppose reinstating the commuter tax even though the city faces a $4.8 billion budget gap that only gets bigger down the road.

Incidentally, though it repealed the city's commuter tax, the Legislature left in place Yonkers' commuter tax.

Legislative Proposals That Cost the City Millions of Dollars

It's bad enough that inequitable funding formulas have cost the city more than a billion dollars in potential state aid. But that's not the only way Albany leaders have put the squeeze on the city's pocket book. A series of state legislative actions enacted in the mid and late 1990s—over the opposition of fiscal watchdogs and then Mayor Giuliani—have required the city to pay hundreds of millions of dollars in additional salaries, pensions and other benefits to certain groups of municipal employees. The laws, which usually passed the Legislature unanimously or with only token opposition, blatantly circumvented the city's normal collective bargaining process—depriving the city of a say in what are usually local fiscal decisions. Among the more egregious bills that have been enacted in Albany in recent years:

• **In 1999, Governor Pataki signed** legislation requiring the city to boost pension payments for New York City jail guards. The law circumvented the city's collective bargaining process and was expected to cost the city $100 million a year for two or three years and as much as $700 million a year in the future.

• **In 1998, the state enacted** a law allowing city jail guards the right to retire with a tax-free, three-quarters pay disability pension when they have heart problems. The measure, which was expected to cost the city roughly $3.5 million a year, absurdly assumes that every jail guard with heart ailments contracted the problem while on the job.

• **In 1999, the governor signed** legislation shifting the site for arbitrating labor disputes with city police officers from the city's Office of Collective Bargaining (OCB), where disputes had been resolved for 25 years, to the state's Public Employment Relations Board (PERB), which is considered more favorable to unions. For instance, unlike the Office of Collective Bargaining, PERB compares the salaries of city cops and firefighters to those in suburban counties, where pay can be up to 35 percent higher. At the time, city officials said that the legislation would cost the city $200 million a year in increased salaries and benefits.

• **In 1994, Governor Cuomo and** the legislature enacted a law providing reitrement benefits at three-quarters pay for city firefighters diagnosed with certain forms of cancer. The measure, which presumes that the cancer is job related, was expected to cost the city $2.4 million a year.

• **In 1994, Governor Cuomo signed** a bill allowing city transit workers with 25 years of service to retire with full pension at age 55. The law bypassed collective bargaining and was expected to cost the city or the MTA $20 million a year.

• **In 2000, Governor Pataki signed** a bill granting permanent cost-of-living (COLA) increase for retired school, state and local government employees. Previously, the state passed supplemental COLA increases every few years. According to Mayor Bloomberg's 2002-03 budget proposal, making COLA increases permanent will cost the city $236 million in fiscal year 2002 and as much as $586 million in 2005.

• **The "Heart Bill," enacted in** 1970 and made permanent a decade later, authorizes city firefighters and police officers who develop heart disease during their careers to seek tax-free, accidental disability pensions. It presumes any heart ailment was sustained on the job and has cost the city hundreds of dollars.

State Bailouts to Upstate and Suburban Areas Facing a Fiscal Crisis

In several instances, Governor Pataki and the Legislature provided emergency state aid to cities, counties and school districts around the state that were in the midst of a fiscal crisis. This year, however, state officials haven't offered up any similar emergency aid package to New York City, which is experiencing its worse fiscal crisis since the mid-1970s.

Ironically, the state emergency aid packages, which helped localities avoid drastic tax increases and painful spending cuts, often bailed out governments that got into fiscal trouble because of their own mismanagement and a failure to raise taxes or cut spending when necessary. In contrast, the $4.8 billion budget deficit facing New York City is largely the result of revenue shortfalls created by the September 11 terrorist attack as well as the loss of revenue caused by state actions like the repeal of the commuter tax and the elimination of the stock transfer tax payment to the city.

The following are examples of some recent emergency aid packages the state provided to localities:

• **In January 2002, Governor Pataki** proposed $300 million in emergency funding to the financially struggling Yonkers school system over the next five years. The proposal, which is dependent on legislative approval, would include $70 million this year and be a supplement to Yonkers' regular state school aid of $141 million a year. The new money would be an attempt to help Yonkers prevent layoffs in the current school year, while also helping to reduce class sizes and renovate schools in the future.

• **In 2000, the state approved** a financial rescue plan for Nassau County, one of the wealthiest communities in the nation, which includes $100 million in emergency state aid over five years.

• **In 2000, the state agreed** to foot the bill for a $45 million bailout of the Buffalo school system to settle a longstanding lawsuit with the teachers union.

