Local Fiscal Stress
State Austerity Policy & Creative Local Response

Linking Fiscal Stress & Social Equity: A Municipal Toolbox

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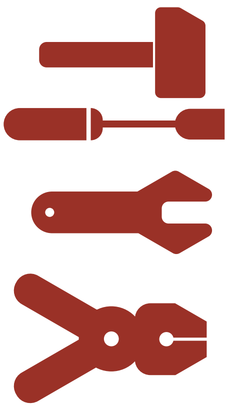
Local governments in New York State (NYS) are between a rock and a hard place. Both the rock — economic restructuring and shifting demographics, and the hard place — restrictive state policies, are motivating local governments from Buffalo to Suffolk County to action. The revenue streams localities have traditionally used are being starved off while service expectations are increasing. This is not sustainable. Based on research across the US and in NYC, this report outlines four tools within the power of local government officials to mitigate fiscal stress, fight blight, partner with non-profits, and address social and economic equity. **Making the linkage between fiscal stress and equity is critical for localities to plan for a sustainable future for all their constituents**. We draw our motivation and context for this municipal toolbox from a recent survey of local governments in NYS, conducted by Cornell University.[1]

TOOLBOX*



TOOL	FISCAL STRESS	EQUITY
Override Property Tax Cap	Increase property tax revenue.	Fund services for dependent populations.
Land Banks	Grow tax base.	Community programing.
Payments in Lieu of Taxes (PILOTs)	Offset costs of service provision.	Increased community contributions from growing economic sectors.
Community Benefits Agreements (CBAs)	Reduce burden on local government for economic development.	Concessions from developers.

* These tools should be used with caution. Each possesses its own set of positive and negative aspects, and should be used and applied in accordance to a variety of community contexts.

OVERIDDING THE PROPERTY TAX CAP

The Property Tax Cap ("tax cap"), passed in 2011, limits the property tax levy for localities in NYS to 2 percent or inflation, whichever value is lower. Since property taxes are the most stable and fundamental own-source of local government revenue, the tax cap increases local government fiscal stress.[1] Empirical studies have shown that state policies that limit revenue raising ability at the local level have disproportionate effects on poor jurisdictions,[2,3] and less affluent local governments rely on higher property tax rates to provide services for dependent populations.[4] **Given these realities, overriding the tax cap can be used as a tool for localities to expand their revenue raising power, and provide services for poorer and dependent populations.**

According to the 2017 NYS Local Government Survey, 38 percent of local governments indicated that they overrode the tax cap. Counties (43 percent) and cities (43 percent) were most likely to override, and were followed by towns (39 percent) and villages (34 percent). Overrides were motivated by the aspirations to maintain services, cover the increasing costs of employee benefits, and maintain long-term capital investments; all of which are necessary to foster a higher quality of life for residents and invest in infrastructure. Many localities reported overrides were unnecessary, and local leaders wished for their residents to qualify for the Tax Freeze Rebate program.

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The difference between communities that override and those that do not seems to cut along geographic lines — upstate vs NYC suburban communities in acute fiscal stress vs those with growing economies and those that reject the governor's narrative of local government inefficiency and those that do not. Please see full report for the comprehensize analysis.

Why did your jurisdiction **override** the Tax Cap?	% Yes	Why did your jurisdiction **not override** the Tax Cap?	% Yes
To be able to maintain services.	72%	Unnecessary to meet budget needs.	59%
Cover increasing costs for employee benefits.	60%	For residents to qualify for Tax Freeze Rebate.	55%
Maintain long-term capital investments.	40%	Voters oppose idea of override.	21%
Uncertainty in budget projections.	33%	Fear of retribution from the State government.	18%
N=330		N = 548	
Source: 2017 NYS Local Government Survey, Cornell University.			

LAND BANKS & LAND TRUSTS

The mortgage crisis, local fiscal stress, the depopulation of cities, and irresponsible homeownership has left local governments with an oversupply of aging housing stock, and increased vacancy and abandonment. Met with an obligation to provide abandoned properties with services and maintenance, municipalities must find ways to address blight, grow the municipal tax base and address the need for affordable housing. **Land Banks and Community Land Trusts — non-profit organizations which are often portrayed as rivals — are tools whose partnership can help achieve inclusive growth and fight blight.**[6]

	Land Banks	Community Land Trusts
Origin	State-government authorized; powers derived from the 2011 New York Land Bank Act.	Community-created.
Stakeholders	Local government and non-profits.	Community (residents, leaseholders), local government, and non-profit organizations.
Scale	Town, city, county, or regional. (must have foreclosure powers)	Usually neighborhood, town or city.
Objective	Fight blight and vacancy. Return vacant, abandoned, tax delinquent, and foreclosed properties to the market in the shortest time possible.	Preserve community control and ensure affordable development.
Tax-Exempt?	Yes	Eligible
How do they operate?	Granted super bid authority to purchase properties at low or no cost, which they can hold tax-free indefinitely. Partner with non-profits to rehabilitate, demolish, and return properties to market.	When selling property or land, they retain the title on behalf of the community. The land is "leased" to the new owner –but still inheritable and mortgage-able.
How do they address inclusive growth?	Partnerships with affordable housing developers, purchaser review process, discounts to select buyers. (See full report for case studies of these programs)	Permanently responsible for regulating use by the new owner. May impose an affordability restriction by retaining the right to purchase properties back at a determined price.
Shortages and challenges	Not responsible for regulating property use/affordability after disposing of it.	Lack land banks' powers and funding regarding property acquisition, retention, and rehabilitation.
Currently	There are currently 21 operating land banks across NYS. As of 2017, they have managed to return $28.4 million in assessed value to the tax rolls, and produce $2 million in new tax revenue.[5]	According to the National Community Land Trust Network, there are 24 land trusts operating in NYS.

