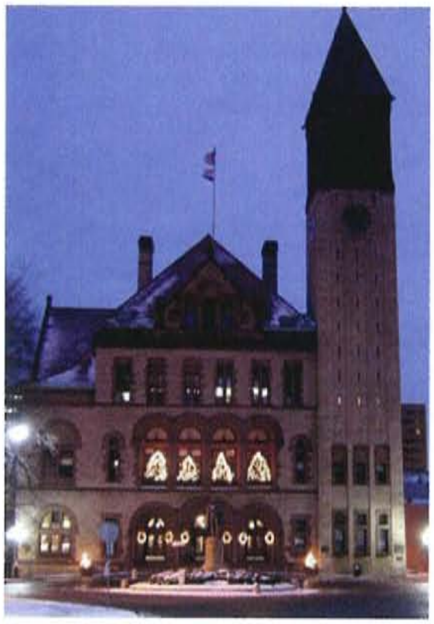

"Capital Punishment":

An analysis of the fiscal impact of State government policies and tax-exempt properties on the City of Albany

October 2010

PFM
The PFM Group

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Project Background

In April 2010, the City of Albany retained Public Financial Management, Inc. (PFM) to conduct a Management Audit of four City Departments, and to conduct a Revenue Impact Analysis of New York State Aid and the level of real property that is exempt from taxation, with a focus on the effect of both factors on the long-term sustainability of the City's finances.

This report *"Capital Punishment"* constitutes the results of our Revenue Impact Analysis. While presented separately in this report, these findings will also become a chapter in PFM's final report in the City of Albany Management Audit.

Findings Overview

While the full Management Audit report will recommend cost-cutting actions in all four examined departments, the fiscal impact of such efforts will be relatively modest. Much more than most PFM clients of this type, we have found that sustained efforts at cost-cutting and efficiency have left few opportunities for savings that do not involve policy choices about the level of services to the community. Accordingly, we are forced to conclude that a significant component of Albany's budgetary challenge is caused by the revenue side of the budget equation. These budgetary forces are not reflective of poor planning on the City's part but rather irrational and inequitable policies and compensation from other entities – namely New York State, which holds a high proportion of Albany's tax-exempt properties.

The Study Team has generally found the City of Albany to be an efficiently run municipality that has made significant strides toward prudent financial management in the last 16 years, even at a time of great national and State financial pressures. This conclusion is confirmed by the City's AA- Bond Rating, which is the highest for any city in the State excluding New York City. The City has sought to control the property tax burden while providing a high level of services. However, the City faces substantial financial hurdles that are mostly outside of its immediate control. At the heart of Albany's anemic revenue profile is its role as the seat of State and County government, as well as the host for the State University of New York (SUNY) Central Administration and a major research campus of SUNY. As a result, nearly two-thirds of the value of Albany's real property is exempt from taxation.

While the City receives a payment for the Empire State Plaza, other properties are uncompensated, including the Capitol building, the sprawling Harriman Office Campus, SUNY Administration, the State Education Building, the University at Albany and its super-high-tech Nanotechnology facilities, and most other State buildings, parking facilities and properties. At the same time, these facilities drive enormous – and largely uncompensated – service and infrastructure demands. Moreover, payment for the Empire Plaza will be reduced by more than 34% beginning in 2011.

Given the City's revenue structure, it receives little economic benefit from the presence of thousands of daytime workers. While there is undoubtedly some minimal sales tax generated, these receipts are sent to the County, and the City receives a fixed percentage.[1]

The State has recognized the plight of its upstate urban centers and created the AIM program to assist them. However, the bulk of the base funding was "grandfathered" from previous revenue sharing programs in which funding levels were set by the political process – a process that all too frequently rewarded cities in fiscal distress and punished cities that were effectively managed. Also, since its adoption in 2005, the AIM funding formula has only been followed in one State budget cycle. Albany persists in receiving a fraction of AIM per capita funding of other major upstate cities.

[1] Albany receives 32% revenue sharing of 40% of total County sales tax revenue, or 12.8%

Lastly, while the City aggressively pursues grants, reimbursements, corporate sponsorships, and fines, and receives monies from its landfill operations, it has strived to minimize fees for public services and programs – especially its outstanding recreation venues and activities.

Albany has done what it can, but it simply isn't enough. The City cannot continue to bear the triple burden of being an undercompensated seat of government and an undercompensated urban area; while at the same time providing a high level of services to a largely tax-exempt property base and shouldering the cost of city services centrally so that they are available to even the poorest resident.

Without a change in the State's approach to funding for Albany, the City's fiscal outlook is bleak. There will be no way to provide a balanced budget without dramatic cuts in programs and services, layoff of city personnel, and increases in real property taxes. These actions would not only be detrimental to Albany but to the viability of the State – which presumably has a vested interest in the sustainability of its Capital City.

Accordingly, it is our recommendation that the City pursue a comprehensive revenue recovery strategy to address these challenges:

- Increased AIM equity payments from the State to compensate for gross inequities in per capita AIM funding;
- A more equitable PILOT payment in recognition of revenue lost from the tax-exempt State properties;
- A Capital City Grant from New York State to compensate Albany for municipal services provided to state-owned property;
- Service charges assessed on tax-exempt properties in the City, also as payment for services provided; and
- A more aggressive fee-for service schedule for City services (Discussed in Recreation and DGS analyses).

<u>Methodology notes</u>

- Six cities are used for comparison purposes in this report:
    - Buffalo, Yonkers, Rochester and Syracuse: 4 most populated cities in the State (excluding NYC) before Albany
    - Schenectady and Utica: Mid-sized upstate cities in close physical proximity to Albany, facing similar socioeconomic challenges
- Except where noted, ranked comparisons of Albany to other New York State cities do not include New York City. Therefore, this report considers Albany in the context of New York State's 61 cities, not 62.

Assessment

No one would dispute that Albany's role as the State's capital city has been a catalyst for growth over the last 100 years. But, over the last quarter-century, the expansion of the governmental sector has increasingly burdened the City's physical and service infrastructure. At the same time, Albany has been buffeted by the same economic and social challenges as most of the country's urban centers. The combination of these factors has created increasing stress on Albany's finances. Like many other capital cities that are primarily dependent on government for their economic bases, Albany has found it more and more difficult to maintain fiscal balance without help from the State government. The recent recession and the impending significant reduction in State PILOT payments have brought the City to a fiscal crossroads.

In this assessment, we describe the economic forces at work as a result of Albany's State capital role, and suggest ways for the City and the State to respond.

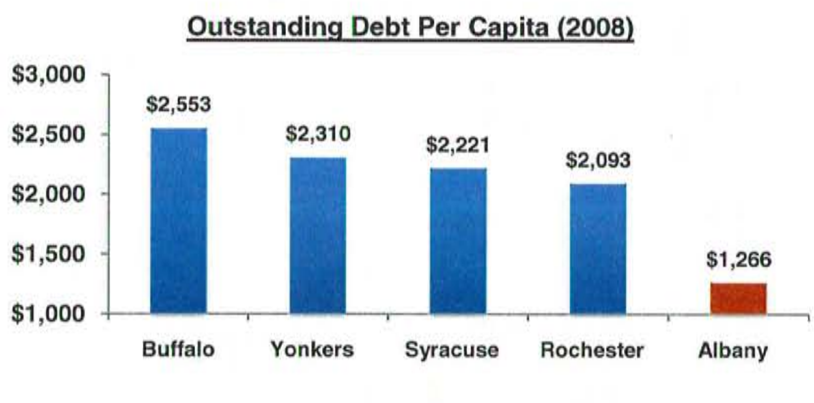
Albany's Fiscal Profile

The broader themes highlighted in this report, namely the revenue challenges the City faces through gross inequities in State funding and a high-level of property tax exemption, should be considered in the context of Albany's recent history of prudent financial management:

- Standard & Poor's, one of the major credit ratings agencies, notes that Albany has the highest bond rating of any city in the State of New York, excluding New York City;
- The City has balanced its budgets without dramatic cuts in programs and services (and City personnel), and without raising real property taxes significantly;
- Sensible financial efficiencies have been implemented by the Mayor, such as incremental cuts to all departments and withheld raises for hard-working city employees;
- Albany has utilized less than 40% of its total Constitutional property taxing authority;
- Albany has also used less than 40% of its Constitutional debt authority, and its total outstanding debt per capita is significantly less than other large cities in upstate New York.

"...The two rating upgrade was a testament to the strong management by City officials."

