



City of Rochester, NY

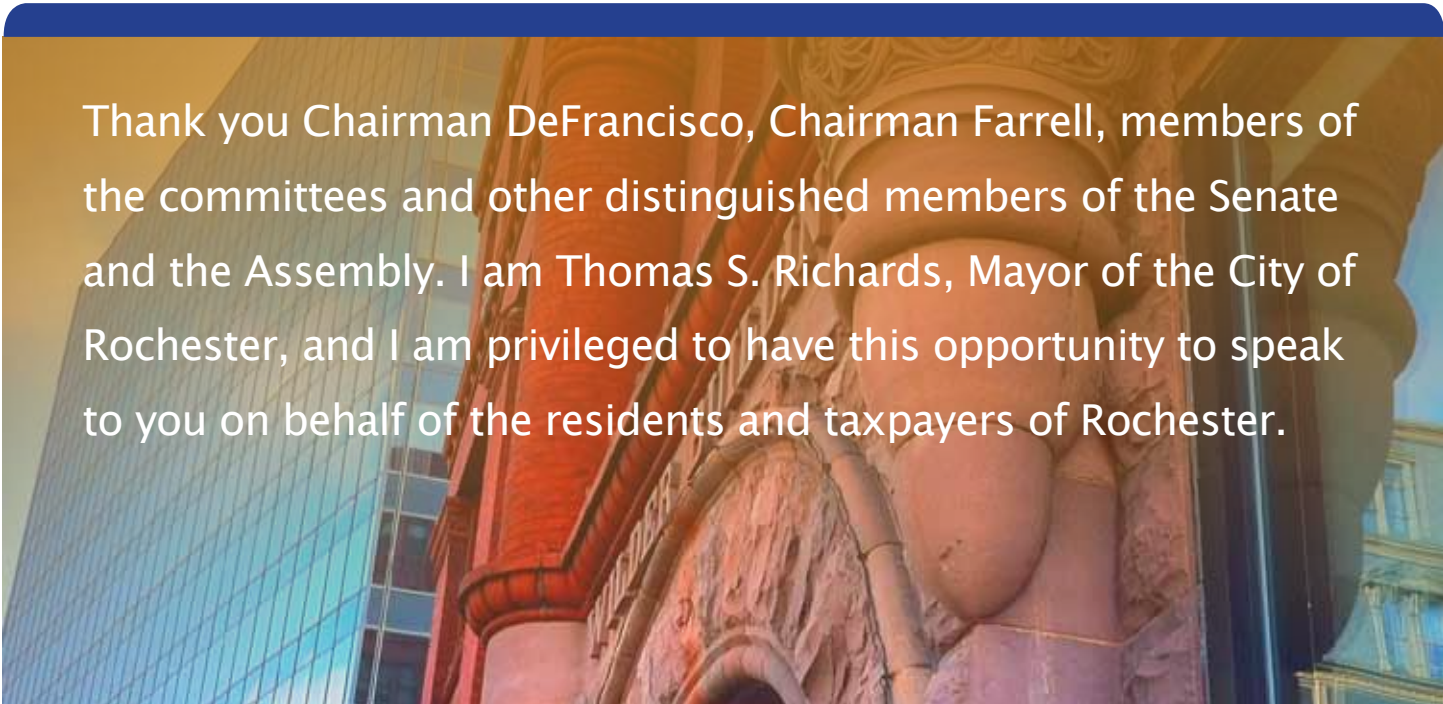
---

Joint Legislative Hearings  
on the 2013–14 Proposed  
NYS Executive Budget

---

Testimony by  
Mayor Thomas S. Richards  
January 28, 2013





Thank you Chairman DeFrancisco, Chairman Farrell, members of the committees and other distinguished members of the Senate and the Assembly. I am Thomas S. Richards, Mayor of the City of Rochester, and I am privileged to have this opportunity to speak to you on behalf of the residents and taxpayers of Rochester.

Let me begin by thanking you and Governor Cuomo for the \$15 million AIM spin up funding from last year. It was a tremendous help in closing our City's 2012–13 budget gap. I particularly appreciate the new Tier VI pension plan that will save Rochester millions of dollars in the years ahead. I also want to thank you for providing the second round of funding for the Governor's Regional Economic Development Council. This resulted in a \$96.2 million award for the Finger Lakes Council. This funding will help us with developing the Midtown Rising site, College Town at the University of Rochester and other projects. We are extremely grateful.

## THE GOVERNOR'S PROPOSALS

I would like to take a moment to applaud Governor Cuomo for some of the initiatives he laid out in his Proposed Executive Budget last week.

