



May 20, 2011

**TO THE COUNCIL:**

Ladies and Gentlemen:

**RE: Budget Represents Philosophy and Values**

Today I transmit to Rochester City Council the 2011-12 budget for the City of Rochester prepared in accordance with City Charter requirements. This proposed budget continues our priorities of public safety, education, neighborhood and business development, and customer service.

The 2011-12 budget estimate of \$467,098,100 is \$5,302,600 less than the 2010-11 amended City budget of \$472,400,700. While the budget is effectively flat, this small decrease reflects an accounting change made possible by our new financial system.

I submit this budget to you just thirty-five days after being sworn in as the Mayor of Rochester by Lieutenant Governor, Robert J. Duffy. Our nation, state and city are struggling to bring our financial capacities in line with the ever-escalating demands on government resources. The federal government's focus has recently turned to cost cutting, which will have an immediate impact on us. Just two weeks ago, we learned that Rochester will lose \$1.7 million in Community Development Block Grant revenues that would have supported neighborhood revitalization.

Our new Governor is also focused on getting the State's fiscal house in order and returning New York State to a place that attracts people and businesses. Rochester is fortunate to have its former Mayor as the Lieutenant Governor of New York State. I believe that over time, Rochester will benefit greatly from having a friend in Albany who knows our city.

As you know, a budget is more than a book full of numbers. A city budget should reflect its community's values and needs. This is our guiding philosophy. We must find ways to continue services that feed the soul of the community in the face of skyrocketing costs. As tough as times are, we are better served to make the tough decisions ourselves instead of asking for a state control board to manage our affairs.

Rochester is poised for growth and its future holds great promise. Many were stunned that the 2010 Census showed that Rochester is faring better than other upstate cities. More and more people are viewing Rochester as a great place to live and work. We are beginning to turn decline into growth and it is more important than ever before that we manage our way through these difficult fiscal times in a fashion that positions us for future prosperity.



### The Challenge

Simply stated, our projected revenues for 2011-12 did not match our projected expenses. Our projections showed a \$50 million gap that needed to be closed. The gap between revenue and expenses is being driven by:

- The use of \$12 million from reserves last year to balance the budget;
- Skyrocketing increases (29%) in pension costs that are not expected to come down for years;
- An increased demand for capital expenditures due to prior year capital deferrals and reductions;
- A \$2.2 million reduction in state aid;
- A 14% increase in the cost of health insurance;
- Anticipated wage increases for union and non-union employees.

The City's Senior Management Team presented a wide variety of options for me to consider in closing the \$50 million gap, ranging from facility closures to reductions in the public safety workforce. However, input from city residents and stakeholders were just as important to consider before decisions would be made. To that end, four Voice of the Customer (VOC) forums were held, one in each quadrant of the city. It was encouraging to see that so many people in our community got involved, with more than 600 people attending the sessions. In addition, we received hundreds of emails and calls to 311 with suggestions on how to close the budget gap. There were many suggestions that have been combined in a report available on the City website. Prominent among them were not to close neighborhood libraries, not to close the Lyell Avenue Fire Station, and not to close the South Avenue Community Center. VOC participants preferred the deferment of capital projects, wage freezes and a reduction in highly paid positions. There was also evident a willingness to accept citywide reductions in service hours and other reductions without complete facility closures that would impact specific neighborhoods. In some cases, people were willing to pay directly for things they particularly valued. I believe that the VOC process was extremely valuable because participants came away with a better understanding of our financial issues and the difficult choices we are faced with, while having the opportunity to provide their input to us.

There are many difficult decisions included in this budget proposal, but I am **not** proposing to close a library, firehouse or a recreation center. Here, in some detail, is what I am proposing to do.

### **Closing the Gap**

In summary, the \$50 million gap was closed by:

#### Actions Previously Announced:

- \$15.9 million -- Reduction in planned capital spending;
- \$2.8 million -- Midyear budget reductions enable creation of a Tax Relief Fund;
- \$1.3 million -- Federal revenue received as part of national health care reform.

#### Further Actions Proposed:

- \$16.2 million – Departmental reductions and efficiencies;
- \$5.5 million – Revenue from proposed tax and fee increases;
- \$4.4 million – APT wage freeze for 2011-12, performance incentives eliminated and anticipated police and fire wage agreement;
- \$3.9 million – Use of reserves.

