



October 1, 2013

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 2014 fiscal year. As you know, the date of presentation of last 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 stemming in part from the delay in the delivery of casino revenues. Happily, that situation was resolved well in advance of the closing date for preparation of the 2014 budget, as Governor Andrew Cuomo himself joined us for the presentation of the famous "big check" for \$89 million on July 31st. I want to once again extend my heartfelt thanks to Governor Cuomo for the strong leadership role he exercised in ensuring that we would be paid the full amount we were owed; the positive outcome we experienced would not have happened without him.

Many people might assume that getting a check for such a large amount would automatically and instantaneously eliminate any budgetary challenges for the foreseeable future, but the world is not so simple. As I explained in my press conference shortly after we received word of the settlement, one of the first steps we took was to repay our General Fund \$22.7 million that had been used to cover what should otherwise have been casino-paid expenses during the period when revenues were delayed. As I have explained several times since, this does not change the fundamental difficulty we face in drafting budgets in the immediate future—a difficulty that is shared by many upstate communities with similar economic challenges: namely, that our recurring expenses are tending to grow faster than our recurring revenues. Yet, that said, I am proud to offer you today a

balanced budget with essentially zero increase in business or residential taxes, no layoffs or drastic cuts in services, and no increase in the overall tax levy.

In searching for a way to explain this paradoxical situation, I turned to classic literature for inspiration. Remember the opening lines from Charles Dickens' Tale of Two Cities? "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way..." Well, it's kind of like that. It's a paradox.

On the one hand, we are, for the moment, cash rich. How did that happen?

Through the course of this administration, we have exercised sound fiscal management and self-imposed discipline. Only three months into my first term as mayor, we ran head-on into the "Great Recession." We reacted quickly and decisively; 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 or even reduce spending in the ongoing budget year, generating fund balance to be re-appropriated for subsequent budgets. Through much of 2010, 2011, and 2012, we operated under a spending freeze, avoiding non-essential spending and trying to hold the line on upgrades and raises even when we knew they were well-deserved. For several years, we built up Special Project Fund balance, created initially to fund critical projects in the face of declining State AIM aid. 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. We decided 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 would only work if our reserves could be made to last until the dispute between the Senecas and the State was resolved. There was a lot of naysaying and pessimistic prognosticating, but in the end our strategy was vindicated. We did not "hit the wall," miss payments or otherwise succumb to the negative effects of this classic "cash flow crunch." Now, we have repaid our drained cash reserves, and even after making planned payments out of the reserves, we stand in a very strong cash position as we enter the budget

process. “It was the best of times,” right? Well, unfortunately, that’s only half the story.

The strong cash position in which we now stand was the result of being able to run in the black during previous budget years and scoop up the surplus as a reserve for hard times. Based on everything we have seen about future cost and revenue trends, it will be very difficult—and I only say that because I try not to say that ANYTHING is impossible—that we will be able to do that again in the next several years. So we have a strong fund balance today, but we need to shepherd our resources carefully, because are almost certain not to be able to regenerate it any time soon once it is depleted. We cannot, for example, simply dump casino revenues into the General Fund to plug gaps because it is prohibited by Section 99-H of the Municipal Law, which regulates our use of casino funds.

As I have said in several previous budget addresses, we face several years of austerity and fiscal discipline before the positive effects of on-going economic development begin to catch up to the negative effects of rising costs. What are the challenges as to costs?

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 while the figures are not in yet for 2012 to 2013, and we estimate will increase by another \$1.1 million from 2013 to 2014. This is in spite of our efforts—sometimes supported by Council and sometimes not—to eliminate vacant positions (created, for example, when someone retires, dies, or leaves City employment) wherever possible. Note also that we are still “out of contract” with several of our unions, and could see arbitration-driven raises (whether through actual arbitration awards or negotiations driven by the results of past arbitrations) or other increases in future years. We are always looking for ways to keep manpower up while keeping costs down, as in our past use of federal COPS and SAFER grants for Police and Fire. We were thrilled recently to be able to announce that we have received a new but smaller COPS grant that will allow us to add an officer for a little over \$4,000 in City match, but that doesn’t reverse the overall trend of rising wage costs.

Second, pension expenses keep going up. They had already increased about \$1.3 million from 2010 to 2011 as a result of lower returns on the fund’s Wall Street investments. So, in the 2011 budget statement, we announced that we would move to an amortization strategy. We amortized in 2012 and 2013. 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 2013 outlay for pension costs by over \$2.5 million. We will use that strategy again this year. From Employee Retirement System (ERS) costs of \$1,974,214 for 2013, we will go to an estimated \$1,964,601 for 2013 with amortization, a decrease of \$10,000. Not impressed? Without amortizing, that cost would be \$2,714,138—that's a huge savings of almost \$800,000 worth of taxes or jobs. Similarly, police and fire retirement will be \$5,229,590; without amortizing they would total \$6,362,342—over \$1.1 million difference.