### Economic Development

- The Governor's continued support for the Regional Economic Development Councils concept and the competitive principles underpinning them are reassuring. The Governor insightfully defines the challenge of Tech Transfer – From Academia to Commercialization. The City is prepared to fully engage a number of these.
- We support the creation of ten Innovative Hot Spots with funding for five this year. These tax-free zones will serve as a magnet for attracting new businesses and marketing our area.
- We support the Innovative New York Network and the New York State Innovation Capital Fund.
- We also support the Governor's job readiness proposals. These will link job training and education

programs with high-need industries where the actual jobs exist.

- Further building on the successes of the Regional Economic Development Council, each Council will be asked to focus on one distressed community and identify strategies that will address the challenges of concentrated poverty. Given our city's demographics, we wholeheartedly support this plan.
- The creation of CORE neighborhoods focuses state resources on distressed neighborhoods. There will be two pilot programs this year under this proposal. We intend to vigorously pursue one of these designations. In his State of the State, the Governor identified an area of our city where the "poverty level is more than double the statewide average."

### Housing

- We support the creation of the House New York Program – this will provide \$1 billion for affordable housing. In Rochester we have effective housing programs we are proud of and we have enabled more

than \$450 million in investment for 2,800 units of affordable housing over five years. We've got seven additional projects ready to go in the pipeline for State funding representing 380 additional units.

- Rochester has a rich inventory of historic architecture and we are a leader in revitalizing these structures. The Governor's proposal to extend and enhance the Historic Commercial Properties Rehabilitation Credit will continue essential incentives to Rochester's developers, who have used this tool with great effectiveness.

### Education

- The ultimate success of our community depends on an improved public education system. The Rochester school district has already started to implement full-day Pre-K and has instituted on a trial basis an extended school day for some students. We are particularly interested in the Governor's idea for "community schools."

### Mandate Relief

- In recognition of the challenges faced by "fiscally distressed" cities, the Governor has proposed important modifications to the "interest arbitration" provisions as they apply to the determination of a city's "ability of pay" in certain public employee labor negotiations. The new provisions will help us manage costs, maintain appropriate public safety services and provide fair and reasonable compensation for our public safety professionals.

- The Governor's proposal for stable rate pension contributions, which is projected to save the City \$21 million in its coming fiscal year, is the only thing in the budget that has the prospect of providing us with immediate relief. This gets to the single biggest driver that has affected all levels of government and threatens their financial stability. Our pension payments have increased by \$77.5 million cumulatively over that last four years and will be \$52 million in the next fiscal year. This -- when combined with our other largest state mandated payment to our school district -- exceeds our real estate property tax revenue.

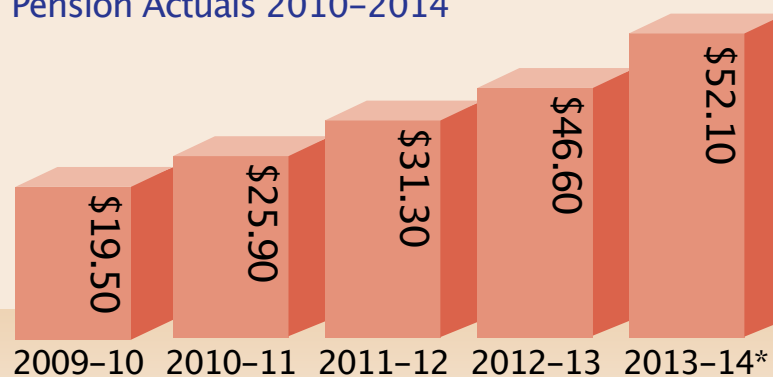
Further review is necessary to completely understand the proposal and to ensure that the funding of the pension plan is maintained. However, there are clear advantages for our city. The smoothing effect of this without borrowing until the pension obligation declines due to Tier VI will help us survive in the short term without doing significant damage to essential municipal services and provides a window to develop a long term solution.

The concept of a flat payment, adjusted periodically if necessary, accommodates the City's inability to quickly increase its revenue and gives us a basis to manage responsibly.

We find this to be an innovative solution in difficult times.

However, as important as it is, it is not a complete or permanent solution to the challenges that face cities.

Pension Actuals 2010-2014



\*2013-14 is estimated

## CHANGING HOW CITIES ARE FINANCED



We support the Governor's proposed Financial Restructuring Task Force. However, it is important to understand that our problem is not a matter of accounting or of realizing that we have a problem. In very tough times, we have maintained an A plus credit rating.

