A New Revenue Source for Small Cities in Upstate New York

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ABSTRACT

This paper proposes a policy response to some fiscal challenges in small Upstate New York cities that have significant public and private college student populations. These populations require unfunded outlays to ensure public safety for college students, which add to municipal fiscal stress. We undertake an empirical analysis of some affected small cities, and propose a targeted fee to help balance city budgets negatively effected by the greater expenditures needed to ensure the safety of residents.

INTRODUCTION

Under New York State's tax system, cities rely heavily on property tax revenues to fund operations. In the last four decades, small city governments in Upstate New York have suffered declines in property tax revenues from depopulation, increased poverty rates, vacant housing, and a rising proportion of tax-exempt properties. A recent statewide cap on annual property tax increases has further compromised municipal finances in Upstate cities. After discussing some factors that created this dismal fiscal environment, we examine general fund revenues, expenditures, and budgetary balances for the year 2012 in six small Upstate cities: Cortland, Elmira, Geneva, Oneonta, Oswego, and Plattsburgh. We identify negative fiscal consequences from the presence of colleges in these municipalities, and we propose a targeted fee to be paid by students to provide supplemental revenues to fund public safety services. Finally, we show how this new source of revenue would help reduce the structural budget deficits in the six cities.

SIX SMALL CITIES IN UPSTATE NEW YORK

The small municipalities in our study share four characteristics in common. First, each is legally defined as a "city," but with a population of less than 30,000 residents (as of the 2010 U.S. Census of the Population). Second, the cities are located Upstate, a geographic region generally construed to be the part of New York State that is north and west of Rockland and Westchester counties, metropolitan New York City, and Long Island. Third, each city hosts at least one private and/or public residential college. Finally, each city has professional police and fire departments. Six Upstate cities—Cortland, Elmira, Geneva, Oneonta, Oswego, and Plattsburgh—meet the four criteria. A larger sample of municipalities, one that includes villages and towns, would have been desirable for our study of the contemporary challenges for

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funding public safety in communities where colleges are located. But many Upstate villages and towns with a private and/or public residential college do not have professionally trained police and fire departments. Some municipalities have one or the other, and some have neither. Indeed, it is this characteristic that excludes a larger number of municipalities from our consideration.

BUDGET CHALLENGES IN THE SAMPLE GROUP OF SMALL UPSTATE CITIES

Since 1970, four negative trends in economic development have compromised the fiscal viability of Cortland, Elmira, Geneva, Oneonta, Oswego, and Plattsburgh. These include: 1) the decline of medium and large scale commercial enterprises, 2) a stagnant or declining population base, 3) a rising inventory of vacant or abandoned housing, and 4) a rising share of tax exempt properties as a percentage of all properties. Each of these negative trends is intertwined with the other three negative factors. In the past four decades, our six small Upstate cities have lost employment in manufacturing and commercial enterprises. Those losses are captured in the structural shift from manufacturing employment to services and government employment in the United States as a whole, and in the exodus of medium and large sized employers from the Upstate region. The Federal Reserve marks the overall decline in the percentage of employment in manufacturing in the United States from 26.4% in 1970 to 10.1% in 2010 (Federal Reserve Economic Data, 2015, Series USAPEFANA). Declines in manufacturing employment correlate with declining population trends in five of the six cities from 1970 to 2010. With the exception of Plattsburgh, which saw a modest 7% population increase in the 40 years, population declines in the other five cities ranged from 2% (Cortland) to 27% (Elmira). In total, the population for our six cities declined 14%, from 132,017 in 1970 to 113,697 in 2010, representing a 14% decrease (Census.gov and Office of the New York State Comptroller, 2004). Depopulation generated a rising inventory of vacant or abandoned housing, the third negative development for municipal finances. Surplus housing stock and an eroding property tax base were juxtaposed to the final negative trend for economic development in these Upstate cities—a rising share of tax-exempt property as a percentage of all properties. As not-for-profit cultural and religious organizations, and county, state, and federal government offices moved into or replaced properties that had been in private commercial hands, property tax revenues were put under increasing pressure. In total, the New York State Comptroller estimates that over $2.5 billion in property valuations currently enjoy tax-exempt status in our six Upstate cities, with 42% of property in those cities in the tax-exempt category (Office of the New York State Comptroller, 2015a). The imposition of a statewide cap on annual property tax increases has further strained the abilities of small cities to fund critical operations, and it is not surprising that the Comptroller's Office has conducted annual "fiscal stress tests" on all municipalities in New York State since 2012.

