



*Exploring progressive changes to New York State's  
personal income tax system*

Testimony presented to the Select Committee on Budget  
and Tax Reform

**By Frank J. Mauro**  
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New York State faces a projected budget gap of an estimated \$14 billion for its 2009-10 fiscal year which will begin on April 1, 2009, less than three weeks from today. This projected budget gap is the difference between (a) the Division of the Budget's best estimates of what state expenditures would be during 2009-2010 if all state funded programs were continued as required by the laws currently on the books; and (b) what state revenues are estimated to be during 2009-10 under the laws currently on the books.

The currently projected budget gap is substantially larger than the projected gap for 2009-10 (\$5,089 billion) that the Spitzer/Paterson administration had estimated, in February 2007, that it had inherited from the Pataki administration. While there are hundreds if not thousands of individual factors that have contributed to the growth of the projected budget gap for 2009-10, the most significant of those factors is the plummeting of projected tax revenues as a result of (a) the deep national recession and the meltdown of the financial sector that have clobbered the national economy in recent months, and (b) the continuing economic problems that various economists are projecting to continue to late 2009 or early 2010 or even later. For example, Governor Spitzer's 2007-2008 executive budget projected personal income tax receipts for 2009-10 to be \$41.37 billion, while Governor Paterson's 2009-10 executive budget projected personal income tax receipts for 2009-2010 to be \$34.391 billion. This swing of \$6.979 billion is repeated in other parts of the state's revenue structure, with the difference between the executive Budget projections for 2009-10 and the projections of two years ago for 2009-10 down by \$1.6 billion for business taxes, and by \$400 million for the sales and use tax. Overall, taking increases and decreases in other categories into consideration, projected tax revenues for 2009-10 are down by an estimated \$9.4 billion since January 2007.

A second important cause of the growth of the projected 2009-2010 budget gap, from \$5.1 billion to \$13 billion, involves the important new commitments that have been made without being paid for. For example, in 2007, Governor Spitzer proposed and the legislature, with only minor modifications, adopted a comprehensive statewide solution to the Campaign for Fiscal Equity lawsuit that included a projected increase in school aid of \$7.7 billion over four years and a rigorous new accountability system (referred to as Contracts for Excellence). That same year the governor proposed an income-based increase in the state's STAR (School Tax Relief) program which, after negotiations with the legislature, became the Middle Class STAR Rebate Checks program, which is projected to grow in cost to about \$1.9 billion a year when fully implemented. While this rebate check program has many flaws, such as not providing any aid to renters who clearly pay a portion of their buildings' property taxes through their rent, few would

argue that property tax relief is not an important objective. (It's just that we have to use the resources devoted to property tax relief in a much more efficient, effective and targeted manner.) Overall, important new commitments such as these, including the expansion of health insurance coverage, account for the increases in state spending that are sometimes cited by critics as a cause of the state's current fiscal problems. Aside from the areas of education, health care and transportation in which the state has made important new investments (some of which we would have configured in different ways, and many of which the current Executive Budget proposes to backtrack on), state spending from 2004 to 2008 grew at less than 2.9 percent a year, barely the pace of consumer inflation.

At the time that he submitted his 2009-10 executive budget, Governor Paterson proposed to close the \$13.7 billion budget gap that he was projecting at the time with \$9.15 billion in spending cuts, \$3.076 in revenue increases and \$1.137 billion in "non-recurring" actions (i.e., one-shots). This plan was very similar to (a) the budget balancing plans recommended by the governor and adopted by the legislature in the early 1990s and (b) the budget balancing plan submitted by Governor Pataki in 2003 when he finally addressed the deficit that the state faced as a result of the recession and the "job-loss" recovery of 2001 through 2003, in that it relied much more heavily on budget cuts than on revenue increases, and that the recommended revenue increases were heavily weighted toward increases in fees and consumption taxes. A spot of good news is that the governor and the legislature have now agreed to take the \$1.3 billion in objectionable consumption tax increases originally proposed by the governor off the table.

