New York State Conference of Mayors and Municipal Officials
119 Washington Avenue, Albany, New York 12210 (518) 463-1185
Toll free number for NYCOM members 1-800-446-9266
Fax # (518) 463-1190
www.nycom.org

The 2012-2013 Executive Budget

Testimony of the New York State Conference of Mayors

Peter A. Baynes

Executive Director

Before the

Joint Fiscal Committees' Hearing on the Executive Budget

Senate Finance Committee

Hon. John DeFrancisco, Chairman

Assembly Ways and Means Committee

Hon. Herman D. Farrell, Jr., Chairman

January 24, 2012

Albany, New York

Thank you for affording NYCOM the opportunity to express the views of our 585 member cities and villages regarding the 2012-13 Executive Budget. I am Peter Baynes, Executive Director of the New York State Conference of Mayors.

When you and your colleagues in the State Legislature enacted the property tax cap last June, you took a big step toward achieving what I would argue every individual in this state wants to achieve – a reduction in New York's infamous property tax burden. Unfortunately, the tax levy cap is not enough to accomplish that goal, because the "cap," by itself, will do little to address the property tax crisis in New York. Capping the property tax levy does nothing to address the cost drivers that are the true causes of high property taxes in New York. And consequently, capping the tax levy must be seen as only the first step.

By virtue of you enacting the tax cap, the Legislature and the Governor – whether willingly or unwillingly – have created a tacit contract with the public, as well as with local governments, your agents in the delivery of the tax cap's promise. The Legislature and the Governor must now meet its end of the bargain by giving local governments the tools they need to continue to provide essential services and also provide the property tax relief promised by the state. Those two tools come in two very logical forms: increased state aid and authentic mandate relief.

AIM Funding

You might expect that our members are breathing a tremendous sigh of relief over the Executive Budget's proposal to maintain AIM funding at current year levels. Unfortunately, after three years of reductions in AIM funding – including the total elimination of New York City's AIM funding – that is most certainly not the case. Instead, city and village officials are trying to figure out how, with a property tax cap in place, they can possibly provide the services their residents need when there has not been one ounce of relief provided on the spending side of the equation, and when the rate of inflation has far outpaced the level of aid provided to local governments in New York. Our local leaders have proven that AIM is a property tax relief program that works. The data tells a simple, yet compelling story. In those years when AIM was increased, the growth in city property tax levies remained under the cost-of-living. In years when AIM was reduced, tax levies increased at levels unaffordable to local taxpayers. At times like today, when the limited resources municipalities have available are far below what they were just a few years ago, and rapidly rising expenses largely beyond a mayor's control, such as pensions and health insurance, are devouring municipal budgets, state aid to local governments must be a larger piece of the pie. We urge the Legislature, when rearranging spending priorities in the 2012-13 State Budget, to give first priority to the AIM program.

Tier VI

NYCOM strongly supports the Executive Budget's proposal to create a new pension tier – Tier VI – for ***FUTURE*** state and local government employees. The changes to the defined benefit plan's retirement age, overtime calculation and benefit formula will go a long way toward steadily reducing the cost of public pensions for the next generation of taxpayers in New York. In addition, NYCOM has long supported the introduction of a defined contribution plan, similar to what is offered to SUNY employees, in many other states and throughout the private sector. We have long advocated for both the predictability of employer costs and portability of employee benefits which are associated with a defined contribution system. Furthermore, presenting this system as an option to employees – as included in the Executive Budget – ensures that they themselves can choose the plan that makes the most sense based upon their own circumstances. The only significant drawback of the Tier VI proposal – and one that, ironically, is cited by the unions – is that any real savings it will generate will not be realized for many years. We applaud the Governor for showing the strong leadership necessary to advance this bold initiative and we believe it is exactly the type of recalibration New York's pension system needs, yet it must now be coupled with other reforms that will provide near-term mandate relief as well.

Mandate Relief

I do believe that a positive side-effect of the property tax cap debate and the beginning stages of its implementation in New York has been a heightened level of awareness of the need for relief from state mandates. NYCOM has been calling for mandate relief since our formation in 1910, yet a broad understanding of the mandate-tax nexus has not been a central part of policy debates in Albany. Now, however, it has become apparent that people – the public, the policymakers, the press – do get it, and there is a growing expectation that real and meaningful mandate relief is imminent. I urge you to meet that expectation.

