Local Government Snapshot

NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

Thomas P. DiNapoli • State Comptroller

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Financial Challenges Facing Local Governments:
Federal and State Aid Shrink as a Share of Revenues

Summary

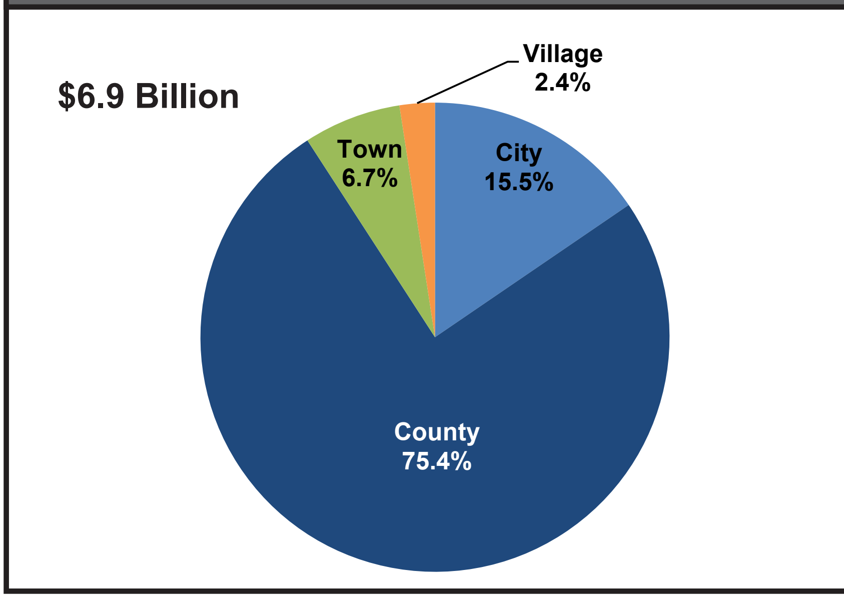
- From 2001 to 2011, total federal and state aid combined, grew at an average rate of 2.2 percent annually, slower than the rate of inflation (2.4 percent).[1]

- To cover expenses, local governments have been forced to rely more heavily on revenues generated through sales taxes and real property taxes, which grew at annual rates of 5.9 percent and 4.2 percent, respectively.

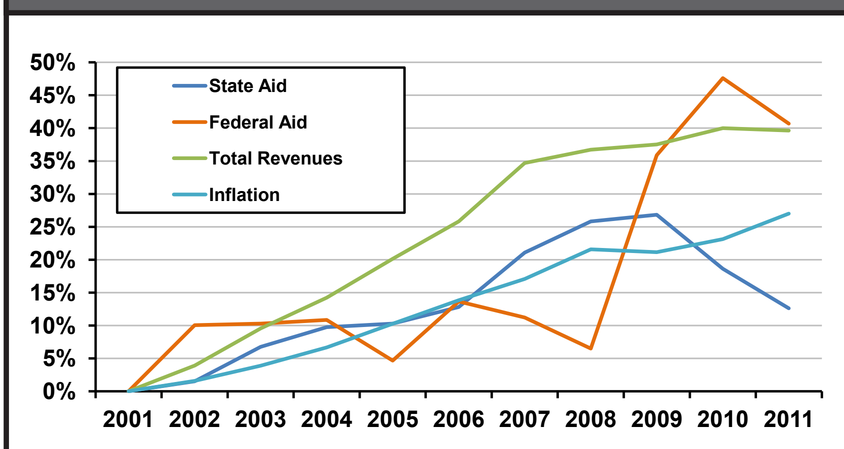
- Federal aid to local governments grew by $932 million from 2001 to 2011, or by 3.5 percent annually on average. However, this increase is largely attributable to the infusion of temporary funds from the American Reinvestment and Recovery Act (ARRA) of 2009. If ARRA funds are excluded, federal aid increased by $610 million, or 2.4 percent annually.[2]

- New York State's support to local governments grew less than that of the federal government. State aid grew by $412 million from 2001 to 2011, or 1.2 percent on an average annual basis, half the rate of inflation. The majority of this growth (64 percent) was attributable to the creation and subsequent expansion of the Aid and Incentives for Municipalities (AIM) Program, which primarily benefited cities.