• **In 1996, the state initiated** a $50 million program to provide emergency aid to 15 struggling upstate cities as a way to keep local taxes under control. Initially known as "distressed cities aid," the program has been continued every year and now provides more than $180 million a year—all on top of the general "revenue sharing aid" that goes to all localities around the state. New York City has never participated in the program and is not slated to receive any funds this year.

• **In 2000, the state approved** a $10 million aid package to bail the Schenectady school district out of a budget crisis. In addition to the $10 million, which largely included authority to issue new debt, the state provided the district with a 22 percent increase in school aid that year—more than two times the state average increase of 8.7 percent.

NYC: A City In Need

Federal aid will ensure that subway stations and other city infrastructure destroyed in the World Trade Center attacks are rebuilt. Insurance payments will help pay for the redevelopment of at least some of the office space lost on 9/11. And a combination of federal, state and city funds have already begun to help ailing businesses in lower Manhattan partially recover from staggering economic losses. But, so far, the city has been on it's own to close an astronomical budget deficit and deal with structural economic problems that could significantly lower the city's revenue base for the next several years.

With no financial support coming from Albany, the Bloomberg Administration has been forced to propose many painful budgetary actions—such as borrowing $1.5 billion to pay this year's expenses, which city residents and businesses will have to pay back with interest, and making nearly $2 billion in spending cuts, including potentially harmful reductions to the school system, a plan to close seven senior centers and countless other cuts that will disproportionately impact the city's poorest communities. As an alternative, the City Council and many others have proposed raising taxes on the wealthiest New Yorkers; but doing so would only add to the city's status as the urban area with one of the highest local tax burdens in the nation.

All of these actions, if enacted, could negatively affect the city's quality of life at a time when many tax-paying businesses and residents are already re-evaluating whether they will remain in a place that could easily be the target of future terrorist attacks.

Among the significant problems facing the city:

• **The attacks will cost the** city's economy $83 billion by the end of 2003, according a November report issued by the New York City Partnership. Even after insurance payments and federal aid pour into city coffers, a shortfall of at least $16 billion will remain.

• **The city lost 110,900 jobs** last year, including a disproportionate number of low-wage positions.

• **The city's unemployment rate jumped** from 5.7 percent in January 2001 to 7.5 percent in January 2002, but some of the boroughs are facing an even bleaker unemployment situation. The unemployment rate is 8.8 percent in the Bronx, 8.3 percent in Brooklyn, 7.5 percent in Manhattan, 6.6 percent in Queens and 5.8 percent in Staten Island. (The state's unemployment rate in January 2002 is 6.4 percent.)

• **The attacks destroyed or damaged** 34.5 million square feet of office space, 30 percent of the total amount in downtown Manhattan and 60 percent of the Class A space in the area.

• **At least 29 of the** large tenants displaced by the events of 9/11 plan to decentralize their operations, according to a March 2002 report by TenantWise.com. The study finds that many have secured at least some space outside of Manhattan, including Morgan Stanley, Lehman Brothers, Cantor Fitzgerald, Dow Jones & Co., Royal Bank of Canada and Salomon Smith Barney.

• **The city's most important industries**—and the ones that bring in the largest amount of tax revenue—have been among those hardest hit by the aftermath of September 11. Moreover, a fear of future terrorist attacks in Manhattan could have a long-term chilling effect on important sectors like tourism and finance.

• **City residents will likely have** to endure a significant fare hike on city subways and buses next year.

Recommendations

A healthy New York City usually means good things for people around the state, from Long Island to Buffalo. More often than not, when the city's economy expands, so too does the economy in neighboring suburbs. And a vibrant city economy also typically produces significant tax revenues that Albany officials can use in a variety of ways, from increasing school aid and cutting taxes to investing in meaningful economic development projects.

But if the city is forced to close a $4.8 billion deficit without significant help from Albany, conditions in the city will probably get worse before they get better. The antidotes proposed by Mayor Bloomberg and the City Council—borrowing $1.5 billion to pay current expenses; making deep cuts to city programs, including education; increasing taxes—could all negatively impact the city's quality of life in the years ahead and thereby affect the city's efforts to retain companies and residents. Moreover, extensive cuts to city services could also force more people into poverty, which would in turn force both the city and state to spend more on social services.

