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NEW YORK STATE
ASSOCIATION OF COUNTIES

Fact Sheet

Keep Local Taxes Local

End the Diversion of Local Sales Tax for State Spending Purposes

In the SFY 2019 Budget, New York State began a troubling and unprecedented practice of intercepting and diverting local sales taxes to fund state programs; first to backfill $59 million in state cuts to the AIM local government assistance program, and again in the SFY 2021 budget, when it took $250 million per year to finance a temporary state controlled distressed health facilities fund in response to the COVID pandemic. This practice of funding state programs with local sales taxes is regressive, increases pressure on property taxes, weakens our ability to fund local services, and has cost local taxpayers $677 million to date.

RECOMMENDATIONS

- Allow the distressed hospital fund to sunset as scheduled on March 31, 2022 or following the expiration of the federal COVID-19 emergency declaration.
- The legislature should support the Executive Budget proposal which ends the diversion of county sales tax to support AIM-Related payments to most towns and villages and return this responsibility to the state general fund through the regular AIM program.

Fact Points

- The Distressed Provider Assistance Fund was meant to be temporary in response to emergency COVID pandemic needs.
- As of January 26, 2022, no funding has been provided to health facilities through the Distressed Provider Assistance Fund despite the state having diverted $500 million in local sales tax for this program.
- On March 31, 2021, the state Division of the Budget directed the State Comptroller to remove $250 million from the Distressed Provider Assistance Fund and deposit it into the state general fund.
- Funding of distressed health facilities has long been a federal and state responsibility.
- Local governments do not have the same revenue generating capacity as the state and federal government and must rely on more regressive taxes such as property and sales to fund local operations.

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- Federal COVID pandemic relief funds compensated New York's health facilities and health care providers in an unprecedented way.
    - Healthcare facilities and providers in New York State have received $13.8 billion in federal assistance, with $30 billion of $175 billion authorized still to be distributed.
    - According to press statements from Senators Schumer and Gillibrand, these federal payments replaced 87 percent of the lost revenues for health facilities in New York through the first half of 2020 during the height of the pandemic and state-imposed restrictions on health care providers.
- Eighteen separate payments have been made to health care providers and facilities in New York since April 2020, with the most recent payment of $756 million coming in December 2021.
- The state is using diverted local sales taxes to backfill Medicaid budget cuts, instead of state funds.
- The Governor's proposed SFY 2023 budget is restoring some of these earlier cuts and investing more than $10 billion in state and federal matching funds to help the health care industry, eliminating the need for more local taxes to support state funding responsibilities.
- Locally generated revenues should remain under the control of local elected officials to the greatest degree possible to ensure maximum accountability and transparency is provided to the taxpayer.
- Diverting local sales tax increases pressure on property taxes.
- Diverting local sales tax for state purposes is regressive tax policy.
- The legislature opposed the sales tax diversion for distressed health facilities in SFY 2022 budget discussions, rejecting it in their one-house budgets.
- Counties and New York City already pay $8 billion annually to support state Medicaid program benefits and services that will continue to help health care providers in the absence of the temporary distressed health facility fund.

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