Governor Pataki's 2003-2004 executive budget proposed \$5.2 billion in General Fund spending cuts including a \$1.27 billion cut in school aid, a \$1.02 billion cut in Medicaid, a \$1 billion cut in other local assistance programs, a \$1 billion cut in state government operations, and the use of over \$500 million of federal family assistance funds to cover portions of the cost of the Tuition Assistance Program and other programs that were traditionally funded with state revenues. This year, Governor Paterson is proposing \$9.15 billion in General Fund spending cuts including a \$1,872 billion in school aid, \$246 billion in other education aid, and \$1,668 billion in School Tax Relief for a total of \$3.786 billion; and \$2.626 billion in health care cuts, not including an additional \$315 million in health care funding cuts outside the General Fund.

Back in 2003, Governor Pataki attempted to justify his policy choices by (1) asserting a relationship among taxes, government spending and the economy that is inconsistent with basic economic principles, and (2) presenting a mythical and incorrect rendition of New York State's economic history. This year, Governor Paterson is doing the same.

The 2003-2004 executive budget's policy choices were premised on an incorrect assumption: that tax increases (particularly income taxes based on the "ability to pay" of taxpayers at different income levels) generally have a more negative effect on the economy than service cuts. This is particularly mistaken during a recession. If for no other reason, this misconception should have been dispelled by the results of the temporary high-end income tax increase enacted over Governor Pataki's veto in 2003.

Despite Governor Pataki's claim that this temporary 3-year increase (for the calendar year tax years of 2003, 2004 and 2005) in New York's top income tax bracket would result in an exodus of high-income earners from New York State, the number of New York State personal income tax returns with income of \$200,000 or more grew steadily from 300,815 in 2002, to 309,547 in 2003, to 352,949 in 2004 and 395,952 in 2005. Over this same period the tax liability on these high-income returns also grew steadily, from \$9.5 billion in 2002 to \$11.3 billion in 2004, \$14.3 billion in 2004 and \$16.7 billion in 2006. The portion of this revenue attributable to the temporary high-end surcharge has been estimated by the New York State Division of the Budget at approximately \$1.2 billion in 2003, \$1.5 billion in 2005, and \$1.7 billion in 2005.

In 2003, Governor Pataki and other critics of the temporary high-end income tax increase claimed that it would result in a significant decline in high-income taxpayers and, therefore, in state tax revenue. Now with this prediction having proven to be far from accurate, some revisionist historians are arguing that while the number of high-income returns in New York did indeed grow rapidly during this period, that the number did not grow as rapidly in New York as in other states. That revisionist history ignores the fact

FIGURE 1

**New York's high-end income growth has been highest in the highest income categories**

NY Adjusted Gross Income Ranges	Change in tax returns, 2002 to 2005	
	Number	Percent
40,000 to 75,000	21,558	1.20%
75,000 to 100,000	52,641	8.70%
100,000 to 150,000	82,610	16.80%
150,000 to 200,000	39,539	22.30%
200,000 to 500,000	54,009	25.20%
500,000 to 1,000,000	18,715	36.70%
1,000,000 to 5,000,000	17,621	56.80%
5,000,000 to 10,000,000	2,313	87.30%
10,000,000 and above	2,479	165.20%
200,000 and above	95,137	32%
500,000 and above	41,128	48%
All returns	93,843	2%

Source: New York State Department of Taxation & Finance, Analysis of Personal Income Tax Returns, multiple years.

had in 2002. When you factor in inflation, the combined income of the bottom 95 percent of New Yorkers actually shrank.

that overall population growth in New York State was much lower than in most other states, and that the growth in the number of high-income returns in New York far exceeded New York's overall population growth. Moreover, as Figure 1 indicates, high-end income growth was highest at the very top. While the number of returns with income of \$500,000 or more grew by 48 percent, the number of returns in the \$40,000 to \$75,000 range grew by only 1.2 percent.

