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LONG ISLAND ECONOMIC & SOCIAL POLICY INSTITUTE

LONG ISLAND TAXPAYERS GIVING MORE THAN THEY GET:

STATE AID TO LONG ISLAND SHORT BY $11.6 BILLION

by

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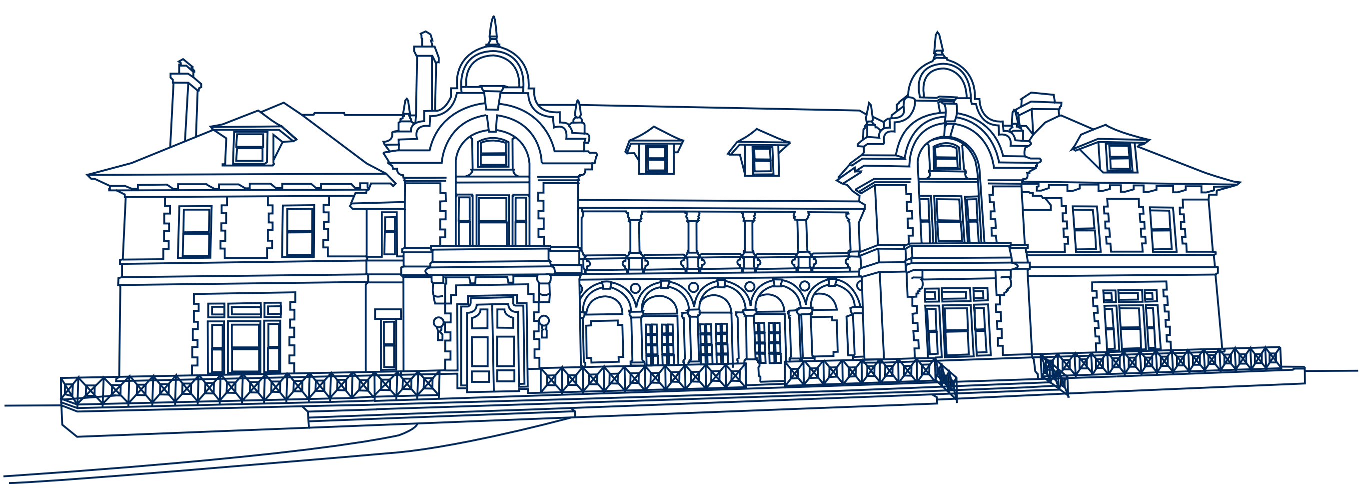

INTRODUCTION

WHERE IS LONG ISLAND'S $11.6 BILLION?

On March 28, 2008 the Long Island Economic and Social Policy Institute at Dowling College hosted Suffolk County Comptroller Joseph Sawicki, Jr. who discussed how Long Island sends more tax dollars to Albany than it receives back in state aid.

For years, Long Island has struggled in Albany to fight the inaccurate perception that this region is generally wealthy and less in need of state financial assistance than other parts of New York. In fact, Long Island is a predominantly middle class area whose taxpayers are beset with the heaviest tax burden in the state.

The Long Island Association (LIA) has noted that "Long Islanders pay 20% more of their household income on property taxes than all other New Yorkers and because of the higher taxes and housing costs they pay, Long Islander's have negative median disposable income." Conversely, "all upstate residents enjoy significantly positive disposable income even though they have somewhat lower household income."

Who isn't fed up at how New York State wants Long Island's taxes and economic activity, but won't give the region its fair share of state spending? Certainly not the attendees at the March 28,2008 Roundtable for Long Island's Future at Dowling College. After all, Long Island is the largest suburban region in New York State, and has a population greater than 19 states. Yet, we operate under a New York Assembly, State Senate and Governorship that has their roots firmly planted in New York City.

Ominous for how Long Island is treated is how the region educates 17% of the students in New York State, and receives fair consideration only when the region's state senators fight tenaciously to sustain what has been Long Island's 14% share of state aid to education.

