



Long Island Regional
Planning Council

**Long Island 2035
Regional
Comprehensive
Sustainability Plan**

Technical Report-
Governance



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Regional Planning Council

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Contents

	Page	
1	Methodology	1
	1.1 Baseline Methodology	1
	1.2 Forecast Methodology	1
2	Baseline Analysis	2
	2.1 Historical Spending Trends: Overview	2
	2.2 Historical Spending Trends: Municipalities and General Purpose Units	4
	2.3 Historical Spending Trends: School Districts	7
	2.4 Historical Revenue Trends	13
3	Forecast	15
	3.1 General Purpose Unit Forecast	15
	3.2 School District Forecast	16
	3.3 Property Tax Forecast	17
	3.4 State Aid Forecast	19
	3.5 Sales and Use Tax Forecast	19
4	Goals	21

Tables

Table 1: Units of Local Government, Long Island

Figures

Figure 1: Total Long Island Local Government Spending: 1998 to 2007 (\$ billions)

Figure 2: Annual % Spending Growth, LI Governments: 1999 to 2007

Figure 3: Total LI school and GPU spending: 1998 and 2007

Figure 4: Total GPU spending: 1998 to 2007 (\$ billions)

Figure 5: Annual % spending growth, LI GPUs: 1999 to 2007

Figure 6: Functional Areas, Average % of Budget: 1998 to 2007

Figure 7: Functional Areas, Average Annual % Spending Growth: 1998 to 2007

Figure 8: Object Level Areas, Average % of Total Spending: 1998 to 2007

Figure 9: Object Level Areas, Average Annual % Spending Growth: 1998 to 2007

Figure 10: Total spending by major functional areas for County, Town, City/Village: 2007 (\$ billions)

Figure 11: Long Island School District Spending: 1998 to 2007

Figure 12: Annual % school district spending growth: 1999 to 2007

Figure 13: Average % of total school spending, instructional/non-instructional: 1998 to 2007

Figure 14: Average annual % growth (nominal) in school instructional/non-instructional spending: 1998 to 2007

Figure 15: Average % of total spending, school district spending areas: 1998 to 2007

Figure 16: Average annual % growth (nominal), school district spending areas: 1998 to 2007

- Figure 17: Median School Professional Personnel Salaries: 2001 to 2007
- Figure 18: Instructional expenditures, Special education and general education: 1998 to 2007 (\$ billions)
- Figure 20: Public school LI enrollment by county
- Figure 19: Special education and General education enrollment: 1998 to 2007
- Figure 21: Public / Private student enrollment breakout – Suffolk County
- Figure 22: Public/Private student enrollment breakout Nassau County
- Figure 23: School District Revenue Sources
- Figure 24: General Purpose Unit Revenue Sources
- Figure 25: Annual % Growth in Real Property Taxes and Assessments: 1999 to 2007
- Figure 26: Real Property Taxes and Assessments: 1998 to 2007
- Figure 27: Annual % Growth (nominal) in State Aid: 1999 to 2007
- Figure 28: State Aid: 1998 to 2007 (\$ billions)
- Figure 29: Actual and Projected GPU & School District Spending: 1998 to 2035 (real dollars, \$ billions)
- Figure 30: Actual and Projected GPU Spending: 1998 to 2035 (real dollars, \$ billions)
- Figure 31: Actual and Projected School District Spending: 1998 to 2035 (real dollars, \$ billions)
- Figure 32: Actual and Projected Property Tax Revenue: 1998 to 2035 (real dollars, \$ billions)
- Figure 33: Actual and Projected Median Property Taxes as % of Median Household Income: 2005 to 2035
- Figure 34: Actual and Projected School District State Aid Revenue: 1998 to 2035 (real dollars, \$ billions)
- Figure 35: Actual and Projected GPU Sales and Use Tax Revenue: 1998 to 2035 (real dollars, \$ billions)

1 Methodology

1.1 Baseline Methodology

PFM collected 10 years (1998-2007) of expenditure and revenue data from the New York State Office of the State Comptroller and the New York State Education Department for all general purpose governmental units (counties, cities, and towns) and school districts. Historical spending and revenue trends were documented and analyzed by reviewing data at both functional and object levels:

Functional: Major governmental service areas (e.g., public safety, general government, transportation, sanitation, etc.);

Object Level: Personal services (salaries and wages), employee benefits, contractual, equipment and capital outlay, and debt.

To avoid double-counting, interfund transfers were not included in our analysis. The Long Island Regional Consumer Price Index for All Urban Consumers (CPI-U), as determined by the U.S. Department of Labor, Bureau of Labor Statistics, was used to calculate historical real dollars and percent growth rates.

1.2 Forecast Methodology

PFM determined the average annual growth rate for spending and revenues in the baseline period for Long Island GPUs and school districts. To account for anomalies and outliers, annual growth rates were removed that were greater or lesser than two standard deviations from the mean growth rate for the 1998 to 2007 time period. Additional adjustments were made and noted to the data set to account for other data inconsistencies and information not captured in the original data set. Forecasted real dollar and percentage growth was determined by using the average annual Long Island CPI-U growth increase of 3.0% from 1998 to 2007. "Average Real" change reflects the average nominal rate less the average annual inflation rate of 3.0%

Confidence ranges were established for all revenue and expenditure forecasts based on the wide range of aggravating and mitigating factors. An annual plus or minus 1 percent confidence range was deemed appropriate and grows over time to reflect greater risks and uncertainties.

Data have been incorporated from HR&A and Pratt to the degree that the data are compatible and add value to the forecast.

2 Baseline Analysis

2.1 Historical Spending Trends: Overview

Summary: Local governments and school districts on Long Island are expensive – taxes are among the highest in the nation – and the cost is growing at an increasingly unsustainable pace.

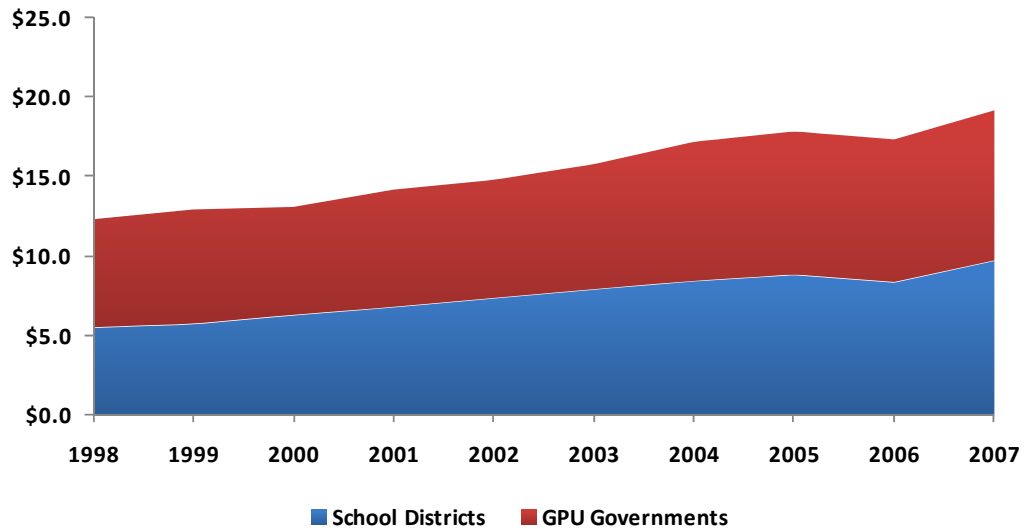
Long Island’s complicated government patchwork requires high levels of spending: Long Island is home to more than 710 units of local government, which includes school districts and General Purpose Unit (GPU) municipalities.

Table 1: Units of Local Government, Long Island

	Nassau County	Suffolk County	Total
County	1	1	2
Town	3	10	13
City	2	0	2
Village	64	32	96
Total GPU	70	43	113
School District	56	69	125
Total GPU and SDs	126	112	238
Fire District	39	93	132
Special Districts	140	200	340
Total	305	405	710

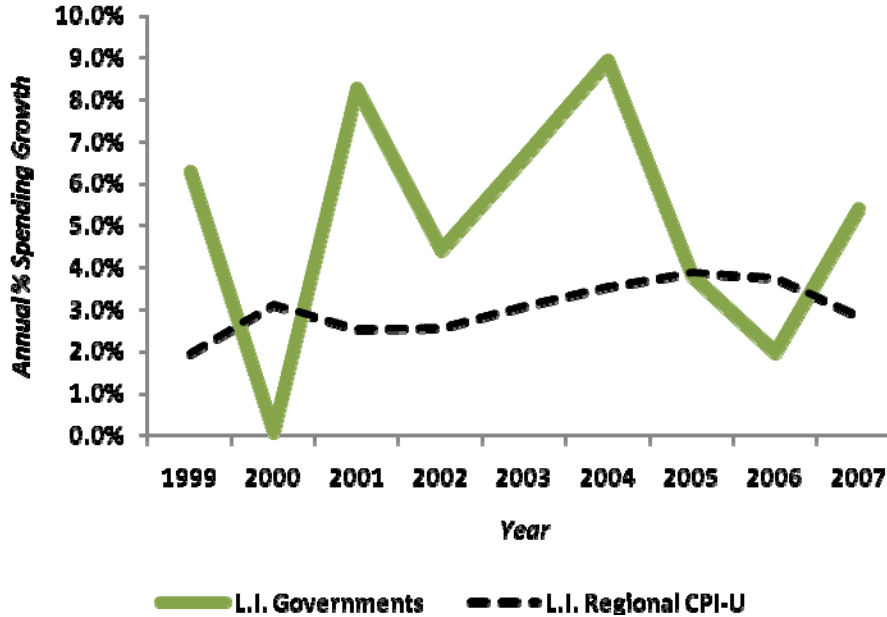
From 1998 to 2007, spending by Long Island’s school districts and GPUs grew by an average annual real growth rate of 2.1 percent, from \$12.3 billion to \$19.1 billion in 2007.

