CITY OF JAMESTOWN

OFFICE OF THE MAYOR www.jamestownny.net SAMUEL TERESI

TO: Jamestown City Council Members

FROM: Mayor Sam Teresi

RE: FY 2018 Executive Operating Budget and Capital Improvement Program

DATE: October 10, 2017

In accordance with Section C-39 (D) (1) of the Jamestown City Charter, I have attached for your review the draft Executive Operating Budget and Capital Improvement Program for Fiscal Year 2018.

This comprehensive document, compiled with the assistance of recently retired Director of Financial Services/City Clerk Jim Olson, current Director of Administrative Services/City Clerk Todd Thomas and City Comptroller Joe Bellitto, is the culmination of several months worth of effort involving the department and agency directors of city government, along with input from various members of the City Council.

BACKGROUND/OVERVIEW

Nearly seventeen years ago, following the completion of yet another annual budget with a significant structural deficit, the City of Jamestown was saddled with an accumulated **NEGATIVE** General Fund balance of **$1,371,007** and stood at the door of insolvency.

Despite its questionable past budgeting and management practices and its seemingly insurmountable problems, the members of the City Council and Administration, determined to make a positive difference and avoid the takeover of City operations by the State, launched a multi-year program built upon sound, "tough love" budgeting, "strong medicine" management practices, departmental and regional restructuring initiatives and a concentrated public-private-nonprofit approach to economic and community development.

Since the rock bottom year of FY 2000, the members of the City Council and Administration have:

1. Implemented 82 internal restructuring initiatives that are now saving City taxpayers **nearly $6 million** on a reoccurring, annual basis… and counting **(see Exhibit 1)**.

CITY OF JAMESTOWN 200 EAST THIRD STREET JAMESTOWN, NEW YORK 14701 716/483-7600 FAX 716/483-7544 E-MAIL mayor@cityofjamestownny.com

2. Completed the transfer or regionalization of more than two dozen services and programs that were previously the exclusive domain and responsibility of a cash strapped and fiscally "dying" city **(see Exhibit 2)**.

3. Through these initiatives, achieved a **20.28% <u>REDUCTION</u>** in the City's full time work force, and a **58% REDUCTION** in appointed City officers/department heads **(see Exhibit 3)**.

4. **<u>DELIVERED 10 CONSECUTIVE SURPLUS BUDGETS</u>** erasing the previous **<u>NEGATIVE $1,371,007</u>** General Fund balance and replacing it with a **<u>POSITIVE</u>** and audited **<u>$3,439,116 accumulated surplus</u>** at the end of FY 2010 **(see Exhibit 4)**.

5. During an era in which many governments were experiencing downgrades in their credit ratings, the City, twice in a three year period, earned a positive adjustment to its all-important Bond Rating… and for the first time in more than three decades, restored the City's rating back into the "A" category.

6. Achieved reoccurring and healthy profits in all five of its municipally owned, enterprise fund based utility divisions.

7. Launched a unique and effective partnership between local government, private businesses and nonprofit charitable foundations, which has brought to date **<u>more than $230 million</u>** in new private/public investment into the City's Downtown area (see Exhibit 5).

Unfortunately, as the old saying goes, all too often, good things come to an end. As evidenced by **Exhibit 4**, which provides an overview of the City's General Fund Budget History, this began to occur during FY 2011. Despite the best efforts of all involved, Jamestown's most recent financial struggles have continued on to the present.

As has been well chronicled during recent years, a variety of key factors have served to undermine the previously mentioned initiatives and have led or significantly contributed to the City's current, diminished fiscal condition. Those factors have included, but are not necessarily limited to the following:

1. The Devastating and still lingering impacts of the worst national/international economic downturn since the Great Depression of the 1930's… the Great Recession of 2008 – 2011.

   Despite impressive Downtown development strides made during recent years, little of that, due to the tax exempt ownership nature of many of the projects and/or tax abatements imposed on the City, has translated into the hoped for and much needed boost to the City's real property tax base. Furthermore, due to the structure and nature of the sales **(see Exhibit 6)**, the type of developments realized to date have **<u>NOT</u>** led to a corresponding and significant boost in new sales tax revenues for the City.

2. A declining regional economy, which, due in large part to the lack of a major university or four-year college, has struggled to adequately diversify and transition from its former manufacturing

base. Additionally, the Jamestown area sports one of the lowest per capita income levels and one of the highest poverty rates of any urban region in the Empire State.

3. The financial stress associated with servicing, maintaining and replacing an aging, decaying, and long-neglected infrastructure that was originally developed to support and be sustained by a larger population and tax base.