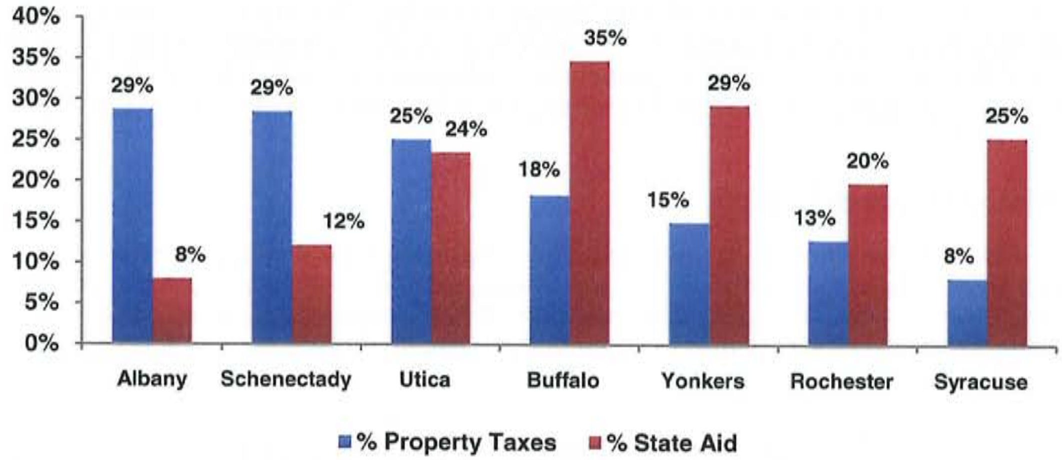
- Nov. 2008 letter to the City from Fiscal Advisors & Marketing, Inc.



Source: Office of the State Comptroller

Albany relies more heavily on property taxes for budget balancing than its peer cities. This can be explained by the fact that the city receives a smaller proportion of its budget from State aid (the Aid and Incentives to Municipalities program) compared to its peers. However, as discussed in the next section, as the seat of government, Albany also has an inordinately high level of exempt property. As such, the City is caught in a vicious cycle: the large government presence drives costly service and infrastructure demands, but produces relatively little fiscal support. Albany is forced to rely on a narrow property tax base that further damages the City's competitiveness.

% of Revenue Derived from Real Property Taxes and State Aid (AIM) (2008)



Source: Office of the State Comptroller
NOTE: Data is presented from 2008, the most recent year from which data are available for all cities in the above chart

Albany's resources continue to be drained through forces largely beyond its control. Increases in State pension costs, higher health insurance costs for employees and retirees, higher operational expenses, and a new-found need by many residents for City services (especially free recreation programs) in the midst of the economic downturn have presented a significant financial burden on the City. As the following sections explain, the City must fund these expenses through a property tax base that is majority exempt from taxation, and from a State aid flow that is distinctly unfair to Albany.

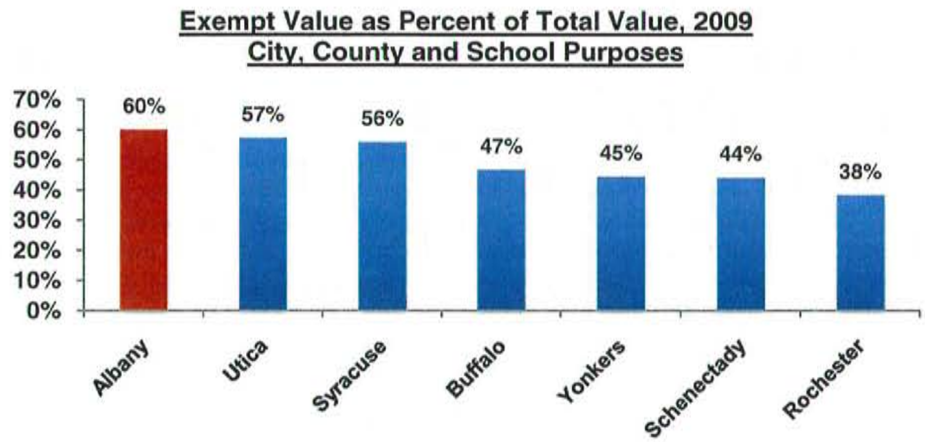
The Tax Exempt Properties Burden

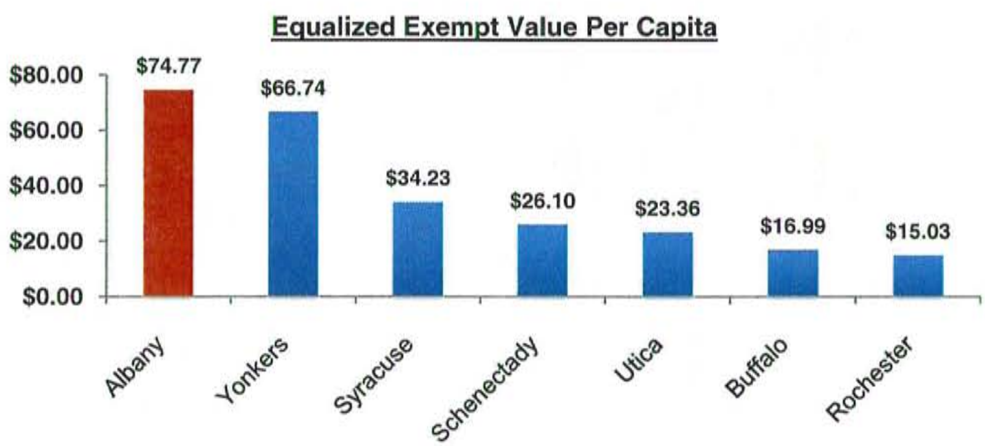
Summary

Albany has a relatively high percentage of tax-exempt properties compared to its neighboring municipalities and other large cities around New York State. Much of Albany's challenges with tax exemptions may be attributed to New York State owned properties, of which a much higher percentage and quantity are located in Albany as the state capital than in any other city in New York State. The challenge for Albany in providing services to its population through a property tax base that is limited to only 40% of its assessed value will be to either extract compensatory payments from the State, and/or attempt to recover a portion of municipal service expenses from other categories of tax-exempt properties that are benefited.

Albany's High Tax-Exempt Burden

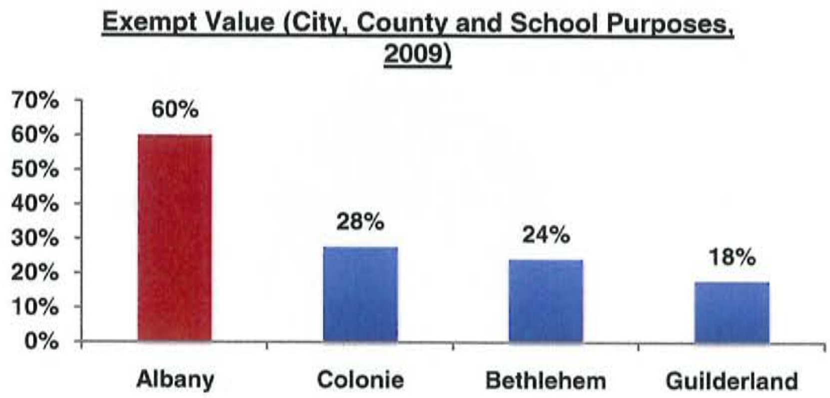
Although Albany is the fifth largest city in the State (excluding New York City), it has a higher exempt value as a percentage of total value than the top 4 cities, the second-highest equalized exempt value and the highest exempt value per capita.[2] The owners of 40% of Albany's real property value carry 100% of the property tax load. *(Note: All data sources in this section are from the Office of Real Property Tax Services unless otherwise noted)*

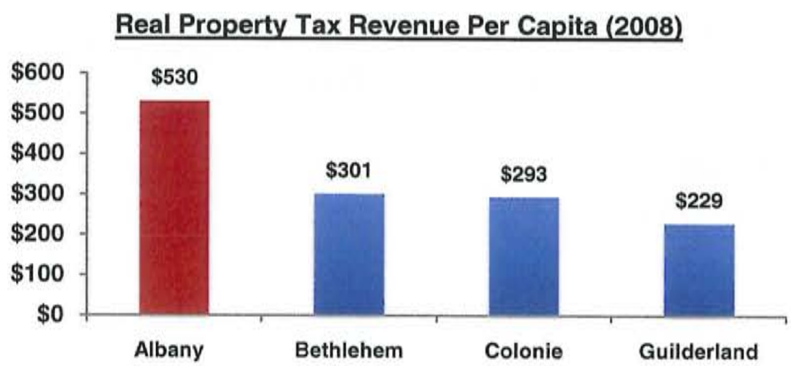




[2] Based on 2008 population

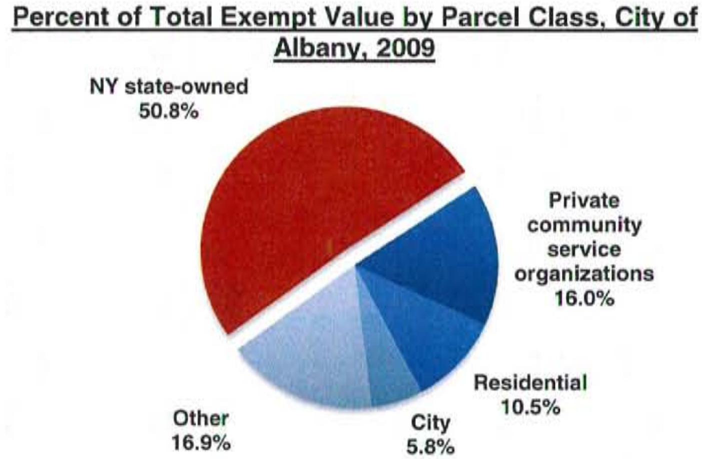
Albany's exempt value also far surpasses that of its local neighbors. Of the three municipalities directly bordering the City of Albany – the towns of Colonie, Bethlehem, and Guilderland – not only does Albany have a substantially higher proportion of properties that are tax-exempt but also has higher property tax revenue per capita. This suggests a correlation between Albany's high property tax revenue per capita and number of tax-exempt properties.