Moreover, as astounding as it may seem, estimates from the executive budget indicate that all of the income growth in New York State from 2002 to 2009 has gone to the wealthiest 5 percent of taxpayers. In 2009, the other 95 percent of households will have roughly the same amount of income that they

## **How should New York State balance its budget during the current recession?**

In reality, neither tax increases nor service cuts are desirable during a recession. Both take demand out of the economy—making recessions longer and deeper, and making recovery more difficult. But New York, like most other states, is required to balance its budget in both good times and bad.

So the states face a real dilemma during economic downturns—having to figure out what mix of spending cuts and tax increases will do the least harm. Ideally, during such periods, the federal government, which is not required to run balanced budgets and which is responsible in our governmental system for overall macroeconomic management, will assist the states with some form of counter-cyclical financial assistance.

But what are the states to do during economic downturns absent federal aid or sufficient federal aid to avoid spending cuts and/or tax increases? In an extremely important paper on this subject, internationally recognized economic experts Joseph Stiglitz and Peter Orszag concluded that a temporary increase in the tax on the portions of income over some relatively high level is the least damaging mechanism for balancing state budgets during recessions.<sup>1</sup> On the other hand, they conclude that basic economic reasoning indicates that reductions in government spending on goods and services that are produced locally (like education and healthcare) and reductions in transfer payments to lower-income families are most damaging to the economy—since they come closest to taking dollar for dollar out of the local economy. Increases in consumption taxes and fees will take more demand out of the economy than tax increases on the tax on the portion of income over some relatively high level but less demand than cuts in locally-produced goods and services or transfer payments to lower-income families.

The strategy that Governor Pataki proposed for balancing the 2003-2004 budget was very similar to (a) the ways in which New York State balanced its budget during the recession of the early 1990s, and (b) the plan that Governor Paterson is proposing this year. Governor Pataki claimed that New York State balanced its budgets during the recession of the early 1990s with massive tax increases. And, he implied that these tax increases were of the kind that he was implicitly characterizing as “job killing” tax increases. A check of the budgets of the early 1990s shows quite a different story: there were tax and fee increases during the early 1990s, but they represented less than 25 percent of the budget balancing actions taken during those years. And, those tax and fee increases were overwhelmingly consumption and other regressive taxes and fees rather than taxes based on the “ability to pay” principle.

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<sup>1</sup> Stiglitz, Joseph, and Peter Orszag, *Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?* <http://www.cbpp.org/10-30-01sfp.pdf>. Stiglitz received the Nobel Prize in Economics in 2001; Orszag, of the Brookings Institution at the time this paper was written, is now the director of the U.S. Office of Management and Budget.

In 1989, the Coalition for Economic Priorities, a broad-based coalition co-chaired by the heads of the New York State Council of Churches, the New York State Association of Counties, and the New York State AFL-CIO, came together to lobby for the deferral of the remaining steps of the large, multi-year personal income tax cuts that had been enacted in 1987. This coalition consisted of organizations that foresaw the huge shift to local property and sales taxes that were inherent in the governor's budget proposals, as well as organizations that were worried about the impact of the proposed budget cuts on the state's most vulnerable populations and on the quality of life for all New Yorkers. But the governor and the legislature refused to take the advice of this coalition. Instead, in 1989, the state government implemented a very large reduction in the state's personal income tax.

Based on Governor Pataki's expositions on the relationship between state tax policy choices and the economy, those large personal income tax reductions should have somehow stimulated the state's economy and insulated it from the accelerating recession. But, as we know, that did not happen. Instead, the state's economic situation got worse.

In 1990, the main budget, which was adopted in May, included a deferral of the scheduled income tax cuts, but it did not include any increases in the progressivity of the state income tax. There were real and substantial state tax increases in the originally adopted 1990-1991 budget but those tax increases were particularly misguided, as the Fiscal Policy Institute stated in its analyses and its budget testimony during the remaining years of the Cuomo administration.