Figure 1: Total Long Island Local Government Spending: 1998 to 2007 (\$ billions)



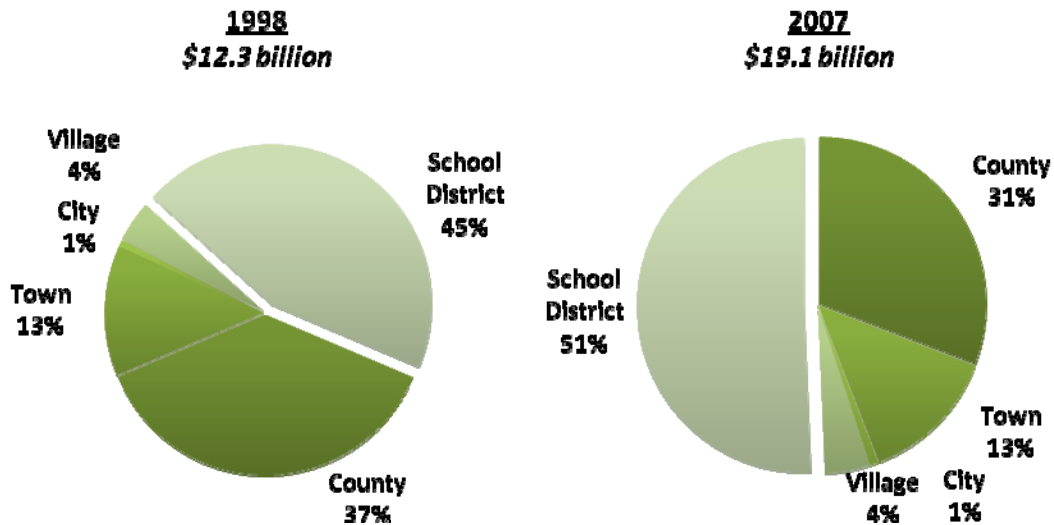
GPU spending rates on average exceeded corresponding increases in inflation, as measured by the Long Island Regional Consumer Price Index for All Urban Consumers (CPI-U). The average annual spending growth rate in real dollars was .8%.

Figure 2: Annual % Spending Growth, LI Governments: 1999 to 2007



School districts are the largest government cost driver, and over the baseline period accounted for an increasing percentage of total government spending on the Island.

Figure 3: Total LI school and GPU spending: 1998 and 2007

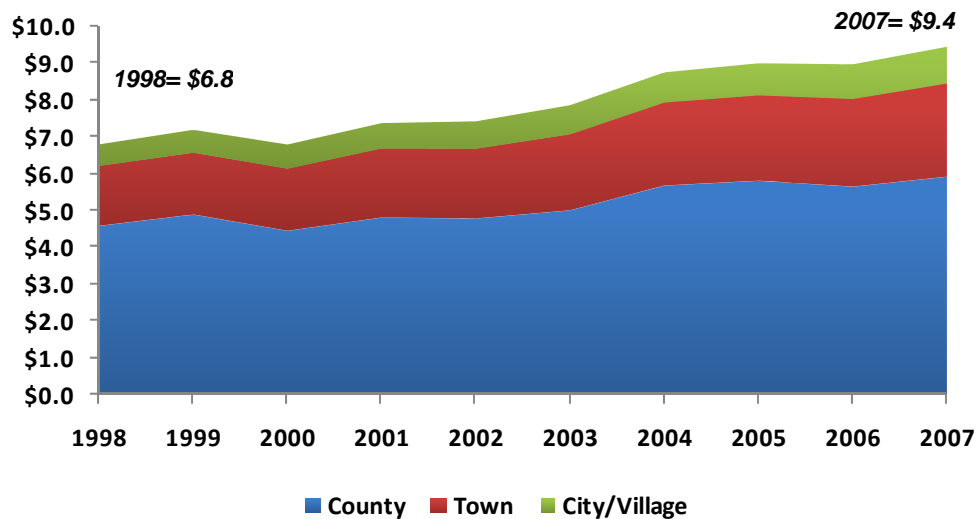


2.2 Historical Spending Trends: Municipalities and General Purpose Units

Summary: Spending by GPUs has grown marginally faster than the Long Island CPI-U. Furthermore, Long Island’s governments spend billions of dollars on overlapping service delivery systems.

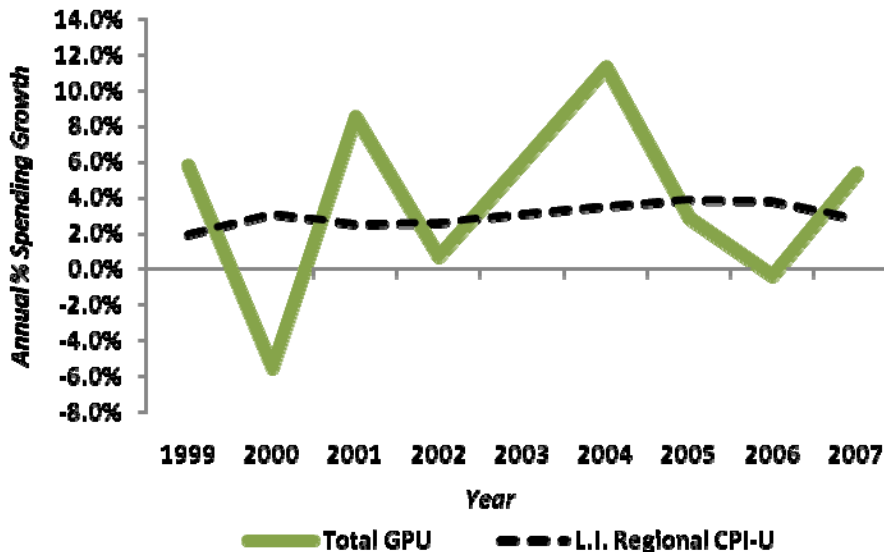
The cost of local government: Long Island’s General Purpose Unit governments added more than \$2.6 billion in new spending from 1998 to 2007. The two counties, which administer and pay a portion of State social programs, including Medicaid, social welfare, and correctional services, have historically spent more than the combined amounts of all of the Island’s villages, towns and cities, which have no such responsibility.

Figure 4: Total GPU spending: 1998 to 2007 (\$ billions)



Total spending by GPUs from 1998 to 2007 grew at an average annual rate of 0.8% above the Long Island CPI-U. Total spending reached \$9.4 billion in 2007.

Figure 5: Annual % spending growth, LI GPUs: 1999 to 2007



Cost drivers: On a functional level, which categorizes spending according to policy or service area, public safety, social services and general government have all grown at levels exceeding the Long Island CPI-U. Debt service and sanitation services are the only areas that have not outpaced the Long-Island CPI-U.

Figure 6: Functional Areas, Average % of Budget: 1998 to 2007

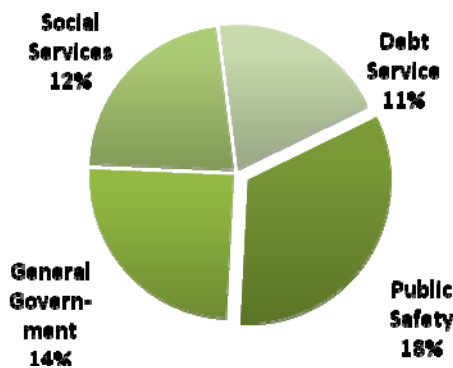
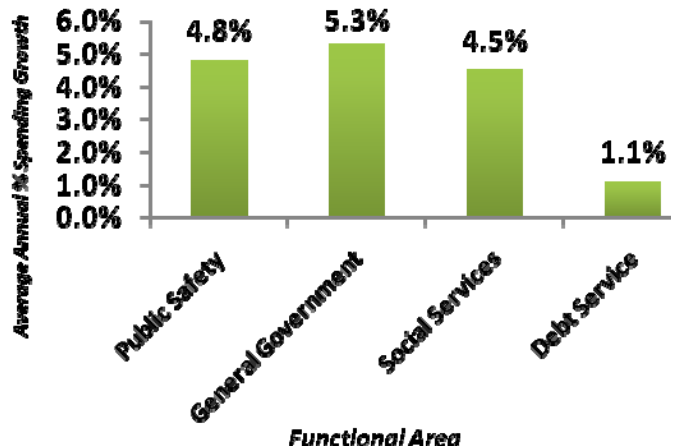


Figure 7: Functional Areas, Average Annual % Spending Growth: 1998 to 2007



Reviewing spending trends on the object level reveals that employee benefits and equipment and capital outlay spending across service areas have been growing at astounding rates, 8.1% and 9.9% respectively between 1998 and 2007.