Total Federal and State Aid Received: 2011



Total Revenues, Federal, and State Aid Growth Compared to Inflation



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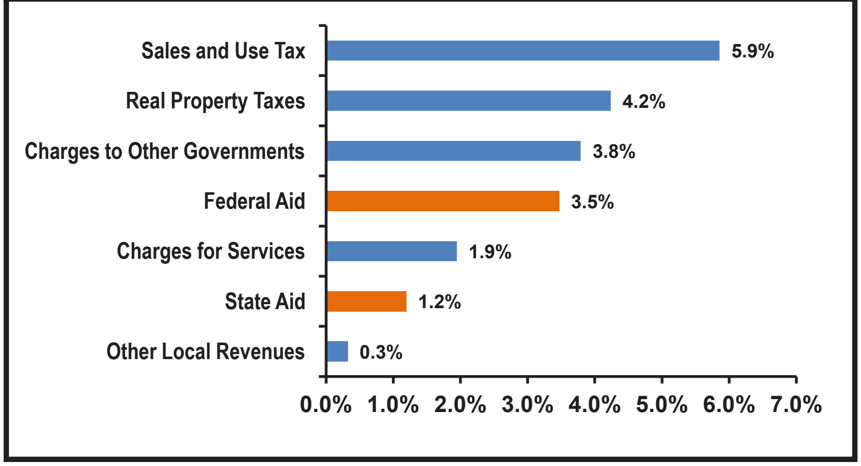
- The relative share of federal and state aid as a percentage of total local government revenues has diminished over the past decade, from 22 percent of revenues in 2001 to 20 percent by 2011.

- The level of federal and state aid for local governments is unlikely to change significantly in the near future, and may actually decrease.

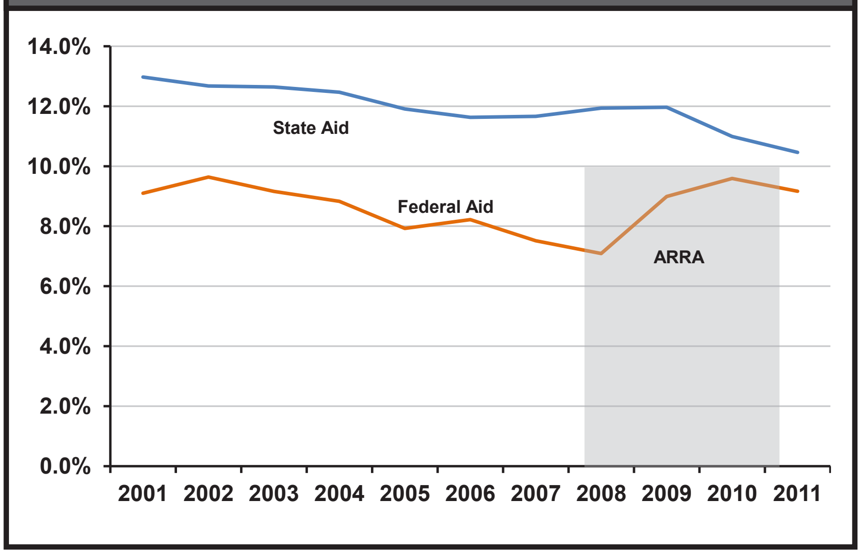
- The Congressional Budget Office had projected that, prior to the enactment of the American Taxpayer Relief Act, federal deficit-reduction actions would reduce funding for some federal aid programs by as much as 35 percent between 2012 and 2022,[3] putting grants to states and localities for education programs, low-income housing vouchers, community development and workforce development programs at risk.[4]

- New York State's Financial Plan holds AIM flat through 2015-16 and prior to Super Storm Sandy, the State was already facing significant out-year budget gaps: $982 million in State Fiscal Year (SFY) 2013-14 and $3.6 billion in SFY 2014-15.[5] The impact of the storm on the State budget is yet to be fully determined.[6] As such, the State's ability to direct additional funds to local governments would be further limited.

Local Government Revenue Mix
Average Annual Increases (2001 - 2011)



State and Federal Aid as a Percentage of Revenues
Cities, Counties, Towns and Villages