To address dramatic increases in pension and health insurance costs and a reduction in revenue, the City must restructure its workforce. This needs to be a permanent structural change while preserving the City's capacity to function, and as such it must be approached strategically. Unlike in the past, there must be a balanced impact on all departments and positions, both senior and junior, if we are to maintain a balance of services. Even with this balanced approach, simply laying off people under the mandatory last in-first out rule will disproportionately impact the newest employees, many of whom, particularly in our public safety workforce, are minorities. To address this issue, I am proposing for the first time in the City's history to offer a retirement incentive to the most senior City employees. It is my desire to use the incentive to enable us to reduce layoffs in all Departments, allow us to bring in new police and fire recruit classes and improve workforce diversity. The cost of the incentive is anticipated to be approximately \$7.4 million, will be funded primarily by the City's retirement reserve and is not included in this budget proposal. I intend to submit a budget amendment to Council in November once we know the number of employees taking advantage of the incentive.

We cannot minimize layoffs or avoid closing some of our libraries, recreation centers and firehouses without assistance from our employee unions. We need to work together and they need to moderate their demands in order to address our common financial challenges. This challenge is first presented by our police and firefighter unions that have been without a contract for three years. I am pleased to report that we have reached agreement with both unions to settle the past years on reasonable terms and agreed to terms for a 1% wage increase in 2011-12 and in 2012-2013. We have also settled a number of outstanding grievances with the police union and several other outstanding issues with the firefighters' union. The payment of the lump sum representing the three past years of the contract (8.7% compounded total increase), along with the retirement incentive will help to motivate more senior people to retire and assist in maintaining the balance in our workforce discussed above.

At a time when it seems fashionable to attack public employee unions for causing and failing to recognize their role in addressing the financial problems of government, it is gratifying to see the City police and firefighters' unions have stepped up to take their share of the responsibility. Their cooperation has not only helped to mitigate the employment impact on their members, but also to preserve the services we provide across the City. I look forward to this development as a new beginning where we all recognize that our individual success depends on the overall success of the City.

Our non-union, APT employees have also been without a cost-of-living pay adjustment for 3 years. Now that all of the union contracts have been resolved, I believe fairness requires that some adjustment be made. I am proposing that we grant a single 4% increase effective July, 2010, that the performance incentive be eliminated, and that wages not be increased this year. This will save \$1.8 million, and when combined with the impact from the police and firefighter union agreements, we will further reduce the need for layoffs and facility closings.

## **Employment Impacts**

You will see in this budget the elimination of 196 full-time positions including the 52 overhire positions in police and fire that were designed to maintain staffing levels. 56 new positions were added to the budget, 41 of which are funded by grants and other non-City sources. Existing vacancies will reduce the number of layoffs required to 79. The proposed total full-time workforce of 2,719 would be the lowest in the City's history. All Departments and many management positions are affected. We anticipate that through the combination of the existing hiring freeze and the retirement incentive, we will substantially reduce the currently estimated 79 layoffs throughout all Departments.

The Police Department will be decreased by 51 officers, including 36 overhire positions. Considering the current vacancies, this could result in 26 layoffs. The authorized complement will be 726, which is equal to the complement in 2006-07, and is higher than any year prior to that. The Fire Department's complement will be decreased by 28 positions including the overhire of 16 positions, for a total complement of 476. This could result in 12 layoffs. The combination of the wage settlement and retirement incentive is expected to substantially reduce, if not eliminate, the need for layoffs in these Departments by mid-October, when they would become effective.

## **Property Taxes and Burden**

In order to maintain core City services, this budget proposes to increase the property tax levy by 2%. This would be within the tax cap proposed by Governor Cuomo, were it to be in effect. Our VOC feedback indicated that many people agreed to modest tax increases if it meant saving programs and services they care about. A state mandated adjustment between the homestead and non-homestead classes further increases the burden on the homeowner by 0.8%, resulting in a combined 2.8% increase in the homestead tax rate. The typical homeowner's tax burden increases by \$36.28. The non-homestead tax rate increases by 1.3%. Also, the state-mandated Maintenance of Effort (MOE) removes my ability to reduce the City School tax levy which accounts for 71% of the total tax levy. The City is left to fund such vital government services as police, fire, libraries, recreation centers, and city infrastructure with just the remaining 29% of the total tax levy.

## **New Fees**

In addition to raising revenues through property taxes, I am proposing to raise fees in certain areas to protect the services our community cares about. This budget includes the implementation of a \$3 charge for parking at Durand Beach and a \$2 charge for admittance to the Party in the Park concerts downtown. Voice of the Customer input indicated these fees would be acceptable to the users of these services. I also propose to raise the maximum fee for special event parking from \$4 to \$5.

