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Association of Towns of the State of New York (AOT)

Service and Representation for Town Governments of New York

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PUBLIC HEARING
on
2016-2017 Executive Budget

Presented to
Senate Finance Committee
and
Assembly Ways and Means Committee

Hearing Room B, Legislative Office Building

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General Purpose Revenue Sharing (AIM)

The Executive Budget does not propose any increases to general revenue sharing through the Aid and Incentives for Municipalities (AIM) program. When factoring in inflation, six years of flat AIM funding actually results in a reduction. Municipalities will again share $714.7 million dollars in AIM funding: Towns will share $47.9 million or 6.7 percent of the total; villages will share $19.7 million (2.5 percent of the total); and cities will share $647.1 million, or 90.5 percent of the total. Unrestricted state aid to towns has effectively been reduced by 9.74 percent due to flat funding against rising inflation. Starting in 2010, the year the current flat funding paradigm came into effect, adjusting the amount of AIM given to towns for inflation would have meant an additional $30 million. Despite authority for 2 percent annual spending increase, the state has kept AIM levels flat. Although the governor demonstrated a clear desire to reduce the burden on property taxpayers through the tax cap and tax freeze programs, the Executive Budget again underutilizes a revenue sharing program already in place to reduce local reliance on property taxes to fund local services.

As a class, towns are financially healthy, although individual towns struggle financially. Town taxpayers would greatly benefit from an increase in AIM funding. Comptroller DiNapoli recently noted that small towns are greatly impacted by relatively small changes in revenues or expenditures from year to year, which can cause them to run operating deficits or experience a decline in fund balances (*Three Years of the Fiscal Stress Monitoring System Results for Municipalities with Fiscal Years Ending on December 31, 2014*, Office of the State Comptroller, September 2015). More towns will continue to experience declines in fund balances, thereby increasing the cost of local borrowing, deteriorating infrastructure and diminished services due to flat general purpose aid and tax cap limitations. The state can help address these issues by increasing state aid and exempting capital expenditures from the tax cap.

Consolidation Incentives

The Executive Budget continues funding for the Citizens Reorganization Empowerment Grants and the Citizen Empowerment Tax Credit programs. These programs provide funding through a competitive grant program that encourages government reorganization, consolidation and dissolution. These programs will share $35 million in funding. An additional $4 million will fund the Local deserve safe roads, bridges and mass transit systems. We encourage you to examine the funding disparities between these plans and address them accordingly.

Exclude Capital Expenditures from the Tax Cap Calculations

Towns are finding it increasingly difficult to scrape together the funds needed to properly maintain and upgrade local roads and bridges. The struggle between raising the funds for the maintenance of local roads and bridges (which comes from property taxes) and staying below the annual property tax cap is a constant reality for town officials. The state comptroller recently reported that the allowable levy limit for schools and municipalities with fiscal years starting in June 2016 will be 0.12 percent. While the 2017 tax cap for towns is currently unknown, we reasonably expect that it will be similar. The limitations placed upon a town's ability to raise sufficient local revenues to properly maintain local infrastructure would be alleviated by additional state funding. For even more breathing room, the Legislature could exclude capital project costs from the annual tax levy limit. The exclusion for capital projects for school districts has helped districts better manage their infrastructure costs without the uncertainty associated with a tax cap override. Local governments could similarly be benefitted by a capital projects exclusion.

Increase CHIPS and Marchiselli Aid

Town taxpayers are on the hook for 75 percent of the cost of maintaining, repairing and improving local roads and bridges, with the state and federal governments combining to fund the remaining 25 percent. In 2013, the State Comptroller's Office reported that we need to spend $2.3 billion annually to properly fund local roads and bridges (*Growing Cracks in the Foundation: Local Governments Still Challenged to Keep Up with Vital Infrastructure Needs*, Office of the State Comptroller (2014)).

Unfortunately, state funding for local roads and bridges has remained flat since 2009. The Executive Budget again proposes no increases for CHIPS ($438.1 million) and Marchiselli aid ($39.7 million), nor does it fund the additional winter maintenance aid that was included in the last two budgets that helped to repair potholes and other side effects of New York's winter weather. Had CHIPS kept pace with inflation since 2009, we'd be looking at 2016-17 funding that would be $46.5 million greater. We encourage you to examine the success of the CHIPS and Marchiselli funding programs and to increase funding for these programs. They are proven programs that are appreciated, predictable and well used by local governments to help maintain local roads and bridges.

billion on drinking water infrastructure over the next 20 years to protect the public health. The council also reported that one in four wastewater treatment facilities are currently operating beyond their 30-year life expectancy. Moreover, the council reports that 22,000 miles of underground sewer systems are more than 60 years old and operating well beyond their intended use. The Department of Environmental Conservation has reported that it would cost $36.2 billion over 20 years to repair, replace and update New York's aging wastewater infrastructure. Addressing these issues today will result in savings to the taxpayer, protect the public health and grow our economy.