With the state senate now controlled by New York City Democrats, New York State government has become urban-oriented and strongly influenced by New York City-based leadership. It is natural that our economy is the envy of lawmakers who would tax Long Island's economic activity and send that revenue to urban centers and to upstate New York. What is overlooked is that so many households have two wage earners, and that is what fuels Long Island's higher-than-average regional median household income. The current economic recession only exacerbates the financial stress that Long Island households find themselves in.

For too many years, Long Island has been treated simply as a source for revenue with which the State supports other regions. Several years ago, the Rochester-based Center for Government Research (CGR) analyzed the "balance of payments" between Long Island [1] and New York State. CGR's 2001 report concluded that Long Island paid to the state approximately $2.7 billion more than it received back in aggregate state payment and investments.

1 Center for Government Research

Analysis by the U. S. Bureau of Economic Research confirms the importance of Long Island's personal earned income to New York State's aggregate economic activity. Yet, despite the regional economic importance of Long Island to New York State, Drs. Lee Koppelman and Seth Forman[2] concluded that between 2002 and 2004 Long Island sent $8.1 billion to Albany and received back in state aid and spending only $5.2 billion, for a balance of payment deficit gap of $2.9 billion. Employing a conservative multiplier, to the results of CGR and Koppelman and Foreman, Long Island is exporting nearly $7 billion of economic activity to Albany, never to benefit Long Island's economy again.

Literally nearly 5.5% of Long Island's regional economic activity is being sent to Albany, to be redirected to other regions of the state at the very time Long Island's economy is growing weaker. Before one region's wealth is shared with a weaker region, the stronger region must retain its financial strength. If not, the danger is that the weaker region will drag down the economically stronger region, thus hurting the state's current and future economy.

January 2009 will bring a new president and new Federal policies, and for the first time in generations New York State's three legislative power centers will all be governed by Democrats. At the Federal level, Long Island is represented well by its congressional delegation, all of which have accumulated the prestige that comes with seniority. However, Long Island has lost the immense power of a New York Senate majority strongly influenced by Long Island's senators and, with it, the clout and protection of Long Island's property taxpayers.

Surely this clout will be sorely missed when Governor Patterson begins cutting expenses to close the current $2 billion New York State budget. The governor, however, should not automatically look towards Long Island to bear an inequitable burden of the cuts because Long Island has already provided more of its share of taxes and economic activity to the State.

The following table indicates that beginning with 2002, and ending with 2006, Long Island has sent to New York State over $39.3 billion in tax revenues, while New York State has returned $27.7 billion in school and Medicaid aid, wages and retirement benefits for a stunning $11.6 billion gap. This has deprived Long Island's 944,513[3] households of $12,292 of discretionary spendable income and the regional economy of an estimated $29.0 billion of economic activity or $30,730 per household. The following table examines the elements of how Long Island sent to Albany over $11.6 billion more than it has received.