Figure 8: Object Level Areas, Average % of Total Spending: 1998 to 2007

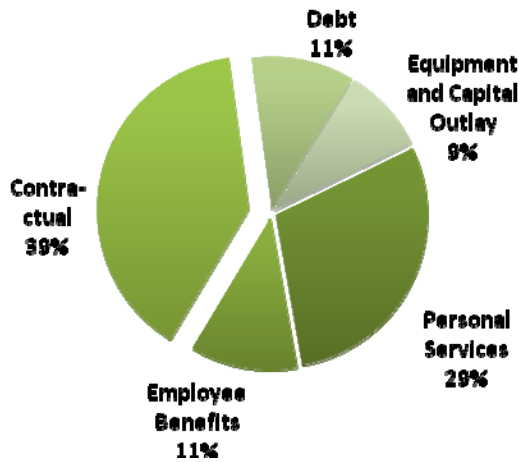
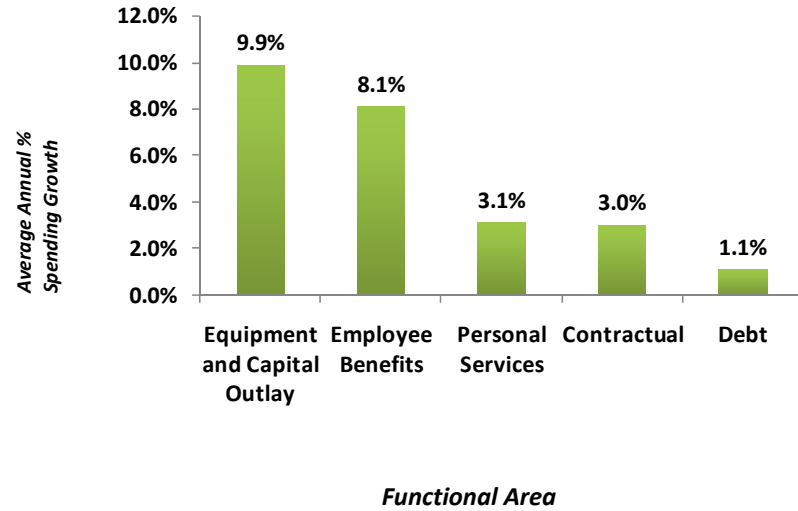
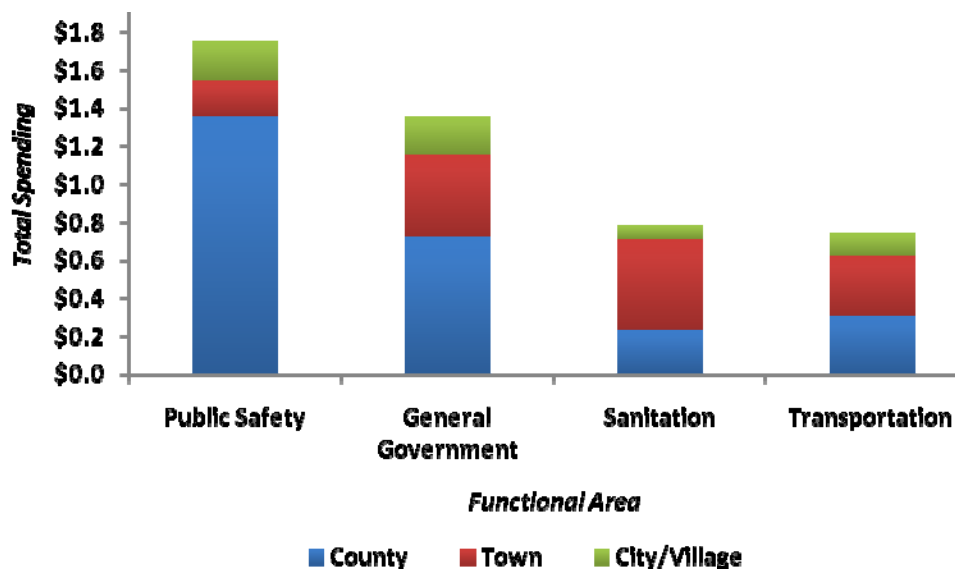


Figure 9: Object Level Areas, Average Annual % Spending Growth: 1998 to 2007



Many services are duplicated by overlapping governmental units. Counties, towns, villages and cities all spend significant amounts on public safety, general government, sanitation, and transportation. In some cases, spending covers different areas of responsibility. For example, towns plow town roads, and counties plow county roads. Residents frequently complain about the inefficiency when plow drivers lift the plow when they cross a road that is not the responsibility of their own jurisdiction. In other instances, a locality may want additional or more dedicated service, or may simply desire more local control. For example, many locales have their own police department, even though the entire county is covered by county police.

Figure 10: Total spending by major functional areas for County, Town, City/Village: 2007 (\$ billions)

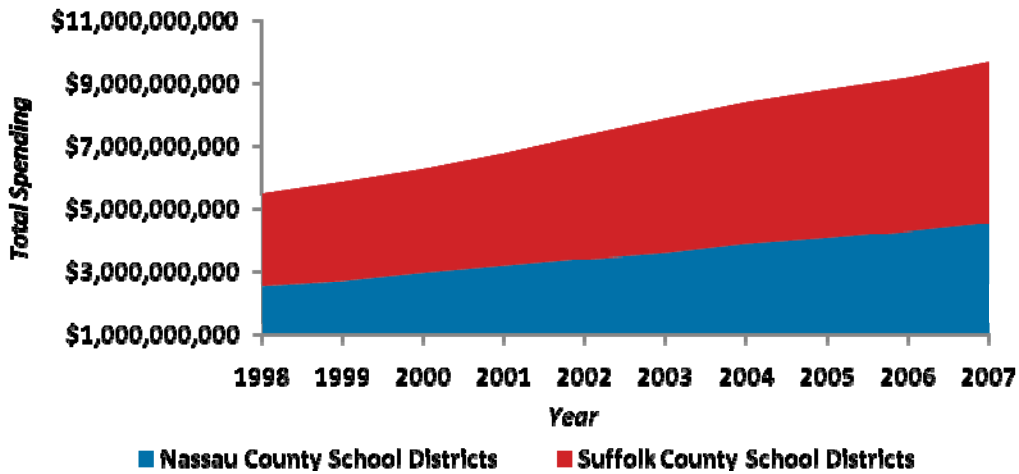


2.3 Historical Spending Trends: School Districts

Summary: Educating children on Long Island has been expensive and is getting more so with each passing year. School district spending on average has increased by more than 3% above the Long Island CPI-U – a rate that surpasses comparable statewide school spending growth. While in many Long Island districts student achievement is among the highest in the State, other districts have been dramatically less successful in realizing favorable educational outcomes.

The price tag of an education: Long Island school spending grew from a combined \$5.5 billion in 1998 to \$9.7 billion in 2007. In 1999, average spending per student was \$13,944, and in 2007 average spending per student had risen to \$20,742

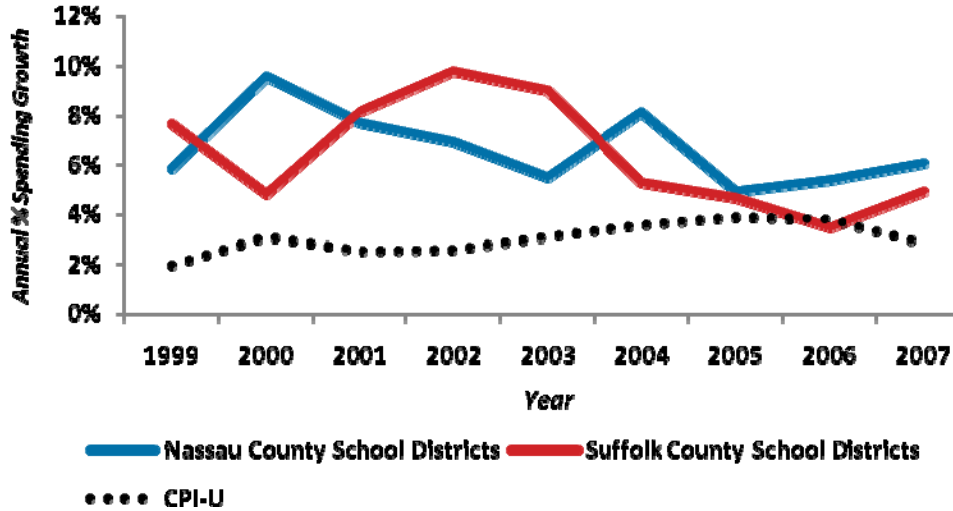
Figure 11: Long Island School District Spending: 1998 to 2007



