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**A STUDY OF LOCAL GOVERNMENTAL
EXPENDITURES AND REVENUES**

Report Prepared by:
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Introduction

The first *Long Island Index* in 2004 identified the cost of local government on the Island, and the corresponding high local property taxes, as a major issue affecting the quality of life for all Long Islanders. Subsequent *Index* reports have reported on the highly fragmented nature of local government on Long Island, taxpayer concerns about the high level of school taxes as reflected in budget defeats and the costs of the various types of governments (county, city, town, village, school districts and special districts). The 2007 *Index* focused on reasons why Long Island government costs are so high relative to a comparable metropolitan region in northern Virginia with a starkly different local governance model – Long Island having 239 local government units versus 17 in Northern Virginia.

To summarize the results presented in the first four *Index* reports, it is clear that Long Island has a large number of local governmental entities that local government expenditures are large and growing, and that local taxpayers are paying for 79% of the total cost of local government. In order to measure changes in the cost of local government, the *Index* has developed a database that provides a nine-year history of local government expenditures and revenues for Long Island, and comparable figures for local governments and school districts in the rest of New York state (excluding New York City). By tracking changes going forward from this baseline information, Long Islanders will be able to determine whether or not efforts to reduce the cost of local government are effective.

Methodology

The tables in this report are based on detailed expenditure and revenue information reported by local governments to the New York State Office of State Comptroller (OSC)¹. The most recent available OSC data is for fiscal year 2005. The data are reported in real (i.e. inflation adjusted) dollars, thus, 2005 figures are reported in 2005 actual dollars, and previous years are adjusted upward by the appropriate inflation number².

¹ OSC data are available for all reported government entities in Nassau and Suffolk counties, and a combined total is available for all of New York state excluding New York City. 1997 was chosen as the base year because prior to that fiscal year data were not consistent across counties. Nassau and Suffolk county data were subtracted from the combined total New York state data to create the data that are reported for the NYS minus NYC and LI comparisons.

² The inflation factor used for Long Island was the New York-Northern New Jersey-Long Island, NY-NJ-CT-PA inflation factor provided by the U.S. Dept. of Labor. The inflation factor used for the rest of New York state was the U.S. City Average inflation factor, which is the closest factor comparable to the state as a whole excluding New York City and Long Island.

Expenditures

Total expenditures by local governments³ in 2005 were \$9.1 billion in Nassau County and \$9.0 billion in Suffolk County. School districts were the largest component of local government expenditures on Long Island, composing 44.7% of total local government expenditures in Nassau and 52.8% in Suffolk. Total spending by school districts on Long Island was nearly \$9 billion in 2005, or 48.7% of the total. County government expenditures followed as the second largest component of spending, representing 32.1% of total local government spending on Long Island.

	Nassau		Suffolk		Long Island Total	
	<u>Total Expenditures</u>	<u>% of Total</u>	<u>Total Expenditures</u>	<u>% of Total</u>	<u>Total Expenditures</u>	<u>% of Total</u>
County	\$3.246	35.8%	\$2.546	28.3%	\$5.792	32.1%
Cities	\$0.110	1.2%	N/A	N/A	\$0.110	0.6%
Towns	\$0.960	10.6%	\$1.365	15.2%	\$2.325	12.9%
Villages	\$0.603	6.6%	\$0.164	1.8%	\$0.767	4.2%
School Districts	\$4.061	44.7%	\$4.742	52.8%	\$8.802	48.7%
Fire Districts	\$0.098	1.1%	\$0.169	1.9%	\$0.267	1.5%
TOTAL	\$9.078	100%	\$8.985	100%	\$18.063	100%

Table 2 shows how that Long Island's breakdown of expenses by government category is essentially the same as for the rest of New York State. Data available from the OSC is only provided for the state as a whole in a category that combines counties, cities, towns and villages (CCTV), so Long Island data was combined to match statewide data for this comparison.

³ Local governments included in this report were all counties, cities, towns, villages, school districts and fire districts that filed annual reports with the New York State Office of State Comptroller. Independent special districts on Long Island are not included, as the Comptroller database does not include information from all these districts. However, based on the information available on reporting districts, CGR believes the total expenditures for special districts not included in these totals is less than \$200 million, or less than 1.5% of the total counted in these tables.

