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CONCRETE THOUGHTS

Does the Governor Want to Be President One Day?

If so, how he deals with pension reform could tangibly impact his chances

After his stint in Washington running the Department of Housing and Urban Development, it is easy to guess that Andrew Cuomo would rather live in the White House than in the New York State House. If this is true, his pension reform battle might be his most important initiative yet.

Robert Knakal

The governor has done a tremendous job in the 14 months since he took office and has restored the confidence in Albany that has long been missing. Much of what he has accomplished will look tremendous on the résumé of a presidential candidate. His disregard for any rational policy on rent regulation can be excused when looking at what could an effort to beef up a presidential résumé since no one in Idaho is going to care what happens to New York's rent welfare recipients. However, everyone in the country will be able to relate to how the governor handles pension reform. How he performs on this critical issue will say a lot about his credentials to be the commander-in-chief.

We have all been reading, for far too long, how public-sector union pensions are on a crash course caused by unsustainable dynamics. The math is very simple. If you take in $1 and pay out $2, ultimately what you have in the bank today evaporates.

Because what has been in the bank has been a large number, it has allowed legislatures to kick the proverbial can down the road and leave the tough decisions for the next guy. However, the time has come when the burden of these pensions is starting to divert resources away from critical areas such as schools, police, libraries, firefighters and ambulance response times.

During the past 10 years, pension obligations in New York have ballooned from $1.7 billion to $12.5 billion. This is an increase of over 700 percent and there is no end in sight. In New York City for instance, these payments to retirees represented just 5 percent of all operating expenses in 2002 but today represent more than 16 percent of the total budget.

Last week, Assembly Speaker Sheldon Silver totally dodged the issue of having to deal with this critical issue by saying that the governor had to singlehandedly work out a deal with the unions. The Legislature gave these benefits (which are intentionally left out of the collective-bargaining process) yet the speaker does not want anything to do with altering them.

Needless to say, Mr. Silver took this position while addressing a luncheon for public-sector union member with more than 2,000 people in attendance. Union support can be impactful on a political career but, in almost all cases, leads to significant conflicts of interest. The speaker's refusal to weigh in on the issue is evidence enough of this.

Smartly, the governor has included pension reform in his budget proposal, which carries symbolic significance. Therefore, the Legislature will have to decide either to accept the reform as proposed, and pass the budget, or to reject it and perhaps initiate a shutdown of the government.

It is always possible that a compromise can be negotiated, but it's highly unlikely that the unions will agree to any concessions provided the Legislature runs and hides instead of dealing with the issue head on. As Mayor Bloomberg said in a recent radio address, "Why would a union leader ever negotiate with the city when they know the State Legislature is going to protect them anyway?"

The governor's proposal takes nothing away from current workers (unlike what is portrayed in union ads) and simply makes new workers contribute more to their pensions and work longer before they can retire, prohibits the use of spiking to calculate pension amounts, and offers a 401(k) style option. The governor believes his plan would create savings of $113 billion over 30 years.

As we have seen most recently throughout Europe, and particularly in Greece, the bank account is now drained and Legislatures there are forced to ask people to retire later, make contributions to their pensions and agree to defined contribution plans rather than defined benefit plans. What the governor has proposed is actually rather benign in that it leaves existing public-sector union worker's benefits unaltered and would impact only new workers. The extent to which the governor is able to prevail on this issue would enhance a presidential run. To the extent he doesn't, these costs will continue to rise and the future of our city, and our state, will be in significant jeopardy.

And, of course, the larger the budget deficits, the higher our real estate tax obligations will be.

rknakal@masseyknakal.com

Robert Knakal is the chairman and founding partner of Massey Knakal Realty Services and in his career has brokered the sale of more than 1,200 properties, having a market value in excess of $8

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