Statewide, school district spending increased by an average real growth rate of 2.7% from 1998 to 2007, compared to Long Island school district spending which grew by an average annual real

growth rate of 3.5% (note: the average annual real growth rate reflects the average nominal rate less the average annual inflation rate of 3.0%. The chart below illustrates nominal rate growth vs. CPI-U growth)

Figure 12: Annual % school district spending growth: 1999 to 2007

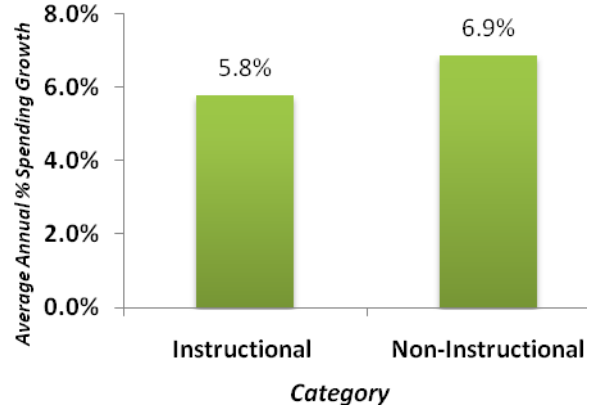


Cost drivers: About 75 cents of every \$1 spent by school districts goes to instructional spending – the remainder goes to non-instructional purposes, which is comparable to the statewide average.

Figure 13: Average % of total school spending, instructional/non-instructional: 1998 to 2007



Figure 14: Average annual % growth (nominal) in school instructional/non-instructional spending: 1998 to 2007



The vast majority of school district spending, nearly 70%, is devoted to employee compensation. Salaries, wages and employee benefits have increased at rates outpacing inflation, growing at average annual real growth rates of 2.3% and 7.0% respectively.

Figure 16: Average annual % growth (nominal), school district spending areas: 1998 to 2007

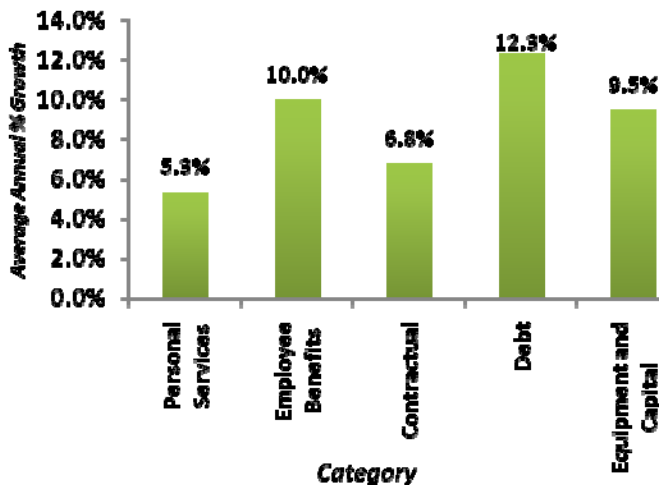
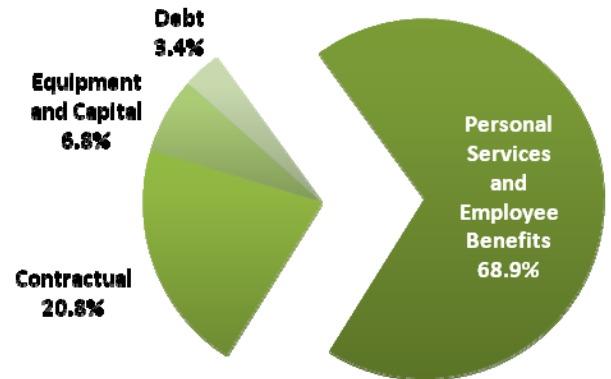
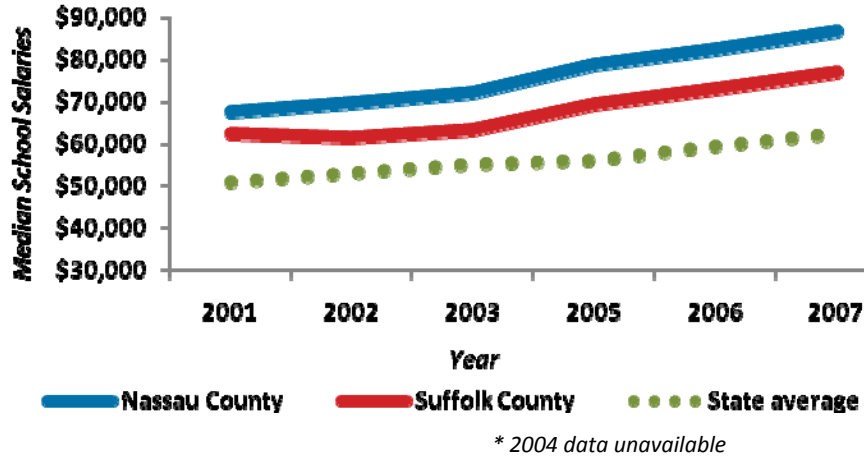


Figure 15: Average % of total spending, school district spending areas: 1998 to 2007



Annual average median teacher and professional staff salaries, with a real average growth rate of 2.3%, have gone up matching or exceeding LI CPI-U and personal income growth rates on the Island.

Figure 17: Median School Professional Personnel Salaries: 2001 to 2007



The number of special education students on Long Island increased at a slower pace than those in general education, but total special education spending has nearly doubled since 1998.

Figure 18: Instructional expenditures, Special education and general education: 1998 to 2007 (\$ billions)

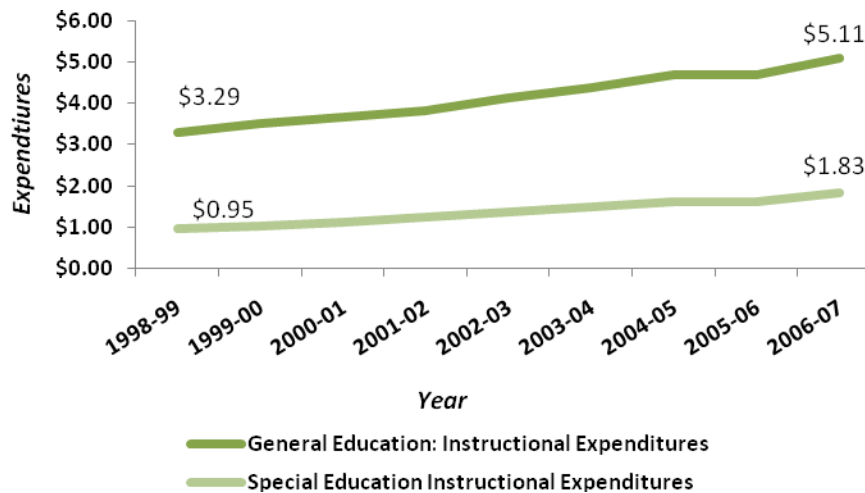
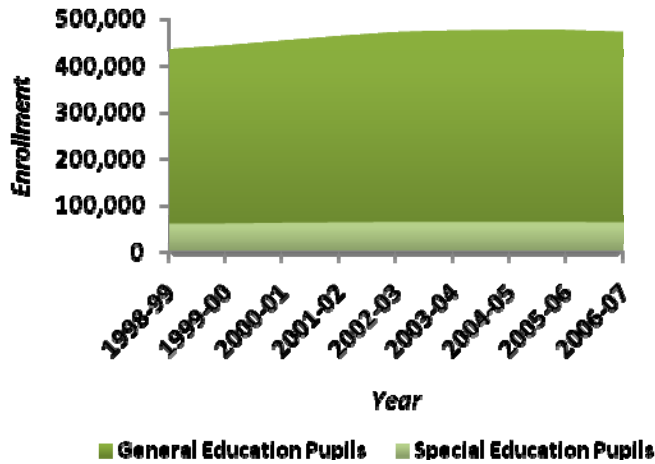


Figure 19: Special education and General education enrollment: 1998 to 2007



School spending has grown significantly despite relatively flat public and private school enrollment over this time period.