At least some of these painful decisions can be avoided, but only if the city receives additional financial aid from Albany and more flexibility to help itself. Specifically, Albany lawmakers should do the following:

1. Increase Direct Financial Aid to the City

Just as Governor Pataki and the Legislature agreed to provide millions of dollars in distressed cities aid to dozens of struggling upstate and suburban municipalities in the 1990s, and just as California's governor and Legislature agreed to supplement federal recovery aid following the 1989 earthquake that struck the San Francisco Area with roughly $1 billion in state support, Albany officials today must provide significant emergency aid to New York City. Doing so would help the city avert the most disastrous budget decisions and begin to make up for years in which the city hasn't received anywhere close to its fair share of state municipal aid.

One possibility is to include the city in this year's allotment of "supplemental municipal aid," the initiative formerly referred to as aid to distressed cities. If Buffalo could receive $48 million and Yonkers $46 million in fiscal year 2000—on top of regular municipal aid—New York City should qualify this year, and receive an amount proportional to its current need. Governor Pataki has already set aside $183 million for "supplemental municipal aid" to localities in his 2002-03 executive budget, but incredibly, New York City is not currently among those cities slated to receive support. The city—and other municipalities around the state—should only receive these emergency funds until its finances are back in shape.

On top of this, the governor and Legislature should consider a retroactive increase in the city's basic "revenue sharing" aid to the level of other localities. In 2000, state leaders increased this form of aid by five percent, but completely excluded the city from this increase.

2. Give New York City the Financial Flexibility to Help Itself

The city's budget gap would be much less severe if Albany officials, in the last few years, hadn't deprived it of some of its most stable revenue sources. The Legislature and the governor should reverse some of these harmful actions and enact other changes that would make it possible for the city to help itself:

Reinstate the Commuter Tax

If the Legislature and the governor don't summon the will to reinstate the commuter tax this year, when people across the state sympathize for the city's plight, it's unlikely this revenue source will ever be restored. With the city facing a $4.8 billion budget gap and significant structural economic problems, Governor Pataki and the Legislature must reinstate the commuter tax. Doing so would allow the city to collect an additional $410 million in revenues during the 2002 fiscal year.

Restore the Stock Transfer Tax Payment to the City

Governor Pataki cited the city's financial health when he proposed eliminating the annual payment the state had made to the city since it eliminated the stock transfer tax in the 1970s. The state had been making the annual payment to the city—which was $114 million in 2001—since the mid-1970s, when the stock transfer tax was eliminated. With the city in financial crisis, the Legislature and the Governor should reinstate this payment. (NOTE: This is not a plea to reinstate the tax.)

Enact Tort Reform

Since 1998, New York City's tort liability has increased by 51 percent, while the state's tort liability has decreased by 28 percent. The primary reason is the state's failure to enact tort reform that would benefit localities. Governor Pataki and the Legislature should answer Mayor Bloomberg's call to make tort reform a top priority. Doing so could save the city $100 million a year.

No More End Runs Around the City's Collective Bargaining Process

Just as the City Council doesn't set wage levels and benefits for state employees, the Legislature should refrain from passing bills that force the city to increase wages and benefits for certain city workers. In the future, the Legislature and Governor should leave these issues to the city's Collective Bargaining Office.

Pick Up a Larger Share of Medicaid Costs

Albany should ease the city's burden—and the burden of localities—by picking up a larger share of Medicaid costs.

3. Fix Aid Formulas That Don't Provide A Fair Share to NYC

The city won't truly be able to help itself until state officials stop shortchanging the city in key funding areas like education, environmental protection and transportation. Among the changes that should be made:

Fix the Discriminatory School Aid Formula

Governor Pataki should drop his appeal of last year's state Supreme Court ruling that found the state's school funding formula to be cheating students in the city and propose a workable plan to amend the formula so that the city receives an amount that is at least proportional to its share of state schoolchildren. State lawmakers should consider the Citizen Budget Commission's proposal to eliminate STAR aid for the 200 wealthiest school districts in the state, which already spend well above the statewide average per pupil. This would save the state roughly $740 million per year and enable it to distribute the remainder of the $2.7 billion in STAR funds in a more equitable and need-driven manner.

Send NYC More Funds From the Environmental Bond Act

State leaders must reverse its policy of sending a disproportionate share of funds from the $1.75 billion Environmental Bond Act and the Environmental Protection Fund to upstate and suburban areas.

6. Address Long-term City/State Relations

Albany and City Hall would be wise to create a joint commission on long-term city/state relations, with members appointed by the Governor, the Assembly, the State Senate, the Mayor and the City Council.

Sources and Resources

Studies:

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- Fiscal Policy Institute: www.fiscalpolicy.org
- Taub Urban Research Center: http://urban.nyu.edu
- New York City Partnership: www.nycp.org
- New York State Conference of Mayors: www.nycom.org

For direct links to these sites and more, please visit us online at www.nycfuture.org

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