In December of 1990, the legislature enacted a mid-year \$1 billion deficit reduction package, with all the gap closing being done on the expenditure side of the ledger. In 1991, the state continued this approach to budget balancing with one small exception, a relatively small increase in the tax on incomes over \$100,000, that paled in comparison to the emphasis during this period on closing the state's budget gap through service cuts and increases in fees and regressive taxes.

One important result of the state's budget balancing strategies during this 1989 to 1991 period was to place incredible pressure on the local property and sales taxes. From 1987 to 1992, local property tax revenues were up by 50 percent from \$14 billion to \$21 billion, while state income tax revenues increased by only 22 percent. There was a clear and massive shift from the income tax to the property tax during this period.

### **Learning from experience: The legislature's 2003 better choice**

In May 2003, the legislature passed the governor's budget bills, but with significant changes from what was originally proposed. By then, the two-year budget gap had grown to \$12.6 billion due to various re-estimates. Despite the growth in the size of the gap, the legislature adopted a much more balanced approach to balancing the state budget, relying more heavily on revenue increases than the governor had originally recommended and reducing many of the governor's recommended spending cuts.

Ten days after the original legislative passage of its budget package, the governor vetoed the legislature's bill to raise state taxes, authorize transitional borrowing and allocate school aid and line-item vetoed 118 spending additions. Within 20 hours, the legislature overrode every one of the governor's vetoes on a bipartisan basis. The veto override votes were virtually unanimous in the Senate, and overwhelming in the Assembly.

The governor originally argued that the revenue increases enacted by the legislature would not cover all of its spending restorations. But, shortly thereafter, the Congress adopted a significant but temporary "state fiscal relief package." With this infusion of federal "budget balancing" aid, the governor concluded that the 2003-2004 state budget, as adopted, was credibly balanced.

The budget package adopted by the legislature in May 2003 avoided the extremes that had characterized the budget balancing packages of the early 1990s and the plan proposed by Governor Pataki in January 2003.

As part of the 2003 enacted budget, the legislature adopted a temporary 3-year increase in the state's top income tax rate from 6.85 percent to 7.7 percent on taxpayers with taxable incomes above \$500,000 regardless of filing status, and 7.5 percent in 2003, 7.375 percent in 2004, and 7.25 percent in 2005 on married couples with incomes above \$150,000 and single individuals with incomes above \$100,000. The revenue raised from these temporary rate increases (\$1.162 billion in the 2003-2004 state fiscal year, \$1.535 billion in 2004-2005, \$1.482 billion in 2005-2006, and \$435 billion in 2006-2007) contributed significantly to New York State's ability to weather the economic downturn without economically counterproductive service cuts of the magnitude that Governor Pataki had proposed. Moreover, these tax increases did not have the negative impact on the state's economy or on the number of high-income taxpayers in the state that Governor Pataki had predicted in vetoing them.

### **Does New York State have a spending problem or a revenue problem?**

Some critics like to say that the state's structural budget gap is proof that New York State has a "spending" problem and that state spending is growing faster than state revenues. Their implication is that New York State agencies are not managed well and that spending is out of control. But a careful analysis of changes in the state revenues and expenditures over the last decade shows that revenues would have grown faster than expenditures if the state had not enacted multi-year, back-loaded tax cuts plans annually from 1994 to 2000, and then again in 2006, and if the important new spending commitments that have been made since 1997 were accompanied by new revenues.

