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I want to use my time this morning to talk about the current challenge of fiscal stress facing local communities across our state and give you my thoughts about how to address the challenge going forward.

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It's no exaggeration to suggest that as a state, we have been through one of the most difficult economic periods in our history.

The Wall Street earthquake of 2008-2009 and the resulting rolling tsunami of job losses across the nation and here in New York was a profound economic event – one that cost our state billions of dollars in revenue and hundreds of thousands of jobs.

Looking at the latest economic indicators, we see clear signs of recovery – but also continued challenges ahead.

For instance, while New York recovered 111% of the jobs we lost during the recession, our job recovery is uneven depending on where in our state you live.

New York City has gained 175% of the jobs it lost during the recession. Long Island is right back where it was before the downturn began. Ithaca has gained nearly four times as many jobs as it lost during the recession. Rochester and Buffalo have regained around three-quarters of the jobs they lost. But other areas have recovered far less. The Capital Region has regained 58%, Syracuse has regained only 38% of its lost jobs, and Glens Falls a mere 16%.

We're seeing an uptick in the housing market, with the most recent report put out by the New York State Association of Realtors showing statewide home sales in 2012 finished 7% ahead of 2011.

Despite some signs of economic recovery, all is definitely not well in too many of New York's communities, which continue to face significant budgetary and fiscal problems.

A confluence of factors, including decreasing tax bases, growing fixed budget costs, losses in population and a deteriorating industrial sector have conspired to create chronic budget gaps and significant fiscal stress in a number of counties, cities, towns and villages across New York.

My office has been spotlighting the fiscal stress being felt by many of New York's local governments with a series of fiscal profiles and reports. The deeper we look, the clearer the problem becomes.

In August, we released a report that found that nearly 300 local governments had deficits in 2010 or 2011, and more than 100 had inadequate cash on hand to pay their current bills.

The report also highlighted that widespread declines in property values have created downward pressure on the single largest local government revenue source, the property tax.

Municipalities are also suffering from declines in other major revenue sources such as the sales tax and mortgage recording tax.

Additionally, State Aid and Incentives for Municipalities (AIM) payments have declined or been stagnant for the past five years. Since 2008-09, AIM has been reduced by $50 million and has been completely eliminated for New York City.

Last month my office released our latest report on the issue, focusing on slow aid growth to local governments over the last decade. The Report found that, from 2001 through 2011:

- Total federal and state aid to municipalities has failed to keep pace with inflation.

- The relative share of federal and state aid as a percentage of total local government revenue decreased – from 22% in 2001 to 20% in 2011. To cover expenses, local governments have been forced to rely more heavily on revenues generated through sales taxes and real property taxes.

- State funding to localities grew by only 1.2% on an average annual basis over that decade.

As a result of all these pressures, municipalities eliminated 22,000 jobs from 2009 through 2012, according to the Bureau of Labor Statistics. We have to believe these cuts resulted in some loss of needed services, as well.

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If the task of balancing increasing costs and decreasing state revenue and local tax receipts weren't enough of a challenge – local governments now must budget within the confines of a Property Tax Cap or seek a supermajority override.

As you know, local governments and school districts must submit reports on their tax cap calculations to my office.

Since the Tax Cap was enacted in June of 2011, my office has been doing all we can to help local governments deal with the new law. We've provided training to over 7,100 local government and school officials across the State, at over 70 training sessions.

Our current data shows that well over 90% of local governments and school districts have complied with the reporting requirements of the law.

Given the fiscal pressures facing localities – that level of compliance is truly impressive.

But while local governments have done a commendable job of complying with the tax cap law, it will no doubt continue to be a challenge to do so in the coming years, in the face of increasing local needs and decreasing fund balances.

In fact, we know that the tax cap's impact will grow over time because of the power of compounding: the difference of a percentage point or two a year, building up over many years.

One way to get a perspective on the impact of the Tax Cap on local revenues is by looking at the experience of New York school districts from 2000-2010 and comparing that experience to what we can expect going forward.

From 2000 to 2010, property tax revenues for school districts across the state rose by an average of 5.4% a year.

Our Local Governments division issued a report in 2012 showing that, in its first year, the new tax cap limited school district tax levies to average increases of 3%.

So let's look at the difference between that 3% annual increase, and the 5.4% annual increase we saw over the preceding decade.

If the average annual revenue growth over 2000-2010 had been 3% instead of 5.4%, the cumulative difference by 2010 would have been 3.4 billion dollars statewide. That amounts to real property tax relief for New Yorkers. But that also represents $3.4 billion less in local revenue for schools to spend on providing the services New Yorkers expect.

