

CITY MANAGER'S MESSAGE

"Status of the Administration"
(Delivered to the Corning City Council on February 1, 2016)

INTRODUCTION

I appreciate the opportunity to address you on the issues and challenges that are confronting us as an organization. This is the nineteenth annual report on the Status of the City's Administration which I have presented to the City Council as required by the City Charter since being appointed City Manager in 1997.

Over the past year, we have continued to work on numerous community projects, with added focus on redeveloping the northside as I outlined in last year's address. We have also continued to make progress on our three important strategic initiatives. Over the long run, these efforts will contribute significantly to the vibrancy of our community, but in the short-term we are still facing financial pressures from unfunded mandates, the Governor and State Legislature's unwillingness to restore cuts made to the Aid and Incentives to Municipalities (AIM) Program, and lower interest rates which effect our investment earnings.

FINANCES

To set the stage for our current financial position, we need to reflect back a few years. Faced with declining revenues and increased expenses due to the State's unfunded mandates, I reduced the City's workforce from 131 to 115 full-time employees as we were preparing the FY04 Budget. A few years later, as we were preparing the FY11 Budget, the City was facing a new \$1.8 million gap between revenues and expenditures. In response, I developed a four-part budget strategy for the City Council's consideration which utilized: 1) a further reduction of our full-time workforce bringing our total number of full-time employees to 103; 2) reducing our reliance on fund balances & reserves; 3) additional user fees & chargebacks; and 4) a property tax increase. The City Council adopted the proposed budget based on this strategy.

These workforce reductions and budget strategies have been effective. We have been able to avoid double digit tax increases and keep property taxes relatively stable since that time. However, these strategies have not reduced our two most significant cost drivers, health insurance and pension premiums. Pension and health insurance costs have continued to climb despite the 21% reduction in our full-time workforce. As we have discussed on many occasions, without meaningful mandate relief from the State of New York, we have little to no control over these costs. The reductions in our workforce, increasing expenditures due to unfunded state mandates, the Governor's call for a property tax freeze, along with a stagnant tax base and non-property tax revenues continue to limit our abilities to meet organizational needs.

Workforce Reduction:

We shouldn't lose site of the workforce reductions I've taken since FY04. The reductions had a positive impact on our financial standing, but they significantly limit our ability to provide

services to the public while meeting the multitude of mandates imposed on us by higher levels of government. The following is a detailed listing of the positions effected:

Personnel & Labor Relations Administrator	1
Engineering Aid	1
Maintenance Worker	2
Automotive Mechanic	1
Laborer	2
Motor Equipment Operator	1
Sign Maintenance Worker	1
Working Supervisor	1
Patrolman	3
Investigator	1
Firefighter	11
Senior Account Clerk/Typist	1
Account Clerk/Typist	1
<u>Buildings & Grounds Supervisor</u>	<u>1</u>
TOTAL	28

The elimination of these positions represent a 21% reduction in our full-time workforce from 131 to 103 employees. These reductions hamper our ability to provide new services. I have mitigated some of the impact by re-aligning work assignments and work locations, as well as implementing new technologies to improve efficiencies among the remaining workforce. However, it should be noted that work assignment re-alignment and new technology implementation can not offset the entire loss given the small size of our workforce.

Labor Agreements:

We have current labor agreements with all four collective bargaining units. Three of these are long-term agreements and the fourth, with our firefighters, expires at the end of June. I'm planning to commence negotiations on this fourth contract soon. Long-term agreements provide a basis for healthy labor/management relations. Management can better predict expenses and our employees have a degree of certainty in terms of their compensation packages.

State Pension Costs:

In recent years, the State Legislature created new Tier V and Tier VI pension categories as a means of controlling long-term rate increases. The stock market has experienced strong returns since 2009, which has started to provide a slight relief in rates. This rate reduction is slowing the growth of our mandated payments, but the City's pension payments are expected to grow again for 2016. Our preliminary 2016 estimated payments total \$1,164,000, an increase of 2,291% from our required payment of \$48,683 in 2002. Inflation as measured by the CPI-U for the Northeast Region rose 34% since 2002. It is likely that the recent turbidity in the markets may limit further short-term rate relief, and push savings out a few years.

Health Insurance:

As we all know, health insurance premiums continue to increase at a rate much higher than the consumer price index. In FY08, our total costs for health insurance premiums and other health related benefits such as eye and dental care were budgeted at \$1,254,857. For the current fiscal year, we have budgeted \$2,145,587. This is an average annual increase of 7.9%

The trend for retirees has been similar. In FY04, total retiree health insurance premiums were \$361,643. This fiscal year, we have budgeted \$1,360,860. For both active employees and retirees, the City covers nearly all of the cost of these plans.

Increases in the cost of retiree health insurance has resulted in a large accrued liability on our financial statements, estimated at approximately \$34.6 Million for the fiscal year ending June 30, 2015. Unfortunately, as I mentioned in our recent Audit Workshop, there is no State legislation that allows us to reserve funds to offset this liability.

For several years, we have made an effort to control the rate of increase for current employees and retirees through negotiations with all four of the City’s bargaining units. We will continue to monitor these costs and discuss these issues in subsequent rounds of negotiations, as we try to identify ways of securing additional relief.

Use of Fund Balances & Reserves:

We need to continue to exercise caution in the use of our fund balances and reserves as a means to offset property taxes.