These important new commitments made in the last several years range from the original STAR exemptions enacted in 1997 to the new Middle Class STAR rebate checks and the statewide solution to the court decisions in the Campaign for Fiscal Equity lawsuit. As these commitments are phased in over time, their costs will increase. Among the most important of these new commitments are the following:

- The state takeover of the full cost of the non-federal share of Family Health Plus and the capping of the growth in the counties' share of Medicaid costs will cost almost \$1 billion during the current fiscal year, an estimated \$1.35 billion in the fiscal year that begins on April 1, 2008, and more than \$2.5 billion in 2010-11.
- The STAR program which began a decade ago cost \$582 million in the first year (1998-1999) of its implementation, \$2.5 billion in the first year in which it was fully phased in (2001-2002), and \$4 billion in 2006-2007 (\$3.32 billion for the original STAR exemptions as enriched, and \$673 million for the first year of STAR rebates). The new Middle Class STAR rebates authorized in 2007, further enrichments to the original STAR exemptions, and underlying growth are estimated to increase the annual cost of the STAR programs to more than \$6 billion in 2010-2011.
- In 2007, Governor Spitzer proposed, and the legislature adopted with a few modifications, a legitimate statewide solution to the court decisions in the Campaign for Fiscal Equity lawsuit. These reforms replaced approximately 30 individual aid programs (under which \$12.5 billion was distributed in 2006-2007) with a "foundation" formula that bases districts' aid on a calculation of the amount necessary to provide all pupils with a sound basic education. As enacted, the 2007 reforms called for a four-year phase-in that would increase this general operating aid in four annual steps to \$18 billion in 2010-2011; and required districts receiving substantial aid increases to enter into Contracts for Excellence with the State Education Department to ensure that these new resources are used effectively to increase student performance. Another part of this initiative increased funding for the state's Universal Pre-Kindergarten program by 50 percent.
- In finalizing the 2006-2007 state budget, the legislature put into place a solution, called Excel, to the school facilities part of the Campaign for Fiscal Equity lawsuit. The costs of honoring this important commitment grow each year.

While there may have been better ways of designing some of these new commitments, it is clear that they all addressed important priorities. But by adding these important new commitments to the state budget without adding revenue to pay for them, the state was destined to have structural deficits unless current revenues grew fast enough to cover both the ordinary growth in the cost of existing programs and these new commitments.

## **Establishing a fair, adequate and economically sensible state-local tax system**

State policymakers should reestablish a fair, adequate and economically sensible tax system rather than neglecting the state's human and physical infrastructure by not investing in the state's future. To address the state's unmet needs and to avoid those costs savings proposals advanced by the governor that are likely to have negative effects on the state's economy or on the health of New York residents, state policymakers should consider steps that would make the tax system fairer while raising the revenue necessary to balance the budget in an economically sensible manner.

The most important steps in this direction would be for New York to reform its personal and corporate income tax structures. The additional personal and corporate income tax loopholes that Governor Paterson has proposed to close as part of his executive budget will make substantial improvements in the state's tax structure—evening the playing field between those who abide by the spirit as well as the letter of the law and those who are using provisions of the tax law for purposes that were never intended. In regard to the personal income tax, New York should consider approaches that will ensure that the wealthiest New Yorkers pay their fair share in state and local taxes, and which will allow the state to reduce the pressure that it is currently placing on local property and sales tax bases.

New York State should balance its budget during the current economic downturn in ways that will not make economic conditions worse. The governor and members of the state legislature should carefully analyze the budget balancing strategies of the early 1990s and those of 2003 and make policy choices that will take the least amount of demand possible out of the state economy. Among the many ways in which New York could move in this direction would be by reenacting the top brackets that were temporarily in place during 2003 through 2005, and/or by adopting the top brackets from New Jersey (8.97 percent on income above \$500,000) and California (10.3 percent on income above \$1 million).

Both of the bills highlighted in the notice for today's hearing, S.2021 and S.2654, adopt those tax rates, but at slightly different income levels. In addition, S.2654 proposes to reduce income taxes for middle (and lower) income taxpayers by doubling the size of New York State's standard deduction. The lead sponsor of S.2654, Senator Jeffrey Klein, is correct in proposing some middle class tax relief, but it is not the income tax that is burdensome for middle and lower income New Yorkers. A middle class property tax circuit breaker such as the one proposed in the omnibus bill is a much better way to provide immediate and meaningful tax relief to those who need it most. We must also work for long run tax reform, which means that over time we must reduce the pressure that state policy choices have placed on the local property and sales tax bases.

