

CITY OF JAMESTOWN



OFFICE OF THE MAYOR

SAMUEL TERESI

TO: Jamestown City Council Members

FROM: Mayor Sam Teresi

RE: FY 2009 Executive Operating Budget and Capital Improvement Program

DATE: October 8, 2008

In accordance with Section C-39 (D) (1) of the Jamestown City Charter, I have attached for your review the Executive Operating Budget and Capital Improvement Program for Fiscal Year 2009.

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

STRUCTURE / ZERO BASED BUDGETING

As may be seen, the structure of the attached is very similar to that of previous years. Included are detailed line item accounts of the adopted FY 2008 Budget, year to date expenditure totals in each Budget category, FY 2009 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 past eight years, this Budget has been built upon a "clean slate" zero 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 defensible amount was incorporated into this financial plan.

In short, this budget clearly 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.

Based upon the most current, available data, it is the professional opinion of the Executive Budget Team that this plan is **balanced** and **honest**, provides adequately for a basic level of **mandated** and **essential** municipal services, addresses the requirements of the City Charter, complies with generally accepted accounting procedures, and is consistent with the objectives and strategies contained within the City's Fiscal Recovery Plan as presented to the City Council on June 19, 2000.

PROCESS

Initial preparations for this plan actually began shortly after the adoption of the FY 2008 Budget. The process moved into full swing with a series of individual meetings involving senior financial staff members several months ago. Pre-Budget preparation meetings and discussions were then held with various city council members and department and agency representatives. The Executive Budget Team then proceeded with its series of reviews and revisions prior to the preparation and submission of this fiscal plan.

ISSUES

As with the preparation of any budget document, the Executive Budget Team was confronted 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 past several years has clearly helped to produce tighter, more realistic and honest budgets on which to build this year's plan.
2. **Restructuring/Downsizing of Operations** – The determined efforts and difficult decisions of the past several years to change the way in which the City does its business, and the related reduction of our operations, have taken significant pressure off of numerous areas in the proposed 2009 Budget.

Previous actions to restructure departments, eliminate 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 eight years, the increase in costs included in this plan would have been significantly greater and potentially devastating from a fiscal standpoint. Included for your review is a summary comparison of FY2000 employment totals and current levels by department, as well as a listing of 35 restructuring efforts initiated since January 1, 2000. These initiatives have resulted in more than \$3.8 million in annual savings to City taxpayers.

3. Positive Fund Balance – Due to the above referenced change in budgeting philosophy and practices over the past several years, and the tight day-to-day management of city operations by Department Heads and staff, the City ended FY 2007 with a final, audited, unappropriated General Fund balance of **\$1,801,463**. This compares 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 fiscal cushion has yet to accumulate to 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.

4. Health Care Benefits Management – Increased levels of employee contributions (as provided for through recently settled labor contracts) and the tight management of the self insurance fund by both our in-house staff and our new third party and pharmacy benefit administrators, have helped to hold steady the appropriation for employee and retiree health care benefits in the FY 2009 Executive Budget.
5. Consolidation of Civil Service Operations with the County – The referendum decision of City voters in the 2007 election to abolish the Civil Service Commission and consolidate its functions with the County, has resulted in a savings of \$24,550 in the 2009 Budget.
6. Increased Miscellaneous Revenues – Although increases are not projected and have not been included in this Budget from two of the City's largest non-property tax revenue sources (State AIM Program assistance and utility revenues), there is a projected increase of **\$227,582** (or 1.29% over the 2008 Budget level) in miscellaneous revenues derived from various fees for services. As will be discussed later in this Budget report, much of this increase is attributed to and will only be attained through proposed adjustments in Downtown parking meter rates, right-of-way permit rates and an aggressive, tentative 1.5% increase in sales tax revenues.
7. General Liability Insurance – Due largely to the efforts of the City's new provider of General Liability Insurance, the New York Municipal Insurance Reciprocal (in conjunction with local agent Sloan Melhuish Insurance), the cost for unallocated insurance in the 2009 Budget should remain flat. This runs counter to a trend during recent years of skyrocketing liability rates.

Concerns/Challenges

1. Stagnant Economy – The national recession earlier in the decade affected employers and consumers within the Jamestown region particularly hard.

And, this continues to have an adverse impact on the City Budget, not only from a diminished revenue-generating standpoint, but also from the increased demand on basic municipal (and most notably public safety) services that is directly associated with a weakened economy.