4. The crushing burden of monumental mandates (led by state labor laws and retirement expenses), slashed CDBG assistance, and flat revenues from sales taxes and fees.

5. A significant, permanent cut in State Revenue Sharing payments (AIM) during 2009 and 2010, that has resulted to date in an accumulated revenue loss of **$<u>3,566,808</u>** (through 2017)… and mounting **(see Exhibit 7)**.

6. The adverse impact of previously negotiated and Tri Borough Amendment protected collective bargaining agreements, which are no longer affordable in the modern day context.

7. Contractually negotiated and/or PERB ordered "minimum staffing" mandates, which apply to 77% of the City's full time work force (Police, Fire, DPW, Parks) and account for approximately 90% of total city salaries and benefits.

8. A series of misguided, previously enacted, intermunicpal utility agreements that, over the years, have helped to unleash explosive suburban residential and commercial development at the expense of the City's struggling business districts, aging residential neighborhoods, and declining tax base.

9. Unbearable, legally-protected legacy costs mandated by previously negotiated and state labor law protected union contracts. Specifically, the mounting cost impact of lifelong healthcare benefits that were granted to all City government retirees back in 1986, (and protected in place by State Labor Laws) have now grown to the point where they are threatening and affecting the financial solvency of the entire operation.

10. The slow and steady decline of the City's previously growing and sturdy fund balance (driven by annual incursions into these reserves during recent years), to plug annual budget gaps and delay the City reaching its Constitutional Property Tax Limit **(see Exhibit 4)**.

PROCESS

Initial preparations for this plan actually began shortly after the adoption of the FY 2017 Budget. The process moved into full swing with the submission of departmental requests during July, followed by a series of individual meetings involving the senior financial team and various department heads/staff members. The Executive Budget Team then proceeded with its series of line item by line item reviews and revisions prior to the preparation and submission of this final starting point plan.

STRUCTURE/ZERO BASED BUDGETING

The structure of this plan is very similar to that of previous years. Included are detailed line item accounts of the adopted FY 2017 Budget, year-to-date expenditure totals in each budget category, FY 2018 departmental and agency requests and a line item summary of the final Executive Budget and Capital Improvement Program. Also, included is a **realistic** forecast of all non-property tax revenue sources.

As has been the case in every budget during my tenure as Mayor, we have again employed what is commonly referred to as a "**zero based budgeting**" approach, and have done so in the context of a **multi-year** look at the City's future expenditure requirements and revenue prospects. As has been the case during the previous seventeen budgets, this plan has been built upon a "clean slate" zero base starting point.

In other words, **every single expenditure and revenue line item in this budget**, regardless of what has been allocated in past years, **began at the zero point**, and is based upon hard documentation and/or our best forecast of the **actual needs** for the coming fiscal year.

In the case of **expenditure** line items, the bare **minimum funding level** necessary to deliver the service in question was programmed and in the case of non-property tax **revenues**, the most **aggressive**, yet defendable amount was incorporated into this financial plan.

In short, this program does NOT utilize the respective figures from the previous budget as a starting point upon which an arbitrary series of percentage increases have been applied.

ISSUES

As with the preparation of any financial plan, the Executive Budget Team was confronted by and required to deal with a series of issues and dynamics that have profoundly impacted this proposal. Included were the following opportunities, concerns and challenges.

Positives/Opportunities

1. **Disciplined/Realistic Budgeting** – The level of public education, discussion and input over the last 17 budget cycles have clearly helped to produce tighter, more realistic, honest and better products on which to build this year's plan.

2. **Restructuring/Downsizing of Operations** – The determined efforts and difficult decisions during recent years to change the way in which the City does its business, and the related reduction and streamlining of our operations, have taken significant pressure off of numerous areas in the proposed 2018 Budget.

   Previous actions to restructure departments, regionalize services, eliminate staff positions and institute and abide by a hiring freeze have dramatically impacted this Executive Budget plan. Had these steps not been taken during the past seventeen years, the costs included in this plan would have been significantly greater and devastating. Included for your review is a summary comparison of previous and current employment totals by department, documenting a **20.28%** reduction in actual full employment and a **58%** reduction in appointed City Officer (top management) positions since FY 2000. Also included are reports listing 82 restructuring efforts implemented since January 1, 2000. Collectively, these initiatives have driven nearly $6 million in annual, reoccurring savings for City taxpayers. Finally included is a listing of successful examples of regionalized and shared services. **(See Exhibits 1, 2 and 3)**

3. **Positive Fund Balance** – Due to the above referenced change in budgeting philosophy and practices over the past seventeen years, and the tight day-to-day management of city operations by department heads and staff, the City ended FY 2016 with a final, audited, General Fund Balance of **$1,547,438,** of which **$732,444** falls within the "Unassigned" or available category. Although far from ideal or robust, this compares favorably to the accumulated **NEGATIVE** fund balance of **($1,371,007)** (created by the deficit plagued years of the late 1990's) that the City carried into the 2001 fiscal year.

