Real Property Taxes

Testimony of the New York State Conference of Mayors

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and
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On behalf of the NYS Conference of Mayors, I want to thank you for the opportunity to testify this important hearing on property taxes. I am John McDonald, Mayor of the City of Cohoes and First Vice President of the New York State Conference of Mayors.

Background

As I'm sure you know, the property tax is the single most important revenue source for local governments. In 2005, property taxes (outside NYC) accounted for 43% of local revenue, totaling $25.3 billion. Given the rising cost of providing essential municipal services and the limited revenue to fund them, there has been an increasing reliance placed upon the property tax.

One of the fundamental challenges facing our upstate communities is eroding tax bases. Much of this is due to population declines and decreases in property values, particularly in our urban centers. However, the tax base is also compromised by the imposition of property tax exemptions. Exempting property from taxes does not diminish the need for those revenues: it simply shifts the burden of generating those revenues to the remaining taxpayers in the community. For example, according to 2005 data, approximately 62% of the 5.5 billion parcels in New York State are wholly or partially exempt from taxes. This reflects $678 billion in exempt full value or 32% of the value of all property in the state. If you apply a standard 2.5 percent full value tax rate, these exemptions result in nearly $17 billion in taxes shifted to other non-exempt property taxpayers. This proliferation of both tax exemptions and tax exempt properties is a concern and NYCOM will continue its efforts to prevent attempts to create new exemptions that would further eat away at the already shrinking local tax base.

While the tax base continues to diminish, local expenditures are on the rise. The costs associated with pensions, health insurance benefits and infrastructure in particular, continue to present significant fiscal challenges for local governments.

Obviously there are no easy answers to the property tax dilemma. But I can assure you that no group is more interested in reforming the system than the local officials who are responsible for the day-to-day operations of the cities and villages of this state. We, as elected officials, are on the front lines every day and as the level of government closest to the people and therefore most accountable to the people, we are continually striving to do more with less to help provide relief to our taxpayers. This only stands to reason, for we are the ones who are criticized when quality services are not provided and when property tax rates continue to rise. Local officials have not only a vested interest but a fundamental responsibility to ensure their residents receive the essential municipal services in the most cost-effective manner.

But to do this and do it effectively, we need the state's help. The increases in AIM aid over the past three years, as well as the multi-year commitment to increases authorized in the 2007-08 state budget – are clearly a step in the right direction. NYCOM's annual city budget survey has shown that the recent AIM increases have helped to slow the growth in property tax rates. In fact, according to NYCOM's survey results, the average property tax rate increase in 2007 was 4.6%, which although significant, reflects a decrease of nearly 21% compared to 2006. Clearly, these additional funds are being used as they were intended – to minimize or reduce the local property tax burden. Despite this, however, more needs to be done to make up for the cumulative reductions in revenue sharing that our local governments have been forced to absorb for nearly two decades. When adjusted for inflation, approximately 80% of our cities and 100% of villages are receiving less aid than they did in 1989.

NYCOM's membership recognizes the State is facing a significant fiscal crisis of its own and that additional aid will be difficult to come by. We hope, at the very least, the state will uphold its commitment to an additional $50 million in aid in each of the next three years. We can assure you that such an investment will pay great dividends, both in the form of property tax relief and the quality and delivery of municipal services in our cities and villages.

Mandate Relief

NYCOM has long argued that state mandates equal higher property taxes, and furthermore, that many of the most onerous mandates are both archaic and provide no benefit to the public good. Unfortunately, efforts by local governments to eliminate those mandates are continuously obstructed by special interest groups. Relief from the constraints imposed by statutes like the Wicks Law and binding arbitration is essential to more efficient and effective local government operations. We recognize that garnering support for these types of changes is no easy task, and NYCOM greatly appreciates the Governor's efforts to achieve mandate relief during the 2007 legislative session – particularly his Wicks reform proposal. We hope that he will continue his efforts to finally provide relief from the Wicks Law, as well as other outdated and costly mandates. You can rest assured that NYCOM will continue its efforts to try to convince the Legislature to do the same.

Managing Workforce Costs

In addition to mandate relief, there are other areas in which the state can provide assistance. Since workforce costs are the single largest component of local budgets, one sure way to achieve significant property tax relief is by giving local officials the ability to control these costs. We greatly appreciate the Governor's help in this regard through his vetoes of several labor mandates passed by the State Legislature that, if enacted, would have greatly increased employer costs and undermined the collective bargaining process. With the likelihood that the Legislature will approve similar bills again in the 2008 Legislative session, we hope the Governor will continue to reject their attempts to: (1) shift the balance of power away from public employers and (2) obtain employee benefits via the State Legislature as opposed to the collective bargaining process.