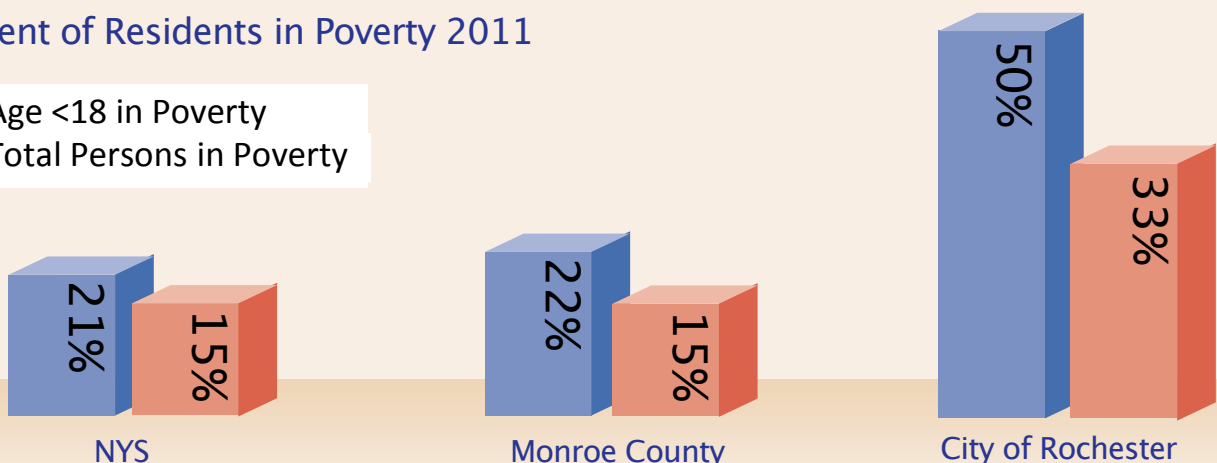
If Upstate cities are to be successful -- given their age, given their concentration of poverty and given all of the demographic issues that we know to be true -- we must continue to invest in them and we must continue to maintain their service levels. And that costs money. If we back off, Upstate cities will soon deteriorate. We are seeing this happen in some California cities and we certainly want to avoid the problems they are experiencing.

It is important to also make a distinction here between economic development activities and the success of cities. They are two different issues. Economic development, as good and as important as it is, will not address the financial issue that cities face.

**The traditional source of funding cities -- and the only source of revenue we control -- is the Real Property Tax. This is an 18th century model that is incapable of dealing with 21st century realities.** Our cities are permanently out of balance. Through much of the 20th century, the value in city real estate generated enough revenue to pay for City services. This was a result of a strong industrial base with considerable value in its real property. The industrial base generated the revenue that paid for the services needed by the residential base. This is no longer the case.

### Percent of Residents in Poverty 2011

■ Age <18 in Poverty  
■ Total Persons in Poverty



U.S. Census Bureau, American Community Survey 2011





Today, by the time we pay the state-mandated school district payments and pensions, all of our real estate tax, plus millions more, is gone. In fact, these two mandates account for 27 percent of our entire City budget. This is the best illustration of our structural imbalance.

It's not a matter of raising taxes. For example, the 2 percent statutory cap on increasing property taxes -- which we support -- will produce a little over \$3.2 million in a year in which we have a \$28 million shortfall. If it weren't for state aid and the sales tax that pays for everything else, we would have been broke long ago.

At the same time that the revenue model grew antiquated, the demand for services in the cities increased.

Rochester, despite its reputation and its general circumstances has some of the highest concentrations of poverty in the country. According to the U.S. Census Bureau, 33 percent of our residents and 50 percent of our children under 18 live in poverty; these rates are the highest in the state and among the highest in the country. Rochester is not the poorest, but our concentration of poverty is staggering. And since that concentration is in the city, we are carrying the load for the whole region.

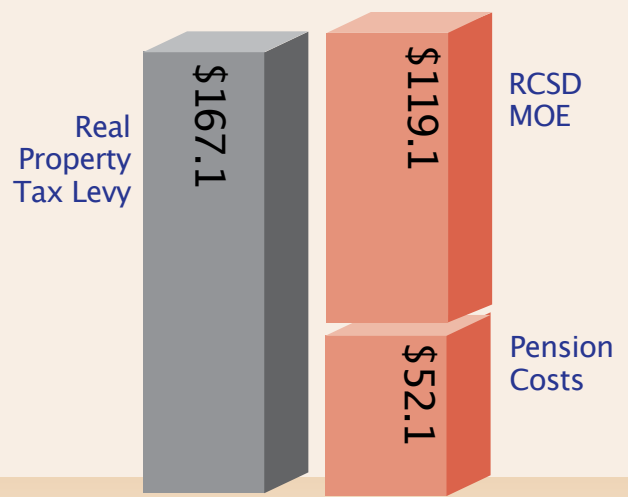
Why do we have recreation centers and libraries and the myriad of other services? Because if our citizens don't

get these services from us, they don't get them at all.

