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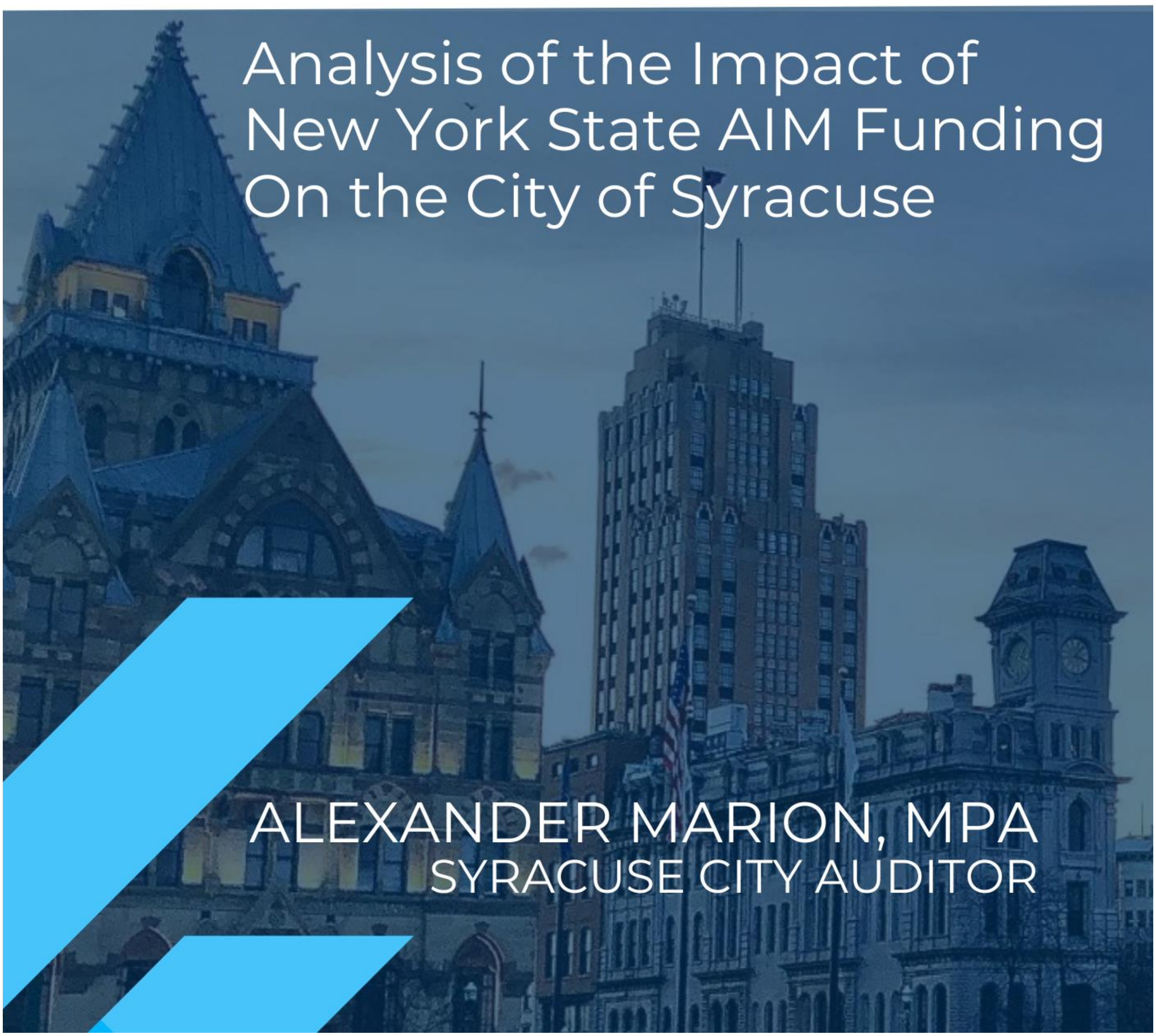

Analysis of the Impact of New York State AIM Funding On the City of Syracuse

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SYRACUSE CITY AUDITOR

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SYRACUSE, NEW YORK

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Message from the City Auditor

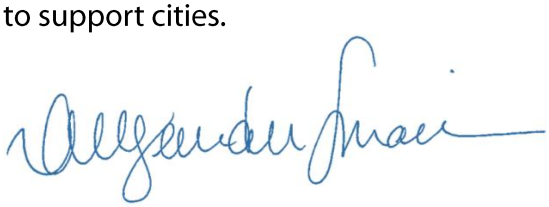
January 25, 2024

The Constitution of the United States is silent on local government. Cities are the products of the regulatory and financial environment their respective states, owing to the reserved powers granted in the 10th Amendment. Because of that, cities are financially dependent on their states – either through direct aid or by powers to raise revenue through taxation and fees. This model has struggled in recent years to keep up with the ever-changing environment of local governments. Situations have changed, but in New York, the economic model has remained the same.