Table 2				
Total Expenses in Long Island and NYS By Municipality Type (\$ in Billions)				
	Long Island		NYS (minus NYC,LI)	
	2005	% of Total	2005	% of Total
CCTV ¹	\$8.993	49.8%	\$22.316	51.3%
School Districts	\$8.802	48.7%	\$20.906	48.0%
Fire Districts	\$0.267	1.5%	\$0.303	0.7%
TOTAL	\$18.063	100%	\$43.525	100%

¹ CCTV - Counties, Cities, Towns, Villages

OSC data are also available to show general categories of expense (object code) for the various types of governments. Table 3 shows expenditures by major category of expense for each county and Long Island in total as well as a comparison to the rest of the state. Table 3 shows that expenditure patterns on Long Island are similar to but not exactly the same as the rest of the state. For example, employee costs represent 54% of total costs on Long Island and 52% in the rest of the state.

Table 3								
Expenditures by Object Code (Category of Expense), as a % of Total, Nassau and Suffolk Counties, (\$ in Billions)								
	Nassau		Suffolk		Long Island		NYS (minus NYC, LI)	
	2005	% of Total	2005	% of Total	2005	% of Total	2005	% of Total
Total for Employees	\$4.867	53.6%	\$4.956	55.2%	\$9.822	54.4%	\$22.748	52%
<i>Direct Payroll Costs</i>	\$3.566	39.3%	\$3.564	39.7%	\$7.130	39.5%	\$16.080	36.9%
<i>Employee Benefits</i>	\$1.300	14.3%	\$1.392	15.5%	\$2.692	14.9%	\$6.668	15.3%
Equipment and Capital Costs	\$0.564	6.2%	\$0.929	10.3%	\$1.492	8.3%	\$3.924	9.0%
Goods and Services	\$2.845	31.3%	\$2.574	28.6%	\$5.419	30.0%	\$14.329	32.9%
Debt Principal and Interest	\$0.802	8.8%	\$0.527	5.9%	\$1.329	7.4%	\$2.523	5.8%
TOTAL	\$9.078	100%	\$8.985	100%	\$18.063	100%	\$43.525	100%

Note: totals may not add due to rounding

Spending by all local governments on Long Island grew 20% faster than inflation between 1997 and 2005. Table 4 shows the changes by type of government over that nine year span. There are two key findings suggested by Table 4. First, the growth rate shown for counties reflects the fact that expenditures and revenues for Nassau County prior to 2000 included the county hospital, which was spun off from county operations to a public benefit corporation on Sept. 29, 1999 and is no longer counted as county expenses and revenues subsequent to that date. Second, in addition to being the largest component of local government spending, school districts also had the greatest increase in spending, rising 34.2% higher than the rate of inflation over the nine year period. This was followed by a 24.4% increase in village spending and a

24.3% increase in fire districts spending. Table 5 provides additional year-by-year detail for these changes. Schools represent the largest increase over that time period, and they, along with villages, were the only two types of governments that showed an increase, over and above the rate of inflation, for each of the nine years.

	Nassau			Suffolk			Long Island		
	1997	2005	% Change	1997	2005	% Change	1997	2005	% Change
Counties	\$3.376	\$3.246	-3.9%	\$2.147	\$2.546	18.6%	\$5.523	\$5.792	4.9%
Cities	\$0.111	\$0.110	-1.0%	N/A	N/A	NA	\$0.111	\$0.110	-1.0%
Towns	\$0.983	\$0.960	-2.4%	\$1.051	\$1.365	29.8%	\$2.035	\$2.325	14.3%
Villages	\$0.494	\$0.603	22.1%	\$0.122	\$0.164	33.5%	\$0.617	\$0.767	24.4%
School Districts	\$3.033	\$4.061	33.9%	\$3.525	\$4.742	34.5%	\$6.558	\$8.802	34.2%
Fire Districts	\$0.084	\$0.098	17.3%	\$0.131	\$0.169	28.7%	\$0.215	\$0.267	24.3%
TOTAL	\$8.081	\$9.078	12.3%	\$6.977	\$8.985	28.8%	\$15.058	\$18.063	20.0%

	1997	1998	1999	2000	2001	2002	2003	2004	2005	% Change 97-05
Counties	\$5.523	\$5.598	\$5.862	\$5.169	\$5.450	\$5.284	\$5.368	\$5.879	\$5.792	4.9%
Cities	\$0.111	\$0.097	\$0.107	\$0.108	\$0.112	\$0.119	\$0.122	\$0.113	\$0.110	-1.0%
Towns	\$2.035	\$1.994	\$2.015	\$1.969	\$2.136	\$2.105	\$2.220	\$2.347	\$2.325	14.3%
Villages	\$0.617	\$0.628	\$0.649	\$0.658	\$0.675	\$0.712	\$0.738	\$0.741	\$0.767	24.4%
School Districts	\$6.558	\$6.728	\$7.049	\$7.315	\$7.703	\$8.144	\$8.485	\$8.734	\$8.802	34.2%
Fire Districts	\$0.215	\$0.216	\$0.240	\$0.235	\$0.242	\$0.236	\$0.251	\$0.257	\$0.267	24.3%
TOTAL	\$15.058	\$15.263	\$15.923	\$15.454	\$16.318	\$16.600	\$17.185	\$18.072	\$18.063	20.0%