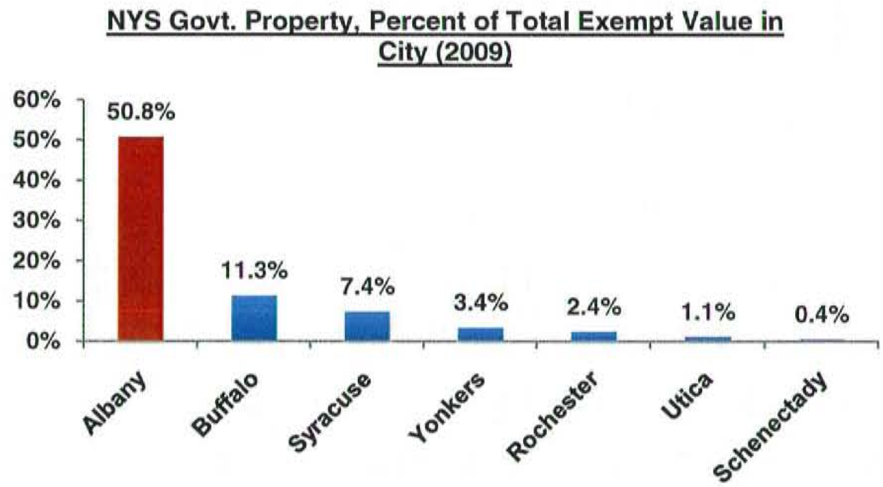




State Government Properties

The majority of property tax exemption in Albany, as the state capital, is attributable to NYS government property – a far higher proportion compared to other cities in the State.





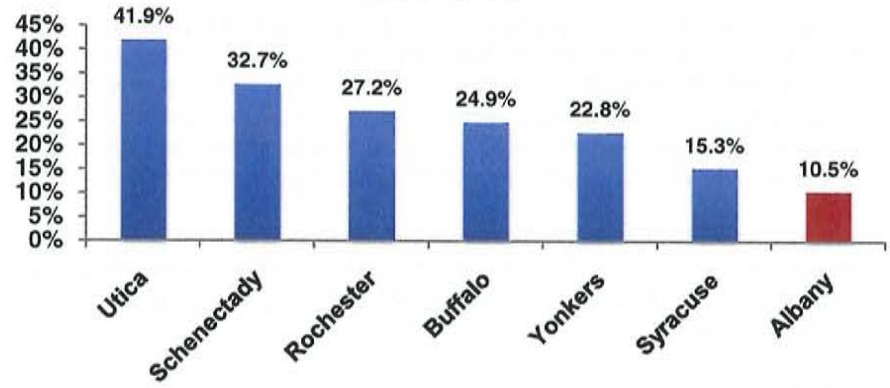
This has particular consequence for the City of Albany as a provider of services to the government workforce and apparatus. Albany's daytime population increases by over 74% compared to its total residential population. [3] Property taxes cover the costs of services utilized by those commuting workers, a significant proportion of which work for New York State government itself.

Other significant exemption categories include residential, municipal government, and non-profit entities. In all those categories Albany exempts a lower proportion of properties compared to other cities and the State as a whole. In 2009, Albany ranked as the city in the comparison group with the lowest incidence of local-option exempt value. [4] Albany's local-option exemptions stood at 3.3% of total exempt value, which placed it as the 56th lowest of cities in the state.

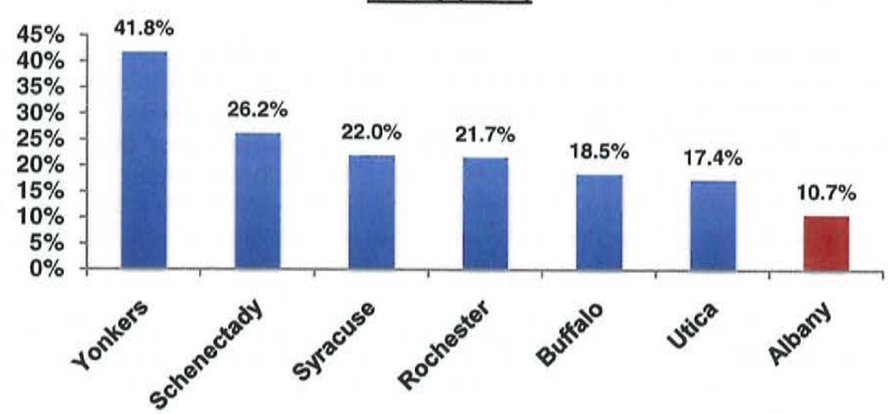
[3] Using Census resident population and daytime population estimates

[4] The State constitution guarantees exemptions for religious, educational and charitable organizations, but it is within the State Legislature's authority to establish definitions for these categories. The Real Property Tax Law further provides optional exemptions that local governments can request the Legislature for authority to extend. Local governments also regularly opt into exemptions the State Legislature has approved for their counties.

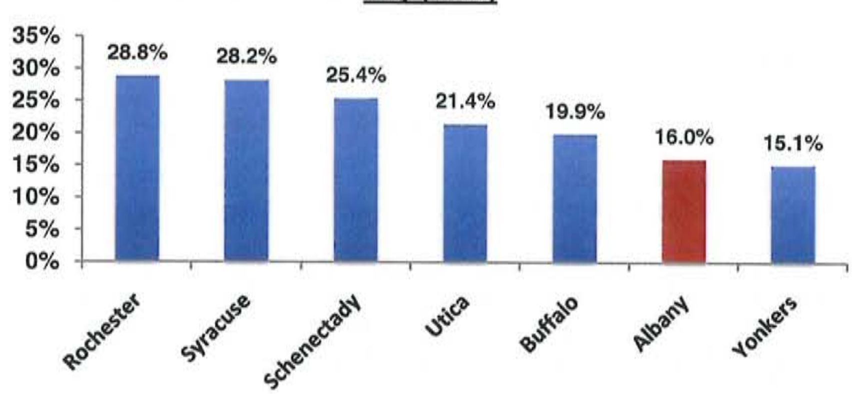
Residential Property, Percent of Total Exempt Value in City (2009)



Municipal Govt. Property, Percent of Total Exempt Value in City (2009)



Non-profit Property, Percent of Total Exempt Value in City (2009)



Harriman Office Campus

In 2002, the State agreed to help ameliorate its tax exempt impact by redeveloping the 350-acre W. Averill Harriman State Office Campus for private use and returning it to the tax rolls. In April 2002, the State announced plans to create the Harriman Research and Technology Park, which would create state-of-the-art research and office facilities to serve as a catalyst for innovation in science and technology. The Park would utilize both public and private sector investment to foster the development of cutting-edge technologies and new products, create high-quality jobs, stimulate investment and economic growth, expand the local real property tax base and encourage technology transfer and commercialization.

The Harriman Research and Technology Development Corporation, a subsidiary of Empire State Development Corporation, was created in June 2004 and dedicated to transforming the Harriman State Office Campus into a world-class Research and Technology Park and regional growth engine for New York State's "Innovation Economy".

To implement the HRTDC plan, the State began vacating the Campus between 2005 and 2007. The Department of Civil Service moved from Building 1 to the Alfred E. Smith building in downtown Albany. The Department of Transportation moved from Buildings 5 and 7A to Wolf Road in Colonie. However, DOT operations in Building 5 remained. Building 3, which housed the Campus' central cafeteria, was vacated. A small business incubator was designed for a portion of Building 7A.

However, since 2008 progress on vacating and redeveloping has stalled. Governor Spitzer in 2007 announced a new vision for hybrid public-private use of the Campus, and the original plan to move all state workers off Harriman into the downtown areas of Schenectady, Albany and Troy has not panned out. The Campus remains the home for approximately 7,400 state workers at the State Police Training Academy and Forensic Laboratory, State Police Headquarters, State Emergency Management Office, the Departments of Labor, Tax and Finance, Homeland Security, and Correctional Services, and employees from the Division of the Budget, Department of Transportation, and Department of Agriculture and Markets laboratory.

