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Service and Representation for Town Governments of New York

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PUBLIC HEARING
on
2014-2015 Executive Budget

Presented to
Senate Finance Committee
and
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Hearing Room B, Legislative Office Building

Presented by

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Greeting and Preliminary Statement

Good Afternoon, it is a pleasure to be with you today. My name is Gerry Geist, and I thank you for the opportunity to appear today on behalf of the Association of Towns to discuss the impact the Executive Budget for State Fiscal Year 2014-2015 will have on town budgets and services. With me today are retired Congressman Mike McNulty, Dorothy Goosby, Councilwoman Town of Hempstead in Nassau County and Ed Theobald, Supervisor Town of Manlius in Onondaga County. In the interest of time we will address some of the highlights of the Executive Budget and some initiatives that could be included in the enacted state budget that will help lower property taxes and continue to foster the growth and prosperity of our great state.

State and Local Partnership

The Congressional Budget Office recently noted that “Local governments—including counties, cities, towns, school districts, and special districts—play a significant role in people’s lives and in the nation’s economy” (CBO, Fiscal Stress Faced by Local Governments December 2010). New York relies more upon local governments than many other states to educate our children, protect the environment, manage roads and bridges, provide clean drinking water and recreation facilities, put out fires, respond to emergencies, care for the sick, low income and elderly, provide law and order, and foster economic growth (Balancing the 2002-03 Budget FPI, Page 6; Cox, Government Efficiency 2008 AOTSNY, page iv). Many of these services are funded locally and primarily with real property taxes. Since the enactment of the property tax cap, funding these services is becoming more challenging. We are hopeful that this budget and legislative session will address these challenges by providing more state revenue sharing, increased funding for roads, bridges and clean drinking water, reforming the property tax system to streamline tax assessing and distribute the cost of local services more fairly, and to lift regulatory barriers to efficiency.

Tax Freeze Proposal

We applaud the Governor for his focus on property tax relief and agree that property taxes need to be addressed. Numerous studies have shown that to achieve sustainable property tax relief, the state must provide robust revenue sharing, meaningful mandate relief and a fair property tax system that works equitably for all property owners whether you own a home, a farm or a business. We suggest that the 2014-15 State Budget allocate projected surpluses for additional funding for CHIPS, clean drinking water and Aid to Municipalities. These steps will not only achieve the State's goal of lowering property taxes, it will also put people to work and improve our roads and water systems. In addition, we recommend taking steps to provide for a more equitable property tax system. New York offers hundreds of property tax exemptions that only provide targeted relief. Tax exemptions do not reduce the cost of town services but merely shift the burden to other property tax payers. Eliminating targeted exemptions, and closing loopholes in the Real Property Tax Law, will result in lower administrative costs and more equitable assessments.

While the Governor's tax freeze proposal is well intentioned it does not get to the root problem of a property tax system that is in desperate need of reform, nor does it leverage state resources to their fullest extent. Sustainable property tax relief can be realized through a state and local government partnership that incorporates exemption reform, increased state funding for local infrastructure and fewer regulatory burdens that increase the cost of local government services.

The Executive Budget proposes a property tax freeze that is limited in both scope and duration. It is limited in duration in that it only applies for two years and it is limited in scope in that it does not apply to residents who live in communities that have a real property levy above the tax cap limit. This policy does not take into consideration that real property tax increases beyond the allowable levy limit are often driven by lack of other revenue options, contractual obligations and regulatory requirements. In addition,

residents who live in communities that don't raise property taxes or which decrease property taxes from year to year will likewise not benefit from this proposal.

If, however, the state spends the billion dollars allocated to this program on local infrastructure improvements and state revenue sharing everyone will benefit and more New Yorkers will experience property tax relief. Spending money on local infrastructure (roads, bridges, water and sewer systems, and parks etc) puts people to work in good paying jobs, saves lives, reduces health care costs and lowers property taxes. The 2014-15 Executive Budget proposes to fund CHIPS at last year's levels (CHIPS - \$363.1 million Marchiselli - \$39.7 million). The Executive Budget again under utilizes the CHIPS program as a tool to spark economic growth, put people back to work and lower property taxes. Every dollar provided through CHIPS is one less dollar that must be funded through property taxes. In addition to funding local infrastructure repairs, the state can reduce property taxes by sharing more of its revenue with local governments through the AIM program. Revenue sharing is an existing program that does not need to be created it just needs to be better funded. Governor Nelson Rockefeller signed into law one of the most robust revenue sharing programs in New York's history. Upon its enactment, he noted that state revenue sharing demonstrates that the state is in partnership with local government and that sharing state revenues with local government will result in more stable local finances. Town officials agree with Governor Rockefeller's description of state revenue. Stabilizing local government finances not only reduces reliance on property taxes it also reduces the cost of local borrowing through lower interest rates and fees. The Executive Budget proposal again underutilizes the AIM program by funding it at last year's levels with towns and villages sharing \$67.6 million and cities receiving \$647.1 million. AIM funding has been decreased or remained flat over the last five years. While we appreciate every dollar provided, increasing AIM allocations will have a direct result in stabilizing local budgets and lowering property taxes.

