November 1, 2012

Dear Honorable Members of the Niagara Falls City Council:

Today I present to you the recommended Municipal Budget for the City of Niagara Falls for the 2013 fiscal year. As you know, the date of presentation of this year's budget was delayed from the normal October 1st presentation date while we worked to try to minimize the negative effects of a very difficult and unprecedented situation. I thank the Council for their patience, and hope that as the presentation goes forward, Council will recognize both the extreme nature of the circumstances being addressed and the huge amount of effort expended by a lot of dedicated and creative people to try to minimize the damage. I assure Council that, as unpalatable as some of the measures presented here may seem, the overall package is a far better and less painful product than what we started with in late summer and early fall.

Our goals in this process have been three-fold. First, to safeguard our ability to deliver the most vital City services to our residents even if this requires sacrifices in other areas. Second, to protect, as much as possible, the jobs of our dedicated City employees, who have done nothing but work faithfully to serve the public. And third, to minimize taxes for the residents and businesses who foot the bill.

Over the last several years, the City has charted a course designed to provide the highest possible level of services while creating conditions required for future economic growth. We fully concur with Governor Andrew Cuomo's assessment that "New York has no future as the tax capital of the nation," and so we have worked tirelessly to keep expenses and thus taxes down. At the same time, we have made certain that we keep making the investments needed in infrastructure and economic development to ensure future job creation and business formation. We have scored some notable successes in spite of the effects of the recession that began to set in in only the third month of my administration, and kept key projects, with big payoffs in jobs and investment, moving forward to completion.

Through sound fiscal management and self-imposed discipline, the City succeeded in preserving financial stability through the last several years in spite of a great deal of turbulence in the State and National economies. Looking into an uncertain future, we began a series of austerity measures as early as late spring of 2008.

Throughout the first several years of my administration, we were able to control and in some cases reduce spending in the current budget year, generating fund balance to be re-appropriated for subsequent budgets. Through much of 2010 and 2011, we operated under a spending freeze, avoiding non-essential spending across budget account lines and trying to hold the line on upgrades and raises even when we knew they were well-deserved; that strategy was employed again in 2012. For several years, we built up Special Project Fund balance, created initially to fund critical projects in the face of declining State AIM aid. For example, we avoided budgeting non-recurring revenues like street sales and instead took the revenue to fund balance. We generated over $10 million in savings through 2009 and 2010, so that even after using part of the funds for major paving and other capital projects, we started 2011 with approximately $20 million on hand to deal with emerging threats. Confident as recently as last November that a resolution to the casino revenues impasse was imminent, we resolved to use these funds to cover for the missing casino revenues in paying debt service or bills for ongoing projects in order to keep these expenses off the backs of taxpayers. It was a great strategy—but we could not have predicted that the State-Seneca impasse would continue for three years, draining the City of its reserves and creating a full-blown cash flow crunch warning at the beginning of April of this year. Through some very intense cash-flow efforts, we will make our contractual obligations through the end of 2012.

Over the last half-dozen years, the City of Niagara Falls has consistently been among the most fiscally-disciplined municipalities in the State when it comes to keeping the tax levy down. Our 2006 levy—the total amount of property taxes collected from both residential and business taxpayers—was $28,080,951. The 2012 tax levy—the total amount of property taxes we collected to run the government this year—is $27,975,901. Yes, that's right, $105,050 LESS than what was collected to run the City government six years ago, when total expenses were only $67,207,152—almost $20 million less than today. For the entire period of my first term in office, from 2008 to 2012, the levy increased only about 1/2% per year – far less than the rate of inflation, and a quarter of what would have been allowed even under a 2% tax cap. But while we were fighting to keep taxes down, everything else was going up.