2 Koppelman Lee, and Seth Forman.
3 Long Island Regional Planning Board, LIPA 2006 Long Island Population Survey.

Table 1: 2002-2006 Nassau-Suffolk Counties Totals/Comparison	TOTAL	2002-2006 Total Nassau Cty	2002-2006 Total Suffolk Cty
NYS REVENUE SOURCE:			
Personal Income Tax	20,948,068,120	11,865,288,720	9,082,779,400
Sales And Use Taxes	10,198,507,059	5,599,180,347	4,599,326,712
Estate Tax	703,603,334	478,458,223	225,145,111
Real Estate Transfer Tax	652,326,477	253,851,768	398,474,709
Net Motor Vehicle Reg Fees	952,765,487	440,816,447	511,949,040
Cigarette/Tobacco Taxes	319,991,658	153,375,312	166,616,346
Motor Fuel Tax	378,330,781	181,337,857	196,992,924
Net Mortgage Recording Tax	1,133,044,428	500,546,225	632,498,203
Alcoholic Beverage Tax	134,243,758	64,344,422	69,899,336
Alcoholic Bev Control Licence	29,999,488	14,379,065	15,620,423
Racing Revenues	54,808,684	32,351,937	22,456,747
Corporation Franchise Taxes	1,856,700,144	1,035,467,388	821,232,756
Corporation/Utilies Taxes	781,028,976	435,573,852	345,455,124
Insurance Taxes	886,356,432	494,314,164	392,042,268
Bank Taxes	303,829,520	183,345,400	120,484,120
REVENUE: LI TO NY STATE	**39,333,604,346**	**21,732,631,127**	**17,600,973,219**
NYS LONG ISLAND SPENDING			
Pymnts to Localities/Schools	13,492,421,270	4,927,545,620	8,564,875,650
Wages and Salaries	1,073,423,544	312,921,144	760,502,400
Fringe Benefits	107,342,356	31,292,116	76,050,240
Other Than Personal Services	214,684,708	62,584,228	152,100,480
Lottery Aid to Education	1,083,173,137	336,384,638	746,788,499
State Pension Payments	4,589,698,753	1,945,256,998	2,644,441,755
Medicaid Pymts-Long Island	4,867,929,371	2,362,362,876	2,505,566,495
State Subsidy to LI Railroad	2,294,883,000	1,376,931,000	917,952,000
NY SPENDING ON LONG ISLAND	**27,723,556,139**	**11,355,278,620**	**16,368,277,519**
BALANCE OF PAYMENT DEFICIT	**11,610,048,207**	**10,377,352,507**	**1,232,695,700**

METHODOLOGY

Revenues from Long Island to New York State:

Personal Income taxes paid by Long Islanders to New York State were based on data in the New York State Statistical Yearbook,[4] and based on the percentage of personal income taxes paid by Nassau and Suffolk County residents as compared to the state. While Nassau County and Suffolk represent respectively 6.95% and 7.55% of New York State's population, and earn 17.7% of personal income earned in the state, the region pays 23% of the personal income taxes collected by the State.

Sales and use taxes and the Metropolitan Commuter Transportation District taxes were allocated based on Long Islanders percent of adjusted gross income as shown on the New York State income tax return. Long Islanders contribute 20.4% of the adjusted gross income, with Nassau County having 11.2%, with Suffolk County reporting 9.2% [5].

The revenue from Net Motor Vehicle Fees, including registration, driver licenses and other fees were allocated based on the percent of vehicles registered on Long Island. Long Island has 20.5% of the states vehicles, with Nassau County having 9.1% and Suffolk County 11.4% [6]. Motor Fuel Tax collections were based on total gallons of gasoline consumed. Long Island consumes 20.8% of the gallons of gasoline sold in New York State, with Nassau County using 8.8% and Suffolk County 12.0% [7].

Cigarette and tobacco taxes, alcoholic beverages and alcoholic beverage control license fees were based on the percentage of the Nassau and Suffolk County population to New York State. Long Island's population is 14.5% of New York State, with 7.55% in Suffolk County and 6.95% in Nassau County[8].

The Mortgage Recording Tax is net of what was distributed to treasurers in Nassau and Suffolk County and Estate Tax and Real Estate Transfer Tax collections were as reported by the New York State Department of Taxation and Finance[9].

Racing Revenues are based upon the percentage of bets placed at the Nassau and Suffolk County's off-track betting sites to the total bets placed at all regional off-track betting sites in New York State. The source of the data was from the Annual Report and Simulcast Report, 2003 through 2006 of the New York State Racing and Wagering Board[10]. Between 2002 and 2006 Nassau County's percentage of state wagering increased from 12.95% to 15%, with Suffolk County remained basically unchanged at 9.5%.

Corporation franchise, corporation/utility, and insurance taxes were based on the percentage of Long Island business establishment receipts to the total in New York State. In 2006, Long Island's 232,659 businesses represented 20.7% of all business receipts in the state, with Nassau County representing 11.6% and Suffolk County reporting 9.2%. The source of the information was the U.S Census Bureau, non-employer statistics reports compiled by Empire State Development[11].

4 New York State Statistical Yearbook, 2007, 2006 and 2005.
5 Ibid.
6 New York State Department of Motor Vehicles
7 New York State Energy Research and Development Authority
8 New York State Statistical Yearbook.
9 Ibid.
10 Ibid.
11 Ibid.

