Improving Transparency, Forecasting and Flexibility in New York's Budget Process

Testimony submitted by the

New York State Association of Counties

to the

Senate Select Committee on Budget and Tax Reform

on

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Chairwoman Kruger, Senators Breslin, LaValle, Parker, Perkins and Ranzenhofer. On behalf of the State's "managing partners" in service to the citizens of this great State, our 57 counties and the City of New York, let me thank you for the opportunity to present our views on this timely and critically important topic.

As public officials in New York State, we serve a common purpose and the same constituency. Counties, as the administrative arm of State government, are in a position to partner with the Governor, the State Legislature and the State agencies' administration to design mutually beneficial solutions to property taxes and government reform, and to rally support at the grass-roots level to bring those plans to reality. We know where the system works well, where it breaks down and how to make it more efficient and effective (though we are rarely asked). Working together we can get far more accomplished than we can if we work separately.

The answers to the challenges we face at the local level do not always come in the form of more State aid. After all, we are all taxpayers. Whether our tax dollars go to local or State coffers, they still come from us and our neighbors. That is why our counties recognize that long-term tax relief can only come from systemic reform, so we are pleased to submit testimony for today's hearing.
From Niagara to Suffolk County and from St. Lawrence to Broome County across the length and breadth of this State, Counties find themselves at a crossroads. Many New Yorkers are reeling from the effects of this recession and are turning to counties for the services they need to get them through this difficult time. At the same time counties are scrambling to maintain the resources we need to fulfill this increasing demand for services. This recession has taken its toll on our tax base and counties have had to make mid year changes to keep spending plans balanced.

Clearly, as Governor Hugh Carey said during the fiscal crisis of 1975, *"the days of wine and roses are over."* That is certainly true for New York's homeowners and businesses who are buckling under the weight of property taxes. While the county property tax bill is generally a small part of a property owner's overall property tax liability, as the overarching local government, we are often the target of taxpayer frustration and County elected officials often suffer the consequences of this voter frustration.

In the nearly four decades since Governor Carey uttered that now-famous phrase, the size and complexity of State and local government has increased dramatically, the demands on counties to deliver State directed (mandated) programs has multiplied, and the County's unilateral control over their own budgets has all but disappeared. Our discretionary programs and services dwindle each year as the amount we devote to mandated programs and services grows. In fact, counties are the only unit of local government that cannot act like a true local government in that they cannot dedicate local tax revenue solely to local purposes.

As the administrative arm of State government, counties provide the programs and services that are mandated by the policies and laws established by the Governor and the State Legislature. Counties are where the forms are filled out, services provided and the needs are met for millions of New Yorkers across the State. We are also where the property tax that pays for these programs is levied. Unlike most states, New York's local taxpayers pay for a substantial portion of the State mandated services provided locally.
Today, as much as 75 to 85 percent of a county budget is mandated. Most of that spending is tied directly to the measures enacted as part of the State budget.

County officials want to reduce the property tax burden facing New Yorkers. We cannot do that, however, when the policies and directives that come from Albany call for more costly mandated programs. Unfunded mandates result in higher property taxes. It is that simple, and counties cannot continue to pass those costs onto local taxpayers.

Unfortunately that does not always translate to the budget deliberations in the State Capitol. In fact, our county officials find that the State Budget is enacted with little substantive recognition of local impact. Moreover, the difference in fiscal years means that many State budget actions are implemented in the middle of our year when we have little capacity to manage the impact. Furthermore, there are "local shares of convenience" in programs such as Pre-School Handicapped Education where the County relationship to the program is tenuous at best—a relationship we advocate must be phased out over the next three years (see below).

At the same time, our members understand the realities of limited resources and recognize the need to manage spending so that it stays within the amount of available resources. County officials make those demanding decisions every day. As such, counties have been calling on the State to limit spending to be in line with the realities of revenue, and we will continue to do so, as the consequences for inaction are by far worse.

As we face the prospect of a protracted period of fiscal distress, the implications of Federal healthcare reform are far from clear. The confluence of these events is likely to be the catalyst for the most sweeping restructuring of government finances in half a century. Accordingly, it is our hope that the State will take a fresh look at the State budget process and the role that our counties play in that process, and enact fundamental reforms in our collective best interest. Let me briefly suggest a few:

The "All Sources Budget." The State needs to examine the *total cost* of its programs and services, not just the State share. By creating a "consolidated balance sheet" that identifies the Federal, State and local cost of a government service, the Governor and Legislature can then consider whether the cost of the *service* is too high. Ultimately, *that* is the number that the State has to get right. Because, at the end of the day, *that* is the ultimate test of government's fiscal responsibility. Once we have agreed on the cost we are willing to pay for a program or service, the allocation of who pays that coast can be made rationally. Today, the myopic focus on the State share often leads to budget decisions that are not sustainable. Finally, recognition should be made that counties do not receive "local assistance" but rather receive partial reimbursement for State services delivered locally through counties. Thus the term, "state mandated" service delivery. This is not a subtle distinction but one with far reaching consequences: Unlike general purpose local governments' revenue sharing State Aid (which counties do not receive), the counties' so called "State assistance" is actually reimbursement that is dedicated for State programs, like Medicaid, early intervention, human services and pre-school special education – services which have already been provided. In many instances, counties do not receive any reimbursement for well over a year after services have been rendered. This is unacceptable in any business or other public sector program. Why should it be acceptable in this instance? If the state cannot afford to pay its bills and obligations in a timely basis it should eliminate or reduce programs and services.

