

Transcript: 2012-2013 Budget Presentation Address
Mayor Thomas S. Richards
May 18, 2012



Good morning and welcome to City Council Chambers and to those of you watching on City 12. This morning, I am presenting for City Council's consideration, my proposed fiscal plan for our city in 2012 and 2013.

I would like to start by recognizing our Budget Director -- Bill Ansbro -- and his team for the work that has gone into preparing and presenting this budget. Whether you like its contents or not, you have to recognize the work required and the thoroughness of the presentation. We can proudly compare the quality of this document to any municipal budget anywhere. Bill and the Budget team -- please stand -- and Bill, please introduce the members.

As I have said before, a city budget is more than balanced numbers. It is a statement of aspirations for the City. The important balance that we strike is not in numbers, but in services, programs and facilities. We balance police officers, firefighters, libraries, recreation centers, roads, refuse collection, festivals and many other things.

The significance of the balance is not found in money, but in the quality of life we can deliver to our citizens.

This budget contains our best thinking; the wisdom of our Voice of the Customer citizens' participation and our resolve to not let others decide our future and make decisions for us.

Looking around New York State, I see cities that are losing the option to make their own decisions. The loss of financial capacity and flexibility is forcing bad decisions on them. That is not what I intend for our city and not what this budget delivers.

This a budget built on the restructuring and investment strategies of last year's spending plan. With the cooperation of our unions, we stood up to the challenge of a \$50 million dollar deficit last year with an early retirement program that helped to reduce our employment by almost 200, along with a number of other reductions and efficiencies. It was difficult, but we resisted the temptation to put off the hard choices, as some would have us do. As you will see in this budget, it has already paid long term benefits.

This is a budget buoyed by a one-year cash influx from New York State. It is a great help this year and we appreciate the assistance of the Governor, Lt. Governor and Legislature. We hope that it is a precursor of a permanent solution to Rochester's need for a fair share of state aid. If it isn't, we will start out next year with a \$16 million contribution to our deficit. I appreciate the work of the Community Coalition and the media partnership that has kept up the drumbeat on this issue.

This is a budget that benefits from a combination of factors in the current year -- an increase in sales tax revenue; a mild winter; and good management of overtime and other factors -- that will produce a surplus this year that can be used to address the deficit next year.

This is not a budget that completely solves the long-term, structural imbalance that threatens the city's future. The challenge that I spoke of in my State of the City address remains. We must change the way cities like ours are financed.

As I have said repeatedly, long before cities become financially bankrupt, they become culturally and socially bankrupt.

Long before we see massive reductions in police and fire personnel -- as is occurring in some places in New York and elsewhere -- we see the loss of things that make city and urban living attractive. Recreation centers, libraries, festivals and events, neighborhood revitalization efforts -- all fall victim.

I am pleased to report that the budget I present today does not start us down that road. We will continue to invest in our community; its cultural and social well-being, as well as its infrastructure, public safety and economic future.

We will do it while preserving our flexibility to address an uncertain future, so that we can both manage and invest in that future.

Budget Highlights

- No Tax Levy Increase
- Homeowner Tax Rate Decrease
- Avoid Borrowing for Pension
- Use \$3.5M Reserves
- Keep Current Facilities Open

I am presenting to Council today a budget that will not only stay within the 2% property tax cap, but not raise the tax levied on our citizens. By not increasing the levy, and with a 4.3% increase in property values, the homeowners' tax rate will decrease by 3.6%. Avoid -- at least for another year -- the need to borrow to pay for our escalating pension mandate. Use only \$3.5 million of our reserves to give us confidence that we can afford the expenditures we are making without eliminating the flexibility to address our challenging future. Maintain the number and hours of operation of branch libraries, recreation centers and neighborhood service centers;

Public Safety: RPD



For our Police Department: maintain the mounted patrol; purchase 50 additional vehicles, making a total of 100 over two years; fund the downtown Police District; continue to authorize promotions to maintain supervision levels; and -- most important of all -- authorize a new recruit class of up to 25 individuals to maintain the complement, with what we believe will be the highest level of minority participation in the history of the force.