Bank taxes were allocated to the Long Island region based upon deposits of all FDIC insured institutions, with deposits of branch banks included in the county where the branch is located. Nassau County banks had 7% of the state total of deposits, with Suffolk County indicating 4.6%. The source data was from the Federal Deposit Insurance Corporation, Bank and Thrift Branch Office Data Book[12].

New York State Spending on Long Island

The payments to localities and, specifically, to public elementary and secondary schools does not include special purpose funds, Trust and Agency Funds, School Store Funds, School Lunch funds, and Capital Funds. The data source for the years between 2002 and 2004 was the New York State Education Department, State Aid Unit, which indicated that Long Island received 14.2% of the state aid[13]. The 2005 and 2006 state aid to Long Island was calculated by applying these percentages to the total school aid and STAR appropriations from the New York State Fiscal Year Appropriations from the General and Special Revenue Funds.

The New York State Department of Civil Service-Information Resource Management Division provided employees and wage data by geographic location[14]. Included were employees in the classified State service of the executive branch (including SUNY) except for the Division of State Police and the Palisades Park Commission. Seasonal, temporary and part-time employees are included. Because the SUNY institutions on Long Island at Farmingdale, Old Westbury, Stony Brook, the community colleges have tuition revenue and other funding sources to sustain operations which are not included in the revenues component of this analysis, not included in the wages paid on Long Island are the nearly 2,700 personnel employed at the SUNY facilities. The same is true for the University Hospital at Stony Brook and its approximately 4,800 employees. The wage data was based on the average monthly earnings reported in the Statistical Abstract of the United States, 2004-2005[15].

Fringe benefits were calculated at 10% of the wages in each county. Other than personal services, which include travel, office, rent, supplies necessary to support the workforce was estimated at 20% of each county's wages.

Lottery aid to education data was provided by the New York State Division of the Lottery and allocated by county[16.]

State pension payment data was obtained from the annual benefit payments within New York State[17].

Since 2002, New York State has picked up a greater share of Medicaid costs. Formerly, New York State provided roughly 25% of all Medicaid Costs, the Federal government approximately 50%, and localities 25%. In 2002, the State paid for nearly 37% of Medicaid costs with localities paying 13%. Data of the distribution of Medicaid costs was provided by the New York State Department of Health and reported in the New York State Statistical Yearbook[18].

The Long Island Rail Road receives subsidies from the Metropolitan Transportation Authority. While the subsidy to the Long Island Rail Road is known[19], the allocation between Nassau and Suffolk County is estimated, with Nassau County receiving 60% and Suffolk County receiving 40%.

12 Ibid.
13 Ibid.
14 Ibid.
15 Ibid.
16 Ibid.
17 New York State and Local Retirement System Comprehensive Annual Report.
18 New York State Department of Health. New York State Statistical Yearbook.
19 Office of the New York State Comptroller. Long Island Rail Road Financial File.

DISCUSSION

The fact that Long Island has sent to New York State over $25 billion more than it has received during the past 10 years is weighing heavily on the region's economy. The LIA noted that "in 2007, the Buffalo Branch of the Federal Reserve Bank showed that private sector employment upstate has been growing at a 0.5% rate, the same as Long Island's private sector employment growth. What is apparent is that the transfer of $25 billion of Long Island taxpayer dollars has not benefited the upstate economy. Conversely, this transfer has removed over $60 billion of economic impact from Long Island.

Furthermore, by transferring $25 billion in taxpayer dollars has made Long Island a more expensive place to live for senior citizens and for the young people that the region needs to sustain its economy. According to the LIA, "in this decade Long Island's rate of loss of younger people now exceeds that of upstate New York." "According to the Census Bureau's American Community Survey (ACS), from 2000 through 2006, the 25 upstate counties for which the ACS does annual population estimates lost 9.35% of their 25- to 44-year-old population."

During the same period, Long Island's 25- to 44-year-old population declined by 14.8%. The national demographic decline in that age group was 1.5%; in New York City it was 3.3%, and in other suburbs it was 8.7%. The unmistakable conclusion is that since 2000, Long Island's rate of loss of younger people exceeds any other region of the state, as well as the nation as a whole.