To be successful in rebuilding Upstate New York, we cannot ignore its cities and their archaic revenue sources. They are still the centers of economic and social activity. They are still where the people are and they are still the places where the needs are.

Woe unto us if we try to succeed in Upstate New York by ignoring the cities.

Real Property Tax vs. Pension and MOE Expenses (2013-14 Projections, \$ Millions)



## ROCHESTER'S BUDGET SITUATION & WHAT WE HAVE DONE TO ADDRESS THE STRUCTURAL GAP

We accept responsibility for dealing with as much of this problem as we are able. And for some time, we've been working on it. We began the upcoming fiscal year with a daunting \$42.7 million budget gap.

- We have managed and reduced our capital expenses to reduce the gap by approximately \$12 million.
- With our unions, we created a self insured health care plan, and in a unique agreement, the unions have agreed to share the risk of increased costs, resulting in a \$4 million savings.
- Two years ago, we instituted an early retirement program which has saved the City millions.
- The City of Rochester once employed 4,000 people. We now employ 2,700. We have been reducing

our employment every year recently and unless something happens, we're going to have to do it again this year.

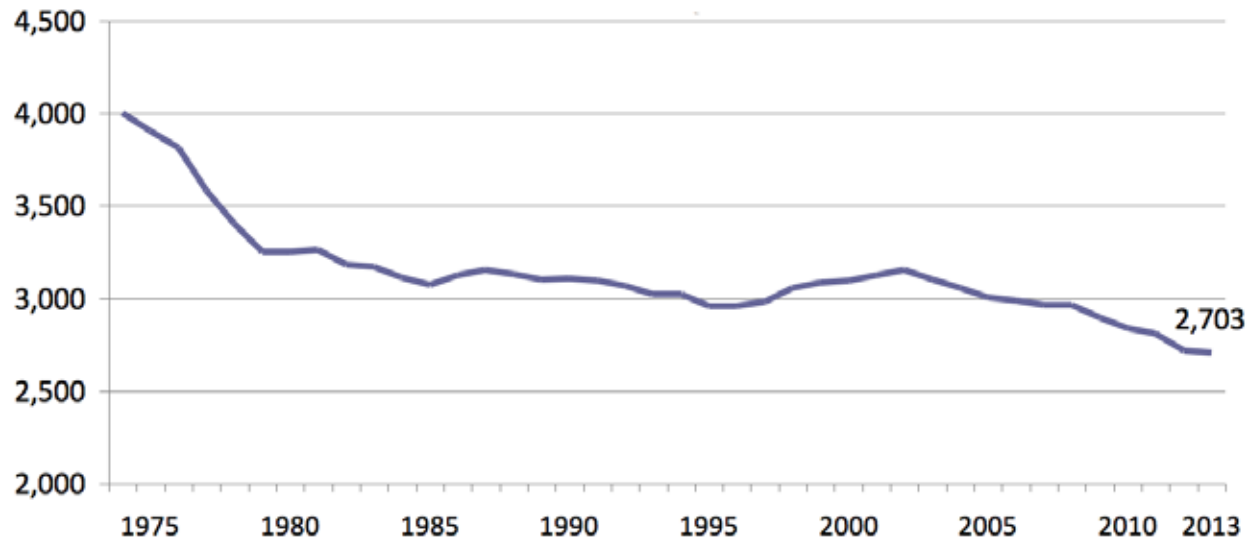
Despite these and other pro-active measures, we're now left with a \$27.9 million all funds gap for 2013-14.

We need to move away from dependence on the antiquated property tax and share the expenses created by the concentration of urban poverty across a broader base.

We see no way to do this without further help from the state. We don't expect to solve the problem all at once, but it is time to acknowledge the issues and get started on a permanent solution or else we will rue the day we didn't.