## **Self-Supporting Enterprise Funds**

To pay for federally mandated improvements to our water reservoir system, I am proposing a 4% water rate increase. This translates into an extra \$12.67 per year for the typical homeowner. The full impact of debt services associated with these improvements may result in even further rate increases in the future. The Water Bureau was able to implement \$500,000 in new efficiencies to limit the impact on rate-payers.

We are also proposing to increase the local works rate to pay for increased pension and health care costs. This will cost the typical homeowner an additional \$10.64 annually.

No changes are proposed in residential refuse fees, while a 3% increase in commercial refuse collection rates is included.

The overall financial impact to a typical city homeowner of the proposed tax and fee increases is \$59.59 per year, or \$4.97 per month. We believe this is a fair balance between the tax burden and the level of City services provided, including the continued operation of City recreation centers and libraries.

Now let me share more details of my budget proposal in each of our four priority areas:

## **PUBLIC SAFETY**

### Enhancements:

- The final phase of the preferred fire response method (quint/engine) is implemented:
  - One Quint/Midi station converts to Engine 2-N. Clinton Avenue;
  - One Quint/Midi station converts to Engine 9-N. Goodman Street;
  - Truck 6 is added at the Hudson Avenue Fire Station.
- The installation of 30 new overt police surveillance cameras are funded in this budget at a cost of \$579,000. We anticipate at least 150 cameras will be operational by the end of June 2012.
- A new police recruit class is anticipated during the year made possible from savings created by the early retirement incentive.

### Reductions/Deferrals:

- 51 police officers positions are being eliminated by mid-October 2011-- hopefully through attrition -- as senior officers take advantage of the early retirement incentive. This reduction will save \$3.7 million.
- 28 sworn firefighter positions are eliminated due to budget constraints, saving \$1.9 million. This includes the elimination of an overhire of 12 firefighter positions, saving \$991,200 and the elimination of 4 Battalion Chiefs and 1 Deputy Chief position, saving \$700,000.

### Efficiencies:

- Security in City-owned parking garages transitions from City personnel to contract services, saving \$175,000.

## **NEIGHBORHOOD AND BUSINESS DEVELOPMENT**

### Enhancements:

- Capital funds are provided for necessary public infrastructure improvements at the Midtown Rising Project, enabling PAETEC to build its new corporate headquarters downtown.
- Capital improvements continue to be funded in Focused Investment Strategy (FIS) neighborhoods to stabilize and strengthen the city.
- \$3 million in demolition funding is provided to remove vacant structures from city neighborhoods.
- An increased capital investment of \$500,000 for improvements to the Gantt Community Center will be combined with an existing \$1,350,000 already raised through state, private grants and City funds.
- A 311 bilingual service representative is transferred to the Northwest Neighborhood Service Center to enhance customer service.
- A new Geographic Information System (GIS) position is funded to help drive future efficiencies and improve customer service at a cost of \$68,000.

## **NEIGHBORHOOD AND BUSINESS DEVELOPMENT (cont.)**

### Efficiencies:

- The City's Planning and Zoning Unit is restructured, saving \$228,300.
- The Northeast Neighborhood Service Center will be listed for sale and staff will be consolidated into a City-owned facility to drive future efficiencies. Anticipated revenue from the sale is \$226,000.
- Late in the fiscal year, the Southeast Neighborhood Service Center will be listed for sale and staff will be consolidated into a yet-to-be-determined City facility. The anticipated revenue from sale will be received in 2012-13 fiscal year.

### Reductions:

- Deferral of major Bulls Head demolition and a new police station until 2016-17 saves \$7 million.
- Deferral of planned improvements to Manhattan Square Park until 2013-14 saves \$2.8 million.
- Deferral of Seneca Avenue reconstruction until 2013-14 saves \$2.6 million.
- Deferral of the Broad Street aqueduct redevelopment project due to lack of federal funds saves the City \$1 million.
- 5 full-time positions are eliminated in the Business and Housing Division saving \$279,800, but reduce our ability to attract investment in some measure.
- 6.7 full-time equivalent code enforcement positions are eliminated. This will save \$330,500, but result in longer response times for code complaints.
- Less sponsorship will be provided for local development events, saving \$29,800.

## **EDUCATION**

We provide the City School District with \$119.1 million per year, which is approximately \$50 million more than the City of Buffalo provides its larger district. Far too few of our children are being properly educated in Rochester's public schools today. I will seek to build community support to place the educational achievement of our children first.

