

Partnership for the Public Good

The Control Boards: Time for an Objective Review and Real Reforms

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Destructive Myths

Justifications for the Buffalo and Erie County control boards usually depend on two false premises: (i) the problem is “bloated” and “inefficient” city and county government; and (ii) the solution is to add another layer of government composed of non-elected, state-appointed officials.

The typical commentary lumps all local elected officials together, ignoring large differences between different politicians and between the city and county. It ignores the big structural problems that we face – most of them caused by state and federal policies – and instead pins blame on the closest scapegoats it can find.

To see local mythology at work, read a recent editorial in the *Buffalo News* that opens: “This is why Erie County needs adult supervision.”¹ Are our county legislators really children, when compared to the members of the control board? What makes one level of government – the control board – more “adult” than any other? Isn’t supervising local government the job of local voters, not state appointees? A naïve contempt for local government has real consequences: it undermines morale, erodes the concept of the public good, and tempts people toward undemocratic solutions such as control boards.

Buffalo’s Real Problems

Local pundits often suggest that there is something uniquely wrong with Buffalo and our local governments. In reality, Buffalo faces the same problems as every large city in the country – especially northern cities that once relied on manufacturing jobs, and especially cities in upstate New York.

Every city has suffered from suburbanization, the flight of the upper and middle classes, and the resultant concentration of poverty in cities. Every city has

¹ “County Lawmakers Err: \$600 bonuses impact talks, show need for control board,” *Buffalo News*, March 14, 2008.

suffered from our nation's unusual tolerance for extreme inequality and poverty. Every city has suffered from the way that federal and state governments have subsidized sprawl with new infrastructure and development subsidies. The results – poverty, segregation, crime, unsuccessful schools, and a high-needs population with a low tax base – are hardly unique to Buffalo.

Rust Belt cities, of course, have been hit particularly hard by mechanization, global competition, and national and international policies that encourage companies to locate in the states and nations with the lowest wages, the worst worker protection laws, and the worst environmental protection laws. Thus, cities like Cleveland, Pittsburgh, Detroit, and Gary look very much like Buffalo.

Finally, New York makes life even harder for cities like Syracuse, Binghamton, Albany, Rochester, and Buffalo. State law makes it all too easy for suburbs to get the benefits of metro living without sharing the burdens. New York cities cannot annex their suburbs, nor can they benefit from regional revenue sharing or regional government. New York makes its counties pay much higher portions of Medicaid and welfare costs than other states do. This funding system creates a vicious circle: the higher your needs, the higher your costs, and the less money you have left to provide the other amenities and services that attract new residents and businesses.

All upstate cities, regardless of how bad or how brilliant their local leaders have been, face these problems. To the extent Buffalo's problems are bigger, it is only because Buffalo is bigger. Buffalo does not spend more than its peer cities, nor does it rely more heavily on state aid. Although precise comparison data is hard to assemble, it appears that Buffalo's city government spends far less per capita (\$1536) than Syracuse (\$1830) or Rochester (\$2059). Similarly, Erie County spends less per capita (\$1200) than Monroe (\$1530) or Onondaga (\$1868). State aid to Buffalo rose less (21.5%) from 2001 to 2006 than aid to Syracuse (29%) or Rochester (29.5%).²

Fiscal Crises, Artificially Induced

Over the last decades, the state has kept its cities solvent not with structural reforms but with ad hoc increases in state aid. From 1970 to 2001, state aid to the city went from \$15 million to over \$100 million. Then, in 2001, the state abruptly froze aid to the city at \$103 million, where it stayed for 2002, 2003, and 2004.³ Hence, a fiscal "crisis" justifying the imposition of a control board.

The county, unlike the city, really did mismanage its finances: not by being bloated or inefficient but by drastically cutting property taxes – roughly 18% in

² See fiscal data assembled by James L. Magavern from State Comptroller reports, available at <http://ppg-buffalo.wikispaces.com/Local+Government>. Note his caveats as to quirks in the data.

³ James L. Magavern, "The Buffalo Financial Control Board" (2003), available at <http://ppg-buffalo.wikispaces.com/Local+Government>

2000 and 13% in 2001 – and then lacking the courage to raise them back up again. Once the county had burned through its reserves and a variety of short-term gimmicks, it faced a massive deficit. Confronted by a deafening roar of anti-government and anti-tax voices (including some from its control board), the county could not muster the will to raise property taxes and instead slashed services in a harum-scarum, penny-wise, pound-foolish fashion.

