

CITY OF JAMESTOWN



OFFICE OF THE MAYOR

SAMUEL TERESI

TO: Jamestown City Council Members

FROM: Mayor Sam Teresi

RE: FY 2010 Executive Operating Budget and Capital Improvement Program

DATE: October 8, 2009

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 2010.

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 2009 Budget, year to date expenditure totals in each budget category, FY 2010 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 principles, 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 2009 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 next 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 2010 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 nine years, the increase in costs included in this plan would have been significantly greater and potentially devastating. Included for your review is a summary comparison of FY2000 employment totals and current levels by department, as well as a listing of 39 restructuring efforts initiated since January 1, 2000. Collectively, these initiatives have resulted in approximately \$4 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 2008 with its 8th consecutive surplus budget and a final, audited, unappropriated General Fund balance of \$1,844,656. 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 and Dental 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 third party and pharmacy benefit administrators, have helped to contain, somewhat, the appropriation for employee and retiree health care benefits in the FY 2010 Executive Budget.
5. Increased Assessment – As outlined on the attached Budget Summary Chart, the City currently maintains \$676,105,436 in Taxable Assessment. This represents a slight increase of \$166,371 over the amount (\$675,939,065) on which the FY2009 Budget was built.

This modest uptick in assessment represents the 5th increase during the past six (6) years; following a period in which actual declines were posted in 13 out of 15 years.

6. Miscellaneous Revenues – Despite the overall deflating impact of the weak national/regional economy on various non-property tax revenue lines in this budget, several items have actually remained stable or even posted modest increases. In order to attain these projections, however, updates with a variety of fees will have to be enacted by the City Council prior to or in conjunction with the adoption of the 2010 Budget. In each of these instances, fees have not been reviewed and adjusted to counter the increased cost of service delivery in 3-5 years...or longer! Examples include, but are not necessarily limited to the following: fire department services, building permits, parks user fees, site plan review charges, and miscellaneous City Clerk fees.

Overall, however, revenues from miscellaneous services are down by \$195,874 (or 1.1%), (including a \$52,000 projected decrease in sales tax revenues), from the adopted 2009 Budget...a direct reflection of the struggling national and local economies.

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 2010 Budget should remain flat. This runs counter to experience during recent years, in which skyrocketing liability rates were the norm.

Concerns/Challenges

1. Jamestown, New York State and the Nation continue to struggle with the fiscal challenges and implications of the worst national economy since the Great Depression.

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.

Recent national economic forecasts point to either at best, a very slow recovery into quarter 4 of 2010 or a continued, deep and sustained decline in national economic activity during the coming months/years. Either scenario provides cause for concern and will undoubtedly have a dramatic impact on city operations, revenues and expenditures during 2010 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 health care packages, minimum staffing agreements, no layoff clauses, post retirement benefits, etc., etc.), the categories of salaries, related personnel and post retirement benefits, remain a major problem/challenge in the 2010 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.

The increased appropriation in the 2010 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 (following the 9/11 attacks, and the unraveling of the Financial System following the 9/15/08 crash of Lehman Brothers), and corrective actions taken by the State Comptroller (along with the incremental 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 line items in **1999** (for our legally required participation in both the Police/Fire and the Employees Systems) was **\$67,980**.

The combined allocation for **2010** (which does **not** include City employees working out of the Board of Public Utilities) is \$2,730,000 (a 3,915% increase).

4. 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 expenses within the health care industry, the cost of health and dental benefits remains a problem that continues to crowd out other needs and priorities within this budget.

The \$4,914,000 allocation in the 2010 Budget is contingent upon realizing savings projected during 2009, which will be “rolled” over into 2010.

During the coming weeks, the performance of the health care fund will need to be closely monitored. **Should it appear that the projected 2009 savings will not materialize, an appropriate adjustment (increase) in the 2010 budget may need to occur.**

5. 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 experienced **increases**, that must be accounted for and thereby reflected in the 2010 Budget.
6. Capital and Equipment Investments – 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.

The \$107,300 included for equipment replacement in 2010 is actually \$16,815 (13.5%) less than in 2009 and \$41,600 (or 28%) less than the \$148,900 contained in the final 2008 Budget.

7. Street Lighting – Due to recent and pending electric rate increases and the installation of additional streetlights throughout the community, the appropriation for operating the City’s 3,700 streetlights continues to put a strain on the budget.
8. Lack of Retirements – Unlike recent spending plans, this budget contains a noticeable lack of projected retirements during the 12-month fiscal period. In fact, there is only one (1) known retirement at this time, in the Fire Department, for which this budget offers no provisions to replace.

As you are well aware, planned retirements result in the loss of valuable, experienced employees and usually present expensive, contractually provided, “buy-out” packages. However, planned retirements have also provided a welcomed opportunity and means by which to restructure and downsize our operations during recent years.

Unfortunately, it appears that this opportunity will not again exist during the coming fiscal year, placing even more pressure on the FY 2010 Operating Budget.