First, wages went up. Our contractual obligation increased by over $1.5 million from 2010 to 2011, by over $1.7 million from 2011 to 2012, and we estimate by another $1.1 million from 2012 to 2013. Note that we are still "out of contract" with many of our unions, and could see arbitration or other increases in future years. The majority of our wage increases are in public safety, where we are subject to compulsory arbitration to set wage adjustment standards. Earlier in the administration, with the full support of the Council and the taxpaying public, we expanded front-line manpower in Police and Fire using federal COPS and SAFER grants. I don't regret that in the least, but it has ongoing implications for our manpower levels and hence costs in those departments.

The COPS grant, implemented in July 2010, allowed us to add five positions to the 145 member department, bringing it up to 150 officers. The grant requires us to maintain this level of manning through the three years of the grant plus one year after, or until July 30, 2014. The SAFER grant, implemented in October 2008, helped us to hire 8 additional firefighters to increase the daily staffing level from 24 to 27 firefighters. It requires us to retain the firefighters hired for one year after the federal monies expire, or until October 2013.

Second, pension expenses had already increased about $1.3 million from 2010 to 2011 as a result of lower returns on the fund's Wall Street investments. Last year, facing an additional increase of about $640,000 in Employee Retirement System (ERS) retirement costs and over $1.7 million in police and fire retirement (over $2.4 million total), we amortized the cost over ten years. As a result of good bond ratings, we are able to finance this at 3.75% interest without bond costs. This reduced our 2012 cost for ERS to about $150,000 less than the 2011 budget. By using an amortization strategy essentially similar to the flattening strategy that the State Comptroller's Office used in 2008 to deal with the initial shock to Wall Street, we reduced 2012 outlay for pension costs by over $1.6 million. We will use that strategy again this year. From ERS costs of $1,548,323 for 2012, we will go to an estimated $1,974,214 for 2013 with amortization, an increase of $425,891. Without amortizing, that cost would be $3,016,460—that's a huge savings in taxes and/or jobs. Similarly, police and fire retirement will be $5,382,215; without amortizing they would total $6,936,111.

Our third major area of concern is health care costs. We've taken steps to address this potentially explosive area of concern. We switched to self-insurance and changed brokers in 2009 (and will keep an eye open for potential savings in the future), but still saw a $1.25 million increase from 2010 to 2011 driven largely by retiree health care costs. We had to budget over $600,000 in 2012 to cover this year's increase. Implementing the "Forever Blue" program helped us avoid additional costs in retiree coverage, and the continued work of the Task Force for a Healthier Niagara Falls is designed to help everyone—including our employees and retirees-- improve care and reduce costs by moving to increased use of Preventive and Primary care. We're working hard with our third party administrator to find additional savings. This year will be a decisive year for our efforts to control long-term health care costs. I will ask all our City unions to sit with us in the health care committees mandated by our contracts and look at ways we can reduce costs going forward without compromising in any way the level of care we provide to our employees. We think we all will agree there are some obvious ways to save money (e.g., prescription drug costs are way up and we have a very low co-pay); we need to sit down as soon as possible after this budget is passed, regardless of where we stand with other aspects of contract negotiations. Lockport is engaged in discussions with its unions and many others will likely soon go the same way.

For 2011, we asked department heads to tighten their belts and cut an estimated $1.2 million from an already bare-bones budget. They went back for 2012 and found an additional $175,000. For 2013, our proposed budget reduces spending from $86,257,328 to $83,644,349—a decrease of approximately $2.4 million. When you see a number like that, it is obviously not just "fat" being cut—you're into muscle and bone. This is in spite of having to absorb $200,000 in additional gasoline costs and an additional $44,000 for spare parts—the latter because without casino revenues we aren't replacing large capital equipment as soon as we had planned.