In addition, for a bill that proposes significant increases in the progressivity of the state income tax, S.2654 simply does not raise enough revenue given the magnitude of the onerous budget cuts being proposed by the governor.

A property tax circuit breaker, particularly one that includes renters, is a much better

approach to providing middle class tax relief than an increase in the Personal Income tax's standard deduction. A targeted circuit breaker would provide relief to those that need it the most. While an increase in the standard deduction can offset the impact of an increase in consumption and property taxes for many middle-income taxpayers, it cannot do that for taxpayers who has little or no income tax liability but for whom consumption taxes represent a relatively high percentage of their income.

In other words, it is better to use the revenue that is available from the federal stimulus package and from a progressive income tax increase to (a) avoid cuts in services and to avoid having to repeal the clothing exemption on the sales tax and to avoid having to enacting some of the new consumption taxes (like the soda tax) proposed by the governor and (b) to pay for the implementation of a meaningful circuit breaker (that includes renters as proposed in the Omnibus Tax Relief and Reform Act; see [www.omnibustaxsolution.org](http://www.omnibustaxsolution.org)).

For years, many reformers have called upon the state to make New York's overall tax system more equitable by reducing the state's reliance on local property and sales taxes and increasing its reliance on state taxes based on ability to pay. Unfortunately, nothing has been done to date to either address the long-term structural problem (that New York State policies put an undue amount of pressure on the property tax) or to effectively address the critical short-term problem of people being taxed out of their homes.

During the last two years, local real property tax reform groups, fiscal watchdogs and unions have been successful in making the idea of a middle class circuit breaker a front burner issue in New York State government and politics. Large portions of the public understand what a circuit breaker is, and there is broad public support for the idea of a middle class circuit breaker as a way to deal with situations in which homeowners are significantly overburdened by their property taxes. It is important that New York policy-makers seize this opportunity to phase in an effective middle class circuit breaker. But it is equally important that they adopt a long-term strategic approach to moving a significant amount of costs from the local to the state levels in a way that achieves true tax reform.

The omnibus bill addresses both of those goals. In addition, the bill provides for the creation of a tax reform study commission, with members to be appointed by the governor and all four parties in the legislature, and the establishment of a statutory requirement for both a periodic study of the incidence of the overall state-local tax system and analyses of the distributional impact of proposed tax legislation. These are all essential steps if New Yorkers are to have real tax reform.

### **Short term: Circuit breaker relief**

Significant work has been done in the legislature regarding the development of a middle-income circuit breaker bill by Assemblywomen Galef and Senator Little. The Omnibus Tax Reform bill builds upon their efforts to create a relatively generous middle class circuit breaker (limiting a person's property taxes to a fixed percentage of their income)

that would be phased in over a period of four years. Governor Paterson has proposed eliminating the STAR rebates checks in his budget proposal as one means of closing our state's large budget deficit. The omnibus bill proposes to use the money from the elimination of the Star Rebate Program to finance its proposed reforms. But the move from the current rebate checks program to an effective middle class circuit breaker would not have a financial implication for the state until SFY 2010-2011 and, therefore, would in no way detract from the governor's proposed use of this money in the upcoming 2009-2010 fiscal year for deficit reduction.