In any event, the county had resolved its deficit before the county control board seized power by going from advisory to “hard.” As economics Professor Susan Davis pointed out at the time:

- The county was not in default;
- The remedy for bad governance is voting out bad officials, not adding another layer of non-elected officials, who cannot be voted out when they err;
- Most county expenditures are mandated by the state; discretionary spending had already been cut in half in the last two years;
- Erie County taxes are close to average for the nation.⁴

Where the Real Waste Happens

The real waste in New York happens not in the cities and counties but in the authorities, or, as the State Comptroller and others have called them, the “shadow governments” – non-elected, unaccountable, and poorly understood. A few local examples from 2006 reported by the *Buffalo News*:

- The Power Authority gave two large chemical companies, Occidental and Olin, 29% of western New York’s discounted power, for a total subsidy of \$53 million, or \$126,155 per employee.
- Time Warner got a \$6.48 million break on its sales taxes from the Erie County IDA– not to create jobs, but simply in exchange for a promise not to cut more than 50 jobs.
- HSBC, Europe’s largest bank, received \$79 million in tax breaks from the Amherst IDA to expand a data center. That was \$6.6 million for each job created.

Where was the outrage, where was the “control,” when the Amherst IDA gave HSBC \$79 million of county revenue? (In the patently undemocratic IDA system,

⁴ Susan M. Davis, “A ‘Hard’ Control Board Doesn’t Make Sense for County” *Buffalo News*, October 18, 2006.

a town IDA can give away the whole county's tax revenue.) HSBC is one of the world's largest subprime lenders, having bought the notoriously predatory Household International for \$14 billion in 2002. One might have expected a vigorous public debate not only about whether HSBC needed a subsidy, but also about whether HSBC does more harm or good to the public.⁵

That is the kind of transaction that needs more scrutiny – not the School Board's attempt to give its food service workers, who earn as little as \$7.52 per hour, a 25 cent raise. The Buffalo Fiscal Stability Authority rejected that raise, demanding that the workers give back more of their benefits. The workers, who receive no health benefits, did not have much to offer, so they rejected the BFSA's demand, and no new contract was approved. What kind of double standard is in place when a 25 cent raise for workers who do not receive a living wage gets more scrutiny than a \$79 million subsidy for a subprime lender?

State-Wide Inequality Hurts Cities the Most

State tax policies also hurt Buffalo by exacerbating poverty and inequality. For three decades, New York cut income tax rates for the wealthy⁶ and shifted costs to local governments, which use flat taxes and fees to raise their revenue. As a result, people with low incomes – heavily concentrated in cities like Buffalo – now pay nearly twice as high a percentage of their income in taxes as millionaires.⁷ Governor Pataki's tax cuts alone cost the state \$16 billion per year in revenue. Just adding 1% back to the tax rate of New York's 26,000 millionaires would raise over \$1.5 billion per year.⁸

The Buffalo region as a whole is not poor. From 2003 to 2005, our total personal income rose 7.5% to reach \$36.7 billion, ranking us 48th in the nation – just about average for the 46th largest metro area.⁹ We do not lack resources, but we distribute them terribly, as a result of state and federal policies that favor suburbs over cities and favor the wealthy over the poor.

The Control Boards' Performance

What have the control boards done for us so far? Have they identified realistic efficiencies to save our local governments money? In reviewing press accounts, annual reports, and statements from the two control boards, one does not find evidence of meaningful reforms. It is hard to find efficiencies when city and county governments have already been cut way past the bone. The city's payroll

⁵ For further discussion of development subsidies, see Sam Magavern, "Revitalizing Buffalo," available at <http://ppg-buffalo.wikispaces.com/PPG+Reports>

⁶ The top tax rate, which was 15.375% in the 1970s, is now down to 6.85%. See Ron Deutsch, "Taxes in New York State," at http://www.abetterchoicefornny.org/tax_ls.pdf

⁷ The effective tax rate for New Yorkers with incomes under \$15,000 is 12.6%; for those with incomes over \$1.6 million, it is 6.5%. *Id.*

⁸ Jeremy W. Peters, "Earn \$1 Million a Year?" *New York Times*, March 6, 2008

⁹ G. Scott Thomas, "Buffalo Edges Up in Income Rankings," *Business First*, April 26, 2007

had already shrunk from 6,665 in 1972 to under 3,000 in 2003.¹⁰ The county had already closed libraries and shut down beaches before its control board went hard.