9. State AIM Program Payments – Revenues from AIM are budgeted at the 2009 level. Given the State’s current financial crisis, this optimistic figure may need to be reduced, pending the outcome of an upcoming special session of the Legislature to address the New York’s current and growing \$3 Billion Budget Deficit.
10. Utility Revenues – Utility revenues are projected to slightly decrease during 2010. 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.
11. Investment Income – A \$150,000 decrease in revenues from investments has been projected 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.
12. Sales Tax – \$5,150,000 in sales tax revenues have been included in this preliminary Budget. This may need to be adjusted during the coming weeks, upon receiving the third quarter payment from the County and the outcome of updated forecasts of national economic performance during the 2010 fiscal year.
13. 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 allocation last year.
14. American Recovery and Reinvestment Act (Stimulus) Funding – This budget plan does not contain any direct Federal Government assistance from what is commonly referred to as “Stimulus Funding”.

As you are well aware, unlike State Governments, County Governments and local school districts, ARRA funding is **not** provided directly to cities to help offset the costs of day-to-day operations.

While the City of Jamestown has pursued and has been successful in receiving funding commitments to assist with specific capital projects (ie: the Washington Street Bridge replacement, 5th, 6th, and Steele Street improvements, wastewater treatment plant upgrade, etc.), funding is clearly **not** available as a revenue source in this budget to offset costs associated with public safety activities, public works services, parks operations, general administrative services, state retirement payments, health care benefits, etc. and thereby reduce the local property tax burden.

FY 2010 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 \$143,567 (0.98%) over the amount budgeted for 2009 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 nine years.
2. An increased appropriation of \$518,179 (5.98%) 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 2009 will **not** be attainable, an appropriate increase in the 2010 Budget allocation will need to occur.

3. Increase in the mandatory appropriation for **State Retirement System** obligations (\$404,509) (17.4%).
4. Appropriation for **street lighting/heating of parking decks** - Flat.
5. Increased allocation for **utilities, fuel, and other material/contractual services** (\$118,261) (2.9 %).
6. Decreased **debt service** payments by \$8,653 (- 0.4%).

7. Decreased appropriation for **acquisition and replacement of equipment** (\$16,815) (-13.5%). This reduction follows an 18.7% reduction during 2009 from the 2008 appropriation.

8. Increased **Capital Projects** Appropriation (\$30,000) (3.6%).

It should be noted that \$726,832 of the total \$855,000 appropriated for capital projects will be provided from State CHIPS funding to the City. The remaining \$128,168, which is allocated for a variety of initiatives (ie: new roof at Diethrick Park, critical storm drainage improvements, trees, small capital needs, etc.) is the actual appropriation from City generated funds.

9. The **Contingency Account** allocation of \$200,000, while equal to that proposed for the 2009 Budget, is actually \$5,311 more than the amount finally included in the FY 2009 spending plan. This marginal increase is necessary due to the number of City bargaining unit contracts that will be settled during 2010, and to cover unforeseen/unbudgeted expenses (ie: storm damage, equipment failure, capital project overruns, etc.) that will occur during the course of any year.

10. Increased **Social Security** obligations (\$31,927) (2.7%).

11. **Workers Compensation** Program Expense – \$320,000, a \$5,000 reduction from the previous budget..

12. An optimistic 1% decrease in **Sales Tax Revenues** – (\$52,000). See previous comments and conditions.

13. Funding for **agency contracts** –Reduced by \$10,100, reflecting no funding increase for the James Prendergast Library and Fenton History Center and the elimination of funding assistance to the Jamestown Senior Citizens Center.

14. Utilities Revenues – \$3,559,000, a decrease of \$13,000.

15. Decreased **investment revenues** (\$150,000) (- 66.7%).

16. A very reluctant \$250,000 appropriation from the \$1,844,656 unappropriated **General Fund Balance**. This amount reflects a \$50,000 reduction from the amount appropriated during 2009. This reduced use of the fund balance represents a step in the right direction to begin weaning the City from this dangerous practice of spending down limited reserves.

17. State AIM Assistance – Flat at \$4,964,950 (see previous comments)

18. General Liability Insurance Expenses – Flat.

19. Increased total expenditures of \$774,439 or 2.49% over the 2009 Budget. Contracted salary increases, benefits, fuel/ utility costs and in particular, increased

mandatory payments to the State Retirement System, **account for all of this increase.**

20. Decreased non-property tax (miscellaneous) revenues of \$195,874 (or 1.1%) compared to the 2009 Budget level. As previously touched upon, in order to attain even this reduced level of revenue, an update to a variety of fees...many of which have not been reviewed or updated in 3-5 years or even longer... will have to occur in conjunction with or prior to the adoption of the 2010 Budget.

Examples include, but are not necessarily limited to the following: billable fire department services, building permits, parks user fees, site plan review charges and miscellaneous City Clerk fees.

21. A tentative increase in revenues generated from property taxes of \$1,020,313 or 7.89% over the 2009 Budget level.
22. A tentative increase in the full value real property tax rate of \$1.50 per \$1,000 of assessed valuation, or a 7.84% increase over the 2009 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 2011 and 2012 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.
- Increased fuel and utility expenses

- 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 2011 and 2012.
- 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 2010 plan:

- All 2009 revenue and expenditure lines as of 10/31/09
- 3rd quarter sales tax revenues (due in early November)
- FY 2009 health and dental benefits expenditures as of 10/31/09

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.**

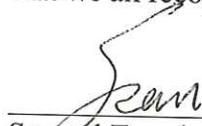
In so far as the revenue lines in this Budget are extremely aggressive, I would strongly recommend that **any changes to this plan come from the expenditure side of the equation**...so long as the proposed cuts are legal and achievable.

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.



Samuel Teresi
Mayor

pc: Department Heads