



City of Rochester, NY

Joint Legislative Hearings
on the 2012–13 Proposed
NYS Executive Budget

Testimony by
Mayor Thomas S. Richards
January 24, 2012

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



Given that this is my first appearance before you, I would like to provide you with a summary of my background.

As you know, Rochester's former Mayor is now our state's Lieutenant Governor. I was sworn in as Mayor on April 11, 2011 after a special election following Bob Duffy's departure.

Mayor Duffy inspired me to join his Administration in 2006 to help drive economic development for the city as his Corporation Counsel. Prior to my service with the City of Rochester, I was the chairman, president and CEO of RGS Energy Group, the parent company of Rochester Gas & Electric. Prior to joining RG&E, I was a partner and managing partner in the firm of Nixon, Hargrave, Devans & Doyle, now Nixon Peabody.

I am a life-long resident of the city of Rochester, where my children attended City Schools. I am all too familiar with the difficult fiscal conditions of this state, and Rochester in particular.

UPSTATE CITIES ARE IN PERIL

I fear that Rochester and other Upstate cities are approaching the point of financial failure and an inevitable financial control board—as is the case in Buffalo—unless something is done now.

Before we get to the point of financial failure, we will do substantial damage to the cultural and social environment that makes these cities an attractive place to live. Cultural and social bankruptcy precedes financial bankruptcy.

STRUCTURAL FINANCIAL PROBLEM

We need to distinguish between successful urban economic development and the structural financial problem that our city faces. Both are important, but are largely independent in time and impact.

Successful economic development is essential to the well being of our community, but it will not solve the structural financial challenge that our cities face.

This challenge is produced by a combination of the financial structure in which our upstate cities are trapped and the concentration of poverty in the cities.



One part of the financial structure trap is our limited ability to raise revenue. The only tax that we control is the real property tax and it has become inadequate and regressive.

The state-mandated Maintenance of Effort (MOE) locks in place the City's generous support of \$119.1 million to our school district. This is more than 70% of our tax levy, leaving only \$48 million for everything else.

I am committed to living within the property tax cap. In recognition of the limited capacity of many of our citizens, we have already been doing so for many years. Raising the total property tax levy by 2% only translates into \$3.2 million in new revenue.

Rochester is facing a \$40 million dollar gap that will escalate in future years. We couldn't tax our way out of this problem if we wanted to. In fact, the remaining margin on our "entire" Constitutional tax limit is \$29 million. Next year's remaining gap is \$24.6 million.

Another part of the financial structure trap is rapidly escalating costs that we do not control.

EFFORTS TO FIX THE PROBLEM AND FRUSTRATIONS

Principal among those costs are our obligations for pensions and medical insurance. Rochester's pension costs are projected to increase next fiscal year by \$23.5 million to \$54.8 million and in 3 more years to \$64 million. In the same time frame, our medical insurance costs, despite some successful changes negotiated with our unions, will grow from \$60 million to \$75 million.

This is a total of approximately \$140 million out of a budget of approximately \$470 million. In the plainest terms, we can not pay it without devastating our capacity to meet the needs of our citizens.

We have seen this problem coming for some time and are not afraid to do what we can to meet the challenge.