Moreover, in 2010 the Office of Real Property Services (ORPS) was merged into the Department of Taxation and Finance (DT&F) to become the NYS Office of Real Property Tax Services, and relocated from their Sheridan Avenue offices in downtown Albany to the Harriman Campus where DT&F is located.

The State Legislature in 2008 passed a Harriman PILOT bill (S4255-D and A7085-D) that would have provided an annual PILOT to Albany of $11 million. The Governor vetoed the bill, citing the fiscal burden on the State and the State's efforts to attract private business to the Campus and create a research park. Clearly, in 2010 Harriman remains primarily a public entity in the City of Albany.

State Assessment Methodology

It should be noted that the methodology for computing the value of the State's exempt property is prescribed by the State Office of Real Property Tax Services. If alternative valuation methods were employed, especially for unique properties such as the Empire State Plaza (ESP) and University at Albany Nanotech, higher exempt value is likely to result in driving the ratio of exempt property even higher.

For example, the current ORPS-required methodology for valuing the Empire State Plaza requires the facility to be valued either using its current commercial value or the depreciated value of its construction cost. However, neither method accounts for the unique characteristics of the Plaza facility. As a mixed-mission campus, the ESP is part office complex, part theater/entertainment venue, and part park.
As such, the property's footprint takes an enormous amount of prime commercial real estate land, but contains only a fraction of the beneficial improvements that would be present if it were to be developed by a commercial landlord.

If a commercial developer built out the same 40-50 square blocks of downtown Albany, the value of the real estate built would be multiples of the assessed value of the ESP – using the allowable methods.

In unique cases like these, the foregone property tax revenue on the facility is not just its book value, but the value of the taxable property that would have been built in the same location.

State Aid: Irrational and Inequitable to Albany

Summary

The City of Albany is significantly underfunded in the Aid and Incentives to Municipalities (AIM) state aid program. AIM is based on outdated and inequitable funding levels established years ago. Subsequently, Albany's per capita AIM significantly trails other cities in upstate New York.

Background on State Revenue Sharing

General Purpose Local Government Aid and Supplemental Municipal Aid *(pre-2005)*

- GPLGA largely flat from 1991 forward
- Statutory aid formula not followed
- SMA increases provided mostly to the Big 4 cities

Aid and Incentives to Municipalities *(2005-present)*

- Based on GPLGA and SMA aid levels
- Increase formula established but only followed once
- Cut in recession

The current mechanism for state aid distribution is the Aid and Incentives to Municipalities (AIM) program, introduced in 2005. AIM was created from several revenue sharing programs, namely General Purpose Local Government Aid (GPLGA) and Supplemental Municipal Aid (SMA). GPLGA was introduced in 1970 as a modification of the original "Revenue Sharing" program, in which a portion of State tax receipts were returned to localities based mostly on population, and a supplemental portion was distributed to the State's cities. But, as population shifts created winners and losers, and fiscal problems drove the need for reductions, the statutory formulas were often "notwithstood," funds were often cut dramatically, and individual municipal allocations, especially for big cities, were often lined-out by the Legislature in enacted Budgets. State aid increases were provided under SMA, but increases were largely only targeted to the "Big Four" cities (Buffalo, Yonkers, Rochester and Syracuse).

AIM distributes grants from the base aid levels that were last revised in 2000-01 for cities, thereby locking in grants in a fashion that freezes outdated distributions highly unfavorable to Albany. In that 2000-01 year of final aid revision, aid distributed to the Big Four cities increased by 74%, while aid distributed to all other cities, including Albany, only increased 38%.

Since 2005, AIM funding distribution increases have rarely been methodical, and have been beholden to the political process and annual whims of the Legislature and Governor.

> **"The State should examine its aid formulas in order to see where the basis for aid distributions is no longer rational or equitable."**
>
> - State Comptroller report on State Local Revenue Sharing (2008)

Beyond the 2000-01 fixed levels, aid increases (beginning in 2007-08) were to be based on whether a municipality meets special criteria for fiscal stress:

- Full valuation of taxable real property per capita less than 50 percent of the statewide average.
- More than 60 percent of the Constitutional property tax limit exhausted.
- Population loss greater than 10 percent since 1970.
- Poverty rate greater than 150 percent of the statewide average.

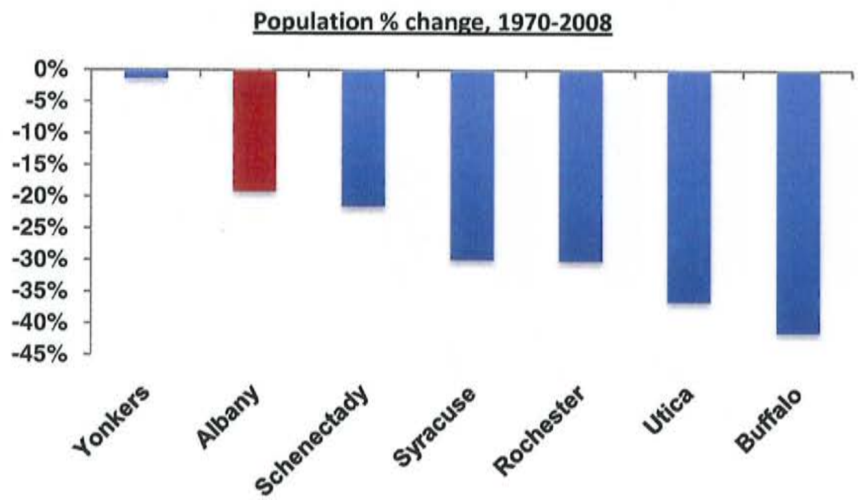
Annual increases were to be awarded to eligible cities, large towns and large villages as follows:

- 9% if all four distress indicators are met.
- 7% if three distress indicators are met.

- 5% if one or two distress indicators are met.
- 3% if none of the fiscal distress indicators are met.
- 4.5% maximum additional increase if municipality receives significantly less aid than peers on a per capita basis.

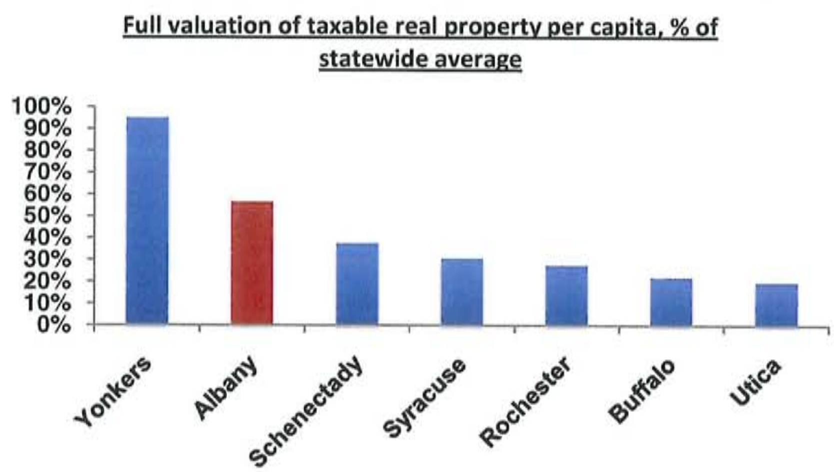
However, the AIM Formula and criteria for fiscal distress were only used in the 2007-2008 Enacted Budget, in which Albany received a 7% increase. In 2008-09, Albany was slated to receive a 13.3% AIM increase, which was reduced to a 12.9% increase following Deficit Reduction Plan (DRP) actions. In 2009-10, Albany's AIM funding was supposed to be held flat, but in the end declined by 1.2% again due to the DRP.

In 2010 Albany would meet two of the four criteria for fiscal distress, and it almost meets a third criteria (taxable property per capita) placing it at the median of its peer group. It should be noted that these indicators of fiscal distress are largely not reflective of financial management strategies or revenue need. Population loss and poverty rates especially are extraneous factors beholden to long-term, regional and national economic trends and conditions, and taxable properties are largely fixed and non-modifiable. Property tax limits utilized by the "Big 4" cities (Buffalo, Rochester, Yonkers and Syracuse) reflect levies that include taxes for their respective school districts. As these respective cities have fiscally dependent school districts, the tax limits misleadingly imply fiscal distress in relation to the AIM funding criteria.