Forecasts and recent signs indicating a deep and sustained downturn in national economic activity during the coming months/years, are cause for grave concern and will undoubtedly have a dramatic impact on city operations, revenues and expenditures during 2009 and beyond.

2. Salaries and Benefits – In conjunction with the City's previously negotiated and approved labor agreements with its various bargaining units, (which include an assortment of lucrative wage and benefits packages, minimum staffing agreements, no layoff clauses, post retirement benefits, etc., etc.), the category of salaries, related personnel and post retirement benefits remains as a major problem/challenge in the 2009 Budget.

Additionally, a number of arbitration decisions (issued over the past several years), courtesy of the New York State Public Employees Relations Board (PERB), have proven to be particularly damaging to our efforts to slow and reign in skyrocketing wage and benefits packages.

The increase in the wage and benefits lines of this Budget is also directly attributed to the flawed and biased system in New York State governing public employee contract settlements, in which **existing agreements simply CANNOT be scrapped**. In other words, the system in New York State dictates that new contracts must be 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.

This increased appropriation in the 2009 Executive Budget has come despite a fairly significant **decrease** in employment numbers during recent years. I would like to again refer you to the attached chart comparing current city employment levels with those of the past.

3. State Retirement System Obligations – Due in large part to the dramatic loss of stock market revenues after the 9/11 attacks, corrective actions taken by the State Comptroller during the past several years and the dollar growth in the City's payroll, there has once again been a substantial increase in the amount budgeted to cover projected, **mandatory** payment obligations to the State Retirement System.

For illustrative and comparative purposes, the City's total State Retirement System Payment in 1999 (for our legally required participation in both the Police/Fire and the General Employees Systems) was \$67,980.

The combined line item allocation for 2009 (which does not include City employees working out of the Board of Public Utilities) is \$2,330,000.

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

The \$4,805,000 allocation in the 2009 Budget is contingent upon realizing savings projected during 2008, which will be “rolled” over into 2009. Additionally, continued substantial savings are projected from the recent changes in both the City's Health and Pharmacy Benefits Plan Third Party Administrators.

During the coming weeks, the performance of the health care fund will need to be closely monitored. **Should it appear that the projected 2008 savings will not materialize, an appropriate adjustment (increase) in the 2009 budget appropriation will need to occur.**

5. Debt Service – Due to recent financing for newly constructed Downtown parking facilities, expenses related to the comprehensive property re-evaluation project, required payments on recently purchased public works and fire department equipment, and long overdue energy related improvements to City owned facilities, debt service payments in the FY 2009 Budget will increase by \$127,520 (5.7%). This will occur despite recent savings from the refinancing, restructuring and retirement of some of the City's older obligations.
6. Fuel, Utilities and Materials – As with private business and family budgets, the City's utility expenses, fuel for its fleet of vehicles and the cost for materials made out of petroleum have all seen **dramatic increases** over the past year and are projected to continue through 2009.
7. Investment in Capital and Equipment – Due to years of poor planning, 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. Due to a variety of other competing needs, previously agreed to obligations and legal mandates, this Budget, unfortunately, will once again fall short and provide an inadequate appropriation for equipment and capital projects.
8. Street Lighting – Due to recent electric rate increases and the installation of additional streetlights throughout the community, the appropriation for operating the City's 3,700 streetlights has increased significantly.

It needs to be noted that the figure budgeted for this line item, \$537,000, was generated in consultation with BPU financial staff.

9. Decline in Taxable Assessment – Despite the completion of several new, private, taxable commercial and residential developments, the City’s total taxable assessment has decreased by \$725,325. This has been entirely driven by a mandated and retroactive tax exemption in accordance with Section 485-B of the State Real Property Tax Law, that was granted to the new Hampton Inn on West Oak Hill Road. Had this nearly \$2 million exemption not occurred (nearly two years after the opening of the hotel), the City would have posted a modest \$1.3 million increase in assessment for the coming year.
10. State AIM Program Payments – During 2009, the City was scheduled to receive the third in a series of increased payments from the State’s Aid and Incentives for Municipalities (AIM) Program, (the State’s attempt to compensate municipal governments for the skyrocketing cost of carrying out State mandated services at the local level and thereby mitigating punishing local property tax rates). This additional payment, which was projected to be in the \$500,000 range, is not being included into this budget plan due to the State’s current fiscal condition. As such, revenues from AIM are being budgeted at the 2008 level. Given the current financial crisis at the state level, this optimistic figure may need to be reduced, pending the outcome of the special session of the Legislature called by the Governor on November 18th.
11. Utility Revenues – Utility revenues have also been booked at 2008 levels. Adjustments in these projections may also be necessary during the coming weeks as additional data is received from the Board of Public Utilities and economic forecasts for the coming year begin to sharpen.
12. Investment Income – A \$50,000 decrease in revenues from investments has been included in this Budget. A further reduction in this forecast may be necessary during the coming weeks pending the performance (or lack thereof) of financial markets at the national and international levels.
13. Sales Tax – An extremely aggressive and optimistic 1.5% increase of \$77,000 in sales tax revenues has been included in this preliminary Budget. This may need to be reduced during the remaining weeks of this Budget process, upon receiving the third quarter payment from the County and the outcome of updated forecasts of national economic performance during the 2009 fiscal year.
14. Cherry Street Parking Ramp Legal Settlement Fund Appropriation – This Budget does not contain an appropriation out of this previously utilized source, as the fund was depleted with the final \$130,000 appropriation during 2008.