In the years 2009 through 2011, in accordance with a multi-year fiscal plan, we used declining amounts of AIM fund balance that we had set aside during the “good years” of AIM for tax relief, one of the specified purposes of the program: $3 million in 2009, $1.5 million in 2010, and the last $756,000 in 2011. As AIM fund balance went down, we started using Special Projects Fund Balance as a source of funds for property tax relief: $2.5 million each in the 2011 and 2012 budgets. This year, we propose to use $2 million, consistent with 2011 and 2012’s policy of adding property tax relief to the other restricted purposes (e.g., paving and other capital projects) for which we use these funds.

In past budget years, we had counted casino revenues due to the City as short-term receivables, consistent with our best estimate of when these funds would be received. Recall, in the fall of 2011 we believed receipt of these funds through a direct payment from the Senecas was imminent. In their revue of our 2011 financials, our independent auditors suggested we continue to count the 2009 through 2012 casino revenues as long-term assets, but not as short-term receivables. In other words, we were clearly owed this money, but had no way to estimate when we would be paid. Fair enough.

But something has changed for 2013. An arbitration process—the dispute resolution mechanism contemplated in the Casino Compact—is underway, and both sides are participating. It is binding on both parties, and is expected to result in a resolution during the first half of 2013. Our expectation is that at the conclusion of the arbitration, we will get paid what we are owed. We therefore will budget a limited amount of casino revenues to cover certain recurring expenses in 2013, including: the debt service on the public safety building, a share of public safety costs, and an amount to compensate for the loss of tax revenues when properties were taken off the tax rolls to create the Seneca territory. These expenses were planned to be paid with casino revenues in past years, but were subsequently covered by Special Projects Fund Balance when casino revenues were withheld. The total amount of these funds required for the 2013 budget is $5,370,762.55. We budget them because our expectation is that we will be paid what we are owed.

As I noted earlier, our tax levy has basically not grown since 2006, while expenses are up about $20 million. As I also noted, our expenses—despite our best efforts to keep them under control—have continued to grow. For that reason, we are proposing to raise an additional $2,471,000 in tax revenues in 2013. This would bring the levy to a total of $30,446,901—just $2,365,950 more than the $28,080,951 that was raised in 2006, and an average increase of just $337,992.86 per year. That’s an average annual increase of just 1.2% over those 7 years—an impressive performance by any standard and well below the average annual increase in the cost of living during those years. We have held the line on taxes in every year of my administration, but there comes a time when something has to give. This is that time, and we simply need more revenues to continue providing an acceptable level of services. The result is a proposed increase of approximately 8.3% in the homestead tax rate and about 5% in the non-homestead rate, which would require a vote to override the tax cap for 2013. The non-homestead rate increase may be smaller, but remember—non-homestead payers will still be paying substantially more per thousand dollars of assessed value than homestead payers. Unfortunately, the bad news does not end there.

I have consistently said that layoffs are the very last resort in trying to balance the budget, and my administration has managed to balance the budget without layoffs every year until now. But this time, the gap between revenues and expenses is simply too large. I try not to comment on hypotheticals, but it has been reported that early versions of this year's budgets contained gaps so large that huge numbers of layoffs of full-time personnel would be required. A lot of work has gone into minimizing the damage since that time, but there is still damage. When roughly 80% of your budget is personnel costs, it is inevitable that closing large gaps will require at least some reduction in manpower.

Through most of this year, we have sought to reduce force through attrition, i.e., by not filling positions when someone retires or otherwise leaves City employment. But we can't close the gap in one year in that way alone. In this budget, we reluctantly propose the elimination of 27.5 full-time equivalent (FTE) positions. Of those, 9 are covered by vacancies or retirements, leaving a total of 18.5 FTE positions currently occupied that would be eliminated. Since some of those positions are part-time, a total of 20 individuals would be laid-off. We know that these numbers are much lower than those contained in some City Hall rumors, but we believe that one layoff is one too many, and we take the impact very seriously.