Figure 20: Public school LI enrollment by county

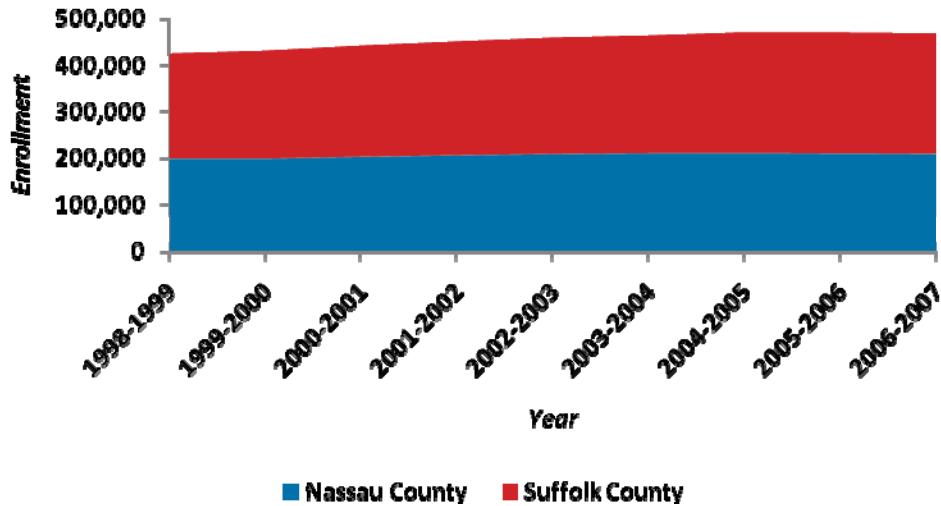


Figure 21: Public / Private student enrollment breakout – Suffolk County

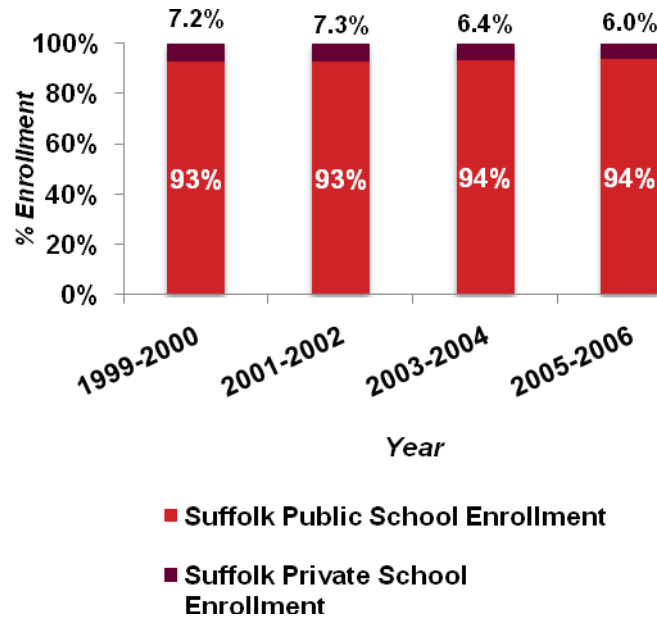
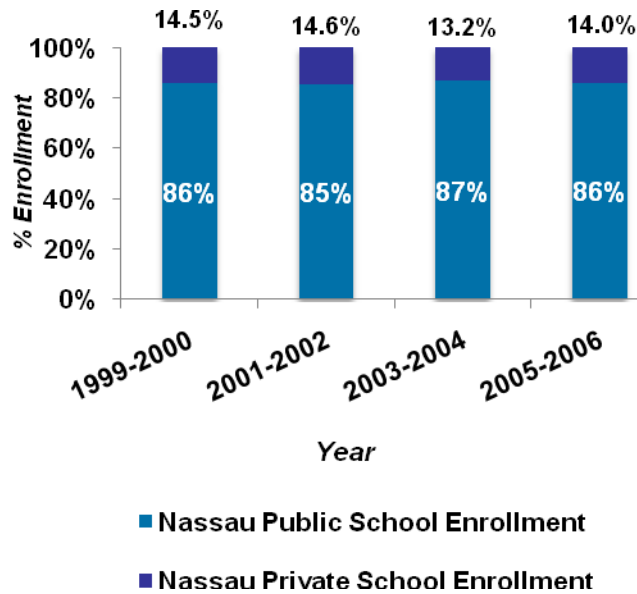


Figure 22: Public/Private student enrollment breakout Nassau County



Educational Outcomes:

Long Island’s 125 public school districts run the gamut from privileged and affluent to devastatingly poor, and many struggling high-need districts on the Island spend the same or more than nearby low-need districts. Despite this, dropouts are problematic in high-need districts and often exceed 5% of total annual enrollment, compared to near 0% dropout rates in low-need districts. Students in high-need districts also receive significantly fewer Regents diplomas than their counterparts in low-need districts, and the percentage of students in high-need districts intending to enroll in college is typically only half that of students in affluent low-need districts.

Data Sources: OSC; and New York State Education Department, Information and Reporting Services, 2007-08 School Report Cards

2.4 Historical Revenue Trends

Summary: To keep pace with corresponding growth in spending, Long Island municipalities and school districts have relied heavily on property taxes, resulting in a property tax burden that is one of the highest in the nation. Further adding to Long Island property taxpayer hardship, from 1998 to 2007 combined school and municipal property taxes have grown faster than the Long Island CPI-U and median household income.

The property tax issue: All governmental units on Long Island receive significant revenue from property taxes. School districts in particular are dependent on this revenue source, relying on it for more than half of all revenues.

Figure 24: General Purpose Unit Revenue Sources

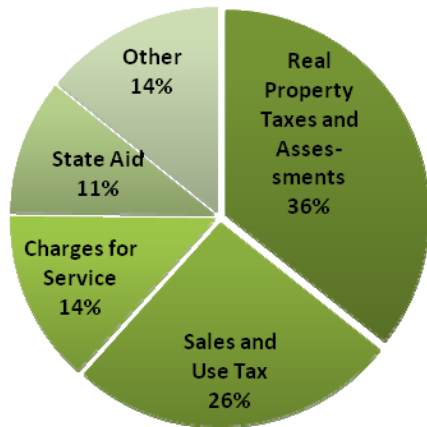
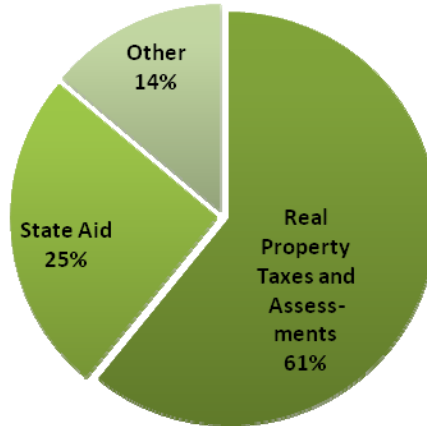


Figure 23: School District Revenue Sources



GPU revenue: From 1998 to 2007, GPU property tax revenue grew from \$2.1 billion to \$3.1 billion, an average annual real growth rate of 1.5%. Additionally over this time period, sales tax revenue grew from \$1.4 billion to \$2.3 billion, an average annual real growth rate of 2.5%. Property tax collections by GPU governments began to essentially match CPI-U increases starting in 2004.

Figure 26: Real Property Taxes and Assessments: 1998 to 2007

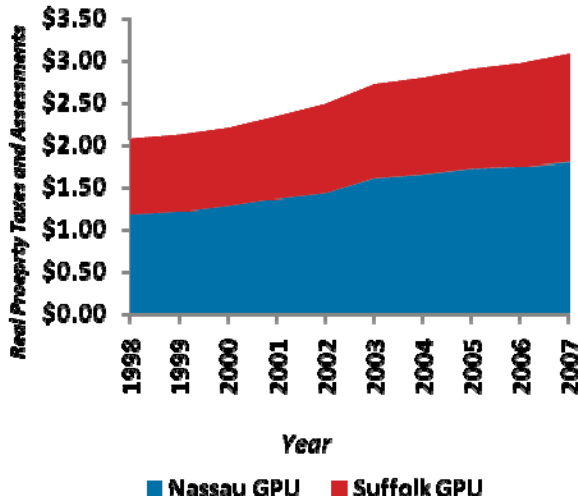
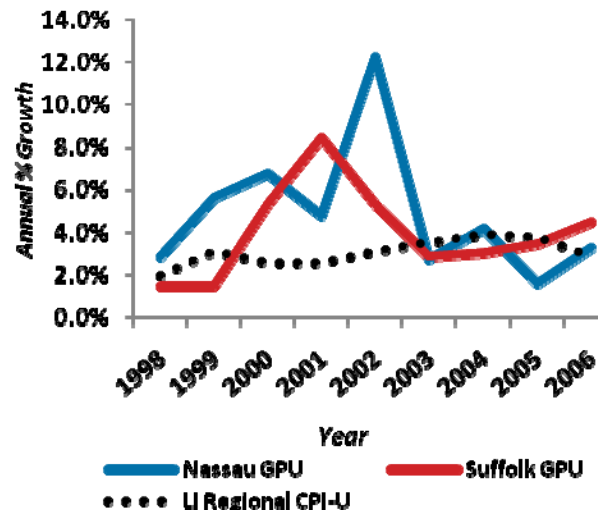


Figure 25: Annual % Growth in Real Property Taxes and Assessments: 1999 to 2007



School district revenue: School district property tax revenues reached \$5.8 billion in 2007, having grown at an average annual real growth rate of 2.5% since 1998. State aid, the second largest school district revenue source, has grown even faster than property tax revenue, increasing at an average annual real growth rate of 2.8%.