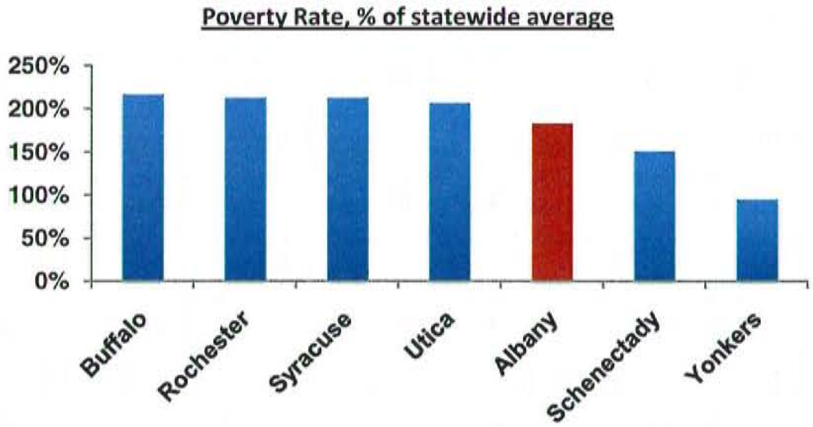
Buffalo's population loss is 22% higher than Albany's, but Buffalo receives more than 340% AIM funding per capita than Albany

Source: US Census Bureau



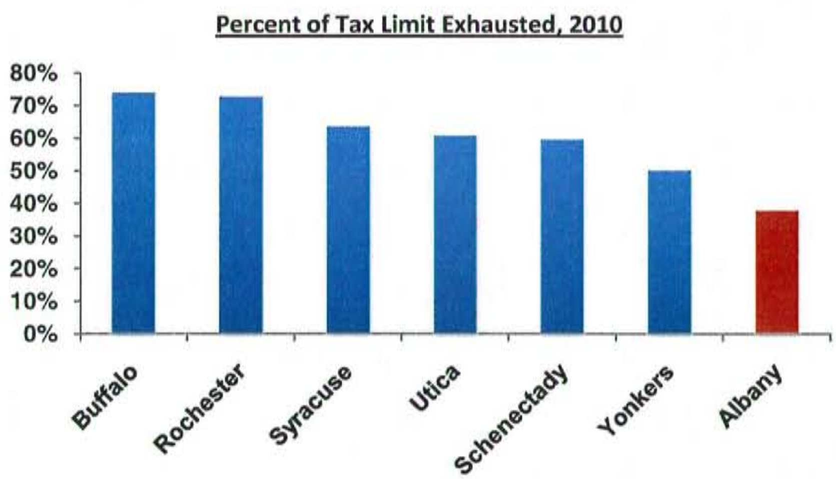
Albany's full valuation of taxable real property per capita (% of statewide average) is 37% higher than Utica's, but Utica receives 106% higher AIM per capita than Albany

Source: Office of Real Property Tax Services



Rochester and Syracuse have poverty rates 30% higher than Albany, as a % of the statewide average, but receive AIM per capita that is 214% (Rochester) and 283% (Syracuse) higher than Albany

Source: US Census Bureau



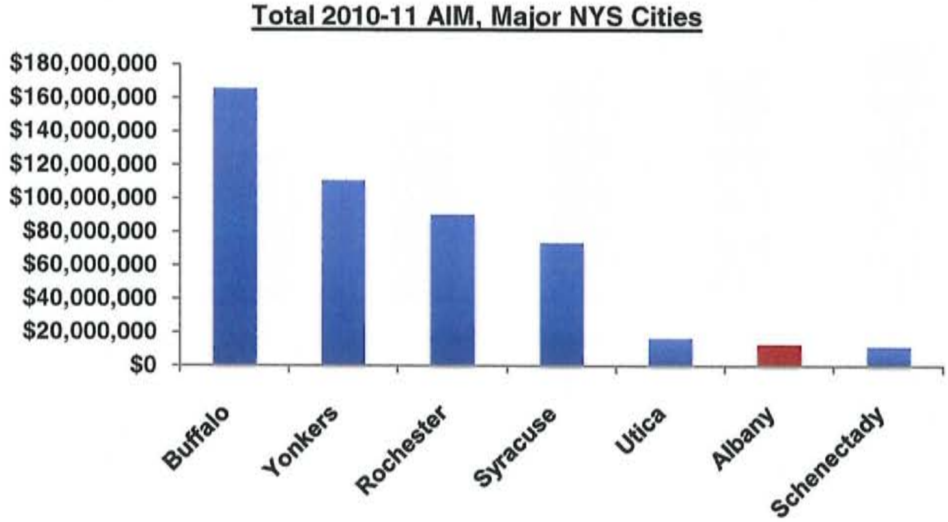
Albany's property tax limit % exhausted is approximately half of Buffalo's and Rochester's, but Albany receives only 23% (Buffalo) and 32% (Rochester) of their per capita AIM

Source: Office of the NYS Comptroller

The State does pay a PILOT on the Empire State Plaza to partially compensate the City for the Empire State Plaza/South Mall (Public Lands Law Section 19-a provides the City with $22.85 million in compensation in 2010-11, and $15 million annually from 2011-12 through 2032-33). However, the Empire State Plaza PILOT is based on an unreliable assessment methodology (see previous section) and does not include compensation for other State properties such as SUNY and the 350-acre Harriman Campus.

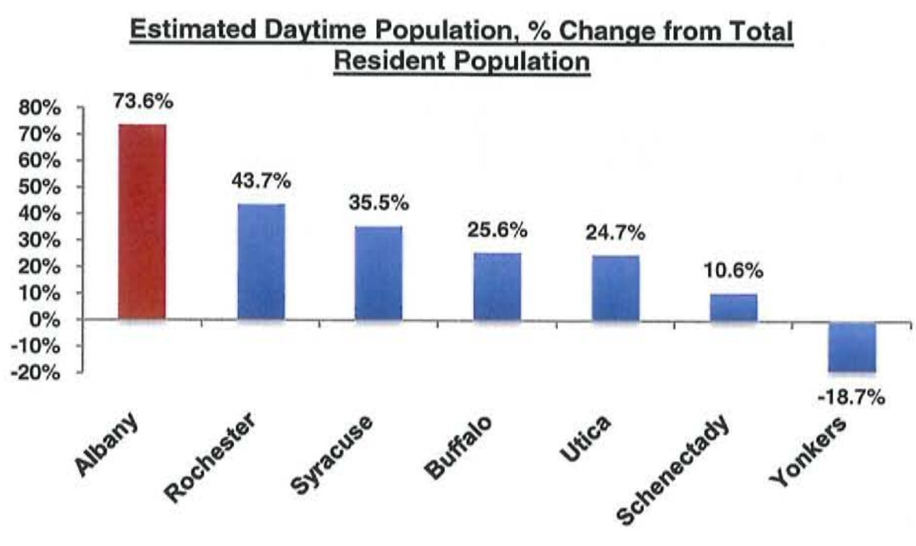
AIM Funding and the City of Albany

The City of Albany receives AIM funding on a level comparable to smaller upstate NY cities such as Utica and Schenectady, despite having a population almost double such cities.[5] As described above, this is mostly a result of the City of Albany having a significant portion of its tax base exempt from taxation, and the allocation for AIM increases being based on an unmethodical process and outdated base grant levels.



Source: NYS Division of the Budget

Also, the large commuting state workforce is one of the main drivers behind the Albany's swelled daytime population, which is estimated to grow above its official resident population by almost 74%.[6]