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 once again this year we are looking to get bids on our book of business, but we are bucking a trend where we 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 that year's increase. Implementing the "Forever Blue" program helps 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. But in spite of all these efforts, which in some recent years had led to manageable, single-digit increases, we are looking down the barrel of an estimated \$1,916,581 increase going into 2014. That's simply unacceptable. Our citizens can't afford it. Rather than raises taxes to pay these increased costs, we're going to dip into our health care reserves to cover at least \$916,581 of the increase for this year. But that means this absolutely must 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 need to cover that \$1 million somehow. We think there is some "low-hanging fruit" out there that creates the opportunity for win-win situations. Well, the time has come to pick that fruit. We need to sit down as soon as possible and get the job done. The alternative if we fail is to cover the remaining \$1 million gap out of our rapidly diminishing reserves; that is not sustainable for very long.

Our goals in the 2014 budget process are basically the same ones that have driven budget preparation every year of my administration. First, we protect our ability to deliver vital City services to our residents by making whatever cuts we can that don't cripple our ability to perform. Second, we protect the jobs of our City employees, who faithfully serve the public. And third, we seek to minimize taxes for the residents and businesses who foot the bill. We fully concur with Governor Andrew Cuomo's assessment that "New York has no future as the tax

capital of the nation,” and we have worked to chart a course designed to provide the best possible services while creating conditions for future economic growth. 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 kept moving key projects forward, first in the face of the “Great Recession,” then even when the “Great Recession” was joined by the casino revenue crisis on our list of obstacles to overcome. We will continue to make those key investments, as witnessed by the \$4 million in casino revenues included in our capital plan for investment in economic development for 2014. We will hold to our promise to Governor Cuomo to use the resolution of the casino dispute to help shift our efforts at economic growth into high gear, and look forward to being among his strongest partners as he seeks to implement the Buffalo Billion Plan for regional economic revitalization, including a very strong Niagara Falls component.

Many people believe one of the best economic development strategies a municipality can employ is to hold the line on taxes. If that is the key to success, then we should be on the verge of exciting times, as we have consistently been among the most fiscally-disciplined municipalities in the State when it comes to keeping the tax levy down over the last several years. Our 2006 levy—the total amount of property taxes collected from both residential and business taxpayers—was \$28,080,951. The tax levy I propose today for 2014—the total amount of property taxes we would collect to run the government next year—is \$28,100,000. Yes, that’s the same as last year, and less than \$20,000 more than it cost to run the government seven years ago, when total expenses were only \$67,207,152—almost \$16 million less than today. For the entire period of my time in office, from 2008 to 2013, the levy will increase only a tiny fraction of a percent per year – far less than the rate of inflation, and not taking advantage of even what would have been allowed under the tax cap by way of increased revenues. And this is despite the fact that, as we all know, the price of everything goes up at least a little each and every year.

In past years, we’ve asked the departments to tighten their belts and cut what can be cut from already bare-bones budgets. They found \$1.2 million in 2011 and an additional \$175,000 in 2012. When you see a number like that, it is obviously not just “fat” being cut—you’re into muscle and bone. For 2014, our proposed budget increases spending from the 2013 adopted budget from \$81,430,779 to \$82,969,867, an increase of approximately \$1.5 million. That sounds bad, but before rushing to judgment, there is a tale to be told. First, we know the actual spending for 2013 will be more than the adopted budget because operational

expenses were paid out of the “Council contingency line” through resolutions passed during the ongoing budget year. Second, most of the increase comes in the form of increased contractual wages and medical insurance costs. When you look at actual operational expenses, the departments actually found an additional \$400,000 worth of savings and this in spite of having to absorb an increase in hydrant use fees from \$57,000 to \$215,000. Our shared services with the Water Board save us about \$120,000 a year, but that is still a big hit to absorb. One thing we have been able to do as result of the arrival of casino revenues is to shift 99-H allowable expenses that had been put in the general fund during the casino cash crunch back to being casino funded. We also now have a limited amount of casino interest income which can—in fact must—be used in the general fund. Every penny helps. In the future, we hope our return to a regular replacement schedule for casino-funded capital equipment will help once again to drive down General fund parts and repair costs—without casino revenues we didn’t replace 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, and \$2 million in 2013, consistent with our policy, begun in 2011, of adding property tax relief to the other restricted purposes (e.g., paving and other capital projects) for which we use these funds. (We had in fact planned to use \$3 million in 2013, but could not because of the use of these funds to cover casino fund expenses.) In past years, there were other sources of funds that we could use to help offset revenue shortfalls in the General Fund. In 2011 and 2012, we had fund balance left over from Debt Service in the ‘V’ Fund, \$2.5 million and \$1.5 million respectively. Those funds aren’t there this year. Because we don’t believe in increasing anyone’s taxes unless we’ve used up funds we’ve collected from taxpayers in the past, we conducted a review of our capital accounts to look for funds that had been reserved for capital projects that have now been completed. We used \$3.9 million of these funds on 2012 and another \$2.9 million this year. Last year we used \$2 million of Special Projects Fund Balance and \$2.9 million of these left-over capital funds to help supplement revenues, for a total of \$4.9 million of so-called “one time” revenues. The Capital funds are not there this year. So this year, we propose to use a total of \$4.4 million of our recently-replenished Special Projects Fund Balance in the General Fund.