FY 2009 EXECUTIVE BUDGET – POINTS OF INTEREST

The following is a summary of some of the points of interest within the Executive Budget, as outlined in greater detail in the attached.

1. An increase of \$40,522 (0.28%) over the amount budgeted for 2008 has been included in this plan for employee salaries. This amount is in accordance with and necessitated by the terms of previously approved labor contracts and Police and Fire impact pay arbitration awards imposed on the City by the State of New York. This increase comes in spite of a decrease in total city government employment during the past eight years.
2. An increased appropriation of \$69,000 (0.80%) for contracted employee benefits.

As previously indicated, health care fund expenditures during the coming weeks will need to be closely monitored. Should it become evident that projected savings during the remainder of 2008 will not be attainable, an appropriate increase in the 2009 Budget allocation will need to occur.

3. Increase in the mandatory appropriation for State retirement system obligations (\$18,000).
4. Increased appropriation for street lighting (\$38,000).
5. Increased allocation for utilities, fuel, and other contractual services (\$305,731 (7.9 %)).
6. Increased debt service payments (Parking Development, DPW equipment, fire truck acquisition and energy improvement projects) (\$127,520 (5.7%)).
7. Decreased appropriation for acquisition and replacement of operating equipment (\$24,785 (-16.6%)).
8. Increased Capital Projects Appropriation (\$196,250).

It should be noted that \$726,732 of the total \$825,000 appropriated for Capital Projects will be provided from State CHIPS funding to the City. The remaining \$98,268, which is allocated for a variety of initiatives (ie: trees, computer upgrades, small capital needs, etc.) is the actual appropriation from City generated funds.

9. The Contingency Account allocation of \$210,000 is \$10,000 more than the amount provided in the FY 2008 Budget. This increase is necessary due to the number of City bargaining unit contracts that will be settled during 2009, and to cover unpredictable increases in energy related products and services.
10. Increased Social Security obligations (\$51,000).

11. Workers Compensation Program Expense – Flat at \$325,000.
12. Increase in revenues from parking violations (\$15,000).
13. An extremely aggressive and optimistic 1.5% increase in Sales Tax Revenues – (\$77,000). See previous comments and conditions.
14. Funding for agency contracts – Flat.
15. Utilities Revenues – Flat.
16. Decreased investment revenues (\$50,000).
17. Increased revenues from the rental of city properties (\$4,000).
18. Increased projected revenues from Downtown parking ramps and surface lots (\$28,000). This increase is contingent upon an adjustment in parking meter rates as recommended in a 2006 study by the City’s Parking Consultant, All Pro Parking Inc. Should approval of this adjustment not occur, this additional revenue must be eliminated from the 2009 Budget.
19. Increased projected revenues from parking meters (\$83,000). See #18.
20. A very reluctant \$300,000 appropriation from the \$1.8 million unallocated General Fund Balance.
21. Elimination of the \$130,000 appropriation from the Cherry Street Parking Ramp Legal Settlement Fund. The final appropriation from this fund was included in the 2008 Budget.
22. State AIM Assistance – Flat at \$4,964,950 (see previous comments)
23. Elimination of Jamestown Civil Service Commission expenses (\$24,550).
24. General Liability Insurance Expenses – Flat.
25. Decreased Parks Department Revenues (\$20,000). This is mainly attributed to a loss of revenue from the Board of Public Utilities, which has pursued other options for tree trimming and other related landscaping services.
26. Increased revenues from street opening permits (\$35,000). This increase is contingent upon action being taken by the City Council to update and increase rates being charged to utility companies and contractors for working within City rights of way. Should approval of this change not occur, this \$35,000 increase will need to be eliminated from the 2009 Budget.

