



New York State Conference of Mayors and Municipal Officials

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The 2010-2011 Executive Budget

Testimony of the New York State Conference of Mayors

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Before the
Joint Fiscal Committees' Hearing on the Executive Budget

Senate Finance Committee
Hon. Carl Kruger, Chairman

Assembly Ways and Means Committee
Hon. Herman D. Farrell, Jr., Chairman

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Thank you for affording NYCOM the opportunity to express the views of our 593 member cities and villages regarding the 2010-11 Executive Budget. I am Peter Baynes, Executive Director of the NYS Conference of Mayors. Let me begin by saying that NYCOM commends the Governor for his leadership in making the tough choices necessary to address the state's significant budget gaps – choices that, in most cases, display sensitivity to the dangers of shifting the state's fiscal problems onto municipal property taxpayers. While many difficult decisions had to be made in the development of this plan, the Governor went to great lengths to protect municipalities and their taxpayers as they struggle to deal with the current economic climate that is affecting us all. The combination of local aid, relief from state mandates and expanded revenue options will go a long way toward helping our struggling communities.

AIM Funding

Our mayors recognize the severity of the state's fiscal crisis and further understand that everyone has a role to play in the economic recovery of New York. Challenges of this magnitude require sacrifices. Given that the last time the state faced a similar fiscal crisis in the early 1990s aid to local governments was cut by nearly 50%, the reductions in AIM proposed as part of the 2010-11 Executive Budget are not as dramatic as they could have been, since the most a city (other than the City of New York) or village would lose is 5% of its AIM allocation in the upcoming year. But let me be clear, the AIM cuts proposed in this Executive Budget, if enacted, will negatively impact the provision of essential municipal services and the level of municipal property taxes.

Our local leaders have proven that the long overdue AIM increases provided in recent years have gone a long way toward reducing the reliance on the already overburdened property tax. Consequently, I must point out that at a time when other local revenues – particularly the sales tax and mortgage recording tax – are declining as a result of the state's languishing economy, any reductions in AIM funding, no matter how small they may be portrayed, will most certainly translate into an increase in local property taxes. Particularly hard hit will be property taxpayers in those cities whose AIM was already cut by \$31.6 million as part of December's DRP reductions. Many of the state's largest and most fiscally strapped cities are included in this group.

Consequently, it is imperative that the Senate and Assembly restore the \$15 million reduction in AIM funding for cities, villages and towns. We recognize the serious fiscal situation that the state is confronting, but we urge you to consider the minimal benefit the \$15 million in cuts would yield for the State budget, compared to the harm this would inflict at the local level.

NYCOM is also strongly opposed to the fact that under the Governor's plan, the City of New York would be eliminated from the AIM program, losing \$302 million in its upcoming fiscal year and beyond. Every municipality – big or small, village or city – contributes to the overall well-being of New York and, in return, deserves to benefit from a strong fiscal partnership with the state. New York City should not be singled out. In fact, when you consider the essential role the City of New York plays in the state's economic strength, one could argue that the City should be the least likely candidate for elimination from the state's only unrestricted municipal aid program. We strongly encourage both houses of the State Legislature to seriously consider the dramatic impact that this cut would have on the City of New York, home to more than 8 million New Yorkers.

CHIPS Funding

NYCOM supports the Executive Budget's proposal to maintain CHIPS funding at current year levels. Local governments are responsible for 85% of New York's roads, highways and bridges, many of which are in need of significant repair. At a time when improving our local infrastructure is essential to the recovery and revitalization of our communities and our state, the need for adequate resources for this purpose is more critical than ever. Furthermore, New York's efforts to secure additional infrastructure aid from the Federal government would be severely undermined if we are decreasing our commitment at the state level.

Mandate Relief

At times like these when revenues are scarce, it is imperative that local governments be given the tools and flexibility to be as efficient as possible, thereby reducing their expenses. NYCOM has long argued that there are numerous

unnecessary restrictions and requirements affecting how local governments operate and deliver essential services, and which drive up costs at the local level. In fact, we went so far as to create a website – www.StopTheTaxShift.org – to help state leaders, the media and the public better understand precisely how these restrictions and requirements impact local governments.