Figure 28: State Aid: 1998 to 2007 (\$ billions)

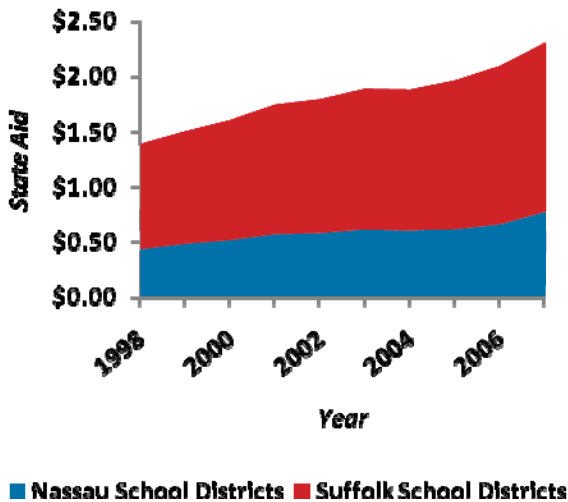
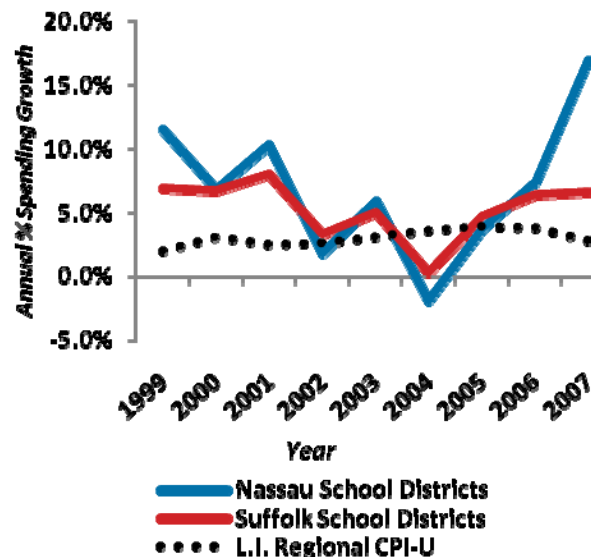


Figure 27: Annual % Growth (nominal) in State Aid: 1999 to 2007



The unsustainable property tax burden: From 2004 to 2008, median Long Island property taxes for GPUs and school districts grew at an average real annual rate of 2.5% (a nominal rate of 6.1%). Over this time period the LI CPI-U was an annual average 3.6%. Comparatively, over this time period Long Island median household income grew on an average real growth basis by 1.1%.

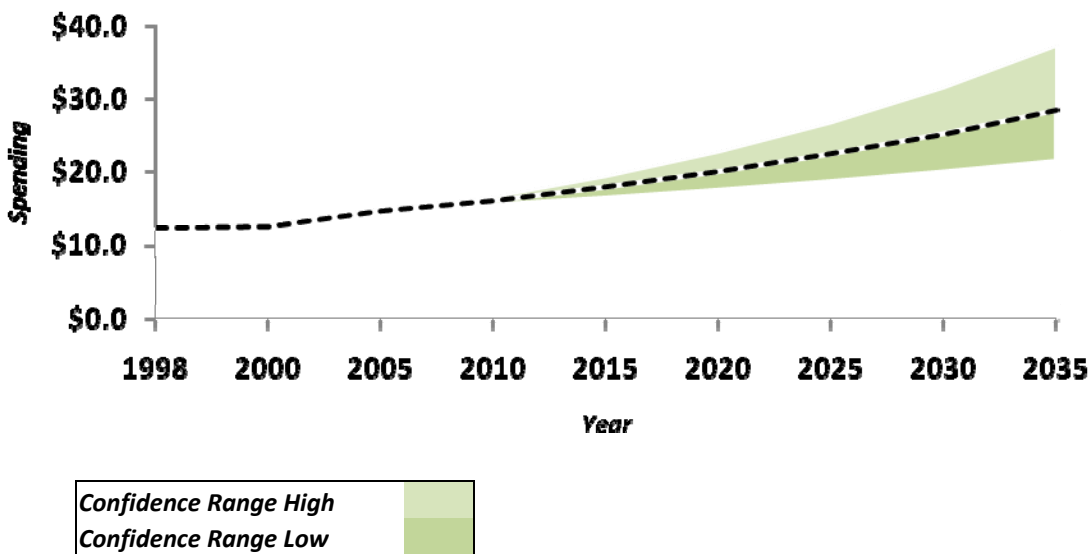
3 Forecast

Total Government and School District Forecast

Total GPU government and school district spending will increase from \$12.3 billion in 1998 to a projected \$32.7 billion in 2035 on a nominal dollars basis. Combined, both are estimated to grow at an annual average real growth rate of 2.3%. At this rate, GPU and school district spending will reach \$28.3 billion in new spending by 2035

(Note: The forecast section includes nominal and real growth rates and dollar projections. Real growth includes the effects of forecasted inflation while nominal growth does not.)

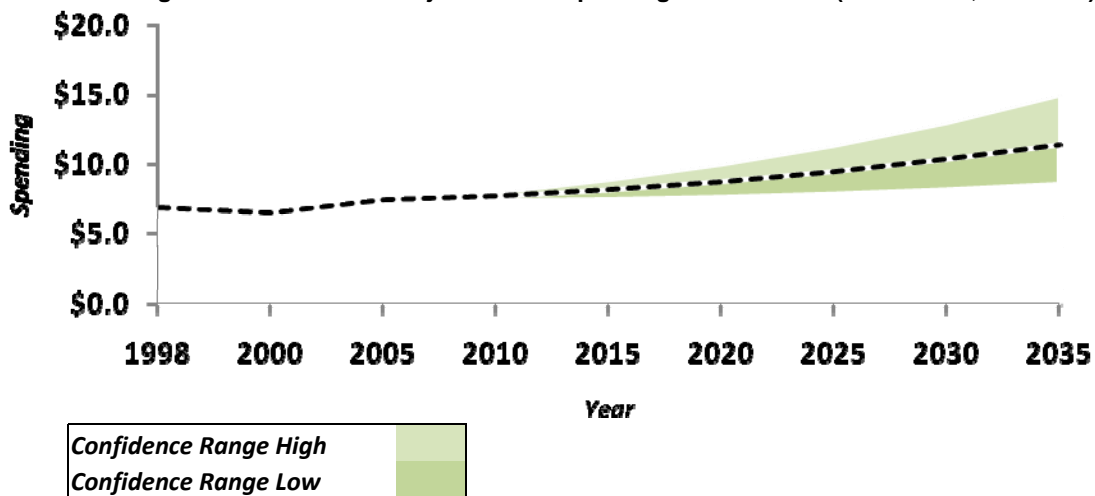
Figure 29: Actual and Projected GPU & School District Spending: 1998 to 2035 (real dollars, \$ billions)



3.1 General Purpose Unit Forecast

GPU governments alone are on-track to increase spending from \$6.8 billion in 1998 to \$32.7 billion in 2035, on a nominal dollar basis. They are estimated to grow at an average annual real growth rate of 1.6%, increasing to \$11.4 billion in 2035 (in real dollars).

Figure 30: Actual and Projected GPU Spending: 1998 to 2035 (real dollars, \$ billions)



3.1.1 Aggravating and Mitigating Forecast Factors (all forecasts)

As with any forecast, there are aggravating and mitigating factors that could affect the short-term and long-term spending/revenue forecast. Confidence ranges were established for the spending/revenue forecast based on the wide range of existing aggravating and mitigating factors. An annual plus or minus 1 percent confidence range was deemed appropriate and grows over time to reflect greater risks and uncertainties.

GPU Forecast Aggravating Factors:

- Potential for public safety, general government or social service spending (the biggest spending drivers) to increase above historical rates.
- Salaries/wages and health insurance costs increase at or above historical rates even in midst of economic downturn and revenue shortfalls. According to the Commonwealth Fund, a nonprofit and non-partisan policy research group, health insurance premiums alone are expected to incur average annual increases of 5.7% over the next 10 years.
- Rising employer pension fund contributions. 2011 employer pension fund contributions are increasing; average PFRS 18.2%, average ERS 11.9%.
- Federal and state support to local governments decline, increasing local share of mandated social services and general government spending, and employee benefits.