Other than Tier VI, the Executive Budget contains virtually nothing that resembles meaningful mandate relief for cities and villages. For our members, this is a significant disappointment. Last year, NYCOM's Mayoral Task Force on Mandate Relief issued a report entitled "You Can't Cap What You Can't Control." The purpose of this report was to illustrate – with supporting data from the state's cities – that without real, meaningful mandate relief and exclusions for those rising costs (such as pensions and health insurance) that are largely beyond a mayor's control, a property tax cap is doomed to fail. We continue to stand by this assertion and this year have joined forces with a coalition of prominent business, local government and educational organizations to advocate a six-point mandate relief agenda entitled "Let NY Work" that is largely consistent with the recommendations included in "You Can't Cap What You Can't Control."

The Let NY Work agenda focuses primarily on reasonable reforms to workforce and construction mandates, since the costs attributable to those mandates encompass the largest part of city and village budgets. Year after year, the Taylor Law, the Triborough Amendment and the Wicks Law tie the hands of municipal officials and impose unnecessary costs on property taxpayers. In the face of declining revenues, including state aid, local officials have cut their budgets to the bone, including continuing reductions in the number of municipal employees. Absent reform of state-imposed cost drivers, local leaders will be forced to further eliminate jobs and reduce essential services because those are the only options that remain.

New York has a history of kicking the mandate relief can down the road, but the time to finally address it is now. We have been told that the responsibility for mandate relief has been left to the Mandate Relief Council, which was authorized in 2011 as part of the legislation creating the tax cap. Unfortunately, while creating councils and committees may generate good discussion and the exchange of ideas – as was the case with the Governor's Mandate Relief Redesign Team – they are unable to ensure that real results will be achieved, if they have no power to compel those results. With longtime supporters of mandate relief – such as Senator Jack Martins and Senator Betty Little – sitting on the Council, we are hopeful that this entity will buck the trend and produce some real mandate relief that will translate into significant savings for local governments as well as the State. At the end of the day, the Senate and Assembly must pass municipal mandate relief before leaving Albany this year.

CHIPS Funding

As our members will tell you, one of the many negatives of a downturn in the economy and the associated reduction in municipal revenues is the deferral of capital projects and repairs. Local governments are responsible for 85% of New York's road, highway and bridge infrastructure, which is why state funding in this area is essential. NYCOM fully supports the Executive Budget's proposal to maintain CHIPS funding at current year levels. NYCOM also supports the Governor's proposed $15 billion Infrastructure Fund intended to fund both state and local projects including roads, bridges, parks and water systems. 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.

Conclusion

I have spent the last several months traveling the state educating our members on what has proven to be a very difficult law to implement – and I don't just mean difficult politically and fiscally, but also difficult technically and practically. While the Office of the State Comptroller has provided significant information and guidance to municipalities across the state on how they believe the tax cap law should work, it still has been a serious challenge for those local officials actually going through the process of determining their tax levy cap. And only after that has occurred does the real work begin – trying to craft a budget that maintains essential services without exceeding the "allowable levy."

For some municipalities, they have no choice but to override the cap, as they face pension cost increases that exceed the amount by which their levy is allowed to rise. They simply do not have the fiscal capacity to operate responsibly within such artificial constraints. For many, however, the override is politically and economically unacceptable so they must find a way to stay under the cap – even if it means using excessive amounts of fund balance, which will likely have even greater negative consequences next year and thereafter.

The Governor has made property tax relief a priority and, in many ways, this is evident by his Executive Budget and the effort he made to protect local governments from the cost shifting we have seen in the past. For example, the Governor's proposal to phase-out county expenses related to the growth in Medicaid costs is an enlightened acknowledgement of the fact that a state-mandated tax cap must be matched by a cap on state-mandated costs. The tax cap, absent a comprehensive plan to address the cost drivers plaguing municipal budgets, is not the solution to New York's property tax problem. The tax cap is not a panacea, but rather a first step. Taxpayers in New York will get the two things they need most – property tax relief and the continuation of essential municipal services – only if Albany finally demonstrates the will to reform the state mandates that are the real culprits in creating New York's overwhelming property tax burden.

Again, I thank you for this opportunity to testify at this important hearing. NYCOM looks forward to providing your committees with additional input as the budget making process continues.