FIGURE 2

<b>Calendar year</b>	<b>Household income</b>	<b>The circuit breaker would cover property taxes over the following percentages of household income</b>	<b>The refundable credit would cover the following percentage of property taxes over the percentage limit:</b>
2009	\$100,000 and less	9.0%	70%
2010	\$100,000 and less	8.5%	70%
2011	\$100,000 and less	7.5%	70%
	\$100,000 to \$150,000	8.5%	
2012 and beyond	\$100,000 and less	6.0%	70%
	\$100,000 to \$150,000	7.0%	
	\$150,000 to \$250,000	8.5%	

The omnibus bill's circuit breaker would limit the cost of the proposed middle class circuit breaker by adopting the Galef-Little bill's proposed 5-year residency requirement. The costs would also be passed in by gradually increasing the program's income limits and by phasing in coverage for renters during the second and third years of the phase-in. By replacing the STAR rebate check program with an effective middle class circuit breaker, the omnibus bill would replace a program that provides relatively small checks to virtually all homeowners in the state with a circuit breaker credit that will target more meaningful relief to those homeowners who are truly overburdened by their property taxes. The multi-year "phased in" approach is designed to be sensitive to the state's fiscal situation while recognizing that homeowners most overburdened by unreasonable levels of property taxation are part of the overall financial crisis and need help immediately.

### **Long Term: Tax Reform**

The omnibus bill proposes to significantly decrease the pressure placed on the local property tax base (municipal, school and county) by gradually shifting \$10 billion of costs from the local level to the state level. This shift from the local level to the state would represent a shift from the regressive local tax base to more progressive state taxes based on ability to pay. This shift would cover \$6 billion in school costs, \$1 billion in local Medicaid costs and \$3 billion in the cost of basic municipal services.

## **Education**

The foundation formula reform plan, enacted into law in 2007, represents an important breakthrough in the way that the state government shares in the cost of education with local school districts. The new formula establishes a foundation funding level for each school district in the state and provides a basis for estimating the cost of providing a sound, basic education. The formula also provides a basis for making sure that we treat all school districts in the state in a fair and equitable way.

Current law provides that the foundation formula be fully funded in 2010-2011. The total foundation funding level for the 2010-11 school year under the foundation formula, as enacted in 2007 and as modified in 2008, is an estimated \$36.6 billion. Based on the statutory formulas by which responsibility for funding this foundation amount is divided between the state and local school districts, it is anticipated that in 2010-2011 that the state will provide an estimated \$18 billion in foundation aid to local districts, or just about 49 percent.

The omnibus bill proposes that once the initial 4-year phase-in of the new foundation formula is completed in 2010-2011 and the State Education Commissioner has completed an updating of the basic “per pupil foundation amount,” that in addition to paying its current share of the foundation amount, that the state also gradually increase its share of the total foundation amount. The omnibus bill includes a commitment to shift \$6 billion of such responsibility from the local property tax base to the state tax base over the course of the decade beginning with the 2012-2013 school year.

## **Local Government Assistance**

For general-purpose local governments, cities, towns and villages, the primary pressure that the state has placed on local governments is a negative. It's because of not sticking to its revenue sharing commitment. The underlying law, which gets notwithstanding every year, is that the state is supposed to share 8 percent of revenue with local governments. In the 1980s, when Hugh Carey was governor, NYS had its first freeze on revenue sharing in order to allow one of the state's earliest multi-year income tax cuts to be phased in as scheduled despite the recession that the nation was then experiencing. In the budget problems of the early 1990s, no major state program was cut more than revenue sharing—from over \$1 billion a year to less than \$500 million. The omnibus bill provides that over ten years beginning with the 2012-2013 state fiscal year that the state phase in a \$3 billion increase in revenue sharing with its cities, towns and villages.

## **Medicaid**

In regard to Medicaid, the state should honor its commitment to picking up increases in the local share in excess of 3 percent per year. But in addition to this, the omnibus bill would gradually increase the state share of Medicaid costs in a way that bases each county's share of Medicaid costs on objective measures of each county's relative “ability to pay” and, in the course of doing so, shifts an additional \$1 billion in costs (over and above whatever may be the costs of the 3 percent cap) from the local property tax base to the state tax base.