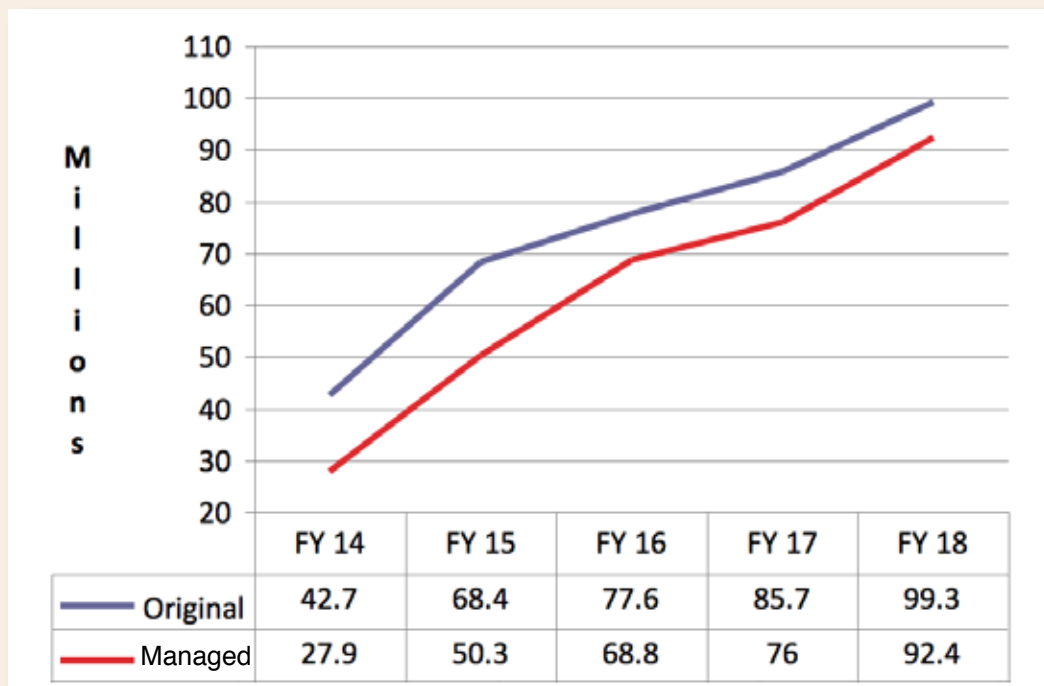


## City Employment 1974 – 2013



Source: COR OMB

## Impacts of Local Actions on Reducing Rochester's Budget Gap



## SOLUTIONS

Thinking long term is important, but because we're not going to get it done all at once, we've got to survive to get there. That is why short term solutions like the \$15 million in spin up we got last year and the \$21 million adjustment in the stable rate pension proposal are vital.

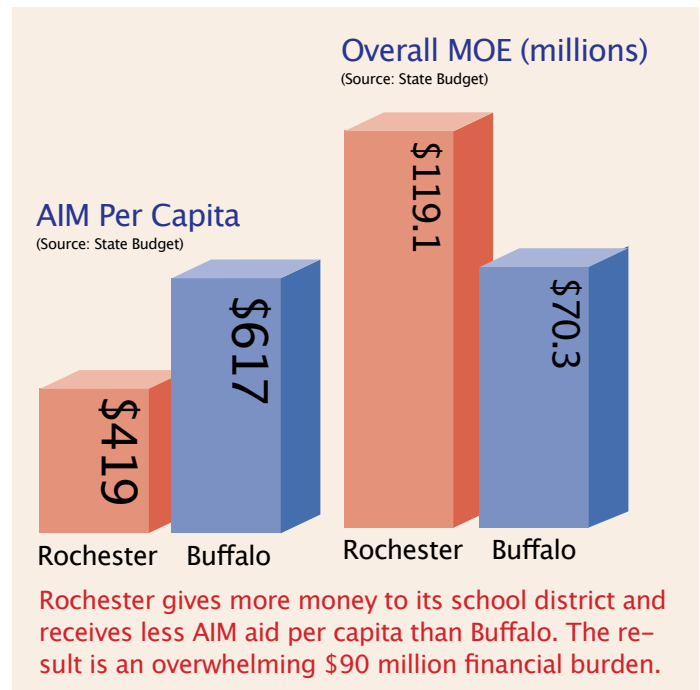
In the long run, we will need to look to the state to either increase our direct aid, or reduce our expense burden in some manner.

Billions have been invested by the state in education in recognition of the needs of urban children as a result of the environment in which they live. It makes no sense to continue to invest in the school system while allowing the community in which the children live to deteriorate.