Pensions

With respect to the issue of local pension costs, although pension rates have been declining in recent years, the tenfold increase in pension contributions that villages and cities (outside NYC) experienced between 2003 and 2005 continue to plague local budgets. In fact, in many cases, the AIM increases in recent years have been used primarily to fund local pension costs. Although current contribution rates are in the same range as they were in the 1980's, the base upon which pension costs are calculated – that is, salaries – has risen substantially since then. Also, general purpose aid is currently a much smaller portion of local budgets than it was some twenty years ago. For the past several years, NYCOM has argued that the state should undertake a thorough analysis of the benefits, funding methodology, governance and oversight structures of our public pension system. We support legislation that creates a new retirement tier with more affordable retirement benefits for new hires in both the Employees' Retirement System and the Police and Fire Retirement System. In addition, immediate relief might be obtained by amending the system's valuation and funding methodologies to ensure that local governments are not paying *any more* than is absolutely necessary. These initiatives would go a long way in helping to reduce the local tax burden. We recognize that this is an issue that the State Comptroller must address and we plan to discuss it with him in the coming weeks. However, any assistance we can get from the Governor in this regard would be greatly appreciated by NYCOM and its members.

Health Insurance

The cost of providing health insurance benefits to municipal employees also continues to cripple local budgets. According to the State Comptroller's data, between 1999 and 2005, the cost of providing medical benefits to employees and retirees increased by **77%** in cities and **75%** in villages. Although local officials are taking steps to try to manage these expenses by increasing employee co-pays, contributions and deductibles, these types of changes are often difficult to achieve, particularly since the Triborough Amendment to the Taylor Law essentially discourages unions from offering concessions or givebacks by ensuring the continuation of current contract provisions even after the contract expires.

Currently, health benefits for municipal employees often vary by local government, the classes of workers within those local governments, and even by the units within those classes. The state may be able to assist by developing one defined and affordable municipal health plan, which all public employees (either current or future) would be required to join. A single plan with a defined benefit for all employees may be one way to finally bring parity and affordability to public employee benefits.

Other Initiatives to Consider

Finally, the state can assist local governments on both the expenditure side and the revenue side, at no cost to the state, by addressing certain inequities and inconsistencies that currently exist in statute. While these may not be what many consider "big ticket items," when added together, even the less lucrative initiatives can go a long way in helping to address the structural imbalance between the fiscal capacity of local governments and the cost of providing essential municipal services.

- **Gross Receipts Tax**: Cities and villages are authorized to impose a gross receipts tax (GRT) on the sale of utility services. For most municipalities, the tax is equal to 1% of the gross income of utilities operating within their boundaries. As currently written, the statute governing the imposition of this tax at the local level excludes cellular telephone services. In recognition of the new wireless technology and to promote equity in the tax treatment of various types of telecommunications providers, both the state and the City of New York have made changes to their respective statutes to include cellular services as taxable for purposes of the state's excise tax and the city's gross receipts tax. NYCOM urges the state to do the same for all cities and villages to ensure that they too can benefit from the additional revenue that will result as wireless telephone service continues to grow in usage.

- **Competitive Bidding Limits**: Another area where the state can assist would be with respect to procurement reforms, most notably by addressing local competitive bidding limits. Current law requires competitive bidding for all purchase contracts over $10,000 and for public works contracts over $20,000, placing a heavy burden on local governments. In 2006-07, these limits were increased for state entities, but not for local governments. Raising these maximums to $25,000 and $50,000 respectively, would provide local government's greater flexibility and ease when entering into contracts for small projects.

- **Property Tax Exemption for Municipally-Owned Property:** There is another issue of interest to NYCOM related to the taxation of municipally-owned property. Under current law, municipally-owned property that is located outside the municipality's boundaries is generally subject to taxation. Based on data from the New York State Comptroller's Office, in 2005, cities and village paid approximately $17 million in property taxes on municipally owned property. NYCOM supports legislation granting exempt status to all municipally-owned property used for public purposes.

- **Duplication of Taxes at the Local Level:** Finally, there has been considerable discussion recently surrounding New York's multiple layers of government and the duplication of services at the local level. While we can appreciate this concern, many of our members would argue that the duplication of taxes is the more pressing issue. Under current state statute, village and city residents pay town and county taxes for services provided at the town and county level – services that village and city residents often do not receive. For example, snow removal and highway machinery are town wide charges, meaning that all taxpayers within the town – including village residents – pay for the cost associated with these functions. However, towns do not provide snow removal or highway services within incorporated villages. In this case, the village residents are paying for services for which they receive no benefit. The same can be said for county sheriff and highway services that are paid for by city residents but are not provided within city borders.

The Conference of Mayors has tried to address this issue, particularly with respect to town highway taxes, via state legislation. Unfortunately, these attempts to date have been unsuccessful but we plan to continue to work toward achieving an equitable and satisfying solution for all. Any support we can get from the Governor would be greatly appreciated as we strongly believe this is an area in need of reform, and one that is consistent with the goals of the Local Government Commission on Efficiency and Competitiveness.

Conclusion

As I said at the beginning of my testimony, we recognize that there are no easy answers when it comes to relieving the property tax burden. However, one essential ingredient is a strong state-local fiscal partnership. As the building blocks of this state, local governments play a critical role in its overall fiscal stability and strength. As a result, the state and its local governments must join forces to ensure the prosperity of our communities and the state as a whole.