As critics highlight land banks' potential role in speculation, displacement, and gentrification by capitalizing on foreclosure in low income and minority neighborhoods, partnerships with community land trusts could help mitigate these concerns and uphold social equity. Though these tough partnerships have only just begun in New York State, approaches such as the Albany County Land Bank and Albany Community Land Trust Partnership provide an example of a collaboration that works to ensure future affordability in a recovering market (Please see full report for case studies of three NYS land banks).

Though a number of rural land banks have been established within the last year, such as the Greater Mohawk Valley Land Bank, their viability remains in question. However, in specific contexts, a partnership between land banks and land trusts can serve as a tool to address blight and vacancy, thoughtfully drive community development, grow the local tax base, and promote social equity.

PAYMENTS IN LIEU OF TAXES

Payment in Lieu of Taxes (PILOT) agreements are a voluntary arrangement between local government and tax-exempt property users or owners to contribute money in place of foregone property taxes. PILOT agreements with tax-exempt non-profits have seen the most interest over the last few decades. Most PILOTs are ad hoc, short-term, and rely on adversarial strategies from local government officials.[7]

As the non-profit sector has experienced massive growth, many large non-profits now serve as regional economic drivers, often indistinguishable from their for-profit counterparts. **This creates a new opportunity for partnership between non-profits and local government to promote regional economic growth and improved service provision.** It is extremely rare that PILOTs make up more than 1 percent of a municipality's total revenues, and are never more than 5 percent of a municipality's overall budget, but they can still provide essential revenue for important services.[8] PILOTs are less an attempt to completely close the deficit than they are an attempt to recognize shared interests between organizations and municipalities. There are four main features in PILOT negotiations:

1. **Consistency:** ad hoc or part of a systematic approach encoded in policy or overseen by a task force.
2. **Government Leverage:** carrot (such as encouraging the organization to be a good neighbor) or stick (such as leveraging power over fees, building permits, and zoning decisions).
3. **Timeframe:** short-term, long-term, or one-off.
4. **Payment Determination:** decided annually by the organization, specified as a lump sum, or calculated based on features such as property value, economic activity, or estimated cost of providing public services.[7]

Each of the following case studies exemplifies how these features play out in practice:

Cornell University	Syracuse University	Oswego County
In 1994, the Ithaca mayor used leverage over building permit approval to halt construction of a campus building for months due to a usually unenforced parking requirement until Cornell agreed to increase their PILOT. The final agreement was a noticeable increase, but still determined on a yearly basis based on how much Cornell "thinks it can afford."[9]	In 2011, the Syracuse mayor approached Syracuse University and other large nonprofits with information about the costs of providing services for them and how that relates to city budget gaps. Conversations between university and local officials allowed them to agree on an amount that takes into consideration desire for adequate services and city fiscal needs.[10]	Wind and solar projects in NYS receive a property tax exemption equal to the increased value of the property due to installation. In 2017, Oswego County passed a policy that requires any wind project generating more than 25 MW to pay a PILOT equal to its full property value including the increase.[11]
Stick	Carrot	Stick
Short-Term	Short-Term	Ongoing
Ad Hoc	Ad Hoc	Systematic
Flexible Payment	Specified Amount	Specified Amount

COMMUNITY BENEFITS AGREEMENTS

Communities and local governments can respond to local economic development challenges by implementing Community Benefits Agreements (CBAs). A CBA is a legally binding private contract between a developer and a broad community coalition that outlines a set of contributions to the community from the developer in exchange for ensured community support for the project.[12] **CBAs provide communities with amenities and benefits previously not feasible. They provide developers with an assurance and ease of the project approval process.**[13] CBAs emerge when a community believes it bears a clear disproportionate burden of a real estate development's negative impact, or initiated by a developer to reach a clear consensus regarding a development. A regulator may suggest the stakeholders enter a CBA.

Some of the benefits a community can advocate for from the developer are local procurement and hiring, job shadowing, cash donations, environmental sustainability measures, and more. These provisions are called "High Road principles," which are economic development strategies that ensure an existing community benefits from an incoming project.[14] CBAs have been implemented across the country, starting in California in 1999 and since have been implemented in New York City and Syracuse. There is currently a community coalition advocating for a CBA with the Buffalo Niagara Medical Campus. The pressure to form the CBA has led the medical campus to begin implementing "high road" principles in its development (See full report for case study).

CONCLUSION

Local governments are only as good as their tools, and the ones in this toolbox vary greatly in terms of the stakeholders involved, process, and results. **They should all be used with caution, but can help localities address both fiscal stress and social and economic equity.**

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