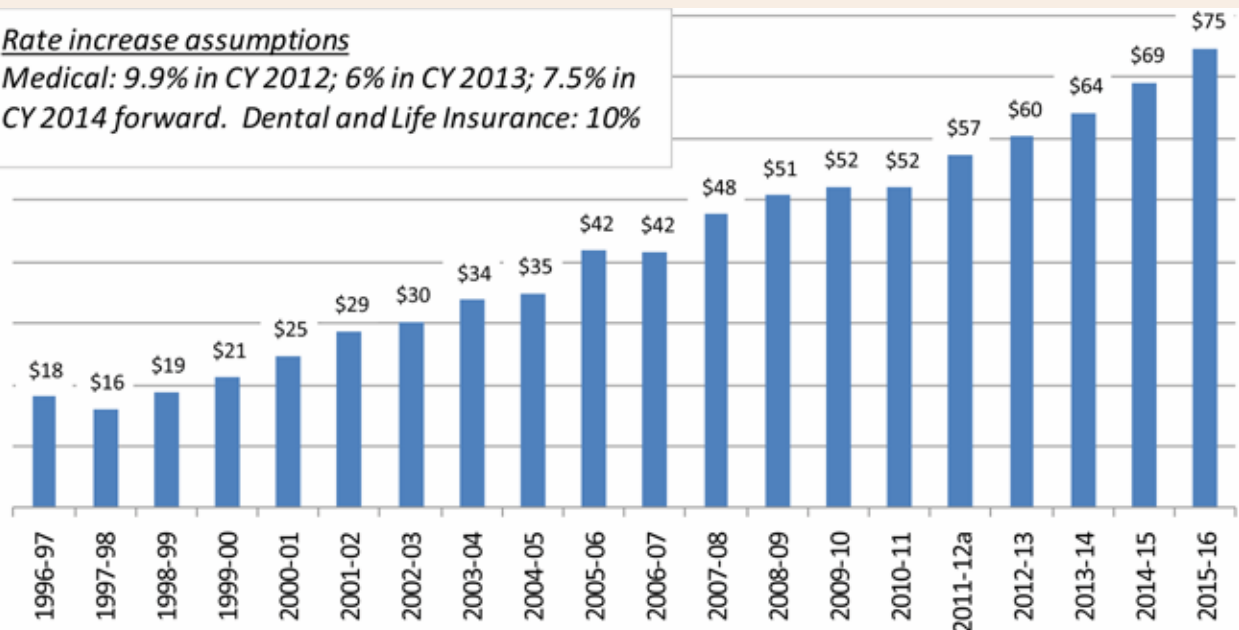
The City of Rochester is managed conservatively. We have trimmed our full-time workforce by 32% since the 1970s, including a reduction of 12% in the last decade alone.

We have made significant changes within that smaller workforce. Since 1970, despite the overall reduction in the City's workforce, the number of sworn police officers has increased by 14%. Today our public safety positions account for 70% of our general fund workforce headcount.

Medical, Cafeteria, Dental & Life Insurance Costs Active & Retirees (Millions)

Rate increase assumptions

Medical: 9.9% in CY 2012; 6% in CY 2013; 7.5% in CY 2014 forward. Dental and Life Insurance: 10%

