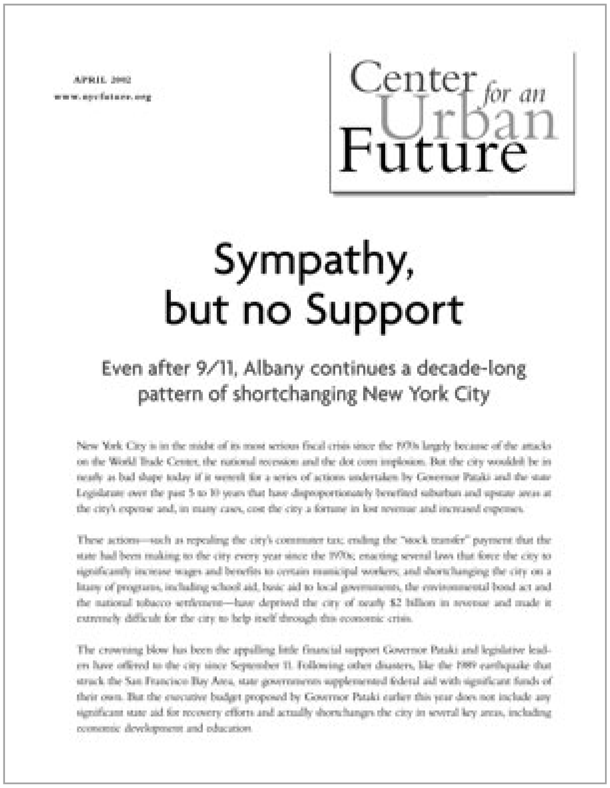
APRIL 2002
www.nycfuture.org
Center for an Urban Future
Sympathy, but no Support
Even after 9/11, Albany continues a decade-long pattern of shortchanging New York City

Report - April 2002

Sympathy but no Support

This report by Center research director Jonathan Bowles illustrates how even after September 11, state government in Albany has continued a decade-long pattern of shortchanging New York City.

by Jonathan Bowles

This is an excerpt. Click here to read the full report (PDF).

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 appallingly little financial support Governor Pataki and legislative leaders have offered tothe 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.

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 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.

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 that 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 reportby 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 communitiesat 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 paymentsto 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 2½ 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.

CENTER FOR AN URBAN FUTURE
120 Wall Street, 20th Floor, New York, NY 10005

cuf@nycfuture.org