The origins and cumulative characteristics of the process of economic decline in Upstate New York were mapped a decade ago in two Brookings Institution studies on the 1990s economy. Pendell and

Christopherson (2004) underscores the collapse in incomes that coincided with rising poverty rates. The authors claim that personal income growth in the Upstate region grew at half the national rate in the 1990s, and was accompanied by an increase in concentrated poverty (concurrent to significant declines in national poverty rates). Two distinct aspects of the income decline in the Upstate region are identified in the study. First, the best-educated and highest-skilled workers earned markedly lower wages than similar workers elsewhere. Discrepancies in wage rates encouraged workers to leave Upstate New York for other regions within the state or in the nation that offered higher earnings. A second incomes problem was indicated in that the lowest income earners Upstate did not realize the benefits of a national recovery from the flat income growth that had persisted from the mid-1970s to the early 1990s in the United States as a whole. Low-income earners Upstate instead saw their incomes fall in the 1990s, again corresponding to rising poverty rates among those who continued to reside in the region (Pendell and Christopherson, 2004).

Pendall (2003) previously identified another negative employment and incomes trend relative to out-migration that began to compromise municipal finances in small Upstate cities during the 1990s. Upstate cities lost 40,000 households in the decade, while unincorporated Upstate towns gained 160,000 households. Characterized by Pendall as an aspect of *sprawl,* this shift eroded city tax bases, increased vacant housing, and compromised home ownership. As the population of Upstate cities declined by 7.3% in the 1990s, the population of unincorporated towns increased 5.8%. Assessed property values in Upstate cities also declined from $45.1 trillion to $41.9 trillion (in constant year 2000 dollars) over the ten year period. Pendall further points out that the change coincided with shrinkage in the size of Upstate city households as the remaining population aged, divorce rates rose, and the number of marriages declined (Pendall, 2003).

THE RISE OF THE STATE UNIVERSITY OF NEW YORK IN SMALL UPSTATE CITIES

As the economy of Upstate New York experienced relative economic decline in private sector employment and real property values, four of our six cities—Cortland, Oneonta, Oswego, and Plattsburgh—benefitted as sites for the sizable expansion of State University of New York (SUNY) campuses in Upstate New York. The development of SUNY was inextricably linked with a regionalized development plan for New York State. In 1960, the Heald Commission Legislative Report made a socio-political-economic argument for the expansion of SUNY by noting that the increased demand for college would launch a period of "skyrocketing growth for as far as we can see into the future." SUNY would be a "social servant" to meet local and regional needs (Roskens and White, 1968, p. 23). Following recommendations from the Heald Report, the State University Construction Fund (S.U.C.F.) was created in March, 1962 to proceed with SUNY's statewide expansion (Geizer, 1974). New campus construction was accompanied by improvements in public capital throughout the Upstate region during the 1960s. Branch spurs of the

Interstate Highway system were built to provide transportation linkages, and it is not coincidental that every SUNY residential college campus is within ten miles of an extension of this arterial network.

A decentralized SUNY was expected to add much in the way of new employment, incomes and attendant multiplier effects in the communities that hosted the newly constructed campuses. Human capital creation through the expansion of SUNY presupposed population retention and a future return on state investments (Board of Regents, 1972). These positive externalities were anticipated to provide increased state and local revenues from sales and income taxes. But the confident forecasts found in legislative and commission reports and from the New York State Regents were wrong. Over the last four decades, the decentralized SUNY campuses in small Upstate municipalities instead replaced for-profit manufacturing and commercial enterprises. Despite considerable state investments in the expansion of SUNY, the expected returns would not be forthcoming as the private sector economy of Upstate New York declined after 1970.

Four of the six municipalities in our study benefitted from the expansive growth of SUNY. In the last forty years, the SUNY residential four-year colleges in Cortland, Oneonta, Oswego, and Plattsburgh each grew to accommodate over 5,000 students. Conventional economic multiplier arguments would point to the benefits that accrued from additional student spending in the hosting cities. The two other small cities in our study—Elmira (Elmira College founded 1855) and Geneva (Hobart College founded 1822)—had enjoyed similar positive wealth effects from the presence of a private residential college for more than 150 years. Oneonta is unique in our study in that it hosts both a public and private residential college (Hartwick College has been located in Oneonta since 1926). But student spending was a weak substitute for the exodus of spending by residents who had occupied traditional households and worked for private sector employers.