For our Fire Department: fund 2 new fire trucks that will bring the total in two years to 9; fund the replacement of individual firefighter turnout gear and breathing apparatus; maintain officer positions to continue supervision and safety responsibility; and again -- most importantly -- authorize 2 new classes of between 12 and 15 recruits each; one in August and one in February to maintain the complement and balance the staffing throughout the year, again, with what we believe will be the highest level of minority representation in the history of the Department.



Here is what's new in this year's budget. Enhancements include: Provide grants and loans to benefit small businesses in neighborhoods to help spur investment, job creation and commercial corridor revitalization, \$500,000; Launch GIS initiative, \$181,000; Increase funds to maintain more vacant properties taken in foreclosure by the city in anticipation of demolition, \$159,700; Increase part-time staffing in Recreation to provide additional coverage at events and programs, \$116,600; Fund joint City School District/City Truancy efforts, \$100,000; Enhance staffing at the Northeast Neighborhood Service Center, \$57,100; Study service delivery to youth

by DRYs and the School District, \$50,000; Enhance our Community Outreach and Fire Prevention Education Program, \$37,700; Expand number of participants in Americorps program, \$18,900.



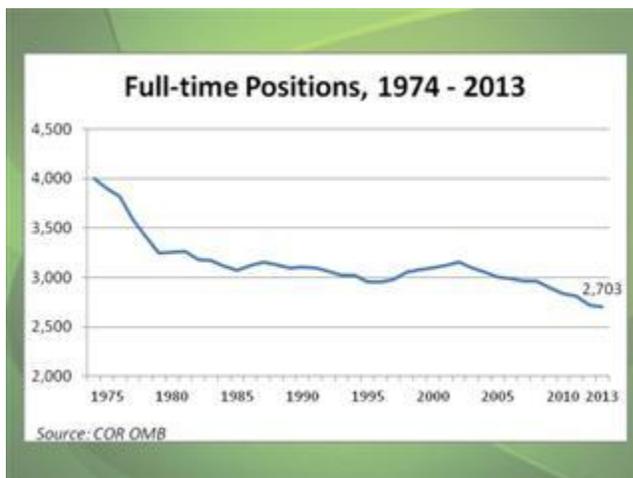
This budget supports a total Capital Improvement Program for this year of \$70.2 million, funded with \$27.1 million in debt and \$36.3 in cash, with the remainder from federal, state and local grants. The Program will include: Improvements to the water system, \$10.6 million; Demolish 315 vacant structures this year, with more in subsequent years through the commitment of \$9.4 million, the most ever dedicated to demolition; Continue the development of the new Marina at the Port, \$8.5 million; Improve our city streets through residential street rehabilitation and our milling and resurfacing program, \$5.9 million; Additional transportation funding, such as bridge repair, arterial streets, and street lights, \$4.5 million; Complete the infrastructure at the former Midtown site and the redevelopment of the former Midtown Tower, \$4.3 million; Funding for our continued commitment to the Focused Investment Strategy neighborhoods, \$2.6 million; Replace hazardous sidewalks and improve accessibility to the disabled, \$2.4 million.



Funding for the purchase of 50 new police vehicles, \$2.3 million; Funding for the purchase of two new fire trucks, \$1 million; Replace the Genesee Valley Ice Rink slab, \$1.2 million; Matching funding for construction of Public Market Winter Shed, \$1 million; Funding for homeownership and market rate housing, \$900,000; Design of new streets and sidewalks for the new College Town development, \$450,000; Design and construct on-street bike lanes, \$239,000; Purchase of new play apparatus at recreation centers, \$200,000.



We did not get to this budget without some expense discipline. There have been expense reductions throughout all of the City departments and we have managed to hold the overall increase of the budget to 2%; despite the substantial increase in pension and health care costs.



Total employment will be reduced by 16 full-time positions, some of which are attributed to grant programs that have already ended or are otherwise vacant, leaving the possibility of 6 layoffs; a number we expect to be considerably reduced as other vacant positions are filled.