One critical factor that must be taken into account in the perspective of the over $25 billion that Long Island has sent to Albany is that the global economy and a more diverse population have brought Long Island to an economic and sociological crossroad. The workforce is aging with the largest component, baby boomers nearing retirement age. The young people who would normally fill the vacated jobs are decreasing. To maintain the regional economy young people must sustain the workforce. However that future workforce is leaving Long Island for other lower cost regions of the country.

Housing is more expensive than young people can afford, and the dichotomy of the immigration issue has to be addressed-that of becoming a growing element of the Long Island workforce-while also requiring government intervention to provide safety, health services and education. To do otherwise eliminates an important workforce asset to replace the retiring baby boomers.

Energy costs, higher mortgage and consumer borrowing interest rates, and rising property taxes are becoming such a burden that they are becoming a drag on the regional job growth and expansion of the regional economy. These crushing economic factors are resulting in young people moving off of Long Island, and making it very difficult to attract a new workforce.

The Island's baby boomers have begun to enter the traditional years while birth rates are falling with workforce shortfalls attempting to be filled by immigrant groups and their offspring. How these groups fare economically will have a big impact on Long Island economy perhaps particularly health care delivery. Meanwhile, the Island is facing a housing shortage and "brain drain" that prevents many of its educated younger people from remaining on Long Island. In fact, recent data from the U.S. Census in its American Population Survey reported that Long Island lost 120,000 young people since 2000. This does not bode well for the Long Island economy and the workforce necessary to sustain it.

Long Island, with its rapidly growing over-55 year old population (currently over 680,000), includes more than 368,399 residents 65 years of age and older. The Island's younger population consists of 791,166 children and youth under age 21. Thus, the population of people age 75+ and under age 21, often called the "bookend" or dependent population amounts to 1,159,565 people or 42% of Long Island's total population. The percent of these dependent Long Islanders as a percent to those of working age is cause for concern since the former relies on the latter to pay the rising costs of education, health care, and pension benefits. As Long Islanders continue to age, these relationships continue to deteriorate.

Table 2, below, reflects how Long Island will age during the next 20 years as Long Island's baby boomers leave their youth behind. In striking fashion, between the years 2005 and 2025, those in the region over age 65 increase their representation in the regional population from 13% in 2005 to 19% by 2025, a percentage increase 46.2%. In vivid contrast, those in ages up to 20 years decrease from 27% to 24% of the population, or an 11.1% drop, while those between 20 to 59 years of age reflect a 5% decrease from 60% to 57%.

Should these trends continue, Long Island would be in the dire economic and sociological situation of not being able to insure the sustainability of its economy, the viability of its ability to raise tax dollars to maintain its infrastructure, and the fabric of its society.

TABLE 2: THE AGING OF LONG ISLAND: PROJECTED BY AGE AND GENDER

	2005	(%)	2010	(%)	2015	(%)	2020	(%)	2025	(%)
Male	1,348,634		1,333,288		1,328,461		1,369,410		1,314,927	
Female	1,406,084		1,435,073		1,438,472		1,395,664		1,439,355	
TOTAL	2,754,718		2,768,361		2,766,933		2,765,074		2,754,282	
Age Grp										
Under 5										
To 20	746,640	(27)	705,238	(25)	675,765	(24)	667,768	(24)	672,367	(24)
20 to 59	1,649,093	(60)	1,669,675	(61)	1,662,277	(60)	1,629,336	(59)	1,571,346	(57)
65 to 85+	358,985	(13)	393,448	(14)	428,891	(16)	467,970	(17)	510,569	(19)
TOTAL	2,754,718		2,768,361		2,766,933		2,765,074		2,754,282	

Source: *Long Island Association Annual Business Fact Book 2007-2008. From Cornell University Institute of Social and Economic Research, Program on Applied Demographics*: www.cisercornel.edu/PAD

These trends appear to be reasonable when reviewed in perspective of the recently released 2006 American Community Survey (ACS) by the U.S. Census Bureau. The ACS reported that between the years 2000 and 2006, the number of Long Island residents between 25 and 34 years old fell by 72,650 and another 49,827 workers between 35 and 44 years of age for a total of 122,447 workers. This puts an added strain on the workforce because these are the very Long Islanders needed to sustain the economy at the very time that baby boomers will be leaving the workforce.