Federal and State Aid by Class of Government

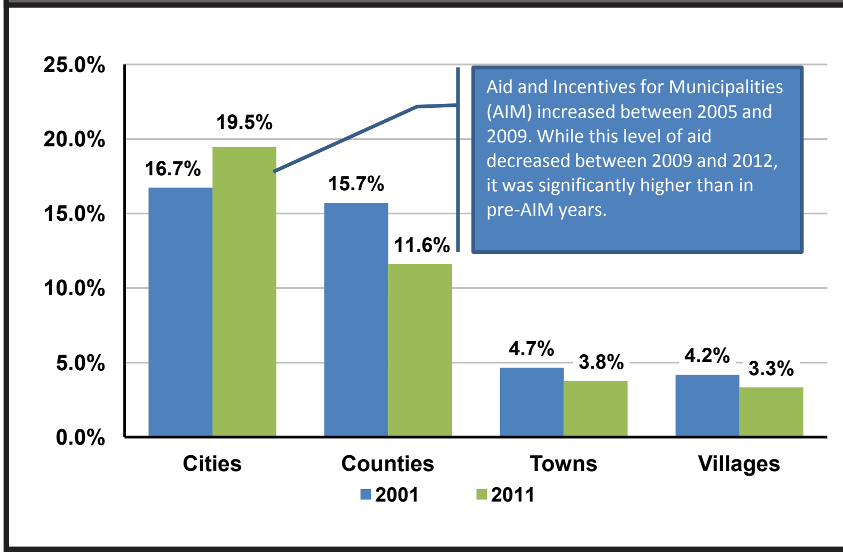
In 2011, about 71 percent ($2.6 billion) of total state aid revenues ($3.7 billion) was concentrated in a handful of program areas.[7] With the exception of AIM ($646.2 million, 17.6 percent) and the Consolidated Highway Aid Program ($254.3 million, 6.9 percent), state aid revenues largely represent reimbursements and aid for the administration and operation of various social service and public health-related programs. Combined, these aid categories account for approximately 65 percent of the aforementioned $2.6 billion.

Likewise, federal aid is also largely distributed to a few targeted programs and does not generally provide local governments with discretionary revenues. About 61 percent of the $3.2 billion in federal aid received in 2011, was attributable to a few key program areas,[8] the majority of which support various social service and public health-related programs.

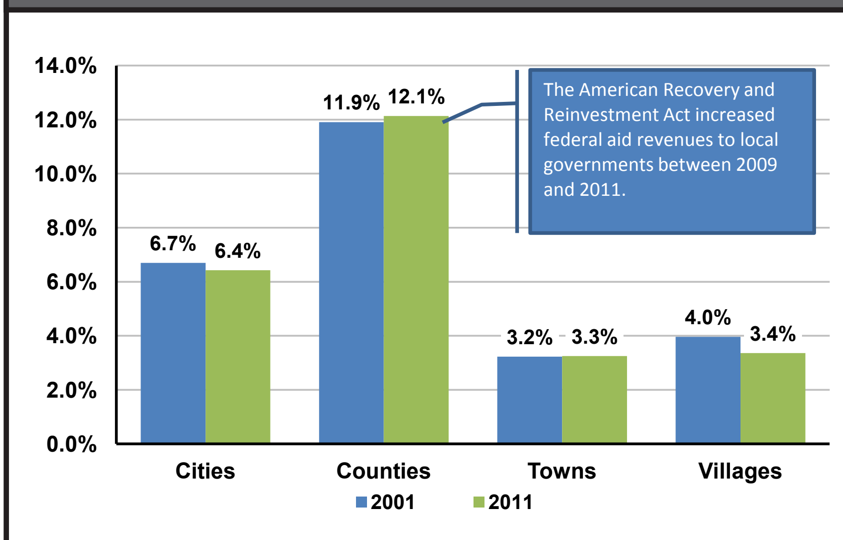
Dependence on the different components of these aid streams varies significantly according to local government type:

- **Cities.** In 2011, cities received $803 million in state aid and $265 million in federal aid, representing nearly 26 percent of total city revenues combined. The most significant portion of state aid to cities ($591 million or 74 percent of state aid revenues) reflects funding received through the State's AIM program. The program was restructured and enhanced during the middle part of the decade, which increased the share of state aid to cities from 16.7 percent of revenues in 2001 to 19.5 percent in 2011. However, state financial pressures since the onset of the Great Recession have resulted in reductions and flat funding of the program since the SFY 2008-09.

State Aid as a Percentage of Total Revenues



Federal Aid as a Percentage of Total Revenues



- Over the past ten years, federal aid as a percentage of total city revenues has declined. For example, in 2011, cities received $87.1 million (2.1 percent of total city revenues) from federal Community Development Block Grant (CDBG) allocations. In 2001, cities received $ 117 million in CDBG funding (3.8 percent of total city revenues).