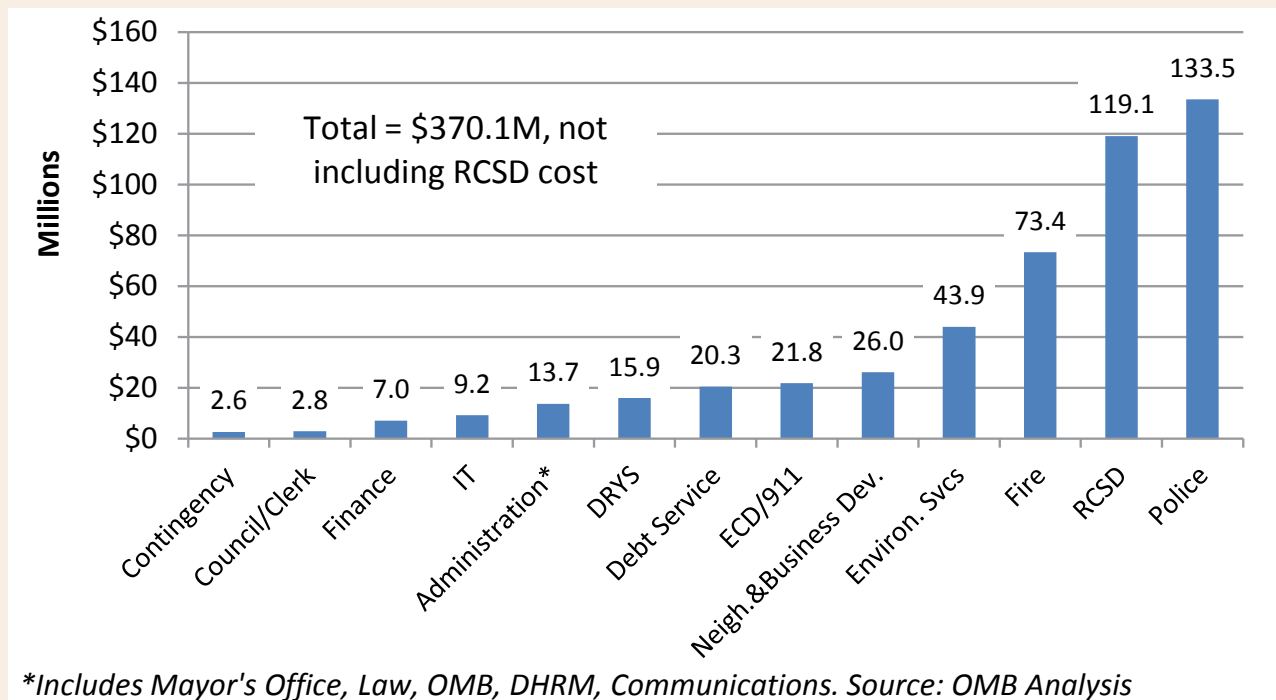
We have long maintained the per capita aim funding to Rochester should equal that of our friends in Buffalo, as the financial and demographic factors that justify it are now much the same. This alone would provide our city with an additional \$41.7 million.

Our unique expense burdens, like the \$119.1 million mandated school payment and the significant public

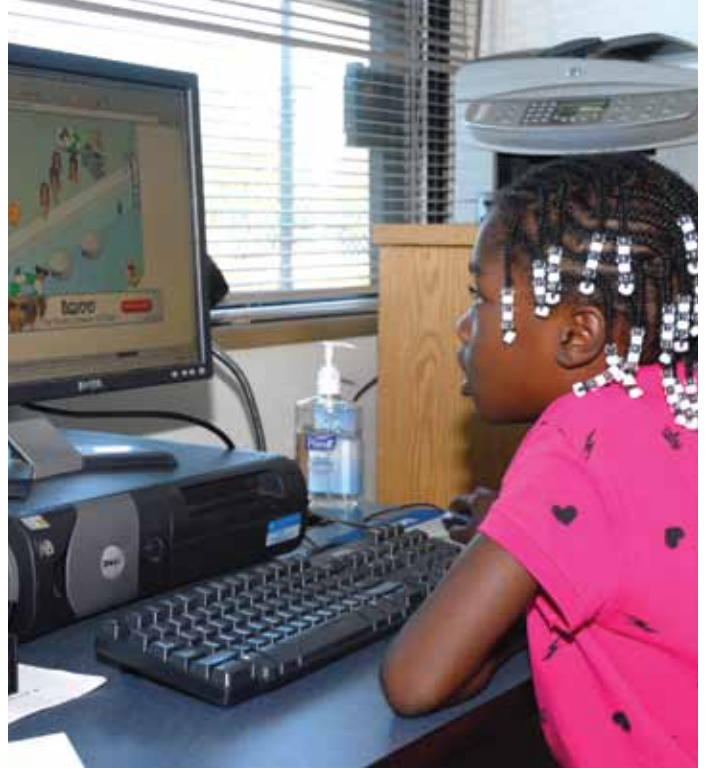
safety costs could be shared by the state. This is based on the same principle the state has long recognized with the unique expenses for urban education.