   While this hard-earned financial reserve is far from the optimal level recommended for operations the size of Jamestown, it is nevertheless a significant accomplishment in which we can all take great satisfaction. Additionally, it is always better and somewhat easier to put together a budget plan while operating in the **BLACK**, as opposed to the **deficit, "one foot in the hole"** position in which we were forced to start during past years. **(see Exhibit 4)**.

4. **Health Care Benefits Management** – Increased levels of employee contributions (as provided by labor contracts settled during the past decade), the negotiation and implementation of a Wellness Program with all of the collective bargaining units, and the tight management of the self insurance fund by both our in-house staff and our third party administrators, have helped to contain, somewhat, the appropriation for employee and retiree health care benefits in the FY 2018 Executive Budget.

   Additionally, the anticipated release of a **$1.5 million** grant from the State's Financial Restructuring Board (FRB) to underwrite a new pilot incentive program offering alternative insurance options for Medicare eligible retirees, is expected to have a positive impact on the bottom line during FY 2018.

5. **Salaries** – Total investment in employee salaries (**$16,144,507**) represents a **decrease** of **$94,577** or **0.58%** from the adopted FY 2017 budgeted amount.

   This is directly attributed to a number of dynamics, including but not limited to:

   A. Settlement of prior collective bargaining unit labor agreements with little or no retroactive salary increases and very modest salary adjustments moving forward.

B. Increases are not included in the salary lines of this plan for all non-bargaining employees and personnel in the Police, Fire, and Management unions that will be operating under expired contracts. Tri Borough protected salary step increases and AFSCME and CSEA contract adjustments will obviously be honored and therefore are provided for in this budget plan.

C. The continuance of the hiring freeze policy that has been strictly followed since its creation seventeen years ago.

D. The aforementioned and ongoing curtailment in employment levels.

E. Replacement of individuals retiring during 2017 and 2018 (as required by legal agreements in place) with new hires being paid at entry level salaries.

F. Tight and vigilant management of all over-time line items.

All of these measures, taken together, not only help to bring a small measure of **fiscal relief for local taxpayers**, but also effectively **forestall** the need for further **employee layoffs** and the detrimental **reduction in essential public services**.

6. **Debt Service –** Due to efforts to pay down previously incurred debt and steps taken to refinance older more costly bond obligations, funding required for debt service in this plan will total **$1,796,588**… which represents a **$53,329 or 2.9% reduction** from the amount included in the FY 2017 Budget.

7. **Taxable Assessed Property –** During the past year, the City once again posted a modest **$1,285,375 or 0.19% increase** in taxable assessed property, bringing the total to $**667,872,364.**

8. **Workers Compensation –** The FY 2018 Executive Budget contains an allocation of **$385,000** to cover expenses associated with the General Fund's participation in the Workers Compensation Program operated by Chautauqua County. This represents a **$45,000 or 10.5% decrease** over the 2017 amount, due to recent claims payment experience.

   It should also be noted that this amount **DOES NOT** reflect costs associated with City employees covered under the five enterprise fund divisions operated by the Board of Public Utilities (BPU), which are paid separately out of those stand-alone divisions.

9. **Restructuring Initiatives/State Assistance** – Various members of the City Administration are currently pursuing a number of larger, restructuring initiatives that hold significant promise for future budgets. With continued cooperation from other involved parties at the state level, some and hopefully all of these efforts could potentially provide substantial benefit during FY 2018, 2019 and beyond **(see Exhibit 8)**.

Concerns/Challenges

1. **Continued Economic Impediments** – Even with a continuing, modest paced national and state economic recovery, the Greater Jamestown Region continues to struggle with the effects from the 2008-2011 Great Recession.

   While the economies at both the national and state levels have shown some encouraging and meaningful signs of recovery, the worst international economic downturn since the Great Depression continues to have an adverse impact on the City Budget. This is not only from a diminished revenue-generating standpoint (sales taxes, utility revenues, reduced property taxes resulting from stagnant assessments, fee revenues from various categories, etc.), but also from the increased demand on the basic municipal (most notably public safety) services directly associated with a weakened economy.

   Please refer again to the 10 key factors on pages 2 and 3 of this report that have led or significantly contributed to the City's current diminished fiscal condition.

2. **Tax Levy CAP and Constitutional Tax Limit (CTL**) – The State's "**2%**" Tax Levy Cap will allow for only **$359,859** in additional revenues generated from Real Property Taxes during 2018.