The City's full-time employment will decline to 2,703, the lowest level in 40 years.



The wage increase is held to 1% for all employees, consistent with the terms of the existing police and fire contracts.



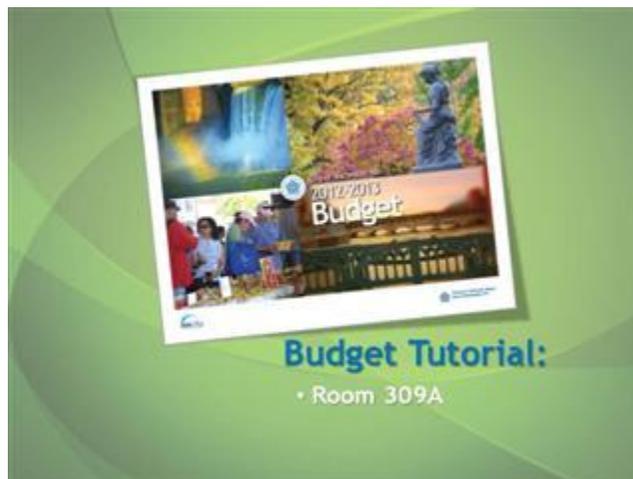
We have proposed increases in water and local works charges and some fees and fines to be paid by those who incur the costs, rather than by everyone.

Typical Homeowner Cost

	Current 2011-12	Proposed 2012-13	Change
Taxes	\$1,346.68	\$1,352.40	\$5.72
Water	\$329.43	\$340.96	\$11.53
Refuse	\$359.00	\$359.00	\$0.00
Local Works	\$209.84	\$214.04	\$4.20
Total	\$2,244.95	\$2,266.40	\$21.45

This slide summarizes the impact of freezing the tax levy and the local works and water increases.

You can see the bottom line is an additional \$21.45 annually, or a one percent increase in burden for the typical homeowner.



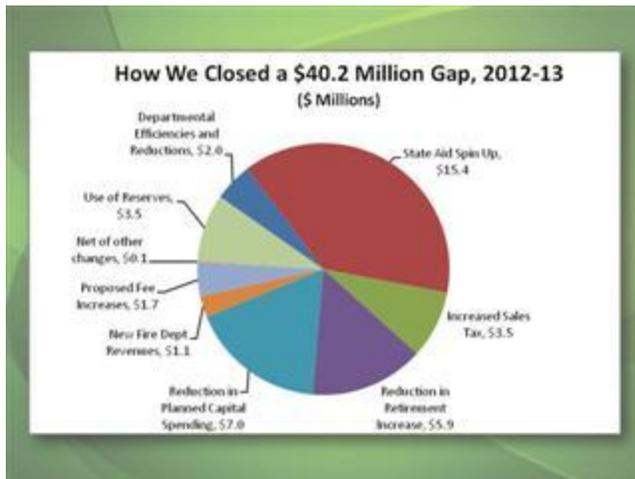
There a number of details and specifics that are in the Budget Book released today and that will shortly be available on the web. Our Budget Director, Bill Ansbro will be available for a budget tutorial for the media in room 309 after I conclude.



I would like to take the remainder of my time this morning to point out some themes and principles that I consider important to understanding this budget and the City's financial situation.



As I discussed in the State of the City, despite our best efforts, the structural deficit faced by the City will require assistance from the State to provide a fair a share of aid. However, it will also require efforts by us to bring our expenses in line with our ability to afford them.

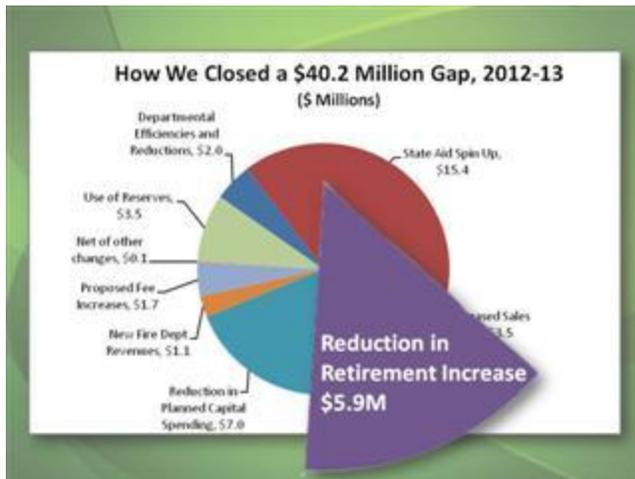


Before I continue my discussion of our future fiscal challenges, let me pause to let you review this pie chart showing how we closed the \$40 million gap.