Increases in infrastructure funding coupled with increases in AIM allocations will lead to lower property taxes while improving our economy and health. Sustainable property tax relief for everyone can also be realized through property tax reform. More than a third of property in New York is tax exempt which represents nearly 800 billion in assessed value. In some municipalities it can be as high as ninety percent. Property owners that receive exemptions still need services which must be paid for by their neighbors. The state has been studying our property tax system for decades. For example, a bipartisan initiative sponsored by Senator Little and Member of Assembly Galef sought to reform the condominium exemption. Another bipartisan initiative spearheaded by Senator Bonacic and Member of Assembly Gunther put forth a package of bills to address issues with nonprofit tax exemptions. In addition to these proposals, numerous Gubernatorial Commissions and legislative studies have identified inequities and reforms needed to provide a more equitable property tax system that works equally for all New Yorkers. New Yorkers want property tax relief and reform. There are no shortage of good proposals ready to go and we look forward to working with you this session to get some of these enacted.

In addition to the limited scope of the Governor's tax freeze proposal we believe implementing the required consolidation and shared services requirements will prove challenging for some municipalities. Local governments have been sharing services and consolidating functions for decades. A third of municipal services are provided via shared service arrangements (Cornell University, New York State Municipal Shared Services Survey, 2013). Almost half of all municipalities already share in the maintenance and construction of their roads and highways and have been doing so for decades. In addition to shared highway services, towns are also actively engaged in shared services in the area of assessment, code enforcement, animal control, recreation, employee health care, water and sewer services, public safety, and recreation. In addition to these programs, more and more towns and villages are looking to consolidate justice court operations.

The Governor's Tax Freeze proposal does not recognize cost savings realized through current shared service arrangements or consolidation efforts. In addition, the Governor's proposal only provides fourteen months for participating local governments to investigate, draft and approve shared service agreements, consolidation or transfers of functions. In order to qualify, the final local efficiency plan must result in an aggregated cost savings of one percent of the signatories' tax levies in 2017; two percent in 2018 and three percent in 2019 of the aggregated 2014 levies. Failure to fully implement the efficiency plan can result in the loss of some or all state aid. Crafting and implementing shared service agreements could likely be accomplished in the allotted fourteen month period if the requirement that specific cost savings be realized is eliminated. Moreover, there is no new funding available to offset the cost for these studies and applying for existing funding through the various local government efficiency programs is unlikely to prove accessible given the limited window of time within which the efficiency plan must be approved. Finally, the proposed language does not appear to recognize shared service arrangements between local governments and school districts or those that cross county lines. Many towns and school districts offer joint recreation facilities and programs, share tax collection services and afterschool programs. The Governor's Tax Freeze Proposal does not appear to include these initiatives. Ironically, at a time when the Legislature is looking at eliminating costly or unnecessary reporting requirements, this program puts in place new reporting requirements to the State Comptroller, Department of Taxation and Finance and the Department of State in form of compliance certifications, municipal budgets and assessment data. Eliminating the required efficiency plan savings and giving credit for existing or renewable shared service agreements could result in more participation.

Highway Funding

New Yorkers spend \$4.5 billion annually in extra vehicle repairs and operating costs due to deficient roads (\$403 per motorist), which is essentially another tax on New Yorkers.

The 2014-15 Executive Budget proposes to fund CHIPS at last year's levels (CHIPS - \$363.1 million Marchiselli - \$39.7 million). Consolidated Local Street and Highway Improvement Program (CHIP) funding has remained flat for the five fiscal years prior to 2013-14. We therefore are extremely grateful for the seventeen percent increase to CHIPS in the 2013-14 Enacted State Budget. This amount equaled the total amount lost due to inflation over that five-year period. We are concerned, however, that even with last year's \$75 million increase localities cannot keep pace with demand. Increasing funding to a level that conforms to the NYS Department of Transportation's 2010-2015 Capital Program, which calls for a total of \$2.4 billion for CHIP funding over that five-year period, is needed to make our roads safer and get goods to market more efficiently. To attain that recommended level of funding, we ask for \$900 million over the next two years – a 2.7 percent increase this year, followed by an increase to account for inflation in the following year.

