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Senator Martins and other members of the committee, thank you very much for this opportunity to testify on the issue of distressed municipalities in New York and on possible initiatives to assist them.

The Great Recession and its aftermath have brought obvious, ongoing strains to finances at every level of government. What we have been experiencing for the past five years is something new and unprecedented in the post-World War II era: a prolonged period of slow growth with pronounced disinflationary tendencies.

But the recession did not cause the problems now faced by many counties, municipalities and school districts. Rather, it merely exposed a fundamental problem in our state and local budgets in New York – budgets that had been geared to run on average annual revenue increases that were simply unsustainable in the long run.

The largest single element in those budgets – indeed, typically two-thirds or more of municipal spending, in particular – is employee compensation. And in New York, the wages and salaries of employees, and their benefits, are driven by inflexible collective bargaining agreements essentially locked into place under the Taylor Law.

The crucial question for the Legislature to consider is whether there is a state interest in preventing local governments from drifting into insolvency. In New York, the answer up until now has always been "yes." The framework for heading off municipal bankruptcies in New York—creation of a financial bailout vehicle and state control board to oversee local finances -- was created during the New York City fiscal crisis of the mid-1970s and has been applied a half-dozen more time since then, including twice in Yonkers.

No one would claim that control boards are a cure-all—although they have proven to be effective as a way to at least temporarily restore stability and forestall much more serious financial problems in places where local leaders have been unable or unwilling to make the decisions required to restore stability and avoid insolvency.

But control boards are no substitute for permanent, fundamental structural reforms. The problem is that existing state laws, especially the Taylor Law, create an outmoded, inflexible framework of collective bargaining, which essentially makes such reforms impossible.

If you are looking for a more effective alternative to the financial control model, here it is:

Give local officials more tools to fix their own problems -- and then get out of their way.

That would mean embracing, not ignoring, needed Taylor Law reforms such as repeal of the Triborough amendment.

It would mean overturning state Public Employment Relations Board rulings that have curtailed management prerogatives, such as those protecting costly "past practices" and shielding "unit work" from competition or consolidation.

And it would mean reopening the compulsory binding interest arbitration provision the Legislature just extended – this time to impose a tight cap on the overall costs of arbitration awards to police and fire unions in all localities, not just those that are already broke.

The goal, ultimately, should be to force more power and accountability down to the local level, by giving local elected officials more of the bargaining leverage they need to restructure labor contracts they can no longer afford.

Unfortunately, in lieu of either strengthening the control board model, or finally giving local leaders the tools they need to manage and restructure on their own, the Governor and Legislature seem to be embracing a vague, irresolute and inconsistent approach that won't solve fundamental problems, and is more likely to perpetuate them.

A troubling precedent was set in the recent legislation session when the two houses passed measures clearing the way for the issuance of deficit bonds by Rockland County and the city of Long Beach, respectively.

In the case of Rockland County, which already has the second highest per-capita debt of any county, the authorized deficit financing of $96 million would equate to roughly 80% of that county's property tax levy – the equivalent of allowing New York City, for example, to issue $16 billion in 10-year notes to close a budget gap. In the case of Long Beach, the authorized deficit borrowing for Long Beach is the equivalent of $12 billion in deficit borrowing by the State of New York. The only string attached to the Rockland County deficit bonding is a requirement that the state comptroller review the county executive's budget proposal and pass along recommendations to the Legislature. The Long Beach deficit borrowing is completely unconditional.

Both these bills represent a dilution of the already watered down approach taken in the Newburgh Fiscal Recovery Act, Chapter 223 of the Laws of 2010, which gave that troubled city the ability to issue up to $15 million in deficit bonds without the involvement of a control board.

But Newburgh, at least, was subject to more conditions – not just a comptroller's review, but a quarterly financial plan reports and update, a long-term financial plan, among other things.

The original Newburgh bill was over seven pages long. The Rockland County bill is less than two pages long. And the Long Beach fits on a single page. This is not progress. In fact, if signed by the governor, the Rockland and Long Beach legislation will create an enormous moral hazard for officials of these local governments, and send the wrong kind of signal in general to their counterparts in other fiscally troubled locales. Rockland County and Long Beach will get to buy time -- with borrowed money -- without any assurance that they have taken firm steps to identify and address their problems.

The local government restructuring board established by Chapter 67 of the Laws of 2013 also falls short of what is needed. Chapter 67 is a passive and voluntary approach, seemingly designed to keep problems at bay without forcing anyone, on the state or local level, to actually confront them sooner rather than later.

The buck has to stop somewhere –it's up to you to decide where. The governor and the Legislature need to consider and choose among three options:

- Adopt a strengthened model of state intervention in distressed localities – establishing clear and measurable benchmarks, such as a combination of low or non-existent reserves and mounting out-year budget shortfalls, that will trigger the imposition of a control period. Expand the power of state control authorities to reshape unaffordable elements of contracts that have expired; ***or***
- Enact sweeping Taylor Law reforms that counties and municipalities have been calling for over the past two decades, and challenge local leaders to use their new leverage to fix their own problems; ***or***
- Turn to the laissez fair approach of California, stand back, and allow some New York counties or municipalities to go bankrupt, which would at least allow them to abrogate contracts they cannot afford. On the other hand, it's an unpleasant experience for all concerned, not least the people who live in an insolvent community.

But I'd like to close with a reform idea that is downright easy by comparison with the others I've urged you to consider. It fits in with – and should be viewed as a prerequisite to – *any* approach or combination of approaches you decide to take to the issue of local fiscal distress.

Counties, municipalities and school districts throughout New York State should be required to produce long-term financial plans — including spending and revenue forecasts covering at least four future years.

These plans should be posted online and made readily available in print form, to ensure to the fullest possible public awareness and engagement in the budgeting process. This is not a costly or daunting new mandate. The tools for this budgeting reform are readily available to those willing to use them.

A multi-year planning guide for local governments has been developed by the state comptroller's office, which also offers training to local officials in building long-term plans off simple spreadsheet templates. Basic guidelines for long-term financial plans also have been issued by the Government Finance Officers Association (GFOA).

New York City has provided the rest of the state with a strong model of long-term financial planning since its brush with bankruptcy in the 1970s. Other examples are provided by a handful of New York counties and municipalities (including the city of Buffalo and Nassau County) that were forced to begin developing their own long-term plans after running into fiscal problems serious enough to require state control boards.

In fact, some local government and school officials develop long-term projections as an internal planning and management tool – but fail to routinely sharing their projections with the public as part of the annual budget process. In the absence of such information, it is almost impossible to independently evaluate claims by many local governments and school districts that they are approaching their own steep fiscal "cliffs" — although the available evidence suggests they are.

Think about it: here we are today questioning whether some municipalities might not be far from insolvency—but in the absence of long-term forecasts, we literally don't know what we're talking about.

Long-term financial plans are not binding commitments. They are guidance documents, reflecting where a government is headed if current, reasonably foreseeable trends continue. By showing where and when revenues diverge significantly from expenditures, long-term plans provide an early warning of potential trouble ahead, giving local leaders time to make adjustments.

Long-term planning won't, by itself, solve fiscal problems or guarantee better results. However, by requiring local officials to consider the long-term impacts of their short-term decisions, it will promote more responsible fiscal behavior. Beyond the numbers, it can also provide a vehicle for establishing performance goals and objectives, and for measuring a government's progress in meeting them. Thank you.

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