And while the numbers differ, there is an analogous effect on municipalities.

So we can assume that if the current tax cap remains in place for the coming decade, the long-term impact on school and municipal budgets will total additional billions of dollars.

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Our reports also demonstrate that the fiscal challenges confronting local communities are not a passing problem. This is the new normal.

Difficult budgeting choices are ahead. And the path to more accurate and realistic budgeting begins with an honest conversation about the numbers.

To help in this process, my office recently finalized a Fiscal Stress Monitoring Program - an early warning system to identify local governments facing significant fiscal stress so corrective actions can be taken before a full financial crisis develops.

The program will use the self-reported data that local governments already provide to our office to calculate an overall score of fiscal stress for municipalities and school districts across the state.

Municipalities will be classified as in "significant fiscal stress," "moderate fiscal stress," "susceptible to fiscal stress," or "not in fiscal stress."

I used the expression "early warning system." We will start to release these scores in just a few weeks. Let me say clearly that I expect this will be a painful wakeup call for some local officials, and for many taxpayers who have not been aware of the troubling fiscal reality.

Once we determine that a locality or school district is in fiscal stress, there are a number of services my office can and will provide. These include budget reviews, technical assistance, multi-year financial planning strategies and techniques, and an array of training opportunities.

We were happy to get a thumbs-up from the experts at Moody's, who said that our system to help local governments better identify their fiscal troubles is "credit positive." We take this as confirmation of our belief that more information, even if it is sometimes tough to hear, will ultimately lead to better budgeting.

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Because this is not a short-term crisis but a long-term challenge. We need long-term thinking to solve it. We are continuing to face deep challenges for <u>all</u> classes of municipalities and school districts … almost four years after the last recession ended. That being said, our cities outside of New York City are on the front line of fiscal stress.

And although the national economy continues to experience modest growth, all projections indicate that the financial challenges we see today will be with us for some time to come.

There are no easy, simple solutions.

For example, some suggest that localities can go bankrupt, like a private corporation looking for a turnaround.

Our Local Finance Law allows municipalities to file a bankruptcy petition, but no local government in New York has ever chosen that path, and with good reason.

At best, it is filled with uncertainty, because decision-making authority moves from voters and local officials to a judge who may need to balance the interests of creditors with the particular needs of an individual community. At worst, bankruptcy can drag on for years and still produce no good resolution, as we have seen in places such as Vallejo, California.

The bankruptcy process itself is expensive. Legal fees in the case of Jefferson County, Alabama, are currently more than $1 million a month.

Setting the bankruptcy precedent in New York would send the wrong signal to the municipal bond market. Such a step could make investors think twice about lending to other municipalities, especially those already suffering from significant fiscal stress. And this negative perception, in turn, could increase borrowing costs for those fiscally challenged localities that are least able to absorb additional strain on their budgets.

As New York's chief fiscal officer, I do not see bankruptcy as a productive process for local governments.

In the past when some localities have been unable to solve chronic problems the Legislature has imposed a control or oversight board. While the mechanism can be helpful, we have seen that control boards do not necessarily lead to immediate solutions, either.

My home county of Nassau is one illustration. The Nassau Interim Finance Authority has had some positive impacts. Yet, 13 years after the board was created, the financial condition of the county is still precarious.

Even if we believe that control boards can help lead to solutions in some cases, taking decisions out of the hands of local elected officials should only be used in extreme circumstances. And there does not seem to be an appetite to create more control boards across New York.

So what can we do? What should we do? I'd like to offer the following principles on which to base future policy choices at both the state and local levels, as we deal with this new normal.

First: Knowledge is power. Let's get the facts and put them in front of the people who pay the bills – the taxpayers.

While many New Yorkers are generally aware that their local governments are struggling, the details are both critically important and somewhat complicated.

The results of the Fiscal Stress Monitoring System that my office will start releasing in just a few weeks will help New Yorkers understand the financial condition of their local governments more clearly.

This system builds on work we have already been doing with our fiscal profiles, audits and other reports.

I urge elected leaders and voters in every community to look closely at our fiscal stress index and think about what each locality needs to do, to address its own unique challenges. We must intensify the good efforts that are already underway in many communities to identify options and confront difficult budget choices to move toward lasting solutions – It must be understood that the longer we delay action, the more elusive the outcome will be.

Second, we need to understand that not all stress is created equal, and so not all stress requires the same solution.