NEGATIVE CONSEQUENCES FOR MUNICIPAL FINANCES FROM THE GROWTH OF RESIDENTIAL COLLEGES IN SMALL UPSTATE CITIES

After 1960, the influx of SUNY students into five of our six Upstate cities presents an important caveat to our understanding of accounting for population statistics in these municipalities. Full time students, according to the United States Bureau of the Census and electoral voting statutes in New York State, are treated as year round residents of their college community. The Bureau of the Census counts college students living away from their parental home while attending college at the on-campus or off-campus residence where they live and sleep most of the time (Census.gov). And New York State voter registration laws consider a student attending a four year college as a resident of the municipality where the college is located.

The population figures below, in Table 1 Student Population, Selected Small Cities, 2010, include residents in households as well as student residents at the private and/or public colleges in those cities.

The current percentage of students as a proportion to total residents ranges from a low of 5% in Elmira to a high of 53% in Oneonta in our six Upstate cities. All told, college students make up 27% of the total population for the six cities.

Table 1: Student Population, Selected Small Cities, 2010

	Total Population	**Student Population***	**Students as % Total**
Cortland	19,204	6400	33
Elmira	29,200	1408	5
Geneva	13,261	2368	18
Oneonta	13,901	7418	53
Oswego	18,142	7328	40
Plattsburgh	19,989	5639	28

* Undergraduate students only, as of 2013.
Source: National Center for Education Statistics, http://nces.ed.gov/globallocator.

The surge in SUNY enrollments in five of our Upstate cities after 1960 effectively offset what would have been *even steeper declines* in the populations of those cities. This means the declines in private sector employment, households, and incomes were even more pronounced in the five cities in our study with SUNY institutions. Table 2 Adjusted Population Declines in Non-Student Residents, Selected Small Cities, quantifies the severity in the population loss of year round non-student residents after the expansion of SUNY. The first column in the table, "Additional SUNY Students Since 1960," is the difference between full time student enrollment in 1960 and 2013. The additional SUNY students in Cortland, Oneonta, Oswego, and Plattsburgh are then subtracted from the most recent Census population figures for 2010, which yields the fourth column, "Adjusted 2010 Population." These adjusted figures are then used to calculate the last column, "% Change 1970 to 2010." In total, the "swapping" of new SUNY students for permanent residents suggests that our six Upstate cities lost an average of 27% of their non-student populations in the four decades from 1970 to 2010. While the expansion of SUNY no doubt brought student spending multipliers to these cities, the positive benefits of those effects are considerably less than those that would come from residents who live in households supported by incomes from employment in private sector commercial enterprises; whether large, medium, or small.

Table 2: Adjusted Population Declines in Non-Student Residents, Selected Small Cities

	Additional SUNY Students Since 1960	Population 1970	Population 2010	Adjusted 2010 Population	% Change 1970 to 2010
Cortland	4001	19,621	19,204	15,203	-23
Elmira	0	39,945	29,200	29,200	-27
Geneva	0	16,793	13,261	13,261	-21
Oneonta	3999	16,030	13,901	9,902	-38
Oswego	5071	20,913	18,142	13,071	-37
Plattsburgh	4231	18,715	19,989	15,758	-16

Source: United States Bureau of the Census and Office of the New York State Comptroller (2004); Enrollment data were provided by the SUNY Institutional Research Office.

The rising proportion of property tax exemptions relative to total properties that accompany the expansion of SUNY in four of these municipalities further magnifies the negative consequences of these population shifts over the four decades. In addition to the loss in overall tax revenues, property owners had to absorb higher costs for public safety that are attributable to the presence of college students. As shown in Table 3 General Fund Revenues and Selected Small Cities, 2012, between 32% and 44% of annual expenditures in our six Upstate cities are devoted to public safety (fire and police protection). Total revenue and total expenditures data are for each city's General Funds, so capital project funds, the proceeds of debt, and inter-fund transfers from reserves are excluded. We also do not include revenues from federal and state aid.