Not only will spending more money on local infrastructure improve safety and reduce traffic accidents caused by poor road conditions, the Federal Reserve Bank of San Francisco found that transportation spending “multipliers range from 1.5 to 3, depending on the method for calculating the multiplier. In the medium run, the multipliers can be as high as eight. Over a 10-year horizon, our results imply an average highway grants multiplier of about two.” In other words, for \$1 dollar spent, the economic benefit is about twice as much, on average, annually for a decade.

Design-Build Construction Projects

The 2014-15 Executive Budget proposes a pilot program to allow counties and towns, cities and villages with populations over 50,000 to utilize design-build contracting for public infrastructure projects. The design-build method of project delivery allows a municipality to sign a single contract with an entity responsible for both designing and constructing a project. This method of contracting can reduce the time for project completion thereby resulting in lower project costs and public inconvenience. We

support streamlining and cost reduction initiatives and therefore recommend the Legislature consider this proposal.

AIM Funding

The 2014-15 Executive Budget last year’s levels with towns and villages sharing \$67.6 million and cities receiving \$647.1 million. Enacted funding levels for Aid and Incentives for Municipalities (AIM) have remained relatively flat for the last four years. When adjusted for inflation, however, this unrestricted state aid has declined by a total of 10 percent over that same period.

	2010-11	2011-12	2012-13	2013-14
AIM Appropriation	\$738,940,000	\$721,034,000	\$728,181,000	\$714,731,701
% Change from Prior Year	--	-2.42%	0.99%	-1.85%
Prior Year Change Adjusted for Inflation (CPI-U)	--	-5.62%	-1.11%	-3.35%
Prior Year Change Adjusted for Municipal Cost Index (MCI)	--	-6.89%	-1.21%	-3.55%

When the Municipal Cost Index (MCI) – which is published by American City and County magazine and factors in the costs of labor, materials and contract services by compositing the Consumer Price Index, the Producer Price Index and the construction cost indices published by the U.S. Department of Commerce – is substituted for the Urban Consumer Price Index (CPI-U), AIM funding has declined by a total of 11.6 percent over the last four years. We are asking that AIM allocations keep pace with the rate of inflation be it determined by the CPI-U or the MCI.

Environmental Stewardship Funding

We join our colleagues in the environmental community calling for an increase in funding for the Environmental Protection Fund (EPF) and water and wastewater infrastructure. We are grateful that the 2013-14 Enacted Budget included a \$19 million increase in funding, to \$153 million. The 2014-15 Executive Budget proposes \$157 million in funding for the EPF, which is a \$4 million increase.

Protecting the environment is vital to New York's success. Once again, the Legislature and Governor Cuomo have demonstrated that they understand the importance of environmental protection by increasing the amount of money allotted to the Environmental Protection Fund (EPF), a dedicated funding source created in 1993 for resource preservation programs such as farmland preservation, water quality and municipal parks. We applaud this increase and also support the other notable environmental budget initiatives, such as the proposed additional allocation of \$100 million to Superfund site cleanup, and the 10-year extension and reform of the Brownfields Cleanup Program which assists efforts to clean up and redevelop contaminated industrial sites.

Although the increase in the EPF is laudable, we encourage the state to earmark additional funds as the EPF is essential to keeping local environmental initiatives viable. In 2007, the Environmental Protection Fund Expansion Act amended Tax Law section 1421 to increase funds deposited to the EPF for 2009-2010 to \$300 million. This commitment never materialized, and currently the EPF's overall budget is roughly half that. Now that the state is on track to record a surplus, we support reinvesting in the community and environment by providing more money to the EPF that can be used for things such as local recycling programs, open space initiatives and clean water programs.

On the topic of water, we also encourage the state to consider additional funding for water and wastewater infrastructure programs. Many New Yorkers rely on municipalities

to provide clean, safe drinking water, as well as sewer systems and affordable wastewater disposal. Across the state, these systems are aging and require significant and necessary upgrades and maintenance. New York has reported \$27 billion in drinking water infrastructure needs and \$29.7 billion in wastewater infrastructure needs that must be invested over the next 20 years. To keep New Yorkers healthy and remain economically competitive we need to invest in clean drinking water.

Quite simply, local taxpayers cannot afford to fully fund these types of costs. Though grateful for the funding provided by the state and our federal partners, it is simply insufficient to meet the dire need. Investing in the infrastructure and programs needed to provide sufficient clean water and wastewater systems helps protect the public health of New York State residents and support our growing economy.