Some stress is caused by poor financial planning on the local level, while other stress can be attributed to external factors. Education, increased training, technical assistance and more attention to develop local elected leadership can help municipalities grapple with these issues.

The organizations that are co-sponsoring today's event – the Conference of Mayors, the Association of Counties, and the Association of Towns – are doing important work in providing technical assistance and training. We need to make sure we are doing all we can to help elected officials learn about long-range financial planning and to use the tools that contribute to better budgeting and stronger financial condition. The Comptroller's office continues to be a partner in these efforts.

But as my fiscal profiles of cities around the state are pointing out, our cities in particular are facing broad social trends, in many ways beyond their control, that are pushing them into fiscal crisis.

Working to reverse those trends means we need to continue working on rebuilding the local tax base. Economic growth drives more property tax revenues without higher tax rates. And it creates more jobs, which in turn generate higher sales tax and income tax revenues.

One important step for our cities, in particular, is working more effectively to bring "brownfield" properties back onto the tax rolls, for both economic and environmental benefits.

And by the way, rebuilding the tax base also means being smarter and more discriminating about our use of tax incentives, which in some cases fail to generate net, new economic activity for our communities and our state.

We know that we have not yet found the answers to the troubling, long-term economic difficulties facing many of our local communities, especially our cities outside the city of New York.

And that leads to my third principle: It is time for a more comprehensive agenda to assist local governments.

That agenda must include a clear-eyed assessment of the economic and social challenges confronting our urban centers, practical analysis of what we can do to start a turnaround after decades of decline, and a renewed commitment to help from the state.

Forcing cities to depend heavily on a stagnant or shrinking property tax base will not be viable much longer if we want healthy, vibrant cities.

As I mentioned before, funding for Aid and Incentives to Municipalities, our primary general-purpose assistance for local governments, is lower this year than it was five years ago.

Although every major program area in our state budget took cuts during and after the Great Recession, we take for granted that in most years there will be some increase in funding for programs like health care, education, transportation and economic development. This has not been the case with general-purpose municipal assistance.

AIM funding is a comparatively small part of the overall budget, at $715 million this year. Compare that $715 million to the more than $25 billion in state funds we will spend this year on health, more than $26 billion that we will devote this year to K-12 and higher education, or other billions of dollars for transportation, prisons, economic development and so on.

Although this was a tough budget year, the enacted fiscal plan includes significant new funding for various programs … and tax reductions including a $350 rebate for certain families that will cost approximately $400 million a year starting in 2014.

As the economy improves and as resources become available, an increase in support that could provide welcome help to localities could be provided with relatively modest impact on the overall Financial Plan. For example, even a 50 percent increase in AIM funding, representing less than one-half of 1 percent of the state's operating budget, would do a lot to hold down property taxes across the state. If we simply went back to the AIM levels that were promised in 2007, localities across the state would receive $134 million in additional aid this year.

The bottom line: We need to do more to help struggling municipalities, as soon as possible.

As Comptroller, I respect that the Legislature and the Governor make the policy choices as to specific expenditures in the state budget.

But at the same time, let's recognize that there were choices made this year – choices to provide new resources for certain programs, even in tough times. The fiscal and social challenges facing our local governments deserve a more prominent place in our budgetary priorities. It is time to re-examine the fiscal relationships between the state and local governments, starting with our cities.

This year's budget did include a small increase in funding for villages. This is appropriate because, as we look at municipalities in fiscal stress, we need to recognize that villages often function as small cities. Many of our villages share the economic and social challenges that we more commonly associate with cities. And villages typically receive lower levels of aid than cities that are similar in size and responsibilities.

Fourth: Accountability is essential.

As we think about increased support for fiscally stressed local governments, we want to reward and create incentives for responsible budget practices and choices.

Any future increase in state assistance could and should be combined with heightened accountability in the form of required multi-year financial planning, and regular reporting on the municipality's efforts to move toward structural budget balance.

Legislation enacted in 2006 and 2007 included just this kind of combination – increased aid and greater accountability – but those provisions were temporary and are no longer in effect. If the 2007 provisions for AIM were in effect this year, localities across the state would be receiving

$134 million in additional aid. And more local governments would be engaging in the long-term planning that can help lead to real solutions before fiscal stress reaches a critical level.

As we encourage and incentivize better long-term planning, we need to provide additional tools to make such planning truly effective.

For example, I have proposed legislation that would allow creation of a statewide fund in which localities could set aside money in trust for post-employment health care and other benefits. We know these costs are coming. We often talk about pension and health-care costs together. Fortunately, we have every expectation that pension costs will come down in the years ahead.