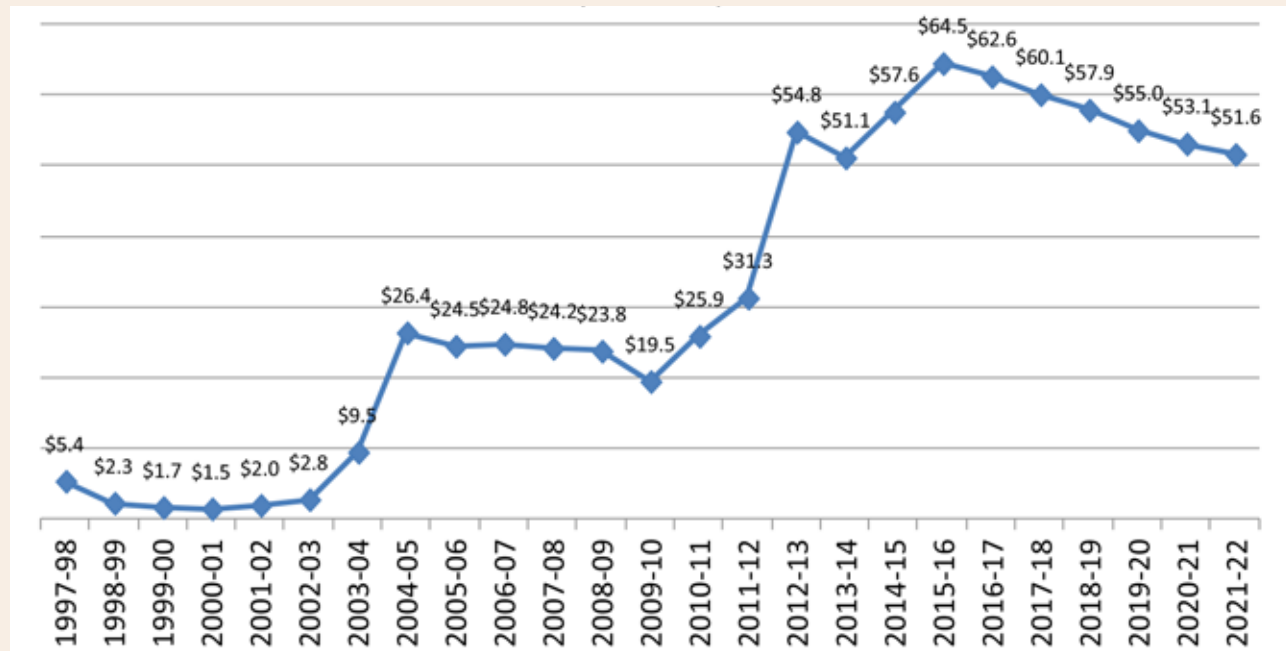


Source: City of Rochester OMB. ^abudgeted.

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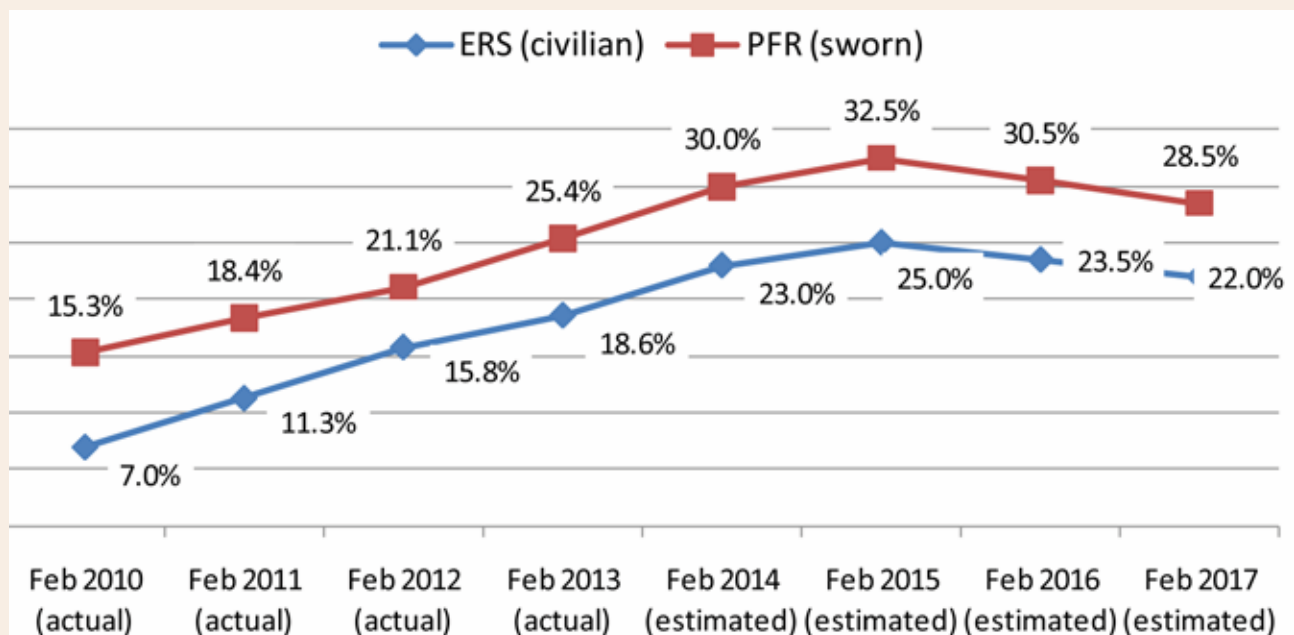
Mayor Thomas S. Richards

Pension Actuals/Projections, 1998–2022 (Millions)



1997-98 to 2011-12 actual; 2012-13 forward estimated. Source: OMB, as of 1/5/12.

Pension Rates, 2010–2017



Source: NYS OSC and COR OMB analysis.

*As of 9/15/11

In my first budget as Mayor, I was forced to consider layoffs of police officers and firefighters. Fortunately, enough individuals retired enabling us to shrink our ranks without layoffs of sworn police and fire personnel. Unfortunately, there were layoffs of civilians, as there have been in the past.