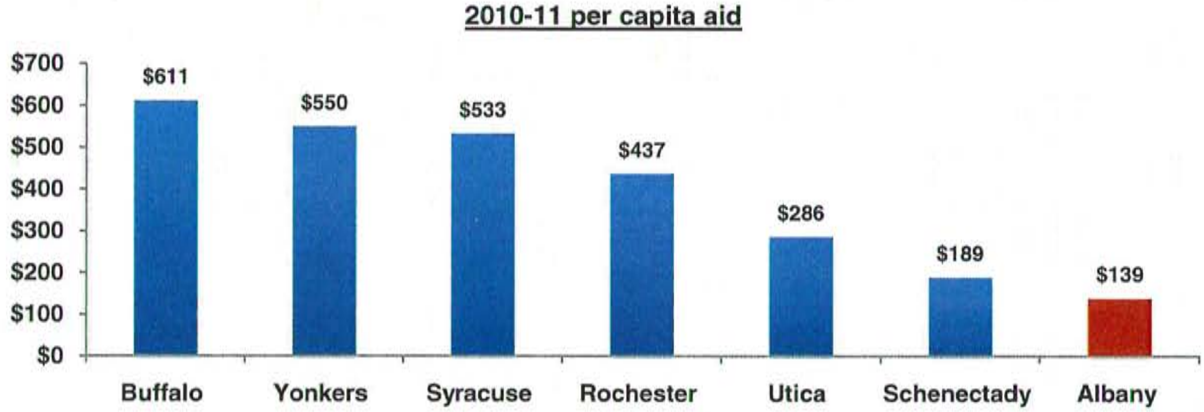


Source: US Census Bureau

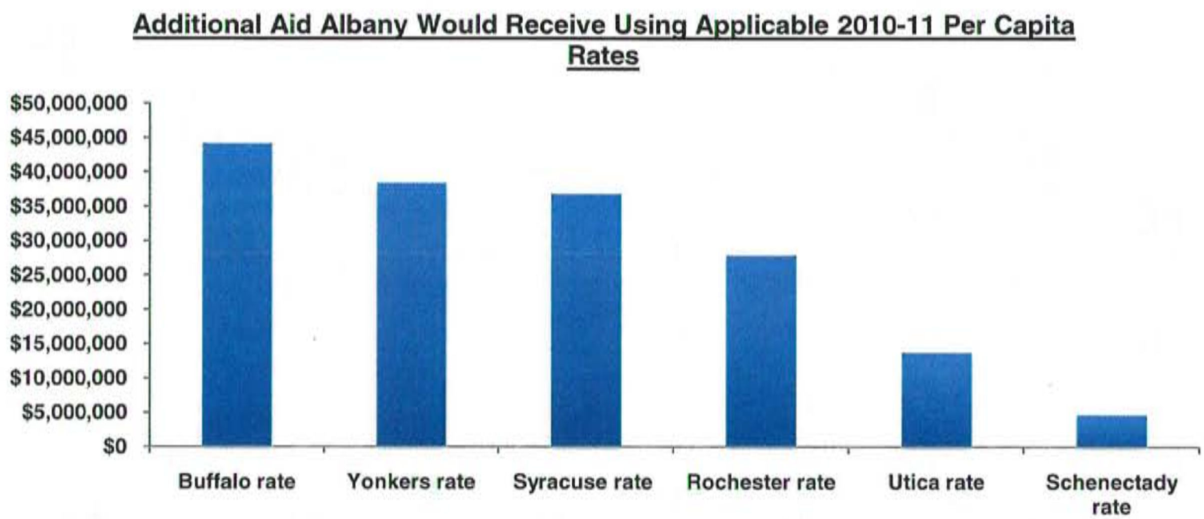
[5] Although the 2010-11 Budget has not been officially passed as of this report's publication, 2010-11 AIM local distributions have been approved by the Legislature through weekly emergency spending bills

[6] Using estimates from the 2000 Census, the most recent daytime population data available

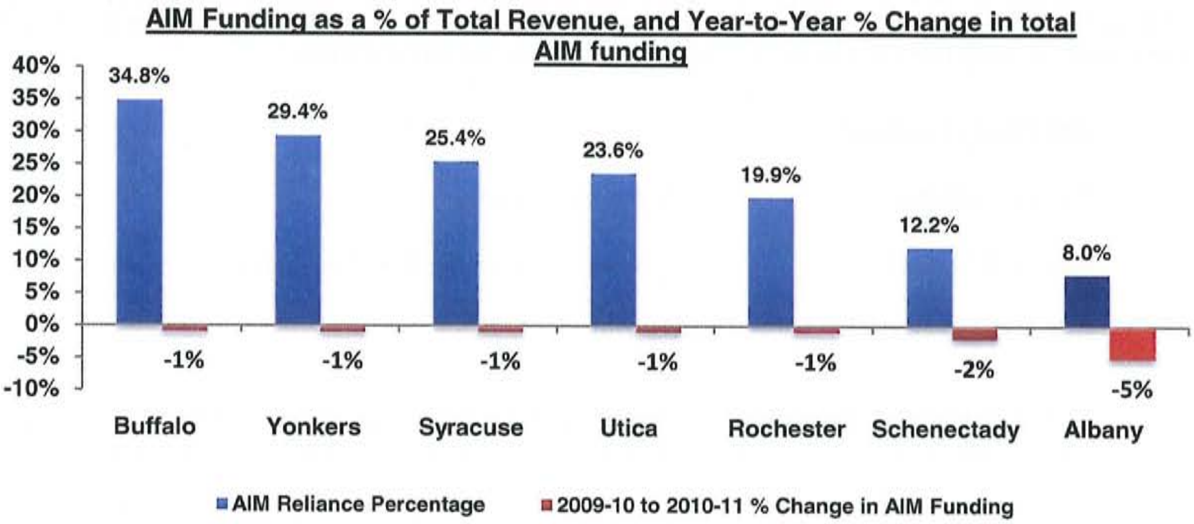
On an AIM funding per capita basis, in 2010-11 the City of Albany significantly trails its municipal counterparts.



Albany's total AIM funding would be more than double its 2010-11 level of $13.01 million if it received commensurate aid per capita with some of its peer cities.



The 2010-11 State Budget AIM funding is reduced from 2009-10 Enacted Budget levels, depending on whether AIM accounts for more or less than 10% of the municipality's total revenues. AIM accounts for 8% of Albany's revenues, and therefore Albany received the highest AIM reduction possible - 5% - in the 2010-11 Budget. In essence, Albany was punished even further for not receiving equitable state aid. [7]



Source: NYS Division of the Budget

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[7] AIM Reliance Percentage is SFY 2008-09 AIM funding as percentage of 2008 total revenues

Initiatives and Recommendations

The revenue that Albany loses through the high percentage of State-owned properties that are tax-exempt, combined with the costs of providing uncompensated services, puts a significant financial burden on Albany. These pressures – unique to Albany due to its status as the Capital City – leaves the City in the tenuous position of having to either raise the tax rate on the taxpayers who are already incurring the entire burden, or seek compensation from tax-exempt properties and the State.

1.	**AIM Equity Payment**	
	Target outcome:	AIM per-capita parity
	Financial Impact:	$33.8 million base adjustment payment from State
	Responsible party:	New York State

Albany should seek legislation that would provide a $33.8 million base adjustment to Albany's AIM funding, which would bring it on parity with its peer group in AIM funding per capita.

AIM grants are currently distributed from base aid levels established in the late 1990s and early 2000s, and even those base levels were not provided under any statutory formula. Increases were targeted mostly at the Big Four cities – Buffalo, Rochester, Syracuse and Yonkers. When AIM was created in 2005, an increase formula was established, including a maximum dedicated 4.5% annual increase for cities that receive significantly less on a per-capita basis. The State only actually followed the AIM Formula in the 2007-08 Budget.

A fair solution would be to provide a 2010-11 AIM payment to Albany to bring it more on-par with its peer group. A payment of $33.8 million would boost Albany's per capita to the average per capita rate of its peer group. Albany should receive the average because it falls in the middle of its peer group in the indicators of fiscal distress used for the AIM formula, as described in the Assessment section.

This would raise Albany's total AIM to $46.8 million, and should be the basis from which ongoing annual distributions are keyed.

	2010-11 per capita aid	Total 2010-11 AIM	2008 population	Proposed base adjustment payment	Total Revised AIM Funding	New Per Capita Rate
Albany	$139.07	$13,008,215	93,539	$33,786,270	$46,794,485	$500.27
Buffalo	$611.43	$165,646,904	270,919			
Yonkers	$549.70	$110,813,067	201,588			
Syracuse	$532.94	$73,582,388	138,068			
Rochester	$436.82	$90,371,375	206,886			
Utica	$286.18	$16,622,101	58,082			
Schenectady	$189.07	$11,561,868	61,152			
Average per capita, excl. Albany	***$500.27***					

Financial Impact

2011	2012	2013	2014	Total
$33.8 M	$33.8 M	$33.8 M	$33.8 M	$135.2 M

2.	Harriman PILOT	
	Target outcome:	Compensation for lost property tax revenue
	Financial impact:	$11 million annually
	Responsible party:	New York State

Albany should pursue enactment of State legislation that would provide an annual $11 million PILOT payment from the State for the Harriman Office Campus.

The 2000 19-a PILOT legislation enacted into law provides PILOT for only the Empire State Plaza. An additional payment to the City Albany should be directed to alleviate the financial burden the City faces by providing municipal services to the Harriman State Office Building Campus. Such additional PILOT would not address funding inequities in AIM, but would provide due compensation to Albany for services provided to the complex (which houses a business incubator for private firms and public agencies; see the "assessment" section).

The State Legislature in 2008 passed a Harriman PILOT bill that would have provided an annual PILOT of $11 million. The Governor vetoed the bill, citing the fiscal burden on the State and the State's efforts to attract private business to the Campus and create a research park. Clearly, in 2010 Harriman remains primarily a public entity in the City of Albany.

Financial Impact

2011	2012	2013	2014	Total
$11 M	$11 M	$11 M	$11 M	$44 M

3.	Spin-up of Forthcoming Empire State Plaza PILOTs	
	Target outcome:	Compensation for lost property tax revenue
	Financial impact:	$7.85 million annually
	Responsible party:	New York State

Albany should have the State amend the payment schedule in the 19-a legislation to "spin-up" future AIM payments, beginning in 2011-12.

Under Public Lands Law 19-a, PILOTs to Albany from the State to compensate for the Empire State Plaza are to decline from $22.85 million in 2010-11 (the payment level since 2005-06) to $15 million beginning in 2011-12 and extending through 2032-33. Legislation should be submitted that would "spin-up" payments in future years, by reducing payments in 2028-29 through 2032-33 to $7.15 million, and correspondingly maintaining payments through 2015-16 at the existing $22.85 million level, thereby assisting the City's efforts to maintain fiscal stability.