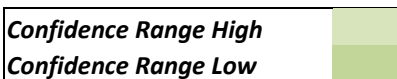
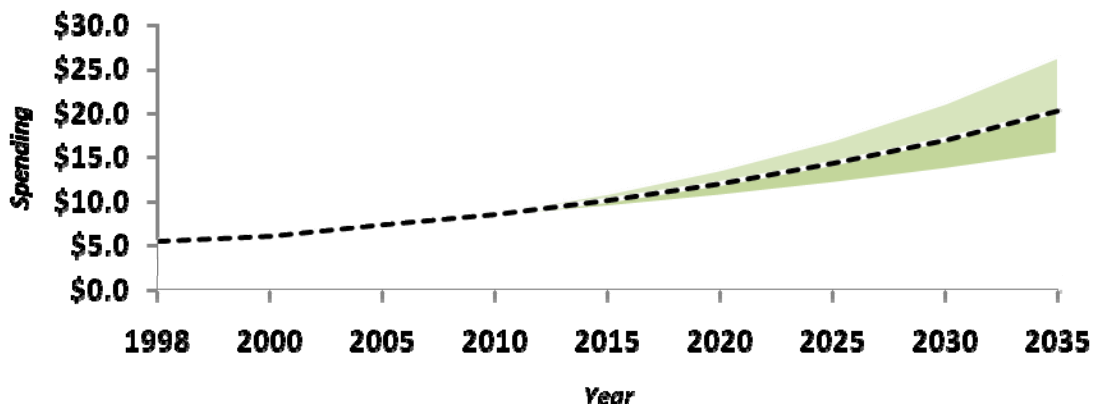
GPU Forecast Mitigating Factors:

- Spending in discretionary areas, such as equipment and capital outlay, flatline or decline as municipalities and the State grapple with constrained revenues.
- Personal services and contractual and equipment costs plateau as local government units begin to consolidate, enter into shared services agreements and renegotiate collective bargaining agreements
- National healthcare reform slows growth in health insurance.
- Reduced employer pension contributions through the implementation of Tier V Pension Reform.

3.2 School District Forecast

School Districts are on pace to increase spending from \$5.5 billion in 1998 to \$20.2 billion in 2035 on a nominal dollar basis. On a real dollars basis this is \$20.2 billion, a three-fold increase by 2035, growing at annual average real growth rate of 3.5%.

Figure 31: Actual and Projected School District Spending: 1998 to 2035 (real dollars, \$ billions)



School District Forecast Aggravating Factors:

- Accelerated enrollment growth (especially in Suffolk County).
- Teacher salary increases continue to exceed CPI, personal income growth rates, and comparable statewide medians.
- Special education expenditures increase at a faster pace.
- Private school enrollment shifts to public schools.
- Employee benefit costs grow at increased rates.

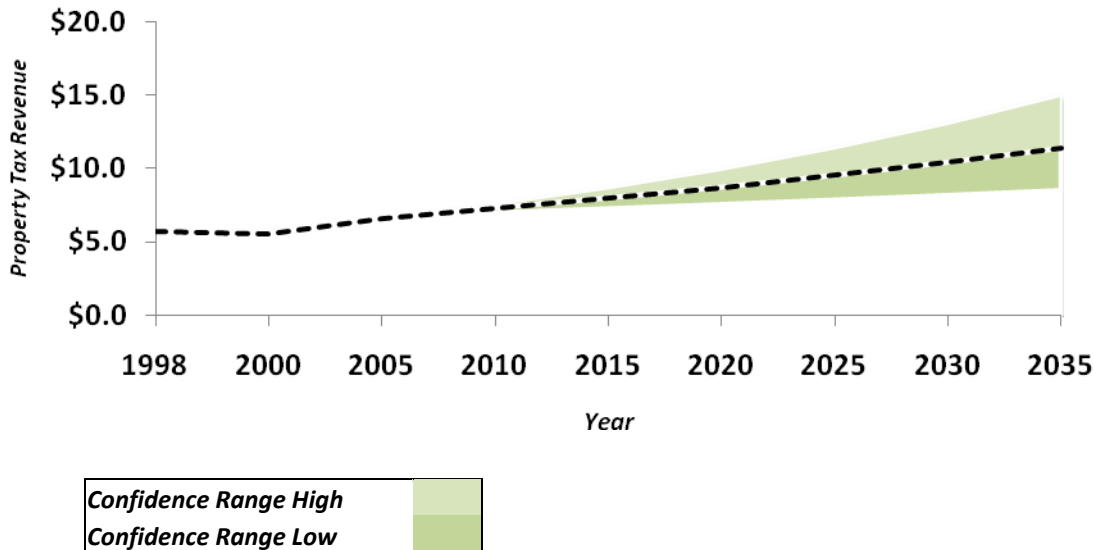
School District Forecast Mitigating Factors:

- Slowdown in major cost drivers, particularly equipment, employee benefits and contractual services, as well as in special education spending.
- National healthcare reform slows growth in health insurance.
- Reduced employer pension contributions through the implementation of Tier V Pension Reform.
- Non-instructional expenditures decline as districts engage in shared services opportunities.
- Median teacher salaries move closer to CPI rate increases, or statewide median salaries.
- Private school enrollment increases.

3.3 Property Tax Forecast

School districts and GPUs are projected to need approximately \$33 billion in property tax revenue in 2035, compared to \$5.7 billion in 1998. On a real dollar basis, property tax revenues are expected to double, reaching \$11.4 billion in 2035. Over this time period, combined property tax revenues are estimated to grow at an average annual real growth rate of 1.8%.

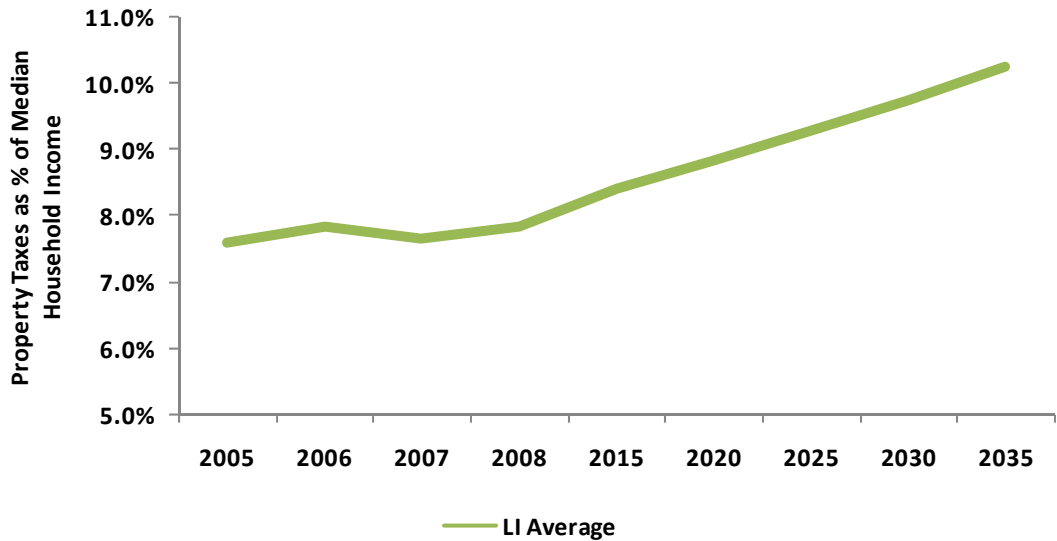
Figure 32: Actual and Projected Property Tax Revenue: 1998 to 2035 (real dollars, \$ billions)



3.3.1 The Unsustainable Property Tax Burden

From 2005 to 2008 median LI property taxes for GPU and School Districts grew on average by 6.2% and LI median household income grew by 5.1%. Over this time period, median property taxes as a % of median household income averaged 7.7%. If this trend continues, in 2035 Long Island residents on average will be spending 10.3% of projected median household income on property taxes.