The Rochester Police and Fire unions have helped by agreeing to a 1% wage settlement for this fiscal year and for 2012–13.

Rochester reduced spending in its last three budgets. We have captured more than 10% — or \$42 million — in efficiencies in the last 10 budget years, and we've had to increase our reliance on user fees for major services, such as refuse collection, street maintenance and snowplowing.

These efficiencies and fee increases are only a drop in the bucket when compared to our long-term needs.

This financial structure trap is occurring in a city that includes a significant concentration of poverty—one of the most significant in the entire country. This is so despite the region having weathered the recession better than some others and it puts unique burdens on our city.

CONTEXT

To provide some context, Rochester's population has decreased by 30% since 1970. Further, as many other northeastern cities have faced declines in their

manufacturing sectors, so has Rochester.

Most notably, Kodak's workforce declined 87% in Rochester in the last 30 years, from more than 62,000 to 7,100. I am sure you have heard that Kodak is now in bankruptcy. We have hope for its future, but it will be smaller and less benevolent.

More than 29% of our city's families live at or below the poverty rate. The median family household income is a mere \$30,000 annually. Owner-occupied housing is under 43% and four out of five of our children are eligible for the free or reduced school lunch program.

Despite our best efforts, the financial structure trap and concentration of poverty will lead us to cultural and social bankruptcy followed by financial bankruptcy if we are unable to secure increased and reliable revenue streams, relief from state mandates and systemic change in how the state and local governments do business.

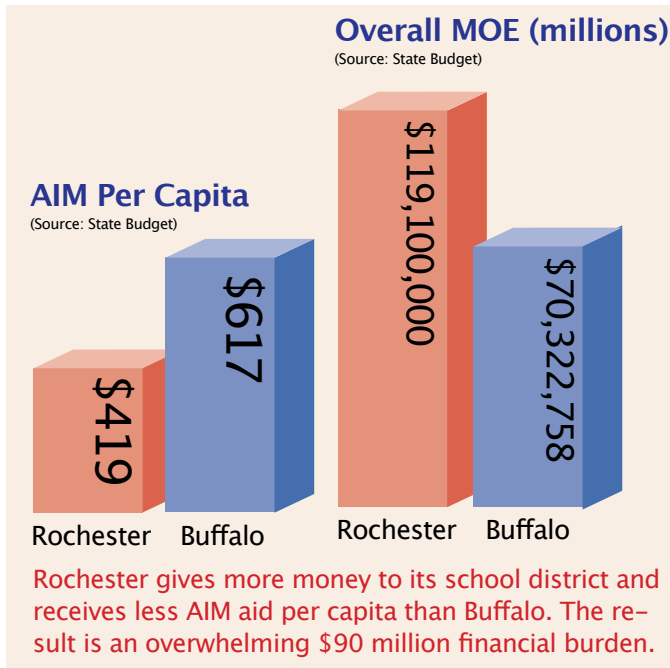
I strongly support Governor Cuomo's Proposed 2012–13 Budget and Reform Plan.

A budget is a plan and what better place to enact the reforms needed to address the major cost drivers for state and local government such as pension costs.

I also support the Governor's call to place the interests of children and taxpayers ahead of those of the special interests.



The egregious disparity in the formulas for AIM and Maintenance of Effort is literally crushing our ability to provide services, and will result in layoffs in public safety.



MANDATE AND AIM RELIEF

While we have redesigned and reinvented local government and produced long-term cost savings and better services for our citizens, we continue to be harshly tested by mandates. Rochester has the highest MOE and the lowest per capita Aid and Incentives to Municipalities—or AIM—of our major upstate cities.

Our MOE mandate forces us to give our school district \$50 million more than Buffalo provides to its district, even though our school district is slightly smaller.

Meanwhile, the amount we receive in permanent state AIM aid, when compared to Buffalo on a per capita basis, shortchanges Rochester by \$41.7 million dollars.

This is not to disparage Buffalo. We think that you are doing right by Buffalo, but that you should also do right by Rochester.

The result of these combined disparities is a unique, \$90 million financial burden that is simply unfair to our taxpayers.