Controlling Expenses

- Early Retirement Program
- Last Year's Staff Reductions
- Moderate Wage Increases

There are things we can do. They will have an impact; and there is a good example this year. Last year, we reduced our overall employment by almost 200 people, largely through an early retirement program. This reduced our compensation costs -- but almost as importantly -- it reduced our obligation to pay into the retirement program for those people and -- because it accelerated the retirement -- eliminated that payment for last year, as well as years to come.



The impact of this staff reduction -- along with a moderation in wage increases -- has resulted in a reduction of the projected pension increase of \$5.9 million. The total increase was still \$17.1 million -- a punishing 55%. Nonetheless, it is a considerable help this year and will stay with us.



For example, when we hire new police officers who will be in the new Tier 6 of the state-mandated pension plan, we anticipate a reduction in annual expense of approximately \$12,000 an officer.

It is changes like these that make it possible to avoid laying people off to pay for the benefits of those who remain and, instead, do the hiring that we propose this year to maintain the complement of police officers and firefighters.

It is also why we need to resist the advice to put off these actions, spend our reserves and hope for the best after it is too late to reap the benefit. We will need to do more things like this.



I have resisted increasing taxes, even though we could have done so under the state-imposed cap of 2%. Some will challenge this decision in light of the continued reduction in employment and expenses throughout the city. They say, "If it is there - - take it – follow the path of least resistance."

The history of tax rate increases in upstate New York contains a cautionary tale. As the tax base has grown only modestly -- often less than inflation -- and in many areas declined, we have chased the money with rate increases.

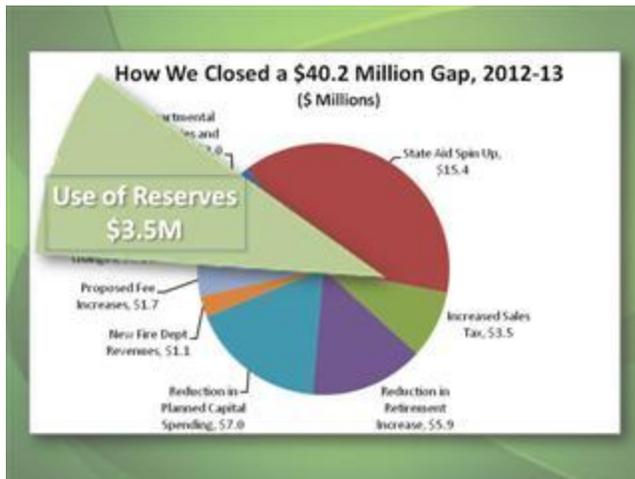
The highest rates are in the places with the lowest property values. A study conducted by the Empire Center for New York State Policy highlights that the highest rate in the State is in Binghamton – (\$52.34 per \$1000 of assessed value) -- hardly the place that can afford it. We are better, but not far enough behind (\$37.59 per \$1000).

This is a race to the bottom – a race to make ourselves permanently uncompetitive.

We have seen a turnaround in our property values in the last 5 years and a sure way to choke it off is to tax it at increasingly high rates.

This is not a solution in any case. A 2% increase in our tax rate only produces \$3.2 million in addition revenue. It punishes our citizens and does not solve the problem. We need to wean ourselves from these tax increases and find other ways to fund our cities.

I cannot promise that we will never raise taxes -- that will depend on the choices that our future brings -- but we do not need to raise taxes this year.