The city control board cut the city's costs temporarily by imposing a wage freeze. But were wages really the problem? It is hard to argue that our police officers, fire fighters, garbage collectors, and teachers are being paid "too much," or that cutting the salaries of these middle and low-income Buffalo residents is really going to help revitalize the city. None of these workers are among the 26,000 millionaires in the state whose taxes have been reduced so dramatically.¹¹

What the wage freeze really did was bail out the state from the responsibility – which it had shouldered for years – to increase local aid to keep up with Buffalo's increased needs. The wage freeze was a short-term, stop-gap measure that deflected attention from the underlying issues and did nothing to advance long-term reforms. As state-appointed overseers placed over and against city and county officials, the control boards naturally focus criticism on local officials and away from state government, which has the real power (but the deepest reluctance) to make reforms.

The county control board's performance has been particularly questionable. It has repeatedly predicted budget deficits that did not come to pass. It delayed the county's attempt to sell its tax liens until the county lost the best bid. It spent a large amount of money on expensive consultants who produced almost nothing of value. It rejected the county's four-year plan while ignoring its own legal duty to make modifications to it. It sat on large amounts of "efficiency grant" money without making any realistic suggestions for its use.

There is one area where the control boards could help bring efficiency to the city and county: energy efficiency. Cities, counties, universities, and private companies around the country have found that investing in energy efficiency can dramatically lower long term costs and reduce greenhouse gases and other pollutants.¹² Making that upfront investment, however, is always hard for elected politicians, particularly in cash-strapped areas like ours. The best thing the control boards could do is to use their efficiency grant money for energy efficiency improvements to governmental buildings, vehicles, and operations.

¹⁰ James L. Magavern, "The Buffalo Financial Control Board," available at <http://ppg-buffalo.wikispaces.com/Local+Government>

¹¹ Needless to say, none of them shared in the \$36 billion in bonuses that the top five investment banks in New York gave their employees in 2006. See Kevin Connor, "Wall Street and the Making of the Sub-Prime Disaster" at <http://ppg-buffalo.wikispaces.com/Housing>.

¹² For example, the University at Buffalo estimates that it has reduced its energy costs by over \$9 million per year. See <http://wings.buffalo.edu/ubgreen/content/programs/energyconservation/main.html>.

Real Reform

Rhetoric around the control board has tended to pit the municipal unions on one side against big business, the control boards, and the *Buffalo News* on the other. Too little has been heard from ordinary citizens who want good, responsible government but want it delivered by their elected officials. Too little has been heard from those who want real structural reform, not the slashing of important services and the erosion of middle-income and low-income workers' wages.

What does real structural reform mean? It means replacing our ad hoc, unreliable, heavily politicized system of state aid to local governments with a fair, needs-based formula that would allow local governments to plan rationally. It means regionalism, anti-sprawl measures, reinvestment in the urban core, an end to wasteful corporate subsidies, and a return to progressive taxation.

What is good government? It is not adding new authorities to "control" our elected officials. We need just the opposite: to return more functions from non-elected authorities to elected officials. And we need to make it easier for ordinary citizens to watch over both elected and non-elected officials. That is how democracy is supposed to work.

There are real costs in having control boards. They hire staff, consultants and lawyers, they rent space, and they require the city and county to spend huge amounts of time and resources seeking approval for contracts and decisions that have already been approved by elected officials. While some control board members bring a high level of expertise, others appear to know little about local government. At times, control board members have engaged in naïve, divisive rhetoric about local government, feeding into anti-government mythologies that make good government more difficult and erode the notion of the public good.

It is time for an objective look at what our control boards have accomplished and can accomplish. If they are not producing more benefits than burdens, they should be abolished or reformed. Therefore, the Partnership for the Public Good, supported by 38 local organizations, requests that the State Comptroller undertake performance audits of both control boards.

The Coalition for Economic Justice has launched a Partnership for the Public Good (PPG) to promote a community-oriented vision of a revitalized Buffalo. PPG unites a broad range of organizations – from social service providers to arts groups, from environmental advocates to affordable housing providers, from anti-violence coalitions to academic institutions.

To see the full PPG 2008 Platform and its endorsers, along with principles, reports, and other policy statements, please visit:

<http://ppg-buffalo.wikispaces.com>.