This disparity in the context of the financial structure trap and concentration of poverty is crushing our ability to provide services.

The \$28 million AIM “spin-up” proposed in the budget is recognition by Governor Cuomo and Lieutenant Governor Duffy of Rochester’s legitimate immediate needs. We sincerely appreciate this decisive action.

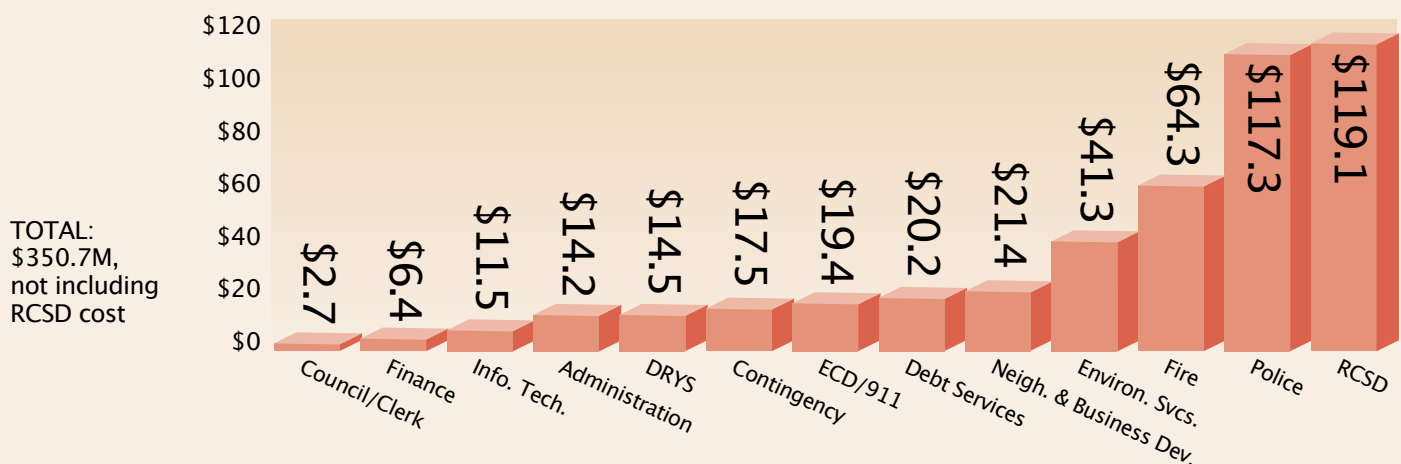
We believe this will be the first important step in resolving the decades old equity in state assistance for Rochester.

The Governor’s \$28 million cash advance in AIM aid will translate into \$15.6 million in new revenue for 2012–13. State mandated accruals in 1999 reduced the actual budget impact of this spin-up. Hopefully, this will signal a permanent AIM increase for Rochester.

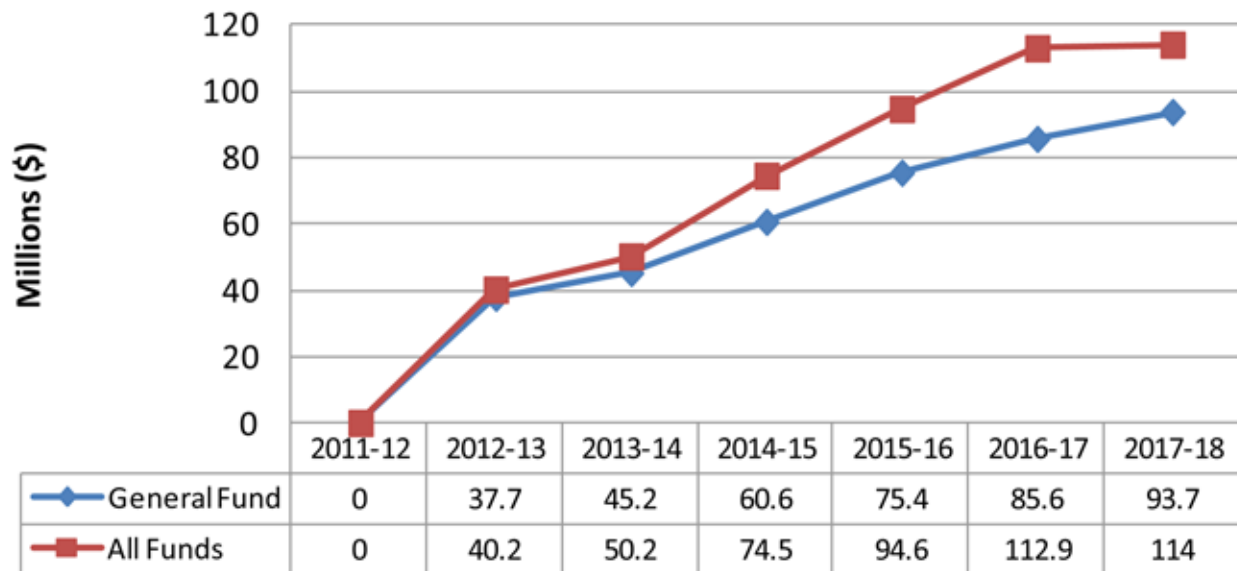
I submit to you that mandate relief is required to avoid drastic service reductions in our city. Prior to receiving this “spin-up” we faced a projected gap of \$40.2 million, for the 2012–13 budget year. The “spin-up” reduces our projected gap to \$24.6 million.