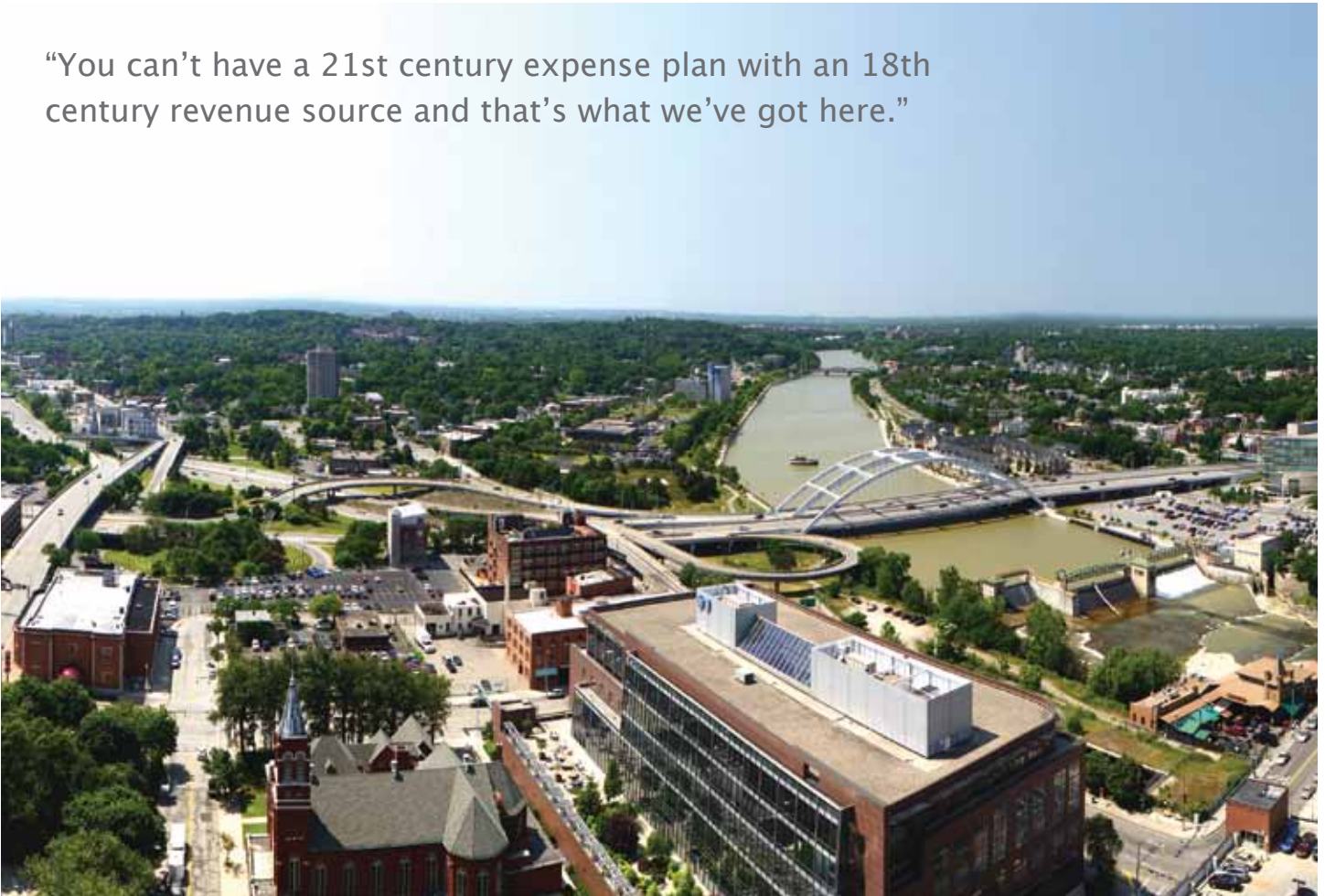
## General Fund by Department 2012-13







“You can’t have a 21st century expense plan with an 18th century revenue source and that’s what we’ve got here.”



## IN CLOSING

In all the numbers I have been discussing, it's important to have some perspective on what they mean for Rochester. Last year, you gave us a \$15 million dollar, one-time, one-shot spin-up. That is 125 police officers or 127 firefighters. It is greater than the entire Library budget and about equal to the entire Department of Recreation and Youth Services budget. The stable rate pension proposal this year will have a similar, significant impact and that is why it is vital for it to be included in the final budget.

However, as I have stated, we need to continue to work together toward a long-term, permanent solution. We can't thrive with an 18th century revenue source.

To be successful in rebuilding Upstate New York, we cannot ignore its cities and their archaic revenue sources. They are still the centers of economic and social activity. They are still where the people are and they are still the places where the needs are.