Broadband Deployment Funding

We commend the State for the \$25 million in broadband grants made available through the Connect NY Program and the \$68 million spent on broadband development since 2007. The 2014-15 Executive Budget includes a program to create the “Smart Schools Bond Act of 2014,” which includes funding for broadband connectivity in the community as well as school buildings and campuses. If approved by the voters, this initiative could provide additional funding for broadband deployment and accessibility. In addition to this program we ask that the state build upon prior successes by instituting an annual \$25 million in broadband funding that is focused on “last mile services.” Noting that the broadband speed requirements needed to achieve the highest economic development factors occur in the 100-120 Mbps range, we also support a further increase in the statewide minimum speed threshold, which was raised in 2012 to 6 Mbps downstream and 1.5 Mbps upstream.

STAR Administration Reimbursement

In 1997, the School Tax Relief (STAR) exemption was enacted to provide an exemption on school property taxes for owner-occupied residential properties. The 2014-15 Executive Budget eliminates the income threshold inflation adjustment for enhanced STAR benefits. As noted in the sponsor's memorandum, capping the growth of the direct costs of the STAR program to the state is necessary due to the multiple enhancements that have made to the STAR program in recent years.

While the Association of Towns does not have a position on whether the inflation adjustment should continue or be eliminated, our local officials who are responsible for administering the program can certainly attest to the increased administrative costs that each program enhancement brings. In many towns, 30 percent of the assessor's time is allocated to STAR administration; some have even added additional staff to assist in the administration of the STAR program.

The STAR program is a state program that provides school tax relief, yet is required to be administered by towns. During the early years of the STAR program, administrative aid was also provided to localities to help them defray their costs for processing STAR exemption applications and modifying tax bills to comply with state mandates for tax bill context. In 1999, the state provided \$12 million to municipalities for the administration of the STAR exemption. In 2004, the state provided \$6 million. This administrative aid was eliminated all together in the 2009-10 fiscal year, yet administration has become more complex and burdensome with each program enhancement. As those responsible for administering the STAR program, we are hopeful that the legislature recognizes that the program enhancements enacted over the years not only had a direct impact on the costs of the program to the state, but also to the towns responsible for its administration. We therefore request that the Legislature use a portion of the savings realized through this

proposal to reinstate state funding to towns to offset the costs of administering the STAR program.

Assessor Training Reimbursement

New York State has established minimum training requirements for elected, appointed and acting assessors; appraisal personnel, including support staff in assessors' offices; and the approximately 4,000 Board of Assessment Review members. Individuals who do not meet these requirements can be removed from office. The most recent data available indicates a 30 percent drop in training reimbursements for municipal assessment practitioners. The Association of Towns seeks an increase in training reimbursement funding consistent with providing all municipal assessment practitioners full training, which will allow for the establishment and maintenance of equitable assessments.

Asbestos Notification Permit Fee Waiver

The State has made many proposals to help storm ravaged communities rebuild and to become storm resilient. As part of a communities post storm recovery, municipalities often are forced to demolish unsafe structures. In order to demolish abandoned or damaged structures that contain asbestos, local governments must pay for asbestos notification permits administered by the DOL Asbestos Control Bureau. The state-imposed fee for this notification is based on the size of the structure involved, and can run as high as \$4,000 per structure, the costs of which are routinely absorbed by the municipality. According to the sponsor's memo for A3674, these fees rose from \$6.6 million to \$12.2 million in 2009-10, while the budget for the Asbestos Control Bureau remained stable, from \$3.3 million to \$3.4 million over the same time period.

Notification fees increase the cost of the removal of unsafe structures resulting from natural disasters such as Superstorm Sandy, Hurricane Irene and Tropical Storm Lee, thereby limiting available funding for related projects. To reduce the expense to clean up neighborhoods ravaged by storm and blight we recommend waiving the notification fee

for municipal projects (e.g. A4015/S6164). We anticipate no impact to the asbestos control program as it collects three-times the revenue necessary to fully fund the program.

Conclusion

Thank you for the opportunity to discuss our observations, recommendations and concerns regarding the 2014-15 State Budget. The State Comptroller recently reported that state aid only accounts for 3.8 percent of total town revenues. Towns have limited funding sources and must therefore rely primarily on real property tax revenue to fund vital services. Town officials agree that New York needs to address rising property taxes and take steps to put people back to work. Increasing state funding for local infrastructure needs and AIM funding will have an immediate impact on property taxes while putting people back to work without the need to create, manage and fund new programs. We look forward to working with you and your staffs to accomplish these shared goals.