In December 2009, the Legislature and the Governor took a step toward easing the municipal property tax burden by enacting into law a bill containing several mandate relief initiatives. The most significant provisions finally allow local governments to be treated the same as private defendants when determining the impact of collateral source payments in tort claims for personal injury. Specifically, the new law puts an end to the “windfall of double recoveries” to plaintiffs by allowing public employers to offset injury awards with payments from collateral sources, such as insurance. In addition, Chapter 494 of the Laws of 2009 increased the local competitive bidding threshold on public works contracts from \$20,000 to \$35,000, reduced the number of municipal entities (from 5 to 3) required to form cooperative health benefit plans, and eliminated certain restrictions governing highway shared services agreements among municipalities and between municipalities and State agencies.

The 2010-11 Executive Budget contains certain mandate relief items, which, if enacted, would go even further to enhance efficiency at the local level. First is the proposed four-year moratorium on legislatively enacted unfunded mandates. Though it must be noted that relief from the numerous state mandates that already exist is essential to reducing New York’s exorbitant local property tax burden, halting the expansion of mandates will certainly help control local property tax growth. Enactment of this proposal would send a clear message to New Yorkers that the Governor and state legislators understand the direct relationship between state mandates and local property taxes.

NYCOM also fully supports the Governor’s proposal to establish a reasonable market-based method of calculating interest in court judgments similar to the method used in judgments involving the Federal government. In addition, we support those initiatives to facilitate procurement flexibility including increasing competitive bidding limits for local governments from \$35,000 to \$50,000 for public works projects and from

\$10,000 to \$20,000 for commodities, as well as giving local governments the ability to conduct reverse auctions, piggyback off of other state and certain federal contracts, publish bid notifications in the statewide electronic Contract Reporter, require bids to be submitted electronically, and allow contracts to be awarded on the basis of “best value” rather than lowest bid. Each of these items represents another way of easing the burdens placed upon local governments while allowing for the more economical delivery of municipal services.

Enhanced Revenue Options and Investment Flexibility

As you know, municipal budgets are plagued by rising costs and limited revenue-raising opportunities. As a result, local governments are continuously trying to overcome the imbalance between their fiscal capacity and the cost of providing essential services. And now, when even these limited revenue options are experiencing declines as a result of their economic sensitivity, it is more important than ever that the state find no-cost ways to enhance local governments’ ability to generate additional resources.

We are pleased that the Executive Budget contains several local revenue options, outside the property tax, that NYCOM requested as a means to help our members deal with increasing expenditures, especially those associated with municipal employees, over which they have little control. Included among these is a proposal to allow cities and villages, at local option, to increase the local gross receipts tax rate on utilities from 1% to 3%, similar to the rate currently imposed by the cities of Rochester, Buffalo and Yonkers. Since this tax is more broadly based than the property tax, we believe it is a more equitable means of funding these rising municipal costs. The Division of the Budget estimates that this proposal could generate up to an additional \$53 million for cities and \$57 million for villages. At a time when local governments are facing some of their greatest fiscal challenges, proposals that have the potential to deliver this magnitude of additional revenue must be given serious consideration.

In addition, the Governor’s Budget would permit municipalities to charge for accident reports at amounts up to those charged by the State Police. Currently, police and fire departments provide valuable services and generate reports from which

automotive insurance companies benefit at little or no cost to them. The expense associated with conducting such investigations and compiling such reports is borne by the municipal police department, and in turn, local taxpayers. The State Police charge a \$15 search fee for such reports, \$15 for a copy of the report and \$25 for any related photos or contact sheets. Municipalities should be authorized to charge the same for the reports they generate at the local level.

The Executive Budget would also permit local governments to charge fees for ambulance services, including emergency medical services, provided by their fire companies or fire departments. Currently, local governments can only charge such fees if they have a free-standing ambulance company. It is important to note that these charges will, more often than not, be paid by the insurance company and not the individual receiving such services. Another revenue proposal included in the Budget would give local governments the authority to charge for the provision of additional police protection at paid-admission events. Currently, when a special event is held within the geographic area served by a municipal police department and requires extraordinary police services, the municipality is precluded from imposing a fee upon the sponsoring individual or organization, regardless of whether an admission fee is charged. Without such authorization, municipal taxpayers must fully fund the cost of providing police officers, frequently called back to work at overtime rates, to cover such events.