   Additionally, during 2018, it is projected that the City will remain at **100%** of its constitutionally limited taxing authority. This is largely due to the sluggish growth in real property assessments, the impact of IDA PILOTS awarded to several larger, recent development projects within the city, and other factors unique to Jamestown. This includes, **$100 + million** in **exempt electric utility assessment** that in other cities served by private, taxable, investor owned utilities, is included in the CTL calculation.

   As a result, the City, in accordance with its Constitutional Tax Limit, is only able to generate **$16,011,982** in total real property taxes, which represents a **$167,712** or **1.06% increase** over the amount raised during 2017

3. **Salaries and Benefits** – In conjunction with the City's previously negotiated and approved labor contracts, (which include an assortment of lucrative wage and benefits packages, minimum staffing agreements, no layoff clauses, post-retirement benefits, etc., etc.), the categories of salaries and particularly employee/retiree benefits, remain major problems/challenges in the 2018 Budget.

   Additionally, past Police and Fire **arbitration decisions**, courtesy of the New York State Public Employment Relations Board (PERB), have "set the bar" at an extremely high level and proven to be particularly damaging to our efforts to slow and reign in skyrocketing wage and benefits packages.

   The significant appropriation in the benefit category is also directly attributed to questionable past decisions at the local level to grant health care insurance to retirees for life, at the same contribution rate paid by active employees. Additionally, the flawed and biased system in New York State governing public employee contract settlements (in which **expired agreements simply CANNOT be scrapped**), is also having an adverse impact on this budget. In accordance with the Tri Borough Amendment (1982) to the New York State Taylor Law (1968)), new labor agreements are effectively negotiated and built upon base contracts that have evolved layer by layer over previous years…and quite often, this is done with little or no regard to the ability of local property taxpayers to afford such wage and benefit rich packages.

As noted earlier, the salary and benefits appropriations in the 2018 Executive Budget have come despite gains made during recent collective bargaining agreements, a fairly significant **decrease** in employment numbers during recent years (see Exhibit 3) and the strict adherence to the 17 year old hiring freeze.

4. **State Retirement System Obligations** – Despite the positive and moderating impact of the new Tier 6 contribution rates, retirement system expenditures remain a major concern and challenge in this budget.

   Due to a variety of factors (the dramatic loss of stock market revenues following the 9/11 attacks, the unraveling of the national financial system following the 9/15/08 crash of Lehman Brothers; corrective actions taken by the State Comptroller; etc.), the amount included in this budget to cover **mandatory** payments to the **State Retirement System** continues to crowd out funding for other needed services and remains one of the major factors driving the City's punitively high property tax levy. Despite a slight reduction in the "rates" applied by the State, the line items in this budget pertaining to mandated retirement system expenses total **$3,370,000**, which is **$70,000** or **2.1% more** than the amount contained in the 2017 spending plan (ERS: **$975,000… no increase**. Police/Fire: **$2,395,000**, a **$70,000** or **3.0% increase)**. It should be noted that this allocation **does not** include City employees associated with the five (5) utility enterprise funds operated by the Board of Public Utilities (BPU).

   The amount included in this budget covers the full payments to both the Employees Retirement System (ERS) and Police/Fire retirement fund (PFRS). These payments will need to be made by the city to the state in December 2018 for the 2018/2019 New York State fiscal year.

   Please refer to the tables in the "Charts" section of this budget document for the history of payments to the State Public Employees Retirement Funds. It remains clear that this burden on local and state taxpayers is unsustainable.

5. **Health and Dental Insurance** – Due to a variety of factors, including the size, age and growth of our self-insured employee and retiree pool, along with skyrocketing industry expenses, the cost of health and dental benefits remains a problem that continues to crowd out other needs and priorities within this budget.

   The amount included in the 2018 General Fund Budget totals **$6,564,000**, representing a **5.1% increase** over the amount appropriated for 2017.

This optimistically conservative allocation once again includes the impact of a new incentive program financed by the NYS Financial Restructuring Board (FRB), designed to encourage Medicare eligible retirees, currently receiving supplemental insurance coverage through the City's self-funded plan, to transition to lower cost, commercially based Medicare Advantage and supplemental products.

A $**600,000 savings** from this initiative has already been factored into the **$6,564,000** included in the FY 2018 spending plan.

6. **Fuel, Utilities and Materials** – As with private business and family budgets, the City's utility expenses, fuel for its fleet of vehicles, the cost for materials and contracted service expenses have experienced significant **increases,** that must be accounted for and thereby reflected in the 2018 budget.