Overall, Long Island local government expenses grew at a slightly faster rate - 20% faster than inflation - compared to the rest of the state, which grew 18.3% faster than inflation over the comparable nine year time period, as shown in Table 6. However, school district costs on Long Island grew 34.2% compared to the 25.9% increase for school districts in the rest of the state. This is particularly important because school district costs represent almost one-half of total local government expenditures on Long Island.

Table 6						
Total Expenses in Long Island and NYS By Municipality Type (\$ Billions - 2005 Dollars)						
	Long Island			NYS (minus NYC,LI)		
	1997	2005	% Change	1997	2005	% Change
CCTV ¹	\$8.285	\$8.993	8.5%	\$19.945	\$22.316	11.9%
School Districts	\$6.558	\$8.802	34.2%	\$16.605	\$20.906	25.9%
Fire Districts	\$0.215	\$0.267	24.3%	\$0.244	\$0.303	24.1%
TOTAL	\$15.058	\$18.063	20.0%	\$36.794	\$43.525	18.3%

¹ CCTV - Counties, Cities, Towns, Villages

Table 7 shows how expenditures by category of expense changed over the last nine years for Long Island and the rest of the state. Table 7 indicates that governments on Long Island were more successful at controlling the growth of expenditures in certain areas compared to governments in the rest of the state (e.g. employee benefits and debt principal and interest), and less successful in other areas (e.g. direct payroll costs, equipment and capital costs and goods and services.)

Table 7						
Expenditures by Object Code (Category of Expense), Long Island and NYS (\$ Billions - 2005 Dollars)						
	Long Island			NYS (minus NYC, LI)		
	1997	2005	% Change	1997	2005	% Change
Total for Employees	\$8.144	\$9.822	20.6%	\$18.765	\$22.748	21.2%
<i>Direct Payroll Costs</i>	\$6.306	\$7.130	13.1%	\$14.496	\$16.080	10.9%
<i>Employee Benefits</i>	\$1.838	\$2.692	46.5%	\$4.269	\$6.668	56.2%
Equipment and Capital Costs	\$1.123	\$1.492	32.9%	\$3.130	\$3.924	25.4%
Goods and Services	\$4.643	\$5.419	16.7%	\$12.779	\$14.329	12.1%
Debt Principal and Interest	\$1.148	\$1.329	15.8%	\$2.120	\$2.523	19.0%
TOTAL	\$15.058	\$18.063	20.0%	\$36.794	\$43.525	18.3%

Revenues

All local governments in New York rely on three sources of revenue: local revenues, state funding, and federal funding. Table 8 shows the breakdown of revenues, for Long Island and the rest of the state, for 1997 and 2005⁴. Table 9 presents the data from Table 8 shown as percentages of the Totals.

As shown in Table 9, in 2005, 79.2% of the total local government revenues on Long Island were generated from local sources: either property tax, sales tax, interest and earnings, or other fees and taxes; while 16.7% came from state sources and the remaining 4% from federal sources. These ratios changed slightly over the nine year time period.

Table 9 also illustrates several key differences both between counties and between Long Island and the rest of the state. In Nassau in 2005, 84.2% of all local government revenues came from local taxes, interest and fees. This exceeded Suffolk's reliance on local revenues (74.5%), and the average for the rest of the state (65.5%). Overall for Long Island, local revenues were 79.2% of all revenues, compared to 65.5% for the rest of the state. This significant difference undoubtedly explains why Long Islanders perceive such a heavy local tax burden. Table 9 also illustrates that the relative local tax burden differential between Long Island and the rest of the state has not changed over the last nine years.

	<u>Nassau</u>		<u>Suffolk</u>		<u>Long Island</u>		<u>NYS (minus NYC,LI)</u>	
	<u>1997</u>	<u>2005</u>	<u>1997</u>	<u>2005</u>	<u>1997</u>	<u>2005</u>	<u>1997</u>	<u>2005</u>
	Total	\$7.25	\$8.264	\$6.87	\$8.605	\$14.11	\$16.868	\$35.23
Local	\$6.10	\$6.954	\$5.04	\$6.413	\$11.15	\$13.367	\$23.53	\$27.095
State	\$0.84	\$1.012	\$1.49	\$1.812	\$2.33	\$2.824	\$9.18	\$11.163
Federal	\$0.30	\$0.297	\$0.33	\$0.380	\$0.64	\$0.677	\$2.52	\$3.129

⁴ Revenue totals do not match expenditure totals because revenues, as reported to OSC, do not reflect new debt issued and timing of certain reimbursements.