27. Increased total expenditures of \$714,688 or 2.3% over the 2008 Budget. Contracted salary increases, benefits, state retirement obligations, fuel/ utility costs and increased debt service payments **account for all of this increase.**
28. Increase in non-property tax (miscellaneous) revenues of \$227,582 or 1.29% over the 2008 Budget level.
29. A tentative increase in revenues generated from property taxes of \$487,106 or 3.86% over the 2008 Budget level.
30. A tentative increase in the full value real property tax rate of \$0.74 per \$1,000 of assessed valuation, or a 3.97% increase over the 2008 level.

FUTURE ISSUES/CHALLENGES

As I have suggested over the years, a good, honest and realistic budget proposal cannot be developed within a vacuum, but rather, must be created with an eye toward future issues and concerns.

In past Executive Budget presentations, I have repeatedly made the attempt to identify and plan ahead for factors that would be impacting future budgets. 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 FY 2010 and 2011 Budget plans.

- A weakened national and local economy that does not have the capacity to create and sustain jobs, income and an adequate government revenue stream at the local level...while placing increasing demands and undue burdens on government service levels.
- Increasing salary and health care benefit expenses associated with negotiated contracts and State imposed agreements with the City's labor force
- Skyrocketing retirement system expenses
- Reduced State aid payments that are exacerbated by growing State mandates
- Increased workers compensation expenses
- The adverse impact of continued deferred capital and equipment replacement investments
- Further changes by the county in the collection and distribution of sales tax revenues.
- Skyrocketing fuel and utility expenses
- Increased borrowing and debt service payments
- Costs associated with and the lingering impacts (reduced bond ratings, etc.) of expensive post retirement obligations (health care benefits for life) that have been granted to retirees and their dependents through previous labor contracts.
- Costs associated (expensive buyout packages) with employee retirements that are expected to occur in 2010 and 2011.

- Improper utilization of “one shot” revenues and the ill advised draining of our modest fund balance.

NEXT STEPS

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 and assisting in any manner deemed helpful to bring this process to a successful conclusion on or before December 1st.

In accordance with past practice, I would be happy to arrange for a series of meetings with representatives of the various departments to review in greater detail not only what I have outlined in this plan, but to examine from the departments’ perspective their identified needs and the impact of this proposal.

During this review period, we will be receiving additional and/or updated information that may necessitate further attention and 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 2009 plan:

- All 2008 revenue and expenditure lines as of 10/31/09
- 3rd quarter sales tax revenues (due in early November)
- FY 2008 health and dental benefits expenditures as of 10/31/09
- **ACTION RELATIVE TO REDUCTION IN STATE AIM PAYMENTS AND CHIPS ASSISTANCE THAT IS LIKELY TO OCCUR IN THE SPECIAL SESSION OF THE STATE LEGISLATURE NEXT MONTH.**

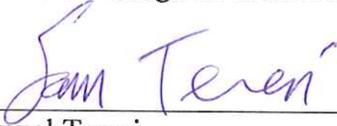
Please keep in mind that this is an extremely tight Budget that is consistent with the principals and recommendations contained within the City’s Financial Recovery Plan developed and presented publicly to the City Council on June 19, 2000. As such, any and all modifications to either the appropriations or revenue lines, with the desire to impact the final tax levy and rate, must be based upon sound fiscal reasoning, solid documentation and generally accepted accounting principals.

In so far as the revenue lines in this Budget are extremely aggressive, I would strongly recommend that any changes to this plan come from the expenditure side of the equation...so long as the proposed cuts are legal and achievable.

Given Jamestown’s history with and past reliance on inflated and unsubstantiated revenue allocations, it is important that we avoid falling back into the trap that once took this City to the brink of bankruptcy and a state control board.

During the coming weeks, I look forward to working with you every step of the way to further improve this Budget. I would again encourage each member of the City Council to conduct his or her own review and feel free to contact me, or any member of the Executive Budget Team whenever questions should arise.

Again, as I have said before, we are all in this together and we must attempt to work as one to insure the development 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.

A handwritten signature in blue ink that reads "Sam Teresi". The signature is written in a cursive style with a horizontal line underneath it.

Samuel Teresi
Mayor

pc: Department Heads