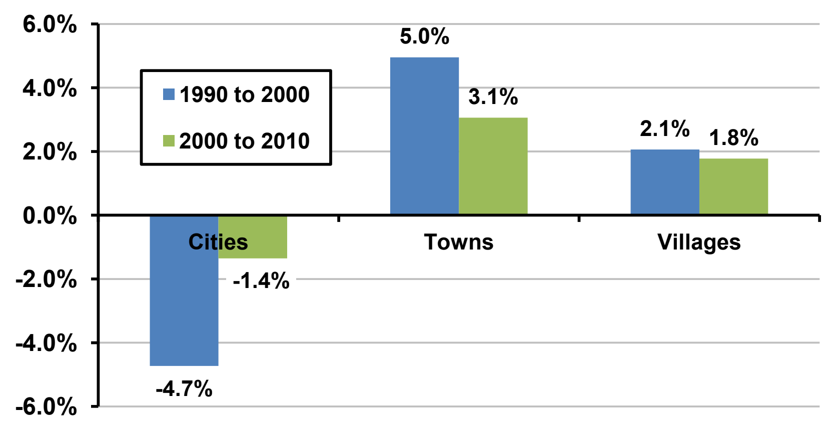
- **Counties.** Counties received the largest combined share of governmental assistance — $2.5 billion in state aid and $2.7 billion in federal aid in 2011, representing 24 percent of all county revenues. Notably, aid to counties is dominated by aid for social services and public health. Counties do not receive any discretionary state aid through the AIM program. Between 2001 and 2011, state aid to counties (as a share of total county revenue) dropped from 15.7 percent to 11.6 percent, and only due to the influx of ARRA funds has the share of federal aid been maintained. With ARRA phased out at the end of 2011 and no new federal funds to fill the gaps, local governments will likely see federal aid levels fall to pre-ARRA levels, or below.

- **Towns/Villages.** Town and village governments are the least reliant on federal and state aid. In towns, state aid accounted for 3.8 percent of total town revenues and federal aid accounted for 3.3 percent. In villages, state aid accounted for 3.3 percent of total village revenues and federal aid for 3.4 percent. State aid has decreased for towns and villages as a share of total revenues over the decade while the shifts in federal aid have been insignificant.

Challenges Continue

At the federal level, the discontinuation of ARRA funds, recent reductions in CDBG funding allocations, and population trends that predict losses in certain communities which would drive reductions in population-based aids,[9] indicate that the future outlook for additional assistance from the federal government is bleak.

Population Change by Type of Government



Source: U.S. Census Bureau
Note: Excludes New York City

Recent developments that support this assessment include:

- Through 2011, local governments reported receiving just over $1.6 billion in direct payments of ARRA moneys.[10] As this program has now been phased out, these funds will not be replenished.

- CDBGs fund local community development activities such as affordable housing, anti-poverty programs and infrastructure development. Though these grants represent a relatively modest proportion of local budgets, the program is a priority for cities and counties, and provides flexibility in how the money is used. The 2012 federal budget appropriation was $2.9 billion – a reduction of 25 percent compared to 2010 funding levels.[11] The allocation to New York's largest municipalities decreased by 14 percent, from $106 million in 2011 to $91 million in 2012. The State is responsible for allocating another $40.6 million in CDBG moneys to smaller municipalities in 2012, 7.7 percent less than in 2011.

- Moreover, since CDBG grants are partly based on population, funding for some entities has been reduced as a result of population declines. In 2012, 43 of the 47 New York local governments that currently receive grants received less than they did in 2011.[12]

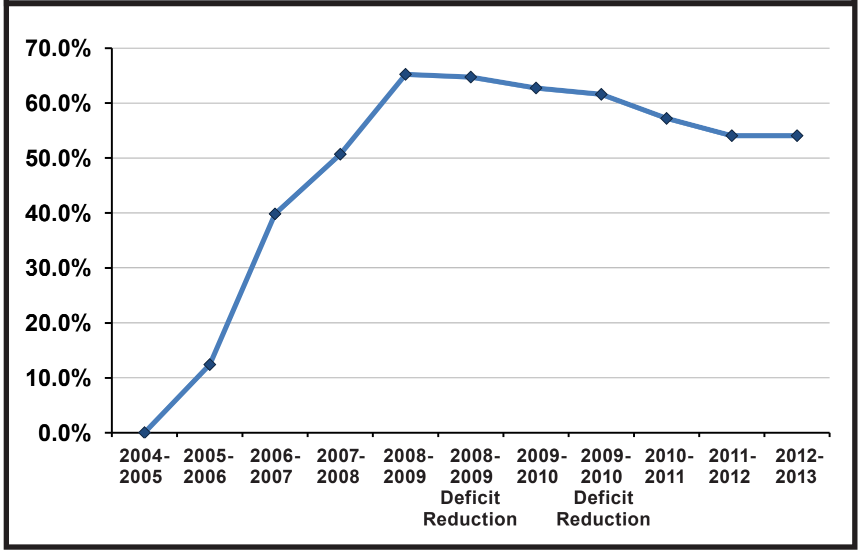
- Similarly, Congress also relies on Census data to allocate funds for a multitude of other federal assistance programs, including those associated with Medicaid and highway spending. While the largest portion of these funds went directly to the State in the form of formula grants to aid low income households and support highway infrastructure, there are many other programs where funding is allocated based on population.