We are not entirely happy with that, but note that it is a half-million dollars less of “one time” revenues than in this year’s budget—and we intend (and need) to keep pushing that trend going forward in the next few years. 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, while we grow our tax base through economic development until the expense and income lines finally cross.

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. Then last year, I reported 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. That was because the new Olive Garden and Buffalo Wild Wings were completed and became fully taxable last year, and Hobby Lobby, Panera and Walgreens came on line as well.

I am pleased to be able to announce today that we were able to add \$41.3 million in total assessed value of non-homestead properties for our 2013 tax roll. Although several of the contributing properties are subject to IDA PILOTs that postpone the collection of full taxes into future years, this is still a very robust picture of growth. The largest contributor to this total was the new Greenpac Mill which came on line this summer. The new business construction which is underway along the Military Road corridor, along Niagara Falls Boulevard, and the several new hotels proposed downtown will help increase revenues and reduce the tax liability for all property owners in the future, subject to our ability to capture these revenues under the tax cap. One obvious conclusion to be drawn: getting these economic development projects done with responsible oversight but without unnecessary delay is critical to our future bottom line. It can make a big difference in which tax year a future project comes on line.

Another pleasant surprise was an increase in our homestead valuation. We were pleasantly surprised in 2012 when homestead valuation was up, then disappointed for 2013 when homestead valuation went down over \$3 million, or about a third of one percent. Last year, I cited concerns about reductions in assessed value granted by the Board of Assessment Review, but even more importantly the loss of property value as vacant houses were demolished. I mentioned that in 2012 alone, we lost \$1,661,200 in homestead value to the wrecking ball. When a building is past the point of no return, there is no choice. But one of our greatest long-term challenges is increasing the value of our residential real estate through encouraging rehabs rather than demos. So we put

much effort and creative energy into getting properties back on the tax roll, rehabbing them, and recruiting new residents into our city.

I'm proud to report that taxable value of homestead properties increased by \$4.9 million this year. This is a huge rebound from the losses of the previous year. One of the reasons for this increase is the vast number of city-owned properties that were sold to individuals and put back on the tax rolls for 2013. Please note that this value is very sensitive year-to-year to the impact of demolitions, since properties where homes are demolished are assessed the following year as land value only. That is why we are using innovative programs like Live NF and Isaiah 61 to encourage renovation of homes and home ownership, and we're just getting started. We're working now with Housing Visions, which has had great success in Syracuse and nearby Lockport, to bring properties back to the tax rolls as soon as the 2014 calendar year.

We looked at historical figures for hotel and restaurant taxes (HRU), though the industry is strong, decided to keep them stable in light of previous years' increases. We looked at Niagara County sales tax, and even with the distribution of funds shifting against us because of the 2010 census, we were able to raise these revenues \$800,000. Unfortunately, as a result of reduced commodity costs for natural gas, we had to reduce Gross Utility Taxes by \$200,000, but there was still a net gain there of \$600,000.

An area of income generation we need to work on for next year is parking revenues and related revenues from parking enforcement, including tickets and court-imposed fines. The principal purpose of a parking enforcement system is not, of course, to generate revenue. Rather, delivering safe, clean and convenient parking options is an integral part of our tourism industry infrastructure. But that doesn't mean we should leave money on the table when jobs and tax increases are at stake.

By implementing a parking control system that includes updated technology at our ramp and surface parking lots and a limited number of strategically-placed on-street meters, we can net an additional \$200,000 in lot and other parking revenues. We also estimate an increase in ticket and court fine revenues of approximately \$400,000 (to a total of \$950,000) once on-street meters are installed. If we pay for the system upfront using casino revenues, as the administration proposes, we can put all these new revenues in the General fund from the start. The cost is paid back within 2 years, with no impact on the taxpayer.