We made every effort not only to limit but to spread the pain. As noted earlier, grant rules associated with the COPS and SAFER grants limit our ability to lay off police and firefighters in the 2013 budget year. In any case, many citizens regard public safety as the most essential of City services, and would expect their elected officials to cut just about anything else before making any cuts there. We got the message. But please note that the grant-imposed restrictions will not apply in future budget years. We have a lot of work to do to reduce costs and avoid the possibility of future problems.

Of the 18.5 FTE positions proposed for elimination, 11.5 are Civil Servants (involving 12 individuals, since one is part-time), 4 are hourly employees, and 3 are exempts (involving 4 individuals, since 2 are part-time). These individuals will be given preference in future City hiring, as well as assistance in pursuing other employment opportunities. We hope to be able to bring them back as positions open up through vacancies and retirements, though we can make no guarantees given the uncertainties of the financial future.

There is another unfortunate consequence of these layoffs. According to Civil Service and contract rules, we cannot employ temporary or seasonal employees when there are laid-off full-time hourly employees who have not been rehired. This means that, unless and until we are able to bring back those laid-off hourly workers, we cannot run a variety of programs normally staffed by seasonals and temps. The total amount saved by not hiring seasonals and temps is approximately $487,000; the total number of seasonals impacted is 82. These might not be full-time employees, but for many of these workers and families the money they earn as part-time City employees helps pay the rent, the car loan or a tuition bill. Included are the recreation aides for summer parks programs, seasonal golf course workers, the people who oversee night gym programs during the school year, and even the lifeguards who staff our public swimming pools. Also impacted are large numbers of seasonal workers who work on paving or clean-up crews, dramatically increasing our ability to deliver these services. We will try to be prepared to restore these jobs and services at the earliest possible opportunity should circumstances permit, but know that their loss strikes a blow at the quality of life of many of our citizens. A special case is the operation of our parking ramp, which we are obligated to keep in operation. We believe implementing some version of the parking plan presented to Council last year, getting the City out of the parking business altogether and creating income going forward, is the best policy.

We have tried to structure our 2013 budget so that, in spite of the cuts we will have to endure, we will be able to deliver the essential City services that our citizens have come to expect. Public safety and other essential services will continue to be delivered as the taxpayers expect. In some cases, there will have to be an adjustment in the level of services the City is able to provide based on the resources we have to provide them. We will continue our efforts to reorganize and modernize service delivery so that we get the most bang for the buck, and bring our long-term recurring expenses in line with our future recurring revenues.

We were pleased to add $22.7 million of new business properties to the tax rolls in 2010, then saw slight drops for 2011 and 2012. I'm happy to report that the taxable value of non-homestead property rebounded for 2013, as we added $18,526,264—a 4.6% increase—to the non-homestead rolls. As I suggested last year, the new Olive Garden and Buffalo Wild Wings were completed and became fully taxable this year, and Hobby Lobby, Panera and Walgreens came on line as well. And once again this year, I can report that we have reason to believe new business construction will occur in the Military Road corridor, and will help increase revenues and reduce the future burden on other taxpayers—especially other businesses. Some IDA properties nearing the end of their PILOTs will be put back on the non-homestead totals over the next few years, and the PILOT payments for new projects like Greenpac will create new revenue. This is all good news, more evidence that our long-term strategy is working, and a reason to be optimistic about the future. But it doesn't solve our short-term problem. For example, we lost a total of $639,157 from two PILOTs that were ending, but didn't recoup the funds in regular tax revenues because of the way the tax cap is calculated.

Last year homestead valuation was up, a pleasant surprise to be sure, but not something we counted on to continue this year. We were right. Homestead valuation was down $3,159,456—about a third of one percent. Several trends contributed to this result. We continue to be concerned about the effect of reductions in assessed value granted by the Board of Assessment Revue, and the impact of the loss of property value as now-vacant, once-valuable houses are demolished. Consider this statistic. In 2012 alone, we lost $1,661,200 in homestead value to the wrecking ball. I don't mean to suggest that these demolitions should not have been done—clearly they were needed as these buildings had past the point of no return. But one of our greatest long-term challenges is increasing the value of our residential real estate through improvements and new construction. That's why we're putting so much effort and creative energy into recruiting new residents into our city.