Finally, the Executive Budget would provide local governments with the opportunity to increase their interest earnings by allowing them to deposit municipal funds in savings banks, credit unions and savings and loan associations. Under current law, originally enacted in 1909, the only banking institutions that are permitted to accept deposits from local governments are commercial banks and trust companies. In fact, New York is one of only a handful of states that do not allow other banking institutions to accept municipal deposits. Consequently, the cash management needs of local governments in New York State, which are estimated to be \$6 to \$8 billion, all must be handled by commercial banks, effectively giving them a monopoly over the deposit of public funds.

Limiting the number of depository options precludes municipalities from taking advantage of the best available interest rates, thereby decreasing their ability to earn greater returns on their investments without increasing their investment risk. The more local governments can increase money on interest earnings, the more they can decrease their reliance on property taxpayers. Furthermore, not only might these institutions offer a better rate of return, but since many of them are local institutions, the money they take in is more likely to be reinvested in the local community. In addition, municipalities in rural and economically diverse areas will likely be better served by non-commercial banks, since commercial banks are not always in a location that is convenient to the municipality that is depositing funds. This issue has only been exacerbated by the many bank mergers that have taken place recently, not only adding to the inconvenience but also leaving municipalities with fewer and fewer local depository options. We would like to note, however, that the Executive Budget proposal, as currently written, would only allow localities to use state chartered credit unions – of which there are just 22 – and not federally chartered credit unions. Amending this language to allow local governments to deposit municipal funds in federally chartered credit unions as well, would give municipalities another 440 from which to choose.

If enacted, the proposals I outlined above would both increase local revenue and permit investment flexibility, two things that are sorely needed and would provide a tremendous benefit to local governments at no cost to the state. While there is no doubt these initiatives will have their critics, NYCOM urges you to consider what the alternatives may be to not giving municipalities the options and flexibility necessary to generate additional resources on their own.

One last initiative for which NYCOM requests your support is the proposal to allow local governments to amortize a portion of their pension costs during the next six years. As you know, in September 2009, the State Comptroller announced that pension costs would rise sharply in 2011, with average increases of 61% for non-uniformed employees and 21% for uniformed employees, and further increases in subsequent years. You and the Governor are to be commended for your efforts to reduce pension costs in the future by creating a new retirement tier. However, local governments need

options available to them in the short-term as well. While we recognize that the amortization of pension costs is not a panacea, it will help provide cash-flow relief necessary to avoid excessive property tax increases in the coming years.

Conclusion

Let me conclude by saying that, from the perspective of municipal governments and their property taxpayers, this Executive Budget does make a significant effort to empower local officials. Unfortunately, though, the new and expanded local revenue options, along with a limited measure of relief from existing mandates, would, in many cases, be more than offset by cuts in AIM funding, especially as it relates to our struggling cities.

You, as state legislators, have the ability in this budget to strengthen your partnership with local governments when it is needed the most. Rather than merely taking a *quid pro quo* approach, NYCOM urges you to enact the Governor's revenue option and mandate relief proposals, AND also restore the cuts in AIM. Many of our state's largest cities – as important engines in our state economy – are already bearing the burden of AIM reductions included in December's DRP and would be cut further in this Executive Budget. The City of New York – clearly our economy's central driving force – would lose its entire \$302 million AIM allocation in 2010-11. As local governments struggle with the ill fiscal effects of a continuing recession, it is no time to be reducing the state's commitment to its cities and villages. Protecting AIM funding, expanding local non-property tax revenue options, and enacting significant mandate relief will, together, begin to rejuvenate our communities and our state and we implore you to take this balanced and proactive approach to budgeting.

NYCOM looks forward to providing your committees with additional input as the budget making process continues. Thank you for the opportunity to testify as this important hearing, and I would be happy to respond to any questions.