Table 9 Revenue Sources as Percent of Total Revenue; Long Island and NYS (Based on Table 8)								
	Nassau		Suffolk		Long Island		NYS (minus NYC,LI)	
	1997	2005	1997	2005	1997	2005	1997	2005
Total	100%	100%	100%	100%	100%	100%	100%	100%
Local	84.2%	84.2%	73.4%	74.5%	79.0%	79.2%	66.8%	65.5%
State	11.6%	12.2%	21.7%	21.1%	16.5%	16.7%	26.1%	27.0%
Federal	4.2%	3.6%	4.8%	4.4%	4.5%	4.0%	7.1%	7.6%

Note - totals may not add due to rounding

Table 10 expands the information provided in Table 8. Table 10 shows the sources of revenue for the various types of local government on Long Island in both 1997 and 2005, and the change in the revenues used by each type of government over the nine years. For example, while total school revenues increased by 30.6% higher than the rate of inflation, reliance on local revenues as a percentage of total revenues increased slightly (in 1997, local revenues represented 73.9% of total school revenues compared to 74.6% in 2005). Not surprisingly, changes in revenues mirrored changes in expenditures by government type, however, Table 10 provides the data to show shifts in sources of revenue by each type of government.

Table 10 Total Revenues for Long Island Governments, by Source (\$ Billions - 2005 Dollars)									
	1997				2005				% Change of Total 1997-2005
	Local	State	Federal	Total	Local	State	Federal	Total	
County	\$3.88	\$0.57	\$0.43	\$4.88	\$4.21	\$0.54	\$0.37	\$5.12	4.9%
Cities	\$0.08	\$0.01	\$0.01	\$0.09	\$0.09	\$0.01	\$0.01	\$0.10	8.4%
Towns	\$1.55	\$0.11	\$0.08	\$1.74	\$1.72	\$0.26	\$0.06	\$2.04	17.1%
Villages	\$0.54	\$0.02	\$0.01	\$0.57	\$0.66	\$0.05	\$0.01	\$0.72	25.9%
Schools	\$4.88	\$1.62	\$0.11	\$6.60	\$6.43	\$1.96	\$0.23	\$8.62	30.6%
Fire Districts	\$0.22	\$0.00	\$0.00	\$0.22	\$0.26	\$0.00	\$0.00	\$0.26	18.0%
Total	\$11.15	\$2.33	\$0.64	\$14.11	\$13.37	\$2.82	\$0.68	\$16.87	19.5%

Finally, Table 11 presents more detailed information about the sources of local revenue, showing the total amounts for Long Island and the rest of the state along with the changes from 1997 through 2005. Table 11 demonstrates two important differences between Long Island and the rest of the state. First, Long Island relies more heavily on property taxes for local revenues and correspondingly relies less on sales tax revenues than the rest of the state. In 2005, property taxes on Long Island were \$8.224 billion (61.5%) out of the \$13.367 billion in total local revenues, compared to 50.4% for the rest of the state. Second, property taxes increased 14.1%

above the rate of inflation on Long Island, compared to 7.3% for the rest of the state, while correspondingly sales taxes increased 32% higher than inflation for the rest of the state, compared to 13.3% for Long Island. These represent significant differences in how local governments are funded in Long Island compared to local governments elsewhere in the state.

	<u>Long Island</u>			<u>NYS (minus NYC,LI)</u>		
	<u>1997</u>	<u>2005</u>	<u>% Change</u>	<u>1997</u>	<u>2005</u>	<u>% Change</u>
Sales Tax ¹	\$1.822	\$2.064	13.3%	\$2.246	\$2.964	32.0%
Real Property Tax ²	\$7.205	\$8.224	14.1%	\$12.736	\$13.664	7.3%
Interest and Earnings ³	\$0.189	\$0.193	1.9%	\$0.591	\$0.397	-32.8%
All Other	\$1.933	\$2.886	49.3%	\$7.809	\$10.070	29.0%
TOTAL	\$11.150	\$13.367	23.2%	\$23.382	\$27.095	15.9%

¹ OSC Codes 1110 and 1115; ² OSC Code 1001; ³ OSC Codes 2710 and 2401