Failing water and sewer infrastructure can lead to ruptured water mains and sewer lines. When water mains burst, residents, children and businesses are impacted in any number of ways. Just last week, a 100-year-old steel water main ruptured in the city of Troy. Not only were people impacted in the city; schools, residents and businesses in several surrounding municipalities were also impacted because neighboring towns and school districts purchase water from the City of Troy. Businesses closed, children missed school, and local taxpayers now have to fund overtime, bottled water and added costs associated with emergency situations. Unfortunately, what happened in Troy is not unusual and will likely happen more often as our infrastructure continues to age.

The NYSEFC has skillfully leveraged state and federal funding to provide billions in funding for local water and sewer projects over the years, and yet, there remains a huge need for financial assistance to upgrade outdated municipal water and sewer systems. Local ratepayers simply cannot meet the financial need without state funding assistance. Allocating more of the financial settlement funds to ensure access to safe drinking water will not only protect the public health but it will encourage and enable businesses to stay and grow in – or relocate to – New York and put people to work with good-paying jobs to rebuild our aging water and sewer systems (2015 Infrastructure Report Card for New York State American Society of Civil Engineers' New York State Council).

Environmental Protection Fund

We encourage the Legislature to support the increased funding for environmental projects set forth in the Executive Budget. The Environmental Protection Fund Expansion Act amended Tax Law §1421, directing the state to increase funds available to the Environmental Protection Fund (EPF) from the Real Estate Transfer Tax (RETT). The goal of this legislation was to provide at least $300 million annually, beginning with state FY 2009-10. Unfortunately, due to the recession and prolonged town and village justice courts. Most of the fees relate to services performed for another municipality or governmental entity – principally the state and county. The current reimbursement rate of $15 for vehicle and traffic offenses was set in 1997. Although inflation alone necessitates an increase in fees for operational expenses, towns are especially in need of an increase in these fees since many towns have incurred additional prosecutorial expenses since the state police stopped negotiating traffic tickets.

STAR Administration Reimbursement

The STAR program, enacted in 1997 to provide a school property tax exemption to owner-occupied properties, is a state program that is administered at the local level by our towns; many town assessors devote 30 percent of their time to STAR administration, with some even requiring additional staff to assist in administering the program. When STAR was initially implemented, the state recognized the burden placed on towns and provided aid to local governments to defray the administrative costs; in 2004, this amount was reduced from $12 million to $6 million and was eliminated altogether in the 2009-2010 fiscal year, despite the fact that administration of the program has become more complex and burdensome with each program enhancement.

Part A of the Revenue Article VII Bill of the 2016-2017 Executive Budget converts the STAR benefit from a real property tax exemption to a personal income tax credit program, applicable to any property purchased or transferred after the 2016 taxable status date. The personal income tax credit program is administered by the Department of Taxation and Finance. The Association of Towns appreciates the attempt to reduce the administrative burden faced by local governments. While this proposal shifts the administrative processing to the Department of Taxation and Finance, it will take decades before the full transition occurs. Until then, local governments will continue to expend significant time and resources administering this state program. One way to address this burden today would be to reinstate the original service fee until such takeover is complete.

Retroactive Nonprofit Exemptions

New York's real property tax burden is among the highest in the country. A major contributing factor to high property taxes is the number of exempt properties in the state, the value of which is simply required to assume 100 percent of the tax burden. These numbers are staggering and simply unsustainable.

Assembly Bill 6011 / Senate Bill 605 is an example of well-intentioned legislation that will further erode the local tax base. This legislation seeks to amend Real Property Tax Law §§ 420-a and 420-b to allow, by local option, eligible nonprofit organizations to receive retroactive exemptions when they have purchased real property after the taxable status date. While this legislation will provide relief to nonprofits, it will undoubtedly shift the property tax burden to nonexempt owners. The taxable status date exists to provide taxing jurisdictions with a uniform date upon which to base an assessment. The taxable status date currently functions so that while the value of properties may change due to events occurring after the taxable status date, the assessed value of the property is not impacted for that tax year. A uniform taxable status date provides stability and certainty in the real property tax cycle, which is necessary so that local governments can develop their budgets based upon the assessment roll. The taxable status date cannot and should not be construed to encompass a shifting period of time; to do so would create instability, uncertainty and unfairness in the real property tax structure.

Shifting the taxable status date from a date certain to any date in time will serve to further erode the tax base from which local governments can derive revenue to provide essential services to residents, continuing the disproportionate shift of the tax burden to nonexempt owners and presenting substantial fiscal problems for local taxing units. In addition to extending the disparity between exempt and nonexempt owners, eliminating the taxable status date for certain owners removes the guarantee that all property owners within the taxing jurisdiction will be treated equally, as it grants certain owners preferential treatment to the detriment of nonexempt owners. While this bill is available by local option only, the fact remains that it will become a political necessity forced upon town officials.

Each property tax relief bill has merit and will provide targeted relief to some, but the cumulative effect of the myriad ad hoc exemptions has resulted in high property taxes for homeowners, businesses and farmers throughout the state. The Association of Towns appreciates the Legislature's efforts to study this issue and introduction of legislation to address some of the inequities in the current property tax system. We look forward to working on these issues with you this session.