Figure 33: Actual and Projected Median Property Taxes as % of Median Household Income: 2005 to 2035



Source: U.S. Census Bureau, PFM Estimates

Property Tax Revenue Forecast

Aggravating Factors:

- State Aid and Sales Tax revenue growth slows, placing greater pressure on the property tax
- Spending continues at unsustainable levels, forcing increased property tax burden

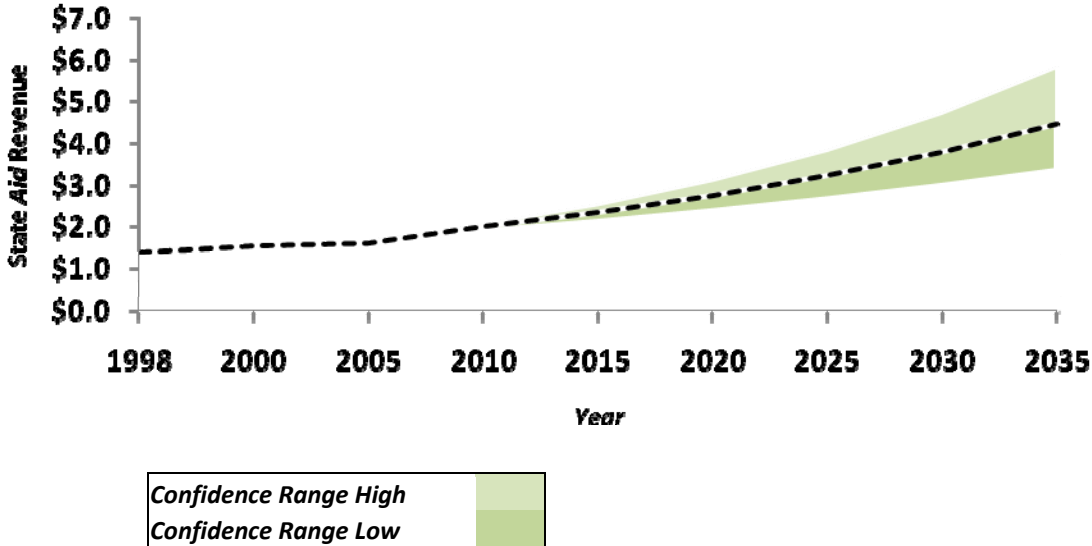
Property Tax Revenue Forecast Mitigating Factors:

- Reform initiatives (property tax cap, etc.)
- State Aid, Sales Tax, and or other revenue sources grow at increased rates, relieving the property tax revenue burden
- State mandate relief

3.4 State Aid Forecast

State Aid is the second largest revenue source for school districts and is estimated to increase from \$1.4 billion in 1998 to \$12.6 billion in 2035 in nominal dollars. On a real dollar basis, State Aid is projected to increase to \$4.4 billion in 2035, growing at an average annual real growth rate of 3.3%.

Figure 34: Actual and Projected School District State Aid Revenue: 1998 to 2035 (real dollars, \$ billions)



State Aid Forecast Aggravating Factors:

- Decreased state and/or federal aid; revised State Aid formulas to accommodate State revenue shortfalls:
 - FY2008-09 State Budget included across the board reductions to local assistance
 - FY 2009-10 the Governor’s State Budget Deficit Reduction Plan includes 4.5% reduction in remaining, undisbursed School Aid (total of \$686 on 2009-10 school year basis)

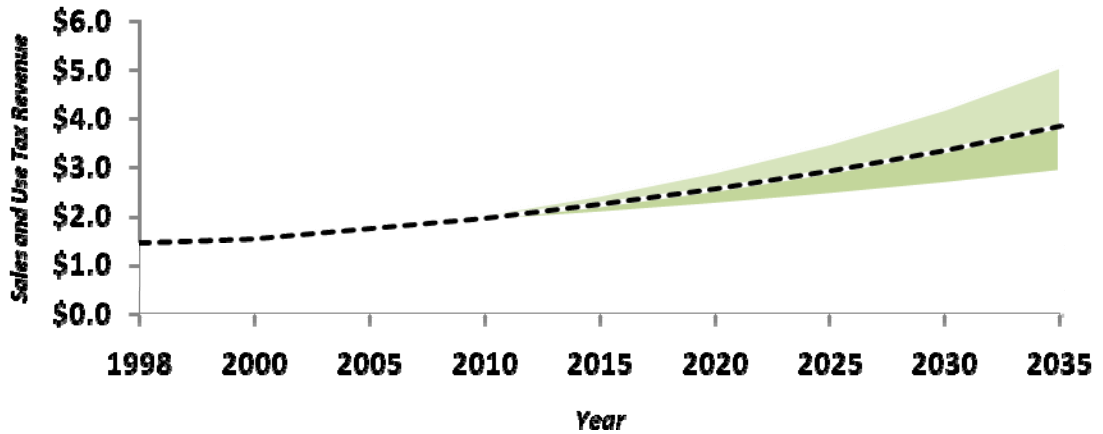
State Aid Forecast Mitigating Factors:

- Improvements in economy positively affect State and/or federal aid disbursement
- Legislature continues to prioritize School Aid over other programs:
 - Since 2000, School Aid has increased at average annual rate of nearly 6%

3.5 Sales and Use Tax Forecast

Sales and Use Tax, the second largest revenue source for GPU governments, is projected to rise from \$1.4 billion in 1998 to \$11 billion in 2035 in nominal dollars. On a real dollars basis, Sales and Use Tax collections will nearly triple to \$3.8 billion in 2035, growing at an annual average real growth rate of 2.7%.

Figure 35: Actual and Projected GPU Sales and Use Tax Revenue: 1998 to 2035 (real dollars, \$ billions)



<i>Confidence Range High</i>	
<i>Confidence Range Low</i>	

Sales and Use Tax Forecast Aggravating Factors:

- Sales tax collections enter prolonged period of decline due to poor economic conditions, including high unemployment and reduced personal income

Sales and Use Tax Forecast Mitigating Factors:

- Robust economic recovery results in positive collections growth
- Growth in LI population

4 Goals

Long Island governments and school districts are expensive and rapidly becoming too costly to be sustainable, exceeding comparable increases in measures such as the LI CPI-U and regional personal income. The current governmental structure, with its overlapping layers of service delivery, is inherently inefficient and has served to diminish equitability. Options to maintain the quality of service and education many residents now enjoy and others aspire to may include the following:

Reduce duplicative service provision. Some services may be redistributed to governments with broader perspectives or stronger core competencies to achieve effective long-term planning and regional sustainability, including:

- Shared service partnerships and initiatives among government jurisdictions and school districts. Ideas may include:
 - Cooperative bidding for common services and/or equipment;
 - Sharing the cost of governmental or school district resources and/or personnel;
 - Provision of certain functions solely by a jurisdiction for which the function is a core competency (e.g., towns maintain all roads, while all governments share the cost based on a common measure such as lane miles).
- Centralization of common and potentially redundant government services, and regionalization of functions with widespread implications on the long term health and safety of all residents. These could include:
 - Regional information technology and telecommunications services to ensure commonality of function, service and disaster preparedness;
 - Regional water, sewer and solid waste services for adequate availability of vital resources in the future;
 - Regional planning and zoning for a planned economic development strategy;
 - Regional planning and development of enhanced transportation and housing coordinated with the adopted economic development strategy.
- Consolidation of local governments, agencies and/or school districts to reduce redundancy and overall cost, and facilitate efficiency.

Generate recurring savings in governmental and school district operations. Control and reduce the rate of increased spending by GPUs and school districts particularly in cost drivers such as personal services and employee benefits by:

- Limiting spending increases to thresholds such as the LI CPI-U.
- Focusing initially on cutbacks or alternative delivery mechanisms for discretionary expenditures, particularly where similar services are provided by overlapping jurisdictions and where there is duplication of capital expenditures for equipment and machinery.
- Regionalization and/or renegotiation of collective bargaining agreements to avoid “leap frogging” (each jurisdiction paying higher salaries than the neighboring community) and to reduce the incentive for highly-qualified educators to move to more affluent districts.
- Regionalization and/or policy changes to costly employee/retiree expenditures, such as pensions and health benefits.
- Advocacy within New York State government, where many such policies originate, aided by the strength of regional advocacy.

Preserve or enhance service provision. Long Island-wide quality and affordable government services and educational opportunities are essential to continued growth and economic development. Strategies may include:

Examining best practices to limit spending while simultaneously enhancing service delivery.

Developing and utilizing performance indicators to gauge efficiency and effectiveness.

Focusing on universal achievement of desired educational outcomes, including equitable opportunities for all students, Pre-K through 12, to eliminate the pockets of low achievement in some LI school districts.

Reassess government and school district revenues. The current ad hoc system of revenue support, in which all potential revenues are tapped to support costs (with a fallback to the property tax), has created a level of taxation beyond that of most other United States counties and regions. Government and school district revenue sources should be reassessed to:

Achieve funding sufficient to provide quality services and equal educational opportunities Island-wide.

Limit property tax increases through reform initiatives such as a tax cap.

Promote regionalism where essential to planning, health, safety, and economic development.

Move toward increased regional planning. Regional approaches to common issues can facilitate broad strategic change. Opportunities may include:

Shared service opportunities with the goal of generating efficiencies and cost savings through best practices, economies of scale, purchasing power and reduced personal service expenses.

A regional perspective in zoning to foster economic development, environmental sustainability, and cross-municipality and school district coordination.

Facilitation of regional planning through dedication of a discrete revenue source for regional planning activities, such as a portion of a regional sales tax.

Maintain local control based on location-specific preferences. Ensuring local control and local financial support of community preferences may offset resistance to regional planning and service delivery. Balancing local control with regionalism highlights the need for universally-agreed upon goals and guarantees of equity. Initiatives to preserve and enhance local control may include:

Developing community activities and livable downtowns.

Promoting fair citizen access to both local and regional government.

Funding local area-specific needs with local area-generated funding.