But no one expects that to happen with our health-care costs. And we already pre-fund our pension obligations – something we do not do with public employee retiree health benefits. While we are confronted by the difficult choices of today, we also need to look for long-term, structural changes that can help us down the road. An OPEB trust would be a step in the right direction.

We can and must do more to promote shared services. We know that localities can save taxpayer dollars by working together – local leaders across the state are providing the proof every day. The state's Local Government Efficiency grants can help localities get started. My office has a comprehensive shared services training program that can be delivered upon request to any set of municipalities considering this option.

As we look for the ideal balance between help for local governments and greater accountability, we may be able to learn from experience in other states.

Compared to states such as Pennsylvania and North Carolina, New York has relatively few "carrots and sticks" at its disposal to help steer fiscally troubled local governments onto a more sustainable path before problems reach a critical level.

Currently, the state Legislature generally becomes directly involved only when a local government seeks enhanced borrowing authority to pay off an accumulated deficit. By that time, the taxpayers are already incurring interest costs for cash-flow debt associated with operational expenditures – the kind of borrowing that should be avoided.

When a municipality reaches the level of severe fiscal stress that forces local officials to approach the Legislature for special borrowing authority, the results are unpredictable. And the level of state involvement in, or monitoring of, their finances can vary significantly.

All of this is one more reason that both local government policies and practices, and the state's own response, must be directed at resolving fiscal challenges before they reach the crisis level.

The fifth principle: Engage the public.

It's a simple premise: The taxpayers foot the bills and should be involved in the decision-making process.

Voters owe it to themselves to learn more about the budgetary choices being made in their communities and to support local elected officials who are willing to make the tough but necessary choices. And in an era of greater demand for governmental transparency than ever before, I urge local officials to go the extra mile to inform their constituents and seek their input. Change is never easy. More communication and more citizen engagement can help move the difficult but necessary decisions more quickly.

My office will continue to assist those decisions by making more information available to elected leaders and citizens.

In addition to the ongoing series of reports that I mentioned earlier, our OpenBookNewYork website provides a wide variety of data on local government spending, revenues, tax limits and other fiscal indicators. As part of our continuing commitment to open government and transparency, we are looking at the possibility of adding more data sets to OpenBookNewYork in the months ahead.

It is worth recalling that, when New York City approached bankruptcy in the mid-1970s, all parties in the process – state and local elected officials, the business community, labor and others – came together to find solutions. We need those kinds of partnerships to address the very difficult challenges facing us today.

A sixth and final principle should guide the policy choices that will resolve our local governments' fiscal stress:

Tough decisions start at home.

Yes, we need the state to do more, especially to help our most fiscally challenged local governments. But the reality is this: The landscape is not going to change dramatically overnight. Local elected leaders are going to have to make tough decisions. And they are going to have to continue involving their citizens in the discussion regarding the best options among difficult choices.

Even if an increase in state aid becomes possible, that alone will not solve the problem. And even if we do manage to bring every fiscally stressed municipality out of the red, we owe it to the taxpayers to make sure we are using their resources as cost-effectively as possible. I can promise that my auditors will continue working with local officials to help make that happen.

I urge all local leaders to think about today's fiscal challenges while also contemplating the long-term impact of the solutions being considered. This is a challenge for the state itself, of course, as our reports on the state budget have shown repeatedly. My Division of Local Government and School Accountability has an entire section of our website devoted to multi-year financial planning. This is a tool that local officials should use continuously.

We can and must find ways for government to operate more cost-effectively. But we also must make tough choices involving the level of public services, and the price that taxpayers are willing to pay.

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To summarize the charge for state and local governments: Be more efficient. Collaborate more often. Share ideas. Engage the public. Think long-term.

The sooner that all of us at both the state and local levels address the very real challenges facing our local governments, the better off we will be. The good news is that we have already begun this effort.

The state has taken some significant steps in recent years to help relieve fiscal stress for localities.

These include my Office's amortization program to manage higher pension costs, and the state's increased takeover of additional Medicaid costs.

Now more than ever before, we need leadership, innovation and action. Out of this challenging time, we must create a better way forward.

Again, I want to commend the Rockefeller Institute for providing a platform for thoughtful discussion and debate on the important issues facing our communities. It's this kind of dialogue that we need more of in these challenging times.

I know our former Lieutenant Governor, Richard Ravitch, will be speaking with you later this week. The Ravitch-Volker task force has put a spotlight on the fiscal crises facing state and local governments across the country. I appreciate their work and look forward to hearing what Dick Ravitch has to say on this important topic.

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