7. **Equipment Investments** – Due to poor planning during previous eras, legitimate inability, unwillingness and, at times, outright neglect, the City's infrastructure, physical plant, equipment, and rolling stock assets remain in dire need of a multi-million dollar transfusion. However, due to a variety of other competing needs, previously agreed to obligations, and legal mandates (i.e.: salaries, retirement system, workers comp, health care expenditures, etc.), this budget, unfortunately, will once again fall far short and provide an inadequate appropriation for equipment and capital projects.

   The amount included for equipment replacement in 2018, totals **$99,121**, which represents a modest and unavoidable increase over the historically low allocations of recent times. This amount still compares unfavorably to allocations from previous years. Examples include:

   2009 - $124,115 – 20.1% Reduction
   2008 - $148,900 – 33.4% Reduction

8. **Street Lighting** – Due to recent electric rate increases, the appropriation for operating the City's **3,700+** streetlights continues to put a strain on the overall budget. The amount included in this plan **($550,000) is a $37,000 or a 7.2% increase** over the amount appropriated for 2017. This increase includes the positive impact of the ongoing State FRB funded, LED street lighting conversion program, which will ultimately replace nearly 900 of the City's street lights with more energy efficient, less costly to operate units.

9. **Retirements** – This budget plan must account for and provide adequate resources for another round of both scheduled and unanticipated employee retirements during the coming year. While retirements can provide a welcomed opportunity and means by which to restructure, downsize and refresh our operations, they also result in the loss of valuable, experienced employees and present expensive, contractually-provided "buy-out" packages that place a severe strain on first-year- out budgets.

10. **<u>State Revenue Sharing (AIM) Payments</u>** – Revenue from AIM (general purpose state aid) will again **<u>remain flat, for a ninth consecutive year. Furthermore, the amount earmarked represents a $457,515 or 9.1% reduction</u>** from the 2009 funding level. Despite the State's significantly improved financial position and its record aid increases granted to school districts during recent years, it is highly unlikely that there will be any serious legislative initiatives during the coming year to restore and increase revenue sharing allocations for city governments back to previous levels.

    NOTE: The reductions of 2009 and 2010, have resulted in an accumulated revenue loss of <u>$3,566,808</u>… and mounting (see Exhibit 7).

11. **<u>Investment Income</u> –** The 2018 budget includes only **<u>$2,000, a 33% decrease</u>**, in revenues from earnings on investments. A further reduction in this allocation may be necessary during the coming weeks pending the performance (or lack thereof) of financial markets at the national and international levels.

    It is noteworthy that little more than a decade ago, due to significantly higher investment rates, the City was generating **<u>nearly $300,000 annually, or one hundred fifty (150) times</u>** the amount included in this budget plan.

12. **<u>General Fund Balance</u> –** While the City is fortunate to be sporting a <u>positive</u>, <u>extremely modest</u> and tenuous General Fund Balance of **<u>$1,547,438</u>**, (**<u>$732,444</u>** in the "unassigned OR available category), it must be noted that recent appropriations from that account, along with terminology changes from the Government Accounting Standards Board (GASB), have reduced the amount available for justified Fund Balance disbursements during 2018 to **<u>$0</u>**.

13. **<u>Flat Taxable Assessment</u> –** During past years, the City has actually experienced small **<u>increases</u>** in taxable assessed property, bringing the total to **<u>$667,872,364</u>**... **<u>a $1,285,375 or 0.19 increase</u>** over 2017.

    This increase could and rightfully should have been even greater, but for 1) a variety of assessment reductions granted by the State of New York via the Special Franchise Utility Assessment, 2) court ordered assessment reductions and 3) questionable IDA granted PILOT agreements.

    These reductions, together with the host of other property tax exemptions that are currently in effect, bring to light the need for a state wide overhaul of the "Mother of All Unfunded Mandates"… the Real Property Tax Law (RPTL).

    The New York State Constitution provides that exemptions from real property taxation may in fact be altered or repealed by legislative action, except in cases where properties are used "<u>exclusively for religious, educational, or charitable purposes as defined by law.</u>"

For too long the responsibility for defining the scope of property tax exemptions has been ceded by our State Legislature to the courts. This has resulted in the steady expansion of organizations receiving exemptions from property taxation; including those having a questionable or only marginal link to "religious, educational, and charitable purposes."

Currently, there are over **275** different types of property tax exemptions "on the books" in New York State. Just a few years ago, the New York State Assessors Association reported that statewide there were **4,618,259** individual exemptions in effect, removing more than **$797,114,356,000** in assessment from local tax rolls.

In the City of Jamestown alone, there are **51** different and "legal" exemption categories in play, providing **8,392** individual exemptions (on **14,730** total tax parcels), which have removed **$387,313,378** from the City's Assessment Rolls. (Note: Approximately **37%** of the **$1,052,641,663** in assessed value is on the "exempt" or non-taxable rolls).