I have proposed to draw only modestly from the City’s existing reserves -- \$3.5 million -- certainly less than what is available. As with the tax levy, there will be those who say, “Why?” “It is available, why not take it?” Most of our reserves are pledged -- or legally restricted -- to purposes that make them unavailable to bail us out of deficits. Nonetheless, we could use more. This ignores that our biggest challenges lie in the future and to spend reserves now reduces our flexibility and potentially destroys our credit rating and capacity to borrow. That is exactly what has happened to other municipalities in New York and elsewhere.

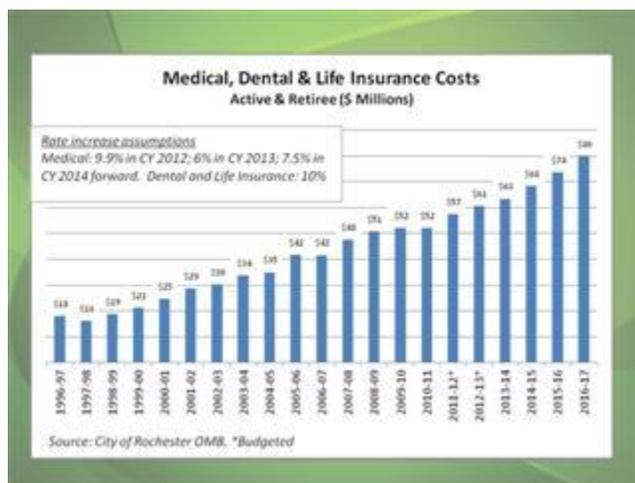
There is a principal of which we need to be mindful in this discussion of tax capacity, reserves and spending. We need to resist the approach that says, “you should tax if you can and spend reserves if you can, until you can no longer do it and then hope for a bailout from the State -- and if that doesn’t come -- lay off hundreds, drastically cut services and blame the last guy.”

Bad as it sounds, it has happened in several places in New York this year.

“Our escalating government expense base has collided with our capacity and willingness to pay for it.”

Remember the definition of the structural deficit that we face: “Our escalating government expense base has collided with our capacity and willingness to pay for it.” There are two parts to the definition “capacity” and “willingness.” This means that we should not spend it just because we have it at this moment. Beyond prudence, this starts with the truth that the money does not belong to the employees, the unions or Tom Richards. It belongs to the people and they are already overburdened. This should not be taken to mean -- and I am not one who believes -- that government expenditures are bad or inherently suspicious.

I am a believer in the good that government can do and -- particularly in places like Rochester -- must do. You will see evidence of that all over town and everywhere in this budget. It is because I am a believer in the capacity of government to do good. That I am willing to work hard to preserve that capacity. We need to look beyond the present or the next political cycle and exercise some discipline in the interest of the good that government can do.



There is an example of that discipline in this budget in the cost of health care benefits for City employees that will be difficult for some to accept.

Currently union employees make no contribution to the cost of a family core health care plan -- which provides good coverage -- and are provided a Health Reimbursement Account (HRA) of between \$475 and \$800 annually at no cost. This was the result of an agreement that led to the selection of a single provider and substantial savings. It was fair when it was made, but it is unsustainable and out of step -- not only with the private sector, but the rest of the public sector as well.

Non-union employees have arrangements that vary -- largely with the length of employment -- requiring contributions to a family core health plan ranging from almost zero to 10%. They are provided a HRA of \$700 at no cost.

I cannot in good conscience recommend raising taxes to sustain this level of benefit or using reserves only to compound the problem in the future. As provided in the current union agreement, beginning January 1, we will implement a cost-sharing policy under which all active employees, union and non-union, will be responsible for paying one-half of the amount of any insurance premium increase. For this year, the increase is capped at 12%. The HRA will no longer be funded by the City. We estimate that the cost saving for half of the year will be \$2.7 million. Despite this saving, the City's cost of health care will still increase by \$3.5 million for active and retired employees.

This is not an attack on anyone's benefits, but quite the opposite -- a recognition that good benefits are important -- important enough that we had better figure out how to afford them or -- as has happened in other places -- lose them. We do not have to lose reasonable benefits unless we insist that nothing can change. We need to start thinking about this issue differently.