While we are disappointed that the Council voted down a proposal to dedicate casino funds for this purpose at last night's meeting, we are not taking this as the last word. We will continue to work with Council to try to implement a parking system in time for the start of the 2014 tourism season that meets our legal obligations, provides additional revenues and satisfies the tourism industry's for a more rational downtown parking scheme.

In 2011, we established the Business Tax Relief for Economic Development Fund to help compensate all commercial 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, \$449,000 in 2012, \$454,000 in 2013, and propose \$448,000 for 2014; the number is derived from the non-homestead base proportion. We propose to do 20% equalization for 2014, as we did last year, but because non-homestead payers are still taxed much more per \$1,000 of assessed value (\$30.16 vs. \$17.72), and to help offset the impact of IDA PILOTs on the vast majority of businesses that don't receive them, we will continue this effort to make sure that the tax burden doesn't fall disproportionately on the backs of small businesses.

We will use casino revenues to cover the debt service for the public safety building, to fund a share of public safety services, and to compensate the levy for the loss of revenues from properties removed from the assessment roles when the Compact land was created; these amounts are, respectively, about \$3.5 million, \$290,000, and \$941,000. Add the \$448,000 for Business Tax Relief for Economic Development, and the total is \$5,189,833.88 used in the General Fund.

It was frustrating last year at budget time because we faced such a disastrous situation after years of sound financial management, and the build-up of cash reserves. We did multi-year financial planning, providing our own safety net, but, because of forces over which we had no control related to the dispute between the Seneca Nation of Indians and the State of New York, we faced the prospect of fiscal crisis without the full range of resources that should justly have been at our disposal to help weather the storm. Now those resources are restored. But make no mistake--they are a lifeline, not a windfall. Wise use of casino revenues to rebuild roads and other infrastructure, improve vital services, purchase public safety equipment and facilitate economic development is our lifeline out of the current danger.

In spite of the recession and Seneca casino dispute, we have consistently improved on City services, kept taxes down, and improved our reputation for stability and sound fiscal planning. This year, with no increase in the tax levy, we have balanced the budget without layoffs or service cuts. We are proposing essentially no increase in either the homestead or non-homestead tax rate. This very significant accomplishment has required the use of some of the City's precious reserves, but has been achieved without touching the undesignated fund balance that we keep as the City's "rainy day" fund. In fact, that fund has been increased.

We still face many challenges. Despite our current strong cash position, we cannot for long sustain the current imbalance between recurring revenues and expenses that I highlighted earlier. In the near future, I will ask the City Council to approve a resolution authorizing us to join the Governor's Financial Restructuring Assistance Program. Hopefully the Board's non-binding recommendations will help us find the path to increased fiscal stability and economic prosperity. We will face many difficult choices, but the legacy of past good decisions will at least put some tools in our tool box. When the fortunes of upstate cities are compared, I suspect we will be worse off than some, but better off than many.

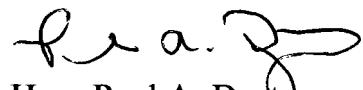
So are these "the worst of times," or "the best of times?" As Dickens suggested when he first penned these now famous words, the answer lies largely in the perspective of the one asking the question. Some people are inclined to a negative outlook on life, and see nothing but problems, troubles and dangers in every situation. They always take the dimmest possible view of everything. They're rarely happy, and it is very difficult to please them. Others are so inclined toward a rosy view of life, that they may fail to see the many dangers lurking in the shadows along the road. At least they can see the positive aspects of even the most difficult life situations. The truth, one suspects, lies most often somewhere between these extremes. That, I suggest, is where the City of Niagara Falls finds itself now.

When the year started, many in this room expected us to be in or near default at this time. That didn't happen. Instead, we find ourselves well-supplied with short-term cash, but facing the prospect that those reserves could be continuously and relentlessly drained in the next few years in a futile effort to plug holes in future budgets unless we muster the courage and wisdom to take corrective action while there is still time (and money) to solve the problems. The choice is ours.

Thanks to our City Administrator, our City Controller and her staff, and all the Department heads and other staff who have helped make this budget possible. I look forward to working with the City Council, whose members were invited to

have input in the process from the very beginning, to finalize the 2014 budget. My administration presents you with an austere but balanced budget, with no layoffs, no reductions in services, and no tax increase. Please don't be tempted for political or personal motives to do anything that disturbs that very positive outcome, but instead let's put our minds to imagining how we can be more effective and efficient going forward. Then, like Dickens' protagonist Sydney Carton, whatever else fate brings, we will be able to say, "It is a far, far better thing that I do, than I have ever done..." God bless you, and keep working for a better tomorrow.

Sincerely yours,



Hon. Paul A. Dyster
Mayor