The City of Syracuse is no different – our property tax base has shrunk, our infrastructure has aged, and our need to provide essential services is higher than ever. Since 2017, the City of Syracuse has raised property taxes modestly – in keeping with the state-mandated property tax cap – and sought ways to create greater efficiencies in government while maintaining a high level of service.

New York State, once a reliable provider of aid to cities throughout much of our history, has not risen to the challenge of this moment. Unfortunately, over the last decade, state aid has remained flat while municipal expenditures have increased – necessarily through inflation, contract awards, and state-mandated healthcare and pension costs. Each year, this puts greater strain on our city's finances as Syracuse tries to do more with less. Serving our residents – fellow New Yorkers – is an ever-greater challenge without the financial partnership of the State of New York.

The City Auditor's office is here to provide oversight of the decisions the City makes today and insight into the decisions we must make tomorrow. This report will outline the impact New York State Aid and Incentives for Municipalities (AIM) funding has on our budget and spending priorities. We will lay out how this frozen funding impacts the City's operations and the impact that has on our structural deficit. It will also offer several recommendations for increasing that aid in the future and how the State of New York can continue to support cities.



Alexander Marion, MPA
Syracuse City Auditor

Executive Summary

The State of New York has used revenue sharing programs over its history to provide needed funding to local governments and municipalities to help support their operations. Many of these funds have come to the municipalities in the form of unrestricted aid, meaning the municipality can use the funds for any purpose.

The state's current revenue sharing program is Aid and Incentives for Municipalities, commonly known as "AIM". AIM was first implemented in the 2006 New York State budget and remains the primary revenue sharing program used to this day. AIM consolidated and replaced the various revenue sharing programs established since 1970 into a single program providing municipalities a funding stream designed to control property taxes and minimize property tax growth, while enhancing local fiscal programs[1].

The City of Syracuse received more than $63 million in AIM's first year of existence, and that revenue stream continued to grow for several years, peaking in FY 09 when the City received nearly $76.3 million. The funds helped the City provide critical services and accounted for more than 25% of the City's annual expenses. State AIM funding was considered a reliable source of revenue to offset the increasing costs of running a modern City.

The following year, the impact of the Great Recession resulted in a state budget deficit and AIM funding was cut to help close the gap. This initial cut would foreshadow several years of cuts to the program before it was frozen.

Since FY 12, AIM funding to the City of Syracuse has been stagnant at $71,758,584[2]. During this time, the City budget has increased by millions of dollars and the cost of core City services, including Police and Fire protection, Public Works, and Water, have increased more than 30%[3]. In FY 24, state AIM funds only accounted for 20.6% of City expenses.

This report will demonstrate the large and growing concern that frozen AIM funding has on the structural deficits facing the City of Syracuse and to a larger extent, municipalities around New York State.

[1] (Associated Press, 2005)

[2] (City of Syracuse Office of Management and Budget, 2011)

[3] (City of Syracuse Office of Management and Budget, 2023)

Recent History of New York State Revenue Sharing Programs

New York State has provided financial assistance to municipalities via various revenue sharing plans throughout its history. These funds have historically provided much needed unrestricted state aid to municipalities to assist them in funding core City operations. The stated goals of many of these revenue sharing plans have been to provide a level of funding to municipalities to slow or prevent rising property tax rates.

"In cities throughout the state, a new Aid and Incentives for Municipalities (AIM) initiative is easing local property tax burdens by substantially increasing State financial assistance." – Governor George Pataki, 2006[4]

From 1946 through 1969, New York State's primary revenue sharing program was the **Per Capita Aid Program.** This program set aside specific funding to villages, towns, and cities based on population. Designed to reduce or slow the increase in property taxes and to stabilize the finances of these municipalities, Per Capita Aid Program dollars were unrestricted aid dollars municipalities could use as they wished within their annual budgets[5].

Unrestricted State Aid - funding provided by New York State to its various municipalities to use for any purpose, without restriction.

In 1962, a state commission reviewing the program identified stark differences in municipalities' abilities to finance various programs. The recommendations resulted in an amended Per Capita Aid program, adjusted to provide a new formula which granted additional aid to communities with fiscal burdens, and allowed aid to flow to counties for the first time. Despite its best efforts, it quickly became clear the adjusted formula was not achieving the goals it set out to address[6].