Table 3: General Fund Total Revenues and Expenditures, Selected Small Cities, 2012

	Total Revenues (in $)	Total Expenditures (in $)	Surplus/ Deficit (in $)	Expenditures for Public Safety (in $)	PubSafe as % of Total Expend.
Cortland	17,329,174	17,693,994	-364,820	7,479,365	40
Elmira	28,575,804	29,940,196	-1,364,392	11,863,276	39
Geneva	15,278,619	16,097,916	-819,297	6,160,935	38
Oneonta	14,259,998	14,343,137	-83,139	6,314,775	44
Oswego	28,665,445	30,083,049	-1,417,604	9,538,447	32
Plattsburgh	20,277,594	22,743,349	-2,465,754	8,150,249	37

Source: New York State Comptroller

Property tax exemptions and the rising proportion of students in the total population have combined to consequently impose a structural gap in city budgets. The enlarged share of tax-exempt property has reduced a primary revenue source to finance essential services, and the unfunded expense for the provisioning of public safety has shifted an increasing burden of those costs to a shrinking number of municipal taxpayers. As the composition of city residents has shifted away from taxpaying households to college students in our Upstate cities, non-student households have been forced to bear an even higher proportion of public safety expenditures. Per capita total spending and per capita spending for public safety are compared below in Table 4 Total Spending and Public Safety Expenditures, Per Capita, Selected Cities, 2012. The Public Safety Spending, per Capita, means that the annual spending per student for public safety in our six Upstate cities ranges from a low of $389 per year (Cortland) to a high of $526 per year (Oswego). Average Total per Capita Spending is $1,165 for the six cities, and average per Capita Public Safety Spending is $441. In our six cities, 38% of all municipal spending is allocated to the provisioning of Public Safety services.

Table 4: Total Spending and Public Safety Expenditures, Per Capita, Selected Cities, 2012

	Total Spending, per Capita (in $)	**Public Safety Spending, per Capita (in $)**
Cortland	921	389
Elmira	1025	402
Geneva	1214	465
Oneonta	1032	454
Oswego	1658	526
Plattsburgh	1138	408

Source: New York State Comptroller

NEW YORK STATE COLLEGE PUBLIC SAFETY FEE PROPOSAL

Given these realities, we propose a New York State College Public Safety Fee to mitigate the fiscal challenges faced by small cities in Upstate New York with large college student populations. Because these populations require highly trained personnel and equipment to ensure public safety, an unfunded burden has been placed on municipal finances generally, and on property owning taxpayers specifically. Under provisions of federal and state law, college students enjoy the same rights as year round residents. Since residential college students consume the same set of public services as those that are consumed by property owners and renting residents, a classic “free rider” problem exists. Students attending college in Upstate cities benefit from public safety services without paying for the cost of those services.

Table 5 Student Population, Fee Revenue, and Budget Deficits, Selected Small Cities examines the results from hypothetically charging college students a $100 fee that would provide revenues dedicated to funding public safety services in our six Upstate cities. Such a fee would have returned an additional total revenue stream to our municipalities in 2012 ranging from a low of $140,800 in Elmira to a high of $741,800 in Oneonta. Although the $100 fee would cover about 25% of the cost of public safety in Cortland, Elmira, and Plattsburgh, the 2012 general fund budget deficits in Cortland and Oneonta would have turned into modest surpluses, and the deficit in Oswego would have been cut in half.

Table 5: Student Population Fee Revenue and Budget, Selected Small Cities

	Student Population	**Fee Revenue ($100 fee)**	**Original Deficit (in $)**	**Deficit with New Revenue (in $)**
Cortland	6400	640,000	-364,820	275,180
Elmira	1408	140,800	-1,364,392	-1,223,592
Geneva	2368	236,800	-819,297	-582,497
Oneonta	7418	741,800	-83,139	658,804
Oswego	7328	732,800	-1,417,604	-684,804
Plattsburgh	5639	563,900	-2,465,754	-1,901,854

CONCLUSION

Our findings demonstrate that under existing federal and state laws defining residency, college students in our Upstate small cities enjoy benefits from services funded only by non-student residents. We have shown how colleges contribute to budgetary distress in Upstate small cities, and have identified an inequity where local property owners bear the full burden of unfair taxation in the provisioning of essential public services. Those results call for the possibility of levying a special fee on residential college students to support the provisioning of public safety services. More generally, there may be additional legal concerns on fairness since some residents currently bear the costs for free riders who utilize essential public safety services and reside at colleges.

ENDNOTES

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