In 2008, the Governor approved spin-up payments of up to $20 million each to Rochester and Yonkers, $10 million to Buffalo and $5 million to Syracuse. These spin-ups were over and above the amounts those cities received in AIM funding.

Financial Impact

2011	2012	2013	2014	Total
$7.85 M	$7.85 M	$7.85 M	$7.85 M	$31.4 M

4.	**Capital City Grant for Services Rendered**	
	Target outcome:	Compensation for municipal services to state-owned properties
	Financial impact:	$5 million flat annual payment
	Responsible party:	New York State

The State should provide a special $5 million annual "capital city grant" in recognition of services provided to State buildings. This approach is used by other states, especially by states with capital cities similar to Albany whose economies are primarily supported by the public sector:

- Trenton, NJ: New Jersey is scheduled to pay the City of Trenton a payment of $34.9 million in Capital City Aid in 2010, an increase from $32.04 million in 2009
- Annapolis, MD: Maryland provides a $367,000 annual grant to Annapolis for fire and policing costs of state agency buildings
- Lansing, MI: Michigan pays its capital, Lansing, a formula-based grant for providing fire protection services to state-owned buildings in the city ($950,000 in 2010)
- Harrisburg, PA: Pennsylvania provides funding to the City for costs related to fire protection services for the Capitol Complex in Harrisburg. The Commonwealth appropriated $1.25 million to the Harrisburg Fire Department in 2008-09 and $1 million in 2009-10
- Madison, WI: Wisconsin administers the Municipal Services Program, which reimburses for fire, police and solid waste handling provided to state buildings, including the state's public hospitals. The state payments are based on the cost of such services that are paid for through local property taxes, and appropriations are made to cities and towns using a formula that considers services expended in the relevant areas. The State capital, the City of Madison, received a $9.05 million payment in 2009 – the highest of any locality in Wisconsin – to reimburse for the costs of providing the policing, fire and solid waste services.

Financial Impact

2011	2012	2013	2014	Total
$5 M	$5 M	$5 M	$5 M	$20 M

5.	Service Charges from Non-Public Tax Exempt Properties	
	Target outcome:	Compensation for services to tax-exempt properties
	Financial Impact:	TBD [8]
	Responsible party:	Tax-exempt properties; City of Albany (administration)

The City should immediately seek State Legislation to recover the costs of municipal services from private community service organizations and exempt residential, commercial and industrial properties, which cumulatively make up more than 36% of the total equalized value of exemptions in Albany. These tax-exempt properties require the same, and in some cases more, municipal services than non-exempt properties. Such an approach may seem severe, but would be necessary to sustain a reliable revenue flow especially if Albany is not duly compensated from the State both for AIM inequities and State-owned tax-exempt properties.

Examples from around New York and the Country

A number of cities around New York State have found themselves in the same position of Albany as having to provide costly municipal services to large tax-exempt properties. In recent years these cities have implemented or considered fees designed to recover costs for specific activities:

- In Lockport, the Common Council enacted a law that billed the cost of garbage collection directly to each property owner, including those who are tax-exempt;
- City officials in Kingston have considered a "pay as you throw" fee for residents, businesses and non-profit groups to pay for garbage collection;
- The Newburgh City Council has examined moving fire and police services out of the regular budget and into a special fund supported by a public safety fee, to be paid by all organizations and residences regardless of tax status;
- The City of Auburn has explored a proposal to charge tax-exempt properties for trash collection, thereby reducing property taxes by $1.25 million, or the amount the City pays annually for trash collection.

The problem for Albany (and a challenge for the municipalities cited above who attempted but did not implement service charges) is that cities in New York are prohibited from implementing user fees for costly services such as police and fire protection. These "ad valorem levies" benefit not just parcels of real property but also the public in general, and a statutory mechanism would be required for determining such charges. Legislation has been introduced in the State Legislature to change these restrictions (see S. 7909 / A. 1172 from 2008) but has not been seriously considered.

The City of Albany should examine the City of Rochester as a model. Rochester has been using a system of service charges since the early 1990s based on benefits assessments. The principle of such benefits assessments is that charges are levied for "linear" services; that is, services that can be charged according to defined measures such as front footage and dwelling units, and the subsequent amount of "benefit" received. Examples may include street and sidewalk repairs, snow removal and street cleaning.

Rochester's system of service fees, known as Embellishment Fees (previously known as Local Works Fee), are charged to the entire assessment base, including tax exempt properties.

[8] The data necessary to estimate potential service charges and revenue generated are still being acquired from the City Assessment Office and other operational agencies. Accordingly, financial impact estimates are not yet available.

Federal, State and public authority properties are exempt, as the City believes that the costs of collecting fees from such public entities would not be worthwhile. The Fee is based on each parcel's front footage abutting a street or sidewalk, and accounts for street cleaning, roadway snow plowing, sidewalk snow plowing and hazardous sidewalk repair. The special assessments demonstrate a logical and understandable relationship between the amount of the charge levied and the amount of benefit received, and there has been no judicial review of the Embellishment Fees in Rochester. These Benefit Assessments, however, must be adopted by the Rochester City Council.

Rochester Embellishment Fees (per property front footage)

Service	Rate
Street Cleaning	$1.239
Roadway Snow Plowing	$2.478
Sidewalk Snow Plowing	$0.727
Hazardous Sidewalk Repair	$0.536
Total	$4.980

Other municipalities around the country have also begun to experiment with service charges to tax-exempt properties. The following is a brief of survey of such efforts, although applicability to New York may vary due to differences in state laws:

- Street lighting: Minneapolis, MN and Rochester, MN have implemented street-lighting utility fees intended to be collected from all entities regardless of tax status.
- Public safety: A number of localities in Indiana are considering user fees for police and fire services that would affect wealthy non-profit organizations. Ball State University already pays a fee to the City of Muncie for fire protection, and Indiana University pays a similar fee to Bloomington.
- Stormwater: Many cities (St. Cloud, FL; Wilson, NC; Milwaukee, WI; Moline, IL; Monroe, OH; Takoma Park, MD) around the country impose stormwater utility fees that are paid by all properties with impervious surfaces regardless of tax status, and are used to reduce the recurrence of street and structural flooding.

The City of Albany's Plan for Fee-for-Service

Even examining just an informal sampling of some of the larger tax-exempt properties in Albany, it is clear that the City can easily make the rationale that these significant institutions should foot the bill to at least some extent for the costs of public safety and public works. Moreover, some properties on City land, such as the Albany Nanotech Complex, may require special attention from the City to account for unique potential hazards. Nanotech in particular is also home to a number of for-profit entities conducting research and development.

Entity	Square Feet (approximate)
Albany Medical Center	2.4 million
College of St. Rose	1.2 million
Albany Nanotech Complex	800,000
St. Peter's Hospital	615,000

Albany should follow Rochester and other cities, and assess service charges on non-public tax-exempt properties, which would include private community service organizations, social organizations, professional societies, certain industrial, commercial and public service property, agricultural and forest properties, and certain classes of residential parcels.

Albany would need to devise a methodology for calculating its exempt property service fees. Calculations would be needed to derive frontage, activity cost and activity fee for Albany to develop a legal and feasible fee-for-service program similar to Rochester's. Although the technical and legal complexities involved in constructing a fee-for-service program would be significant, the following is a "ballpark" methodology for estimating Albany's cost recovery potential through a fee-for-service program:

NOTE: Street frontage numbers reflect actual data provided by the City and State Office of Real Property Tax Services. Activity cost calculations are being developed.

City of Albany
Exempt Property Service Fee Mthodology

Item	Number	Unit	Calculation Explanation
Frontage Calculation:			
Total Street Footage of All Parcels	1,507,260	Lin. Ft.	Divide total street frontage of all parcels by number of parcels to calculate average street frontage per parcel. Divide total number of parcels by total number of exempt parcels to calculate exempt parcel percentage
Total Number of Parcels	30,167	Parcels	
Average Street Frontage per Parcel	49.96	Lin. Ft.	
Total Number of Exempt Parcels	16,543	Parcels	
Exempt Parcel Percentage	54.84%		
Activity Cost Calculation:			
Total Direct Labor Cost	N/A		Derive total activity cost by calculating labor, equipment and materials and contractual expenses, with adjustments for benefits and overhead
Fringe Benefit Multiplier	N/A		
Fringe Cost on Direct Labor	N/A		
Total Labor Cost:	**To be determined**		
Materials and Fuel Cost	N/A		
Equiptment Depreciation & Repair	N/A		
Total Equipment and Materials:	**To be determined**		
Total Contractual Cost:	**To be determined**		
Overhead Percentage	N/A		
Total Overhead	N/A		
Chargeable Overhead:	**To be determined**		
Total Activity Cost:	N/A		
Activity Fee Calculation:			Calculate activity cost per linear foot (the assessed fee) by dividing total activity cost by total street frontage. Estimate total activity cost recovery by multiplying total number of exempt parcels by average activity cost per parcel (based on average street frontage per parcel).
Total Activity Cost:	**To be determined**		
Total Street Footage of All Parcels	1,507,260		
Activity Cost per Lin. Ft. (fee assessed)	**To be determined**		
Average Street Frontage per Parcel	49.96		
Average Activity Cost Per Parcel	**To be determined**		
Total Number of Exempt Parcels	16,543		
Total Activity Cost Recovery:	**To be determined**		

Financial Impact

2011	2012	2013	2014	Total
XX	XX	XX	XX	XX

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About Public Financial Management

PFM Project Team

The PFM Strategic Consulting practice's Albany Office has lead responsibility for project analysis. The Albany office staffs three PFM professionals, including:

- John Cape, Project Engagement Manager (Managing Director (partner) within the firm);
- Brad Friedman, Project Manager; and
- Robert Fiato, lead Project Analyst.