Table 2 also reflects that the situation only worsens during the next 20 years. In what is a clear example of two demographic categories headed in opposite directions are those Long Islanders between 20 to 59 years of age and those 65 years of age and older. Those between 20 to 59 years of age will continue to decline by over 77,747 people between now and the year 2025, while those over age 65 will increase by 151,584, more than twice the decrease of the 20 to 59 year olds who will increase by nearly 5%, while those retired will increase by over 42%. That is a dramatic swing of over nearly 230,000 people, or 8.3% of Long Island's current population, which clearly illustrates how fast Long Island will age.

Table 2 also shows that those up to the age of 19 will decline by 74,273 or 2.7% by year 2025 which indicates that the new generation of Long Islanders will not be sufficient to sustain the economy and support those between the ages of 20 to 59 as they begin to retire.

CONCLUSION

This analysis clearly shows that Long Island continues to transfer more of its tax dollars to Albany than it receives back in tax relief, subsidies, and expenditures. This practice, which has been documented by three studies including this one, is both economically unwise and patently unfair. Yet New York State continues to view Long Island as its personal cash cow while the State continues to ignore the needs of the region's economy.

Given Long Island's economic importance to New York State, the marked slowdown of Long Island's employment growth, the aging of the regional workforce, and the acceleration of the loss of younger people should of be of utmost concern. However, despite Long Island's growing economic problems over the past several years, that compare to and even exceed those upstate and as shown by the Federal Reserve Branch in Buffalo, Long Island's taxpayers still effectively help subsidize State economic support for upstate New York.

What has become obvious is that for New York State's economy to prosper, a strong Long Island economy is crucial; something that may prove elusive if the practice of transferring Long Island's economic activity to upstate New York continues.

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Mr. Cantor has served as Suffolk County Economic Development Commissioner, Chief Economist, New York State Assembly Subcommittee for the Long Island Economy; Senior Fellow at the White Plains, New York-based Institute for Socio-economic Studies , Chief Economist and Chair of the Long Island Development Corp; a building trades labor/management arbitrator; a consultant to the Nassau Interim Financial Authority; an advisor to the Suffolk County Executive and Chair of The Suffolk County Downtown Revitalization Advisory Panel, faculty member in the Brooklyn College Department of Economics; Executive Director of the Patchogue Village Business Improvement District; and, most recently, as Director of Economic Development and Chief Economist for Sustainable Long Island and the Long Island Fund for Sustainable Development.

His work is included in the *National Tax Rebate-A New America With Less Government*, and has prepared downtown revitalization plans for Long Island and New York City neighborhoods featuring art districts, economic restructuring, waterfront projects and community organizing. He was the architect of the Nassau County Comptroller's debt restructuring plan for resolving Nassau County's fiscal crisis; has been a columnist for *Long Island Business Journal*; and has authored federal, state and local legislation; economic impact analyses; socio-economic profiles of the New York City and Long Island economic, employment and educational bases; and, annual reports on the State of the Long Island Economy.

Mr. Cantor provides economic and business commentary on television and radio; is a columnist for the *Long Island Business News*, Long Island's largest business weekly, and the LI *Pulse*; has appeared in *The New York Times* and *Newsday*, and has been syndicated nationally by *Newsday*, *Bridge News* and *Knight- Ridder/Tribune News Service*. He is an Honorary Member of Delta Mu Delta - The National Honor Society in Business Administration, and has been recognized by the National Association of Counties for innovative uses of Industrial Revenue Bonds, international trade promotion initiatives, and downtown revitalization. He was invited by Dr. William Julius Wilson of Harvard University's John F. Kennedy School of Government to present his paper entitled *Race Neutral Sustainable Economic Development*. He is the author of the recently published *Long Island, The Global Economy and Race: The Aging of America's First Suburb*. (www.martincantor.com)