Seeking a more permanent solution, in 1970, the state replaced Per Capita Aid with a new program: **General-Purpose Local Government Aid (GPLGA).** This funding source was also unrestricted aid, and provided a fixed percentage of revenues to municipalities, including counties, based on factors including population and real property values. This GPLGA program continued through 2004, with the addition of five overlapping aid programs over time, created to offer emergency funding to certain municipalities as needed. The overlapping objectives of the programs lead to a call for a new formula[7].

[4] (Pataki, 2006)
[5] (DiNapoli, 2022)
[6] ibid.
[7] ibid.

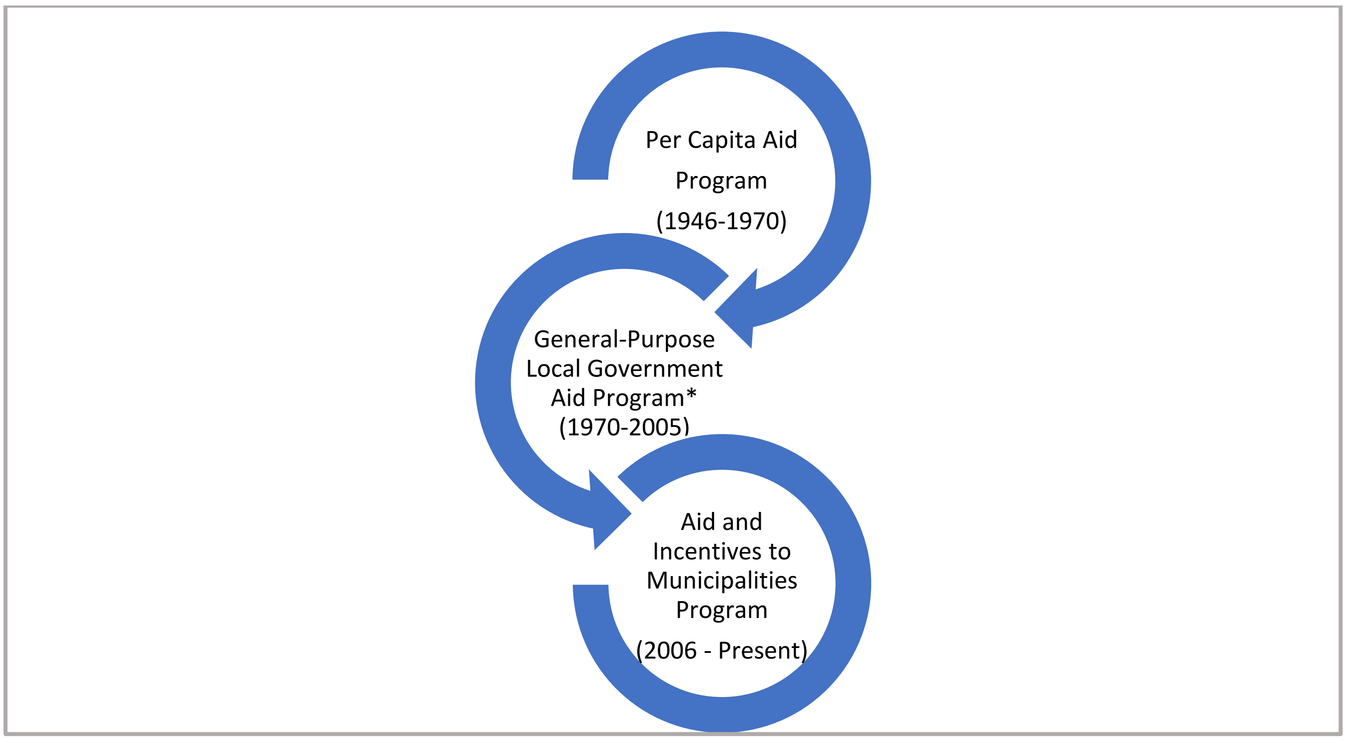
To address this issue, in his FY 06 budget, then-Governor George Pataki proposed a new **Aid and Incentives for Municipalities (AIM)** program. AIM consolidated and replaced the various revenue sharing programs established since 1970 into a single program which provided municipalities a funding stream designed to control property taxes and minimize property tax growth, while enhancing local fiscal programs.

AIM was described by Governor Pataki in his budget presentation as a "permanent" initiative "easing local property tax burdens by substantially increasing state financial assistance"[8]. The program came with big rewards – "local governments that continue to achieve property tax savings would qualify for performance awards of up to an additional 7.5 percent in AIM funding[9]." Guaranteeing a minimum increase in annual funding of 2.5%, the AIM program earned support from municipalities who were excited to see a guaranteed revenue stream to help address rising costs.

AIM - Aid and Incentives for Municipalities. New York State's primary revenue sharing program since 2006.

For the next several years, the AIM program was amended through the state budget process to update the aid provided to municipalities, resulting in increases in AIM funding. However, since the enactment of FY 12 City budget, AIM aid has been flat for the City of Syracuse, at $71,758,584[10].

Simplified History of New York State Revenue Sharing Programs 1946 - Present



*Various Additional Aid Programs were layered on top of this program

[8] (Pataki, 2006)
[9] Ibid.
[10] (City of Syracuse Office of Management and Budget, 2011)

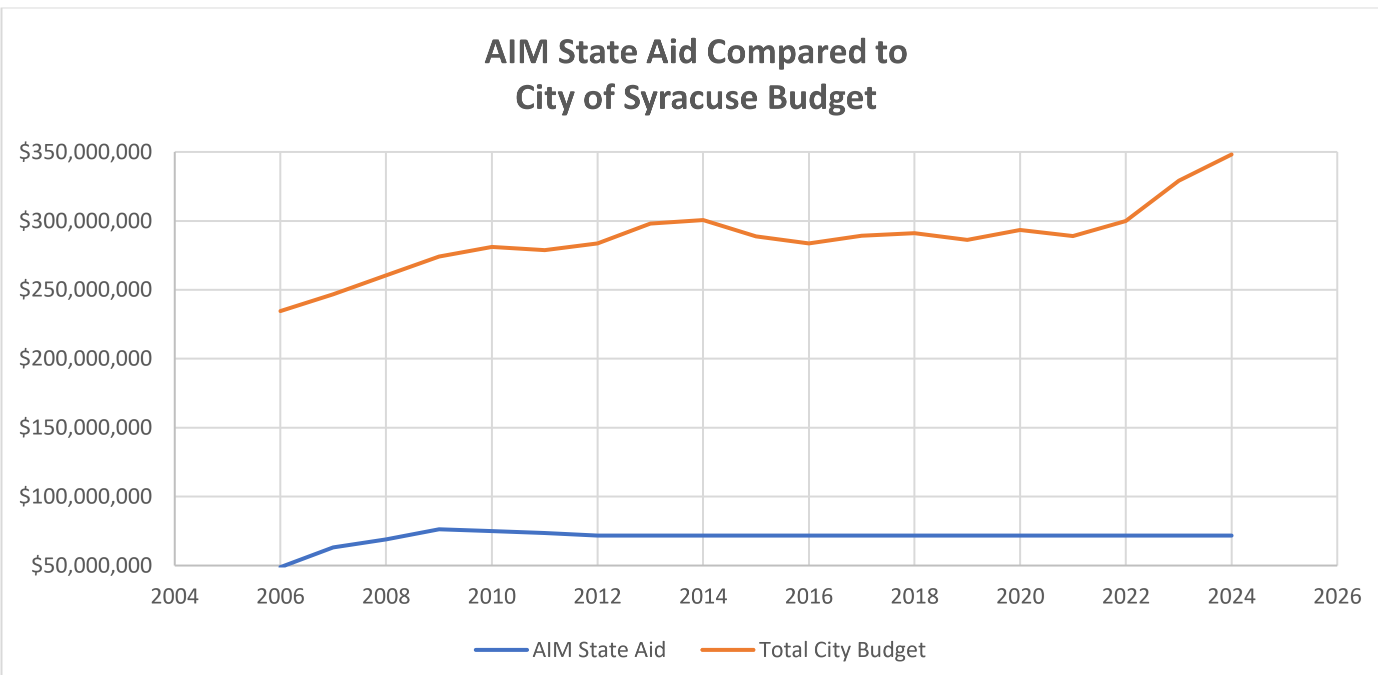
AIM Program Support to The City Of Syracuse

When Aid and Incentives to Municipalities (AIM) was created with the enactment of the FY06 state budget, it consolidated the various revenue sharing programs established since 1970 into a single unrestricted revenue stream for communities. The first AIM package totaled nearly $850 million (approximately $1.275 billion adjusted for inflation), which represented a seven percent (7%) increase in aid, a marked increase over the prior years' total revenue sharing dollars spent. These dollars would be spread across the state to the various municipalities[11].

AIM funding to the City of Syracuse **peaked at $76,294,114** in FY09.

AIM funding has remained **flat at $71,758,584** since FY12.

The City of Syracuse received $63,196,760 of that pool of State AIM funding in FY07, in addition to an additional $3.4 million state aid spin-up – one time payments from the state to localities. The AIM aid helped to fund the City's $246.7 million budget that year, providing the financial resources to account for more than one quarter (25%) of the City's annual expenditures[12]. In FY08, AIM increased to more than $68.8 million, and provided the resources to support more than 26% of City operations, including allowing the City to fully fund its police and fire operations that year (services totaling $66.8 million)[13].



AIM rose and then peaked in FY09, when the City received $76,294,114. That same year, the budgets for the major City service departments (Police, Fire, Public Works, and Water) totaled $189.7 million. AIM funding provided the financial support to fund over 40% of these major City operations. AIM funding was considered a reliable source of revenue to offset the increasing costs of running a modern City[14].

11 (DiNapoli, 2022)
12 (City of Syracuse Office of Management and Budget, 2006)
13 (City of Syracuse Office of Management and Budget, 2007)
14 (City of Syracuse Office of Management and Budget, 2008)

The effects of the financial Great Recession trickled down to the municipalities in FY10, resulting in the first-ever reduction in AIM funds[15]. Although only a modest year-over-year reduction of less than 2%, this cut would turn out to foreshadow future reductions in this critical funding source. In FY10 through FY12, AIM funding was reduced each year[16]. From FY09 to FY12, AIM funding was reduced by nearly 6% while at the same time, the City of Syracuse budget increased by over 3.5%[17]. The City was forced to make do with less funds.

Annual AIM Funding to City of Syracuse 2007 - 2024

City Fiscal Year	AIM Funding	% Change
2007	$63,196,760	n/a
2008	$68,884,467	9.00%
2009	$76,294,114	10.76%
2010	$75,084,069	-1.59%
2011	$73,582,388	-2.00%
2012	$71,758,584	-2.48%
2013	$71,758,584	0.00%
2014	$71,758,584	0.00%
2015	$71,758,584	0.00%
2016	$71,758,584	0.00%
2017	$71,758,584	0.00%
2018	$71,758,584	0.00%
2019	$71,758,584	0.00%
2020	$71,758,584	0.00%
2021	$71,758,584	0.00%
2022	$71,758,584	0.00%
2023	$71,758,584	0.00%
2024	$71,758,584	0.00%

Data from City of Syracuse Budgets 2007 through 2024

[15] (City of Syracuse Office of Management and Budget, 2009)
[16] (City of Syracuse Office of Management and Budget, 2011)
[17] ibid.

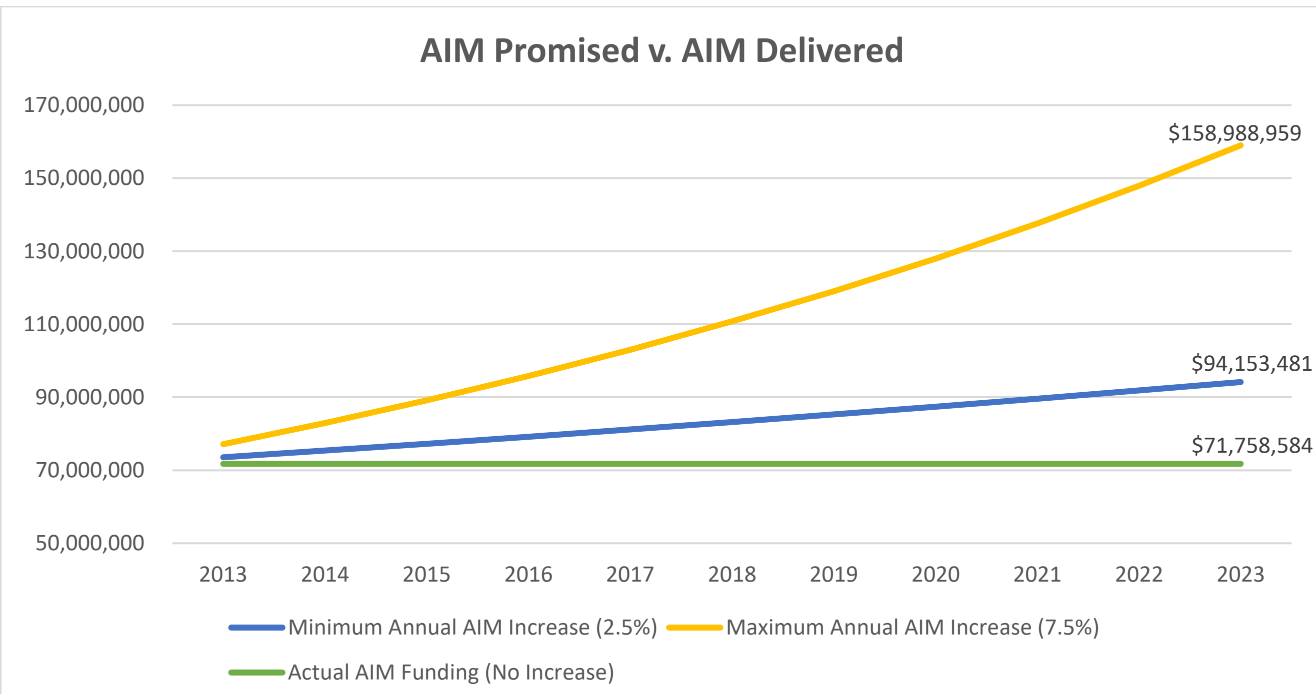
When the AIM program was created, then Governor Pataki referred to it as a "permanent" program which would provide a minimum annual increase in AIM funding of 2.5%[18]. As an incentive, municipalities which met certain objectives (including holding the line on property tax increases) could be eligible for up to a 7.5% annual increase in AIM funding[19]. Budgets in the following years would tack on additional aid to distressed communities, that "provided annual increases ranging from 3 percent to 13.5 per cent based on fiscal distress criteria."[20] While these early increases were realized, AIM funding was slashed 2% across the board in the 2011-12 Executive Budget. These cuts would become permanent and AIM aid has remained flat since.

By The Numbers

The City of Syracuse budget has increased 22.7% since AIM was frozen, an increase of more than $64 million, nearly the full amount of the City's AIM funds.

The State of New York budget was $105.5 billion in FY06 when AIM was created. When AIM was frozen, the state budget was $133 billion. The FY 24 State budget had grown to $229 billion, a 217% increase.

The chart below shows the actual AIM funding provided to the City of Syracuse since 2013 compared to the promises the program made when it was created. As noted in the 2006 budget which formalized the program, a minimum 2.5% annual increase in AIM was promised to municipalities in the 2007-08 budget. This support was to be ongoing, "with commensurate increases occurring in each year thereafter."[21]

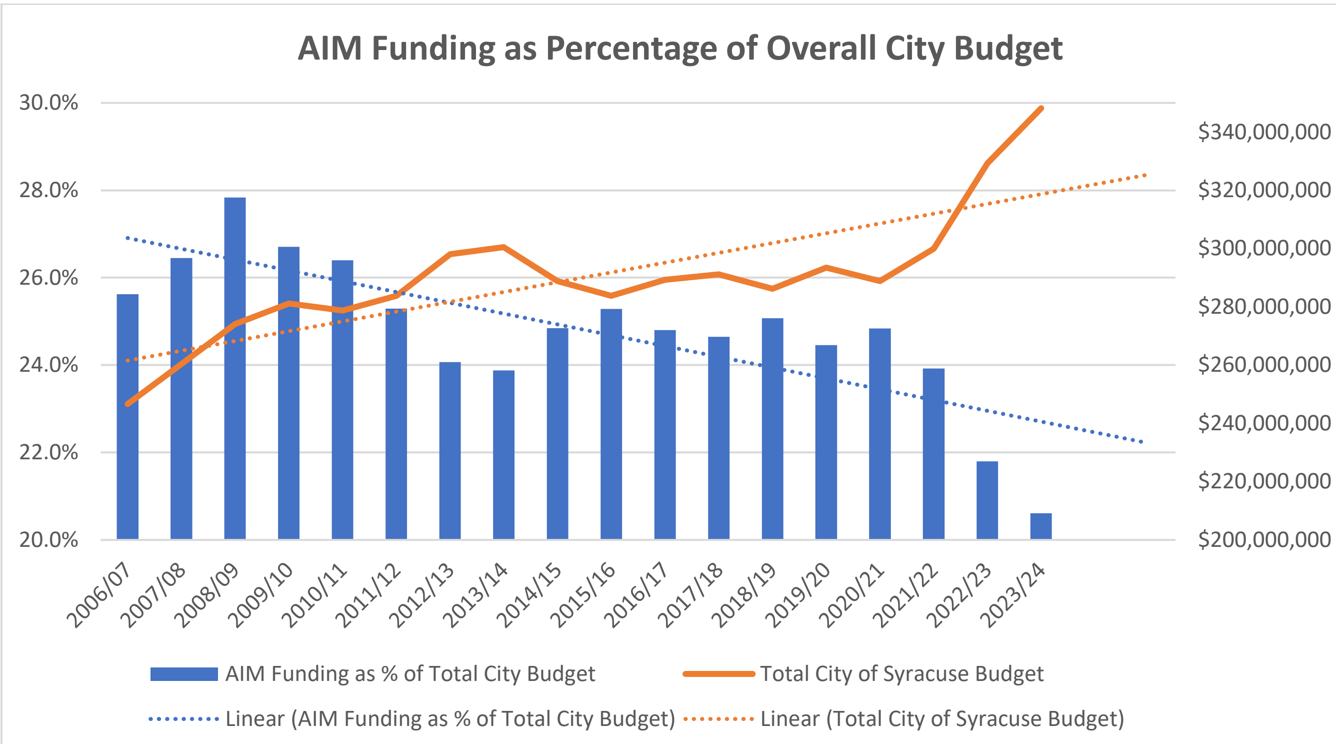


Since AIM has been kept flat, payments continue to be $71,758,584 per year. Had AIM continued on the trajectory promised by Governor Pataki, the minimum payment Syracuse would be eligible for now would be $94,153,481. Had the City of Syracuse continued to meet state-outlined objectives and received the maximum aid annually, it would be eligible for up to $158,998,959 this year.

[18] (Pataki, 2006)
[19] Ibid.
[20] (Cuomo, 2011)
[21] (Pataki, 2006)

Impact of AIM Funds

The revenue from the AIM program has historically represented a significant portion of City funding. In FY 07, AIM funding provided the financial revenues to account for over 25% of City operations. This valuable and critical revenue source provides unrestricted dollars which municipalities use to cover the growing costs of running their governments. Salaries, pension obligations, health care costs and inflation are driving the cost of City government higher[22].



Data from City of Syracuse Budgets 2007 through 2024

The value of AIM funds continues to corrode due to inflation. AIM funds in the City's current fiscal year supported only 20.6% of the City budget, down from 25.3% when AIM funding was frozen more than a decade ago. AIM funding peaked in FY 09 at nearly $76.3 million when the aid supported a full 27.8% of the City budget.

While AIM has remained flat, the cost of running a City has increased. The City budget has increased more than $64 million since AIM funding was frozen. The $64 million increase alone is nearly 90% of the City's total AIM funding. Failure to increase AIM funding while the cost of operations has gone up has forced municipalities to cut costs, decrease services, and raise property taxes – in direct contradiction to the program's stated goals. Additionally, the "incentives" have been eliminated by the elimination of increases. The state has removed the "carrot" of greater aid to hold the line on taxes and replaced it with the "stick" of the property tax cap, preventing cities from increasing revenue or helping them access aid to continue funding basic operations.

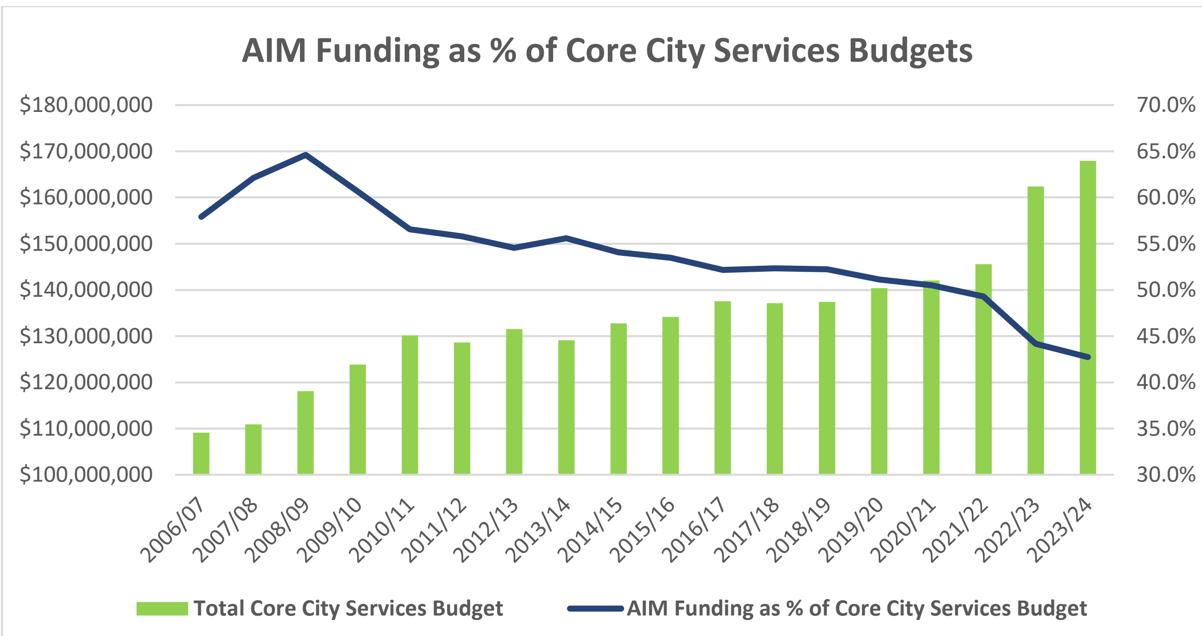
[22] (City of Syracuse Office of Management and Budget, 2023)

What's Included in Core City Services?

The Syracuse Police Department and Syracuse Fire Department each have more than 350 sworn members and additional civilian staff and provide frontline public safety services, including law enforcement,

The Department of Public Works provides numerous basic services to residents, including street repair and paving, snow and ice removal, sewer operation, trash and recycling pickup, and yard waste removal.

The Water Department oversees construction, maintenance, and operation of the City's water system, which uses a gravity-fed system to bring drinking water from Skaneateles Lake to City residents. The Water Department also maintains the City's filtration waiver from the EPA, granted due to the purity of the water source.



**Total Core Services include the budgets of Police, Fire, Public Works & Water Departments*

The graph above shows AIM funding to the City of Syracuse as a percentage of core City services (including departmental budgets for Police, Fire, Public Works, & Water Departments). These vital services continue to drive the increased costs of operating City government. The City budget has increased 22.71% since the AIM funding freeze and core City operations have increased 30.55%. While AIM funds once provided funds to help support nearly 65% of these core services, rising costs and flat AIM aid now means AIM funding alone can only support 42.7% of these services.

Additional cost drivers include state-mandated employee pension and healthcare benefits, which have continued to rise steadily. Since the state froze AIM funding, the City's pension payment has increased by $10.2 million – a 35% increase. Additionally, healthcare expenses have risen 12%, an increase of $5.8 million.

By the Numbers

The budgets of core City departments (including Police, Fire, Public Works & Water) have increased more than 30%, or nearly $40,000,000 since AIM flatlined in FY12.

State mandated costs for pensions have increased by $10.2 million, or 35%. Healthcare expenses have risen $5.8 million, or 12%.

Property taxes have been raised three times since AIM was set at current levels – in 2010-11, 2019-20, and 2023-24.

Property tax increases and other sources of local revenue must be used to make up for the growing difference, putting cities at a higher risk of financial stress. Since AIM was set at current levels, the City has raised property taxes three times, in 2010-11; 2019-20; and 2023-24; in addition to raising water and sewer charges at various times. This is directly counter to Governor Pataki and the legislature's stated intent of AIM funding, which is to prevent municipalities from needing to raise property taxes and incentivizing cities towards improved financial health and service delivery improvements.

The Future of AIM Aid

As the 2024-25 state budget process begins, the future of AIM funding is again under consideration. Several potential solutions are available for the next generation of aid to municipalities:

Solution 1: Increase Overall AIM Funding

Beginning in FY 08, AIM increases were targeted to fiscally-distressed cities using multiple factors, including the full valuation of taxable real property per capita (if it was less than 50% of the statewide average); more than 60% of the constitutional tax limit being exhausted; a population loss of greater than 10% since 1970; and a poverty rate greater than 150% of the statewide average.

Revisiting this formula would allow municipalities to have increased revenue sharing as it relates to their needs. Additional characteristics should also be considered, including the value of state-owned, tax-exempt properties in each municipality; meeting ambitious goals for new affordable housing construction; and improvements made to municipal infrastructure.

Solution 2: Permanently Index AIM To Inflation

If AIM funding is not increased, New York State should include annual adjustments to AIM to comport with inflation. Had AIM payments increased with inflation since it was frozen in FY 12, the City of Syracuse would be receiving over $23 million more, with this year's payment being at $95 million.

Indexing the current amount to inflation going forward will provide municipalities meaningful revenue sharing that addresses increasing personnel and infrastructure costs and reduce the need for increasing property taxes.

Solution 3: Offer an Inflation-Adjusted Spin-Up

Over the next 10 years, New York State should offer municipalities the difference in inflation-adjusted AIM payments for what was lost over since the freeze. These payments, which could be offered on top of current AIM payments would provide the revenue municipalities were owed but that was lost since the state's decision to freeze AIM in FY12. These payments would provide a decade of greater fiscal stability to municipalities.

Solution 4: Implement a State Cost Sharing Program

New York State could assume the cost of certain state mandates or essential services. New York State could adopt the cost of employee health insurance or pensions, taking those costs directly off municipalities' ledgers. This would result in substantial savings, allowing municipalities to redirect those dollars to providing essential services.

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