Public Sector Prompt Payment Policy. NYSAC calls upon the Legislature to enact a "State Prompt Payment Policy" similar to the policy recently enacted by the state for contractors performing construction work for the state or other entities working for the state or locality [see 106-b of the General Municipal Law, 1 (b)]. If the locality is not reimbursed on a timely basis there should be a penalty with interest paid to the local, similar to the State Prompt Payment Policy to address this during the 2010-11 State Budget process.

Multi-year Budgeting. Across the nation, many states enact a biennial budget. However, rather than doing the budget once every two years, with only minor adjustments in the intervening year, I would suggest that the State enact a "rolling" two-year Budget. Each year, a new second year would be added so that local governments, school districts businesses and families would always know what to expect from the State in the year ahead. By essentially "forward funding" programs with local share, counties would know what the major State payment streams will look like when they enact their budget. Moreover, since "Local Assistance" is the majority of the Budget, it will bring an important multi-year perspective to State fiscal planning.

Fully fund State Cash Flow Reserves. As part of recent reforms, the State is now allowed to put up to 2% of General Fund spending into a reserve to support spending commitments during revenue fluctuations. This amount is on top of the 2% Tax Stabilization Reserve, or "Rainy Day" Fund which can only be used for a protracted period after the State declares a fiscal emergency. Used in conjunction with multi-year budgeting and conservative forecasting, this device when fully funded could provide more than $1 billion in “cushion” to assure that the State is able to keep its commitments.

Revenue Resource Center. The local share of sales and use tax is a major revenue source for counties, and is the principle alternative to the real property tax for them. All 57 counties receive sales tax, 45 counties distribute a portion of their sales tax to local jurisdictions (including 23 school districts) within their borders, and 20 cities, including New York City, impose a sales tax of their own. Moreover, the State share of this tax is provides a major source of revenue, and a principle alternative to the personal income tax. As such, accurate forecasting and full collection of this tax is critical to the fiscal integrity of all levels of government.

Because the total sales tax is collected by the State Department of Taxation and Finance and then the local share is distributed to counties, local officials are dependent on the State Tax Department for information on collections, audit recoveries and vendor information. For a variety of reasons, this information is often difficult to obtain and interpret.

The State should, through NYSAC, establish a central data and technical assistance center to assist the State, counties and other localities in analyzing, forecasting and collecting sales tax and other State-authorized revenues.

The State should also establish parity with the city of New York and other counties by having the maximum sales tax rate set by a county to be 4% which most counties have currently. Having counties seek an extension every two years, as they have for the past decades, exposes these home rule bills to unnecessary political theater in Albany. This was especially true in 2009 as most of the “extenders” were caught up in legislative gridlock having nothing to do with the merits of the extenders.

Increased State Fiscal Responsibility

Among the reforms for which we are advocating today are two that would promote fiscal responsibility and budget savings at the State level.

State Medicaid Takeover. As part of the implementation of Federal Healthcare Reform, implement a five-year phase-out of County financial support of the Medicaid Program.

While the State cap on Medicaid cost growth has provided critical property tax stability, counties (including the City of New York) contribute over $6.6 billion annually to the cost of the Medicaid program, and remain responsible for hundreds of millions in additional costs annually.

Federal healthcare reform, now being debated in Congress, is likely to substantially change the landscape of government funded healthcare in New York. As such, it makes sense to simultaneously restructure the system of State and federal health care programs provided in New York State. By ending the county fiscal role, the State would take sole responsibility for the programs, while counties could maintain the provider role through their hospitals and nursing homes.

County Phase Out of the Pre-school Special Education Program

Counties advocate for a three-year phase-out of County financial involvement in the Pre-school Special Education program. Costs of the preschool special education program, borne by the county and the State have more than doubled since 1994. While the State has responsibility for setting rates for programs, and the county determines rates for related services, neither has corresponding responsibility for decision making about services. Given that New York State's expenditure for preschool special education is rising at an unsustainable rate and is among the highest of any state, the 2007-2008 NYS Enacted Budget established a Temporary Task Force on Preschool Special Education to recommend improvements in the program. Among the four primary findings of the Task Force was the recommendation to: *Focus the preschool decision making and service delivery processes with school districts since they have the federal and state responsibility for ensuring the provision of special education services. This will facilitate accountability and oversight of the preschool system by school districts and the transition between preschool and school age.*

Conclusion

As the State's "managing partners" in programs across the spectrum, counties stand ready to work with the Governor and the Legislature to forge new budget reforms that make the annual process of allocating scarce resources among worthy activities more predictable, transparent, and accountable for all concerned.

Thank you.