If these exemptions were not in effect, the properties in question would generate approximately **$8.8 million** in additional revenue for the City General Fund alone. (Note: Assessments applied to the 2016 tax rate of **$23.59 per 1000 of assessed** value).

The recent statewide growth in and impact of tax exempt entities severely erodes the tax bases of local governments and school districts, unfairly transfers the tax burden to remaining homeowners and businesses, and further compromises New York's position as a fair and competitive environment in which to live and invest.

It is high time that the State Legislature recognizes and utilizes the authority vested in it by the State Constitution and starts dealing head on with this growing statewide problem.

14. **Utility Revenues** – Tax Equivalency revenues and net profits received from the City's five (5) Utility Enterprise Funds operated by the Board of Public Utilities (BPU) are projected to total **$4,005,000,** which represents a **slight increase** from the amount budgeted for 2017. The projected 2018 amount, however, is a **$308,000 or 7.2% decrease** from the **$4,313,000** budgeted during FY 2016.

    This amount once again includes the sharing of no profit from the City's Electric and/or Water Funds as authorized by Article 9 Section 1 (F) of the NYS Constitution, Section 94 of the NYS General Municipal Law and the City of Jamestown Charter. (**See Exhibit 9** for excerpts from each document and the history of profits generated by each utility division.)

    Note: The 2016 Budgeted Profit Payment from the Electric and Water Division totaled **$482,000** and there was no payment included in the FY 2017 city spending plan.

15. **Non-Property Tax Revenues** – Non-property tax revenues have actually **decreased** in this budget by **$413,494** or **2.2%** in comparison to the FY 2017 adopted spending plan.

CONDITIONS AND ASSUMPTIONS

The following conditions and assumptions are built into the figures contained within this draft plan. Should any of these factors not be pursued or realized, corresponding adjustments will need to be made and reflected in the final version of the 2018 General Fund Budget.

This budget plan contains:

1. No new hires, except those required to keep the City in compliance with existing minimum staffing requirements contained within binding labor agreements or legal orders. This budget also does not provide funding for new programs or increases to existing efforts. The 17 year old hiring freeze will remain in full effect.

   NOTE: 77% of the City's total full time work force and around 90% of its payroll and benefits appropriations are covered by legally binding, "no staff reduction" provisions contained in previously approved labor contracts or other enforceable legal agreements.

2. 0% pay increases have been included in this budget for all employees (Police, Fire, JCAA, Management) operating under contracts that expired before 1/1/2018, as well as all non-bargaining management staff. Tri Borough protected salary step increases and AFSCME, CSEA contract protected adjustments will be honored, however.

3. No projected savings associated with the previously proposed City-County police staffing contract.

4. In conjunction with the implementation of the proposed alternative, supplemental health care programs for Medicare eligible retirees, a $600,000 savings has already been built into the health care lines of the 2018 budget.

5. A $50,000 (50%) funding cut to the James Prendergast Library has been built into this plan. This is in addition to $285,000 reduction during previous years.

6. No allocation of profits from the Electric and Water Divisions have been included as a revenue source in this plan.

7. Flat sales tax revenues.

8. No increase in State AIM revenues… for a ninth consecutive year.

9. Reduced debt service payments.

10. A capital account local contribution of $10,000 (match money for $20,000 Community Foundation Grant funding the purchase of street trees).

11. No adjustments to various permit and user fees following increases in 2016 and 2017.

12. A property tax levy of $16,011,982, which represents an increase of $167,712 (1.06% or 0.88% on the rate). **The City will once again reach 100% of Constitutional Tax Limit during FY 2018.**

    Failure to realize any of the factors listed above will require other adjustments in the 2018 plan to avoid further deepening the currently projected budget deficit.

FY 2018 EXECUTIVE BUDGET – POINTS OF INTEREST

The following is a summary of some of the points of interest within this initial Executive Budget.

1. A **decrease** of **$94,577** or **(0.58%)** from the amount budgeted during 2017 has been included in this plan for **employee salaries**. As indicated before, this amount includes substantial "buyout" payments for several long term employees scheduled to retire during the coming year as well as the impact of lower cost new hires replacing employees retiring during 2017 and 2018.

   As noted before, the salaries category does not include funding for salary increases for any employees except State Tri Borough Amendment protected salary steps and other increments provided by unexpired 2018 contracts.

2. An **increased** appropriation of **$394,000** or **(3.5%)** for **contracted employee/retiree benefits**. **Total allocation: $11,597,000**.