Given our generous support to the school district and our difficult fiscal situation, this budget cannot afford to fund new enhancements that support education. However, most of our infrastructure to support children remains in place. Again, I am not proposing to close a branch library or a recreation center. This budget maintains the literacy enhancement initiated in prior years' budgets. Our libraries are experiencing a renewed energy that is being driven by our staff and literacy aides working in the communities in which they live, and families who desire to learn and improve their well-being.

### Enhancements:

- A fee-based After School in the Parks program is initiated at Norton Village at a cost of \$63,800.

## **EDUCATION (cont.)**

### Reductions:

- Downtown Central Library hours are reduced from 61 hours to 51 hours per week due to state aid to the library system and Monroe County funding constraints. Library personnel are reduced as well. The total savings is \$461,800.
- Funding for the Hillside Work Scholarship Program is reduced by 75%, saving \$300,000.
- Enhanced library service hours at the Sully Branch are reduced from 70 to 40 hours per week, saving \$41,600.
- The planned restart of the bookmobile is not funded, saving \$50,000.

## **CUSTOMER SERVICE**

### Enhancements:

- Increase the number of sidewalk snow plow runs by 8 on arterial routes to improve safety of pedestrians at a cost of \$198,100.
- A \$250,000 state grant for Summer of Opportunity creates new summer youth jobs.
- An Office of Energy and Environmental Sustainability is established with existing staff to monitor the City's energy usage, greenhouse gas emission, City's Climate Action Plan and energy and sustainability grant applications.

### Consolidation Budget Highlights:

- The Parks and Forestry Divisions in Environmental Services are consolidated into the Special Services Division resulting in personnel savings of \$285,900.
- The 311 Call Center is consolidated into the management structure at 911 and an automatic voice response system is implemented for initial screening of 311 calls, enabling personnel reductions for a net savings of \$471,700.

### Efficiency Budget Highlights:

- The hiring freeze enabled benefit reduction from the elimination of vacant positions, \$680,900.
- A new City financial, purchasing and contract management system will be launched in the first quarter of the fiscal year, enabling personnel savings in the Finance Department and Budget Office in the amount of \$344,200.
- A new energy supplier agreement and energy efficiencies will save the City \$185,100.
- Roadway snow inspectors will be responsible for both roadway and sidewalk inspections enabling a reduction in overtime of \$20,000.
- The subsidy for the Riverside Convention Center is reduced by \$106,000.
- Personnel and energy efficiencies in the Water Bureau, combined with a lowered exchange rate

with the Monroe County Water Authority, enables a \$549,100 savings.

- New printer and copier standardization and consolidation will reduce costs by \$260,000.

Reductions:

- Reduction in workforce reduces benefit cost by \$1.4 million.
- Reduce the Mayor's Office staff and expenses by 20%, saving \$439,100.
- Deferral of new payroll system reduces professional fees saves \$300,000.
- The older, portable stage called the show wagon will be auctioned off this fall eliminating its availability for community groups. One City show wagon will remain to support City-sponsored events. This action saves \$200,000 in capital replacement costs.
- Reduction in the Pathways to Peace staff and program saves \$169,100.
- Increasing the level of new snowfall from 3" to 4" before there is a sidewalk snow plow run response will save \$135,400.
- Funding for the Omnium bike race is eliminated, saving \$110,000.

Conclusion

As far-reaching as all of these changes are, they are still only a start in the way we will restructure our financial circumstances and the way in which we render services. This task can no longer be only an annual budget exercise. It must be an on-going process throughout the year and I intend to start immediately after this budget is approved. The changes cannot only be internal, as we must find ways to collaborate with other governments to consolidate and make our services more efficient. For some issues, such as high mandated payments to the school district, low state aid and high state mandated pension payments, we must look to the State for action.

As I begin my first year in office, I look forward to working together with City Council to develop a multi-year plan for the future that is shaped by a fine balance between our desires and our resources. We have done our part to put Rochester on solid financial footing, but we desperately need major pension reform, mandate relief and our fair share of state aid.

Despite our enormous fiscal challenges, I envision a growing and successful, albeit different economy emerging for our region and our city. We must continue to make investments that will position the city for future growth while at the same time make structural financial changes.

I look forward to your review of the 2011-12 proposed City budget and I commit to being responsive to your questions and concerns.

Respectfully submitted,

Mayor Thomas S. Richards