There are other revenues we are having to do without. City court fines and parking ticket revenues are together down $450,000. Approximately $574,000 of casino revenues that we used to pay for 7 employees in 2012 working on economic development are not there. An agreement with State Parks that brought in $75,000 for someone to work on the Underground Railroad project has expired. The SAFER and COPS grant payments from the federal government expired, reducing our revenues $474,490. The amount of funds we have available to transfer from the capital account from closed projects is down a million from $3.9 million to $2.9 million. $1.5 million we had available from the debt fund each of the last two years is not there for 2013. Last year, before the casino issue fully drained our fund balance, we were able to transfer $2.5 million to the general fund for tax relief and another $710,708 as our match for the SAFER grant, for a total of $3,245,169. Without the casino problem, we could have used $3 million this year—we had it there for that purpose. But we are only able to do $2 million this year—another $1 million lost to the general fund.

If these numbers are starting to make your head spin, please know I'm sympathetic. This is why I called this a "disaster budget." As the 2013 picture started to come clear, we realized we were starting down $5,957,380 in revenues and up about $3.9 million in expenses, with no casino revenues on hand to help cushion the blow. You do the math.

How did we balance the budget? We proposed $2.471 million in new tax revenues. But that was not until we looked at every other source of possible non-property tax revenue. We used the additional time working on the budget to look at historical figures for hotel and restaurant taxes (HRU), and raised them $300,000. We looked at Niagara County sales tax, and even with the distribution of funds shifting against us because of the new census numbers, we were able to raise these revenues $100,000. We were able to raise the Utility Gross Receipts Tax revenues $100,000 as a result of our analysis. These new revenues totaled $2.971 million.

There were some smaller but still significant contributions—every dollar counts. We were able to save an additional $30,000 through shared services with the Water Board, raising that total to $120,000. Thanks to the efforts of our Corporation Counsel—and City Council and Purchasing get a nod here too—our ice pavilion lease revenue will be up $103,000 in the first year of the new operating agreement alone. Thanks to Dennis Virtuoso and his staff, building and plumbing permit revenues are estimated to go up a total of $191,000. CD Director Seth Piccirillo found $54,000 for an Inter-fund Transfer to pay the rent and other costs to operate police sub-stations. We can't cut costs to run street lights overnight, but we cut our utility costs with efficiency audits and saved $162,850 on natural gas and building electric costs. When we had casino funds, we used them to repair leaks and cut sewer and water bills $37,900. That's $200,750 savings on energy efficiency and leaks alone; that's a lot of taxes and/or jobs. We renegotiated our property and liability insurance and saved $45,000. Maybe that saved someone's job. It all helps.

But in the end, we simply had to reduce our overall costs to operate City government to bring them more in line with our recurring revenues. We were simply not bringing in enough recurring revenues to sustain our operational and contractual expenses going forward at last year's $86.2 million level, independent of who sits in the mayor's office or on the City Council. Again, remember—our expenses went up over $19 million from 2006 to 2012, but the levy went down $105,000. We needed to bring things back into line for the long-term, and did so by cutting expenses $2,556,187 overall.

This includes a net decrease from 2012 to 2013 of $1,103,063 in bi-weekly payroll costs, reductions for temps of $279,812 and a net reduction in overtime of $211,001, for a total reduction with FICA included of $1,588,875 total in these personnel costs, part of an overall reduction of $1,706,788.