General Fund by Department 2011–12 (Millions)

(Source: OMB Analysis)



Projected City of Rochester Budget Gaps (January 2012)



Of even greater concern, our five-year forecast displays a looming gap of \$114 million, almost 25% of our total revenue.

The graph on the previous page details our general fund expenditures. It highlights that the majority of our expenses are either mandated by the state or fund public safety.

The Governor's proposed pension reform will enable us to consider taking advantage of the amortization option as a bridge to lower pension costs—as new lower-cost employees replace higher-cost employees who retire. Yet, amortizing the pension costs only provides up to \$12 million of temporary relief.



TWO PERCENT FUND

Another form of relief that you could afford Rochester without impacting the state budget is to support legislation we have drafted that would enable our city to continue using revenues from out-of-state fire insurance taxes to partially offset the cost of health insurance for firefighters.

Codified in 1849, this New York State Insurance Law requires that fire insurance companies not incorporated in New York pay a fee of 2% on all fire insurance premiums, commonly referred to as the “2 Percent Fund.”

These funds amount to \$500,000 annually. Your support of this legislation would enable us to resume using this fund to pay health benefits for firefighters, as has been our practice for more than 20 years.

UTILITY TAX EQUITY

Finally, we ask for your assistance to help us modernize the utility tax on revenues related to the sales of telephone, electricity and gas. For 50 years, the State of New York, the City of New York and 60 cities and 360 villages have been authorized to collect a tax on the gross revenues received from sales of the services and commodities within their jurisdictions. Technology has brought sweeping changes to the telecommunications industry. The use of landline phones has decreased precipitously over the last decade, while the number of mobile phone users has increased significantly.

The law as it is applied to the State and City of New York was amended to reflect this new phenomena. We ask for your support in making comparable changes in the law for the other cities, including Rochester, and villages authorized to collect this revenue.

The electricity and gas industries have also experienced considerable change. The vertically integrated utility company no longer exists. While one company provided electricity and gas delivery service in Rochester more than 50 companies are qualified to sell gas or electricity. The electricity suppliers have elected not to pay the tax and the gas utility collects and pays the tax on only some of its sales.

These circumstances have resulted in a substantial erosion of municipal revenue that must be made up through service reductions, greater reliance on the property taxes or additional state aid. With modest amendments to the enabling statutes Rochester could restore an estimated \$3 million in revenue annually.

In an effort to make the process more efficient for business, we propose that the State be the single point of collection instead of hundreds of municipalities. The state already has tax collection relationships with each of these entities and is better equipped to deal with the growing number of service providers.