The Team is supplemented by staff from other PFM Offices, including:

- Michael Nadol, Managing Director, former Philadelphia Finance Director and veteran city government manager; and
- Eric Traub, Senior Managing Consultant, and former NYS Division of the Budget analyst.

John Cape is the former State Budget Director and a veteran of New York government. Mr. Cape began his career in New York State as a Municipal Management Analyst for the Division of Community Affairs and throughout his 34 year career developed a working knowledge of State-local finances that few can match. John currently heads PFM's national State Consulting practice, and directs local government projects in New York and elsewhere. In addition, Mr. Cape serves as a Senior Fellow at the Rockefeller Institute in Albany, and is an advisor to the New York State Association of Counties.

Based in Philadelphia, Mike Nadol has extensive New York consulting experience, having previously led PFM projects with the City of New York, New York State Division of the Budget, Nassau County, and New York MTA.

PFM Background

"From the conference room of PFM on this otherwise dreary night came the simmering sense of something powerful...from this room...flowed a current that hadn't been felt in the city for years, a feeling that somehow, in some way, something within it could actually be changed."

Pulitzer Prize-winning author Buzz Bissinger, from the book "*A Prayer for the City*" on PFM's efforts to help Philadelphia guide itself to financial stability

Public Financial Management, Inc. ("PFM") was founded in 1975 on the principle of providing sound independent financial advice to state and local governments, and today is the nation's largest independent financial advisor. The firm also provides investment advisory, pension advisory, and management consulting services to public agencies nationwide.

PFM, like its affiliate, PFM Asset Management LLC ("Asset Management"), is a subsidiary of PFM Group, LLC. PFM Asset Management is registered under the Investment Advisors Act of 1940. A copy of PFM's Form ADV, Part II is available upon request.

PFM is incorporated in the state of Pennsylvania and our national headquarters is in Philadelphia, Pennsylvania. We maintain 32 offices and over 400 staff throughout the United States, including offices in Albany, New York City, and on Long Island. PFM Group LLC is owned by the Managing Directors of PFM and Asset Management, together with institutional investors led by ICV Capital Partners, LP, a minority-owned private investment firm. Our Albany Office is led by John Cape, a Managing Director within the firm and a leader of our strategic consulting practice nationally.

The Managing Directors of PFM and Asset Management set overall strategic direction as a group. Individual partners are responsible for specific practice areas, such as strategic consulting, or regional practices; they also personally manage specific engagements for local government clients. The firms that make up the PFM Group have four primary business activities:

- **Strategic Consulting:** offering highly effective capital and operating budget advice;
- **Financial Advising:** managing transactions related to debt issuance;
- **Investment Management:** providing investment advice and portfolio management for working capital and bond proceeds;
- **Investment Consulting:** structuring simple, reliable, and fundamentally sound asset management strategies and retirement plans.

PFM's Strategic Consulting Practice

SELECTED PFM STRATEGIC CONSULTING CLIENTS:

CALIFORNIA
California Society of Municipal Finance Officers (CSMFO)
Los Angeles County (LAFCO)
City of Long Beach
San Francisco Public Utilities Commission

COLORADO
American Water Works Association
City of Aurora
City of Colorado Springs

CONNECTICUT
City of New Haven

DELAWARE
City of Wilmington
New Castle County
State of Delaware

DISTRICT OF COLUMBIA
Brookings Institution
Government of Washington, DC

FLORIDA
Miami-Dade County
Martin County

GEORGIA
State of Georgia
City of Atlanta

ILLINOIS
State of Illinois Governor's Office of Management and Budget

KENTUCKY
Metro Government of Louisville and Jefferson County

LOUISIANA
City of New Orleans

MARYLAND
Anne Arundel County
Montgomery County
City of Baltimore
Baltimore County
Maryland National Capital Park and Planning Commission

MASSACHUSETTS
Massachusetts Bay Transportation Authority
Springfield Financial Control Board

MICHIGAN
Macomb County

MINNESOTA
City of Minneapolis
City of Saint Paul

MISSOURI
City of Kansas City
City of Saint Louis
Saint Louis Public Schools

PFM's Strategic Consulting practice, established in 1992, assists state, county and local governments with management and budget strategies and evaluations. PFM has been involved in some of the most significant government turnaround efforts in the country, turning sizable deficits into surpluses in Philadelphia and Pittsburgh, Pennsylvania; Miami, Florida; Nassau County, New York; and Washington DC.

PFM's Strategic Consulting group provides multi-year financial planning and operational analysis for local governments throughout the United States, including serving as independent, state-appointed overseer for municipal governments facing financial challenges. The practice began with the development of the nationally recognized Philadelphia Five-Year Plans that were later used by the Commonwealth of Pennsylvania as the template for the state's Early Intervention Program for financially stressed cities. PFM's Strategic Consulting practice has also prepared multi-year financial plans for cities ranging from Washington, DC to Miami, Florida to New Haven, Connecticut and Pittsburgh, Pennsylvania.

The senior members of the Strategic Consulting practice are seasoned former local government employees committed to supporting improvement in municipal government. Most hold advanced degrees in public administration, and all have formed

SELECTED PFM STRATEGIC CONSULTING CLIENTS:

NEW JERSEY
Cherry Hill Fire Commission
City of East Orange
City of Newark
State of New Jersey Department of Community Affairs

NEW YORK
City of New York Office of Labor Relations
Metropolitan Transportation Authority (MTA)
State of New York Division of the Budget
Long Island Regional Planning Commission
Nassau County
Nassau County Sewer and Storm Water Authority
New York State Association of Counties

NORTH CAROLINA
Wake County

OHIO
City of Cleveland
Hamilton County

OKLAHOMA
Oklahoma City

PENNSYLVANIA
Commonwealth of Pennsylvania Office of the Budget
Commonwealth of Pennsylvania Dept. of Community and Economic Development
Pennsylvania Convention Center Authority
City of Philadelphia
Philadelphia Industrial Development Corp.
School Reform Commission of Philadelphia
Harrisburg School District
City of Wilkes-Barre
City of York
City of Allentown
Lehigh County
Luzerne County
Temple University

RHODE ISLAND
City of Providence

TENNESSEE
City of Memphis
Shelby County
State of Tennessee
City of Chattanooga
Memphis Light Gas & Water

TEXAS
City of Austin
City of Dallas
City of Fort Worth

VIRGINIA
Albemarle County

careers around public service and public sector clients. The group includes former state and city budget directors and finance directors, directors of planning, budget staff, and others who have been leaders in the Government Finance Officers Association, including a former national president.

PFM's work with local governments around the country is varied. PFM has reviewed non-tax revenues for Dallas, Texas, public works practices for Long Beach, California, and fleet operations for Washington, DC. PFM is the state-appointed financial overseer for three financially distressed cities in Pennsylvania, and assists cities in the state's distress-avoidance program. PFM also provides quantitative and analytical support for many cities and counties in ongoing collective bargaining, with specific experience under New York's Taylor Law developed through advisory work for clients including the New York City Office of Labor Relations, Nassau County, and New York Metropolitan Transportation Authority.

Through this broad range of services, PFM is uniquely qualified both to identify opportunities for governmental improvement and to understand the day-to-day responsibilities of individual departments. Among the many services provided to local governments by PFM are:

- Departmental expenditure and operational improvements (sanitation, fleet management, police, and fire)
- Multi-year strategic financial & management plans
- Performance measurement and budgeting for results
- Operating and capital budget development support
- Non-tax revenue enhancements (including fee studies)
- Tax policy options
- Analysis of financial performance and organization of financial services
- Capital program management improvements
- Benchmarking and comparability analysis
- Managed competition and other forms of outsourcing
- Labor-management analysis and expert testimony
- Water and wastewater utility reviews
- Economic development strategy

PFM regularly undertakes process improvement and management audit projects as part of the operational assessment efforts that comprise much of its work.