	FY10	FY11	FY12	FY13	FY14	FY15	FY16
	Budget						
General Fund Balance	\$285,000	\$225,000	\$220,000	\$215,000	\$210,000	\$200,000	\$ 195,000
Pension Reserve	\$ 73,000	\$100,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 75,000	\$ 50,000
Tax Stabilization Reserve	\$ 60,000	\$ 70,000	\$ 70,000	\$ 50,000	\$ 45,000	\$ 50,000	\$ 25,000
Long Term Liability	\$ 31,403	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Debt Service Fund	\$100,000	\$ 82,000	\$ 0	\$ 75,000	\$ 0	\$ 75,000	\$ 75,000
TOTAL	\$569,403	\$495,000	\$442,000	\$335,000	\$400,000	\$400,000	\$ 345,000

As you can see in the above chart, we have made some progress in this regard since FY10. We did budget an increase in FY14 and FY15, before again reducing our reliance in FY16. It can be enticing to use these funds to offset property tax increases and workforce reductions, but use at these levels is not sustainable in the long-term. Over-relying on their use could lead to higher property taxes and greater service reductions.

Water/Sewer Fund Balances & Reserves:

As we discussed during the Audit Workshop in January, our sewer fund balance remains low. At the close of FY11, the balance was (\$5,744). We reached a high of \$118,038 at the close of FY14 before declining to \$57,725 at the end of FY15. In addition, we have not contributed to the water and sewer fund reserves in the past few years due to more immediate needs. I’m in the process of working on my upcoming budget proposal which will seek to stabilize the Sewer Fund Balance and increase water and sewer reserves over the next few years in order to address

capital items on the horizon such as the upgrades needed as part of the Chesapeake Bay Clean-Up Initiative.

State Aid:

When adequately funded, the Aid & Incentives to Municipalities (AIM) program is effective in moderating property tax growth. Unfortunately, AIM funding was cut between FY10 and 12. It has not been restored since, despite ever increasing aid to school districts.

In the current fiscal year, our allocation of funds from the AIM program is \$1,499,566. Overall, this is a reduction of \$122,734 or 7.6% from FY09. Governor Cuomo has again proposed no increase in AIM funding in his Executive Budget which he released last month. School District on the other hand received a \$1.3 Billion increase in the current budget year and Governor Cuomo is proposing an additional \$1 Billion for the upcoming year.

We did see a one-time increase during FY13, but this did not place any additional burden on the State Budget, because it was an advancement on our FY14 payment. That action resulted in the City of Corning receiving an additional \$900,000 for FY13. The amount will be advanced each fiscal year thereafter, as not to create a shortfall in any individual budget year. This is commonly referred to as “spin-up” aid. In essence, it provided a one-time increase in aid for FY13.

We need to keep working with the New York Conference of Mayor and Municipal Officials (NYCOM) to restore the cuts imposed by the Governor and State Legislature, and advocate for regular increases in AIM funding to help moderate property tax increases.

Government Efficiency Grant:

In FY11, as part of the budget strategy to close a \$1.8 million gap between revenues and expenditures, former Fire Chief John Tighe and I restructured the Fire Department. We reduced the number of firefighters from 6 to 4 per shift, introduced new technologies, established a box alarm system, and updated department policies.

These actions resulted in annual savings of approximately \$570,000 and we were able to improve the City’s ISO Fire Protection Class Rating from a “4” to a “3”. As part of this process, Chief Tighe and I applied for a government efficiency grant from the State in the amount of \$279,575 spread over three years which we were required to use for property tax reduction. During the past three budget years, I have included \$93,191 from this grant as a revenue which has kept property taxes approximately 1.4% lower than the level they would have been set absent the award. We have come to the end of the grant cycle, and we will no longer receive this assistance in the upcoming budget year. This is an excellent example of the Tax Cap’s impracticality given the impact of this one item alone is approximately twice the amount of the estimated 0.73% cap for the upcoming budget year.

Property Tax Cap & Freeze:

The Governor and State Legislature continue to promote the tax cap and freeze first introduced for FY13, despite not providing any significant short-term mandate relief to help control our cost drivers. In addition, as I mentioned earlier, the Governor and Legislature have not restored the cuts to the AIM program made seven years ago. As I have said before, routinely adopting tax levies under the cap and freeze levels without controlling cost drivers or expanding the tax base may lead to a weakening of our financial position. Their approach is not realistic or financially prudent.

Finance Department:

This past year, our long-time Finance Director retired and we hired Kathy Koegel who was the Treasurer in the Village of Alfred. The transition has gone very well. Kathy did a remarkable job closing our books and working with the City's auditors considering she did not administer the FY15 budget. I have been talking to her about process improvements and efficiency measures in various parts of our operations. One area we are considering is the possibility of taking debit and credit cards to provide convenience to the public, reduce the number of manual transactions, and provide added safeguards by reducing cash transactions.

COMMUNITY PROJECTS

One of the unique characteristics about our city is the strong public-private partnership that permeates the community. I talk to City Managers from across the country on a regular basis and I'm proud to say I have not come across any that have a more well established or wide ranging public-private partnership than we do here in Corning.

In the interest of time, I'm not going to list every project we are partnering on, but I'll briefly list a few. Each of these has some measure of staff and/or City Council involvement.

Corning Museum of Glass Expansion:

First, even though the project was completed in 2015, I wanted to mention the expansion of the Corning Museum of Glass since it is one of the largest tourist attractions in New York State. This project estimated at \$64 Million has been a significant draw to our community. Attendance last year was estimated at over 400,000 people. Visitors to the museum patronize our local businesses, restaurants and hotels adding to our economic stability.

Days Inn Redevelopment:

The redevelopment of the Days Inn site on Riverside Drive began this past year, but slowed due to environmental remediation issues. Fortunately, it is anticipated the project will resume this construction season. Many business owners on the northside are looking forward to the new hotel. The estimated project cost is \$18 million which is largely financed by the private sector, but includes \$2 million of assistance from the Consolidated Funding Application (CFA) grant process through the Regional Economic Development Council.

Meadowbrook Apartments:

Meadowbrook Apartments on Lamphear Court are over 50 years old. Arbor