In 2011, we established the Tax Relief for Economic Development Fund to help compensate all property owners, not just those able to qualify for City grants or loans, for the extra burden they have carried since properties were taken off the tax rolls for the Seneca casino. Basically, the Fund buys down the total amount to be raised by the property tax. We used $455,000 of casino revenues to create the Fund in 2011, funded it with $449,000 last year, and propose $454,000 for 2013; the number is derived from the non-homestead base proportion. We propose to do a 20% equalization for 2013, as we did last year, but because the value of homestead properties has fallen while non-homestead has risen, the effect of the 20% "shift" is not to reduce the non-homestead base proportion, but merely to prevent the current skewed situation from getting even worse. Between equalization efforts and the fund, we will continue our efforts to make sure that the tax burden doesn't fall disproportionately on the backs of small businesses.

We are not alone in facing the challenge of rising annual expenses—many of which we have no ability to control—and stagnant or insufficiently expanding revenues. Cities across New York State are struggling with many of the same problems. We knew we were not immune to the same ills they faced. But it seems to us patently unfair that, after years of sound financial management, and the build-up of cash reserves to help us weather financial storms, we find ourselves in the predicament we're in. We did multi-year financial planning. We in effect provided our own safety net. We knew that, like municipalities all across our state, we would need to be reinventing government for many years into the future. Now, because of forces over which we have no control related to the ongoing dispute between the Seneca Nation of Indians and the State of New York, we face the prospect of fiscal crisis without the full range of resources that should justly be at our disposal to help weather the storm. It's just not fair, and we will continue to fight in every way possible to get what is justly ours as a result of the sacrifice of so many of our interests to the creation of the gaming concession in our city—like giving away over 50 acres of prime development real estate downtown, including operating hotels.

I was only three months into my administration when I had to start dealing with the consequences of the Great Recession. Nonetheless, we were able to consistently improve on

City services, keep taxes down, and improve our reputation for fiscal stability and the ability to get things done, UNTIL the consequences of the failure to resolve the Seneca-State dispute finally grew beyond our ability to hold them at bay. Budgets, both annual and multi-year, are after all plans, and all plans must react to unanticipated circumstances. From our perspective, the delay in the delivery of casino revenues has been a catastrophe. It may not compare for pure drama with the recent events surrounding Hurricane Sandy, but make no mistake. The economic and social devastation that our City has faced over the last several decades of job and population loss has done as much cumulative damage as many a natural disaster, even if the effects have gone on in slow motion. Wise use of casino revenues to rebuild roads and other infrastructure, improve vital services, purchase public safety equipment and facilitate economic development was our lifeline out. Now the lifeline has been at least temporarily severed by forces beyond our control.

The budget I present to you today is not what I hoped to be able to present to you a year ago. But it is certainly a far cry from where we stood a month ago. There is a tax increase, but it is the first significant tax increase that has been proposed in many years, and would bring us to only about 85.61% of our constitutional taxing limit (we were at 81% just a couple years ago)—not bad under the circumstances, and representing an average annual increase of just 1.2% per year since 2006. There are layoffs, but not hundreds or even several dozens of layoffs, as many of us initially feared. We are budgeting casino revenues for 2013, but there is an arbitration process underway and the amount budgeted is modest compared to any recent year's revenues. Still, raising taxes, laying-off workers and cutting services fits my definition of a "disaster" budget.

I first used that term several weeks ago without knowing that in the intervening period, significant regions in our own and neighboring states would fall victim to a natural disaster of unprecedented proportions. When I was growing up, I was constantly reminded at such times to "count my blessings" and remember how much worse things could be.

Thanks to our City Administrator, all the Department heads and their staff who have worked so hard to minimize the negative impacts of a very difficult fiscal situation. Your efforts have been tremendous. I look forward to working with the City Council to finalize the 2013 budget. My administration presents you with a difficult but balanced budget that tries to balance the necessary evils of reductions in staff, cuts in some services, and the first tax increases in several years. There is a lot of positive progress being made in our community, and by getting through this difficult budget year with our essential services intact, we can help guide the way to the better tomorrow we all desire. God bless you, and keep planning for a better tomorrow.

Sincerely yours,

Hon. Paul A. Dyster
Mayor