Precipitous losses in population for the City of Niagara Falls nearly resulted in it losing its designation as a "City" for purposes of CDBG funding. With a population of 50,193, it came in just above the 50,000 threshold in the 2010 Census.

- Cities have been particularly vulnerable to negative population trends. As a class, cities lost nearly 5 percent of population between 1990 and 2000 and 1.4 percent between 2000 and 2010. Losses are even more dramatic in some of the larger upstate cities such as Rochester, Syracuse and Buffalo.

As the State grapples with closing its future gaps local governments should not assume that additional assistance will be forthcoming:

Cumulative Percent Change in Revenue Sharing (AIM)



- Although funding for the AIM program was enhanced during the middle part of the decade, in exchange for improved multi-year financial planning, funding has been reduced or held at prior year levels since the onset of the Great Recession. Between SFY 2005-06 and SFY 2008-09, the year AIM payments peaked, funding increased by nearly $243 million (46.6 percent), with over 90 percent of the aid increases paid to cities outside New York City. In the four-year period following its peak, AIM has been either reduced or held flat. In SFY 2012-13, funding for AIM was nearly $50 million (6.5 percent) less than in 2008-09. There is currently no plan to increase AIM payments, as the State's financial plan holds AIM funding flat through SFY 2015-16.[13]

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[1] For purposes of this analysis: Revenues derived from the Mortgage Recording Tax are excluded (as State aid); the inflation factor utilized is CPI-U; and "local governments" includes counties, cities, towns and villages outside of New York City.

[2] This estimate is based on data contained in the annual financial reports submitted to OSC by local governments.

[3] *Report of the State Budget Crisis Task Force*. July 31, 2012. www.Statebudgetcrisis.org

[4] Pew Charitable Trusts, *"The Local Squeeze"*, June 2012.

[5] NYS Division of the Budget, *Mid-Year Update to the Financial Plan for Fiscal Year 2013*, page 5. http://publications.budget.ny.gov/budgetFP/FY2013Mid-YearReport.pdf.

[6] http://blog.timesunion.com/capitol/archives/171671/cuomo-sandy-did-not-in-fact-double-our-budget-gap/

[7] Isolated to state aid revenue categories for which local governments reported receiving $100 million or more in revenues in 2011. Examples include: Temporary Assistance for Needy Families (TANF), Safety Net, Preschool Special Education, Childcare etc.

[8] Isolated to federal aid revenue categories for which local governments reported receiving $100 million or more in revenues in 2011. Examples include: Family Assistance, Social Services Administration, Rental Assistance, etc.

[9] Andrew Reamer (March 2010). *Counting for Dollars*. The Brookings Institution, Metropolitan Policy Program.

[10] According to the federal and state ARRA websites, New York State was slated to receive over $34 billion in ARRA funding. Much of this is paid directly to vendors providing services and not to schools or local governments, even though the local governments may benefit directly from the services provided. As of March 2012, just over $3.3 billion in direct payments have been made to local governments and school districts.

[11] Michael Cooper, *The New York Times*, December 21, 2011, www.nytimes.com/2011/12/22/us/cities-struggle-as-us-slashes-block-grants-program.html

[12] *Governing Magazine*, 2012 Community Development Block Grants, www.governing.com/gov-data/other/2012-HUD-Community-Development-Block-Grants-list-map.html

[13] NYS Division of the Budget, *Mid-Year Update to the Financial Plan for Fiscal Year 2013*, page 5. http://publications.budget.ny.gov/budgetFP/FY2013Mid-YearReport.pdf.

New York State Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor • Albany, New York 12236