If we continue on this path the cities will surely become culturally and socially bankrupt on their way to financial insolvency.

We need your help to change the way cities are financed and the City of Rochester looks forward to working with you and the Governor to accomplish this.

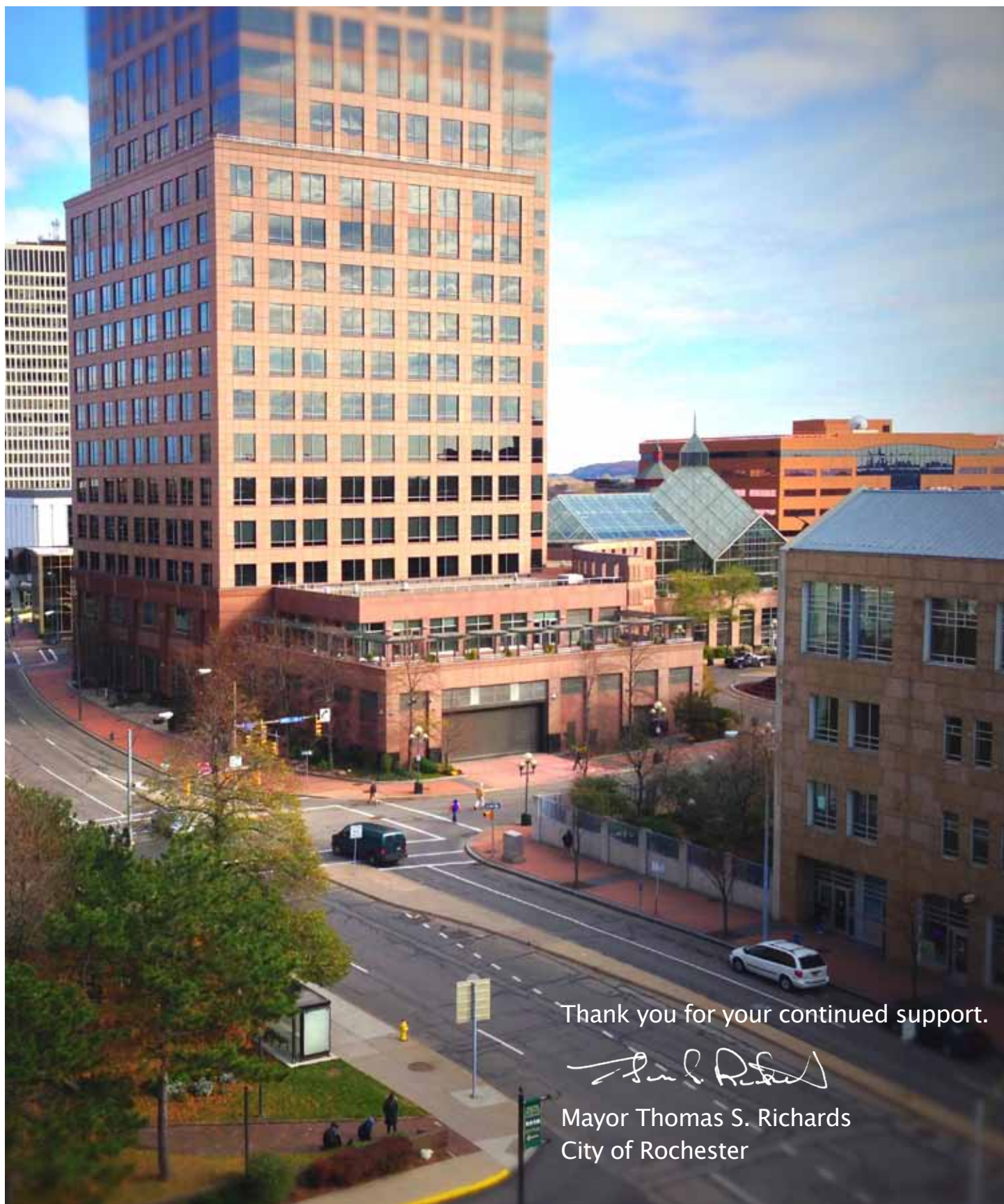


Front Street looking North from  
Market Street, early 1900's



Currently Crossroads Park  
Same view, 2013





Thank you for your continued support.

A handwritten signature in black ink, appearing to read "Tom S. Richards".

Mayor Thomas S. Richards  
City of Rochester





For more information call 311.  
Outside the city call (585) 428-5990.  
Or contact Thomas S. Richards,  
Mayor of Rochester  
585-428-7045  
[www.cityofrochester.gov](http://www.cityofrochester.gov)