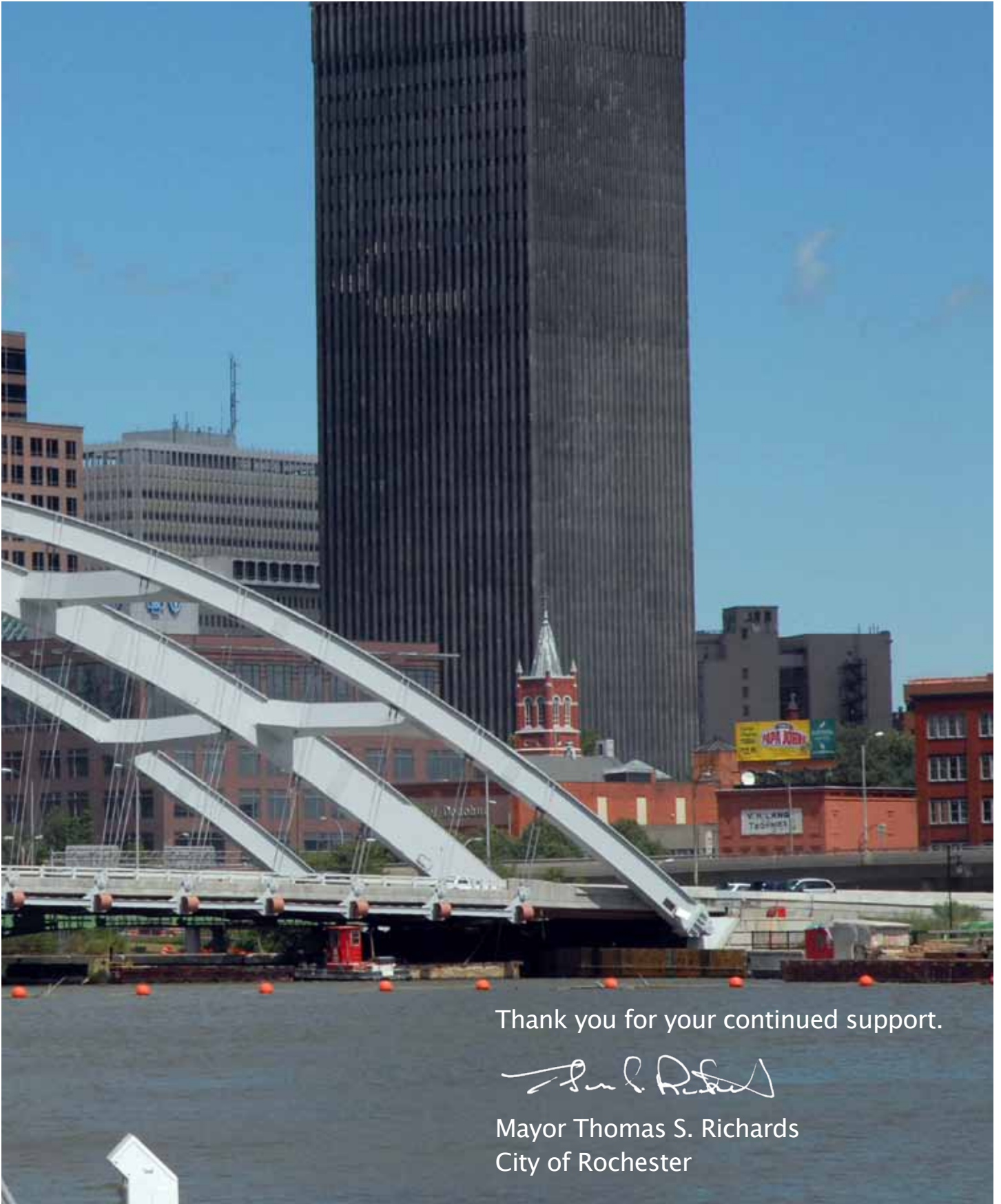
IN CLOSING

To close, I remain optimistic that we can use this unique time in history as an opportunity to give local governments the tools they need. We know that we will have to continue to be more efficient and to bear responsibility for the destiny of our city. We need the State's assistance, but we pledge to use that assistance wisely.

We must follow Governor Cuomo's lead and make systemic changes to the way we do business on the state and local level, and we are ready to do just that.

Thank you for your time and I would be happy to respond to any questions.





Thank you for your continued support.

Mayor Thomas S. Richards
City of Rochester



For more information call 311.
Outside the city call (585) 428-5990.
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