What we want has to be measured against what the taxpayer can afford. Fair in this situation is a concept that measures impact on the employee and the taxpayer. We need to work together: City, employees and unions to develop plans that preserve the importance of the benefits with affordable costs.

This means being open to adjustments in benefit terms; higher employee contributions and co-pays; adjustments in employees contributions that relate to income, rather than seniority; options that allow employees to choose a level of benefit while paying the true cost; and there may be others.

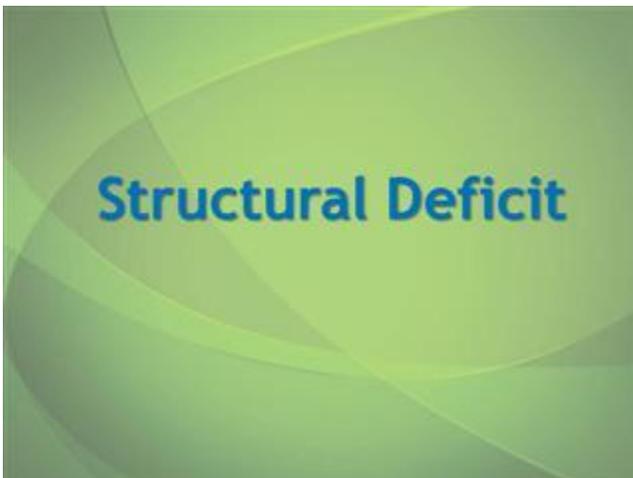
There are plenty of examples of the tragic results of refusing to face up to this reality. There is an existing labor/management committee from which a new Memorandum of Agreement on health care may emerge that is working to address this issue. It is being led for the City by Deputy Mayor Len Redon. It was the group that produced the last agreement to the mutual benefit of the City and its employees. I am hopeful that it will address this issue successfully again.

In my State of the City address, I stated some principles that I applied in preparing this budget.



As a first principle, public employees are not demons committed to our destruction. I can tell you that they are -- by-and-large -- as hard-working and committed as anyone. Some take incredible risks on our behalf. City workers find themselves in a system that needs to get more productive and efficient. There are ethical issues with respect to the benefits we have promised workers and we cannot simply walk away from this commitment. Reasonable benefits are important and it is my goal to figure out how to save them. Nonetheless, there will have to be some changes. If we don't get control of the system, there is a real danger of the innocent getting shot along with the guilty.

It is not a matter of finding fault. It is a matter of dealing with the problem that we must admit we all have. Government is not the gift that keeps on giving. It can break and when it does, we will all get hurt. I have applied this principle in preparing this budget.



As a second principle, there is a legitimate structural problem that won't go away by arguing over bits and pieces of it.



Even differences of millions of dollars -- while important in the short run -- will not change the ultimate course we are on. As promised, I have tried my level best to mitigate the immediate impact, but attempts to avoid the truth will not solve the problem. I have applied this principle in preparing this budget.



As a third principle, we need to have the fortitude to make decisions now that preserve our flexibility and stability in the future. Through the good offices of people whose stewardship of the City that has preceded us, we have accumulated some reserves. We have been using some of the reserve for several years and will use more this year.

However, I will not follow the advice to resist expense control until our reserves are exhausted. I have applied that principle to this budget.



As a final principle, I intend for this city to thrive. We have challenges, but we also have resources. We are stable financially and I intend for us to stay that way even though we need to work at it. We have resourceful, capable people. We have educational, cultural and not-for-profit institutions that are the envy of any city our size. And in the face of difficult national and regional times, we are making progress. The situation in which we find ourselves and the principles that I have described point to balance and change; but they do not point to pulling back. Not for our city. Not for Rochester. We need to keep on investing by focusing and finishing. We need to continue to pursue our goals of economic development, public safety; and education.



In the State of the City address, I gave you the state of the city that is stable, strong and moving forward despite expected and unexpected challenges. And with ample reasons for optimism. I said that this is the way I intend for it to stay. Today I give you a budget that implements that commitment. A budget for a city that intends to thrive.