   As noted before, a $600,000 savings has already been incorporated into this category, in conjunction with the NYS FRB funded an alternate, supplemental health care plan and "buyout" incentive for Medicare eligible retirees enrolled in the City's self-funded comprehensive plan.

3. Appropriation for **street lighting and heating of parking decks – $550,000,** an **increase** of **7.2%**. (See previous notes)

4. A **$269,700** or **5.8% increase** in funding allocated for **utilities, fuel, and other materials/contractual services.** Total allocation **$4,909,425**.

5. **Debt Service –** The FY 2018 Executive Budget contains a **$1,796,588** appropriation for scheduled debt service payments, which represents a **decrease** of **$53,329 or 2.9%** from the amount appropriated for FY 2017.

6. **Acquisition and replacement of equipment** – The 2018 allocation totals **$99,121**. See previous comments regarding the impact on deferred investment in the replacement of key equipment.

7. **Capital Projects** appropriation – **Flat**

   It should be noted that **$1,090,750** of the total **$1,100,750** appropriated for capital projects is a "pass through" provided via the State CHIPS program. The remaining **$10,000**, which is allocated for the purchase of trees, (as a match for continued foundation grant support) is the actual appropriation from City generated funds.

8. The **Contingency Account** allocation totals at **$250,000**. **This amount should not be further reduced** as it is absolutely necessary to hedge against additional reductions in State assistance, the impact of yet to be settled labor agreements, and to cover unforeseen/unbudgeted expenses (i.e.: storm damage, public safety emergencies, equipment failure, capital project overruns, health care expenditures, unforeseen law suit settlements, etc.) that can occur during the course of any year and must have a source of revenue to cover in a budget as large, diverse, and tight as this.

9. **Social Security Obligations** **($1,275,000) – This represents an increase of $50,000** or **(4.1%)** from the 2017 budgeted amount.

10. **Workers Compensation Premium** – **$385,000**. This represents a **$45,000** or **(10.5%) reduction** from the 2017 level.

11. **Sales Tax Revenues** - **$6,000,000**. No adjustment from the 2017 Budget. Given the recent economic challenges being faced throughout our county, the limited nature of sales taxes **(see Exhibit 6)** and sales tax revenues realized to date during the current year, this represents a very optimistic **allocation that should not be increased further.**

12. Funding for **outside agency contracts** (James Prendergast Library, Fenton History Center) **reduced by $49,200** or **(40%)**. This includes a **$50,000 or (50%)** cut to the Prendergast Library.

13. **Utility Tax Equivalency and Profit Payments** – An **increase of $241,000** or **(6.4%)** from the amount included in the FY 2017 Budget. This amount needs to be revisited in the coming weeks after the release of the draft 2018 Electric Division Budget by the BPU. As indicated previously, the "profit" portion of this line was completely eliminated due to stagnant projected water and restricted electric profits.

14. **Revenues from Investments** - **$2,000**. This represents a **$1,000** or (**33%) decrease** from the 2017 level. See previous comments.

15. **Fund Balance Appropriation** – As previously indicated, there is no allocation from the "Unassigned" Fund Balance in this budget due to insufficient available resources in that category.

16. **<u>State Revenue Sharing (AIM) Assistance</u>** – Flat **<u>($4,572,280)</u>** for the ninth consecutive year (see previous comments).

17. **<u>General Liability Insurance Expenses</u> – <u>$225,000.</u>** No increase from the FY 2017 funding level.

18. **Total expenditures <u>($35,724,391) increased</u>** by **<u>$700,897 or (2%)</u>** from the 2017 Budget.

19. **Non-property tax revenues <u>($18,765,730)</u> <u>decreased</u>** by **<u>$413,494 or (2.2%)</u>** compared to the 2017 Budget level.

20. **Property-tax-generated revenues ($16,011,982) <u>increased</u>** by **<u>$167,712 or (1.1%)</u>** over the 2017 Budget level. This effectively sets a levy that is **<u>$149,192 below</u>** the state's statutory property tax levy cap of $**<u>16,161,174</u>** but reaches 100% of the City's Constitutional Tax Limit.

21. A property tax rate of **<u>$23.98</u>** per $1,000 of assessed valuation, which represents a **<u>$0.21 or (0.88%)</u> <u>increase</u>** over the 2017 Budget level. Again, this also brings the City to 100% of its Constitutional Tax Limit.

22. This starting point Executive Operating Budget currently maintains a deficit of **<u>$946,679</u>**. During the coming weeks, City Administration officials and Council members will need to work together, hopefully with the continued cooperation and assistance of our colleagues at the State level, to identify and put in place additional **<u>LEGAL</u>** forms of new revenue and restructuring opportunities to close this gap.

<u>FUTURE ISSUES/CHALLENGES/PLANNING</u>

As I have urged repeatedly over the years and as was recently reaffirmed by both the City's Independent Auditor and the Office of the State Comptroller, a good, honest and realistic budget proposal **<u>cannot</u>** be developed within a present day vacuum, but rather, must be created with an eye toward future issues and concerns.

In past Executive Budget presentations, I have always identified and attempted to account for the factors that would be impacting future financial plans. A review of the budget proposals and veto messages from previous years will confirm that these forecasts and warnings have largely materialized. Continuing with that practice, I have outlined below numerous factors, which will likely impact the Budget plans in FY 2019, 2020 and beyond.

- Weakened and unstable international, domestic and regional economies that do not have the capacity to create and sustain jobs, income, and adequate government revenue streams…while placing increasing demands and undue burdens on public services.

- Stagnant or reduced State aid payments that are exacerbated by growing unfunded State mandates.
- Increasing pressure from employee salaries and <u>heath care benefit</u> expenses…, particularly those attributed to retirees.
- Mounting and mandated state retirement system payments.
- Increased workers compensation expenses.
- Depressed city property values (and subsequently stagnant assessments), driven by sluggish economic performance, along with counterproductive suburban sprawl, facilitated by liberal utility extension polices and <u>misguided</u> State and County driven government tax incentives.
- The adverse impact of continued, deferred capital and equipment replacement investments.
- Increased fuel and utility expenses.
- **Costs associated with expensive post retirement obligations (health care benefits for life) that have been granted to retirees and their dependents through previously settled labor contracts and protected by State laws.**
- Costs associated with employee retirements that will likely occur in 2018 and beyond.
- The lack of an adequate Undesignated Fund Balance to utilize as a revenue stream.
- The inability to raise additional property tax based revenues due to the City's depleted Constitutional Tax Margin and the effects of the State's Property Tax Levy Cap.
- Due to a variety of factors… 1) reduced utility profits driven by local, weak economic performance; 2) ongoing conservation measures reducing utility consumption and 3) recent restrictions placed on the net profit generating capacity of the City owned electric utility…, the City's ability to allocate reoccurring profits to the General Fund from its electric and water divisions has been severely curtailed. Thus, the opportunity to repeatedly allocate revenues from these operations cannot be relied upon in future years to help address the City's ongoing General Fund Budget challenges.
- **The absolute need to continue the implementation of a number of larger, transformational, restructuring and capital investment initiatives that are currently in various stages of planning and development. The delivery of these items could literally save the City from financial insolvency in the future.**

<u>NEXT STEPS</u>

During the coming weeks, a variety of actions will be required in order to put this budget plan, or one utilizing it as a base, into action. As I am sure that you are all aware, I stand ready and look forward to working with you in any manner deemed helpful to bring this process to a successful conclusion on or before December 1st.

In accordance with past practice, a number of meetings have been scheduled with representatives of the various departments to review in greater detail what I have outlined in this plan.

As previously indicated, during the coming days, we will be receiving additional and/or updated information that <u>may</u> necessitate further revisions to selected revenue and expenditure lines. Specifically, we will all need to pay close attention to the following before final action is taken on the 2018 plan:

- All 2017 revenue and expenditure lines as of 10/31/17
- 3rd quarter sales tax revenues (due in early November)
- FY 2017 health and dental benefits expenditures as of 10/31/17
- The draft FY 2018 Electric Division Budget proposed by the Board of Public Utilities.
- Ongoing discussions with State Division of Budget officials regarding additional revenue possibilities and new restructuring opportunities.

Please keep in mind that this is an **<u>extremely tight budget</u>** that is consistent with the principals and recommendations contained within the City's Financial Recovery Plan developed and presented publicly to the City Council and the Office of State Comptroller on June 19, 2000. As such, any and all modifications to either the appropriations or revenue lines, with **<u>the desire to impact the final tax levy and rate, must be based upon sound fiscal reasoning, solid documentation and Generally Accepted Accounting Principles.</u>**

Given Jamestown's past history with and reliance on inflated and unsubstantiated budget figures, **<u>it is important that we avoid falling back into the trap that once took this City to the brink of a state control board</u>**.

I firmly believe that we **<u>can, must, and by working together, will</u>** find and pursue ways to improve upon this initial budget plan. During the coming weeks, I look forward to **<u>working with you every step of the way to do just that</u>**.

Again, as I have said year in and year out, we are all in this together and as we have done in the past, we must attempt to work as one to insure the adoption of a plan that all can be relatively comfortable with, is honest in its approach, provides for the needs of the community and continues the change that we all recognize as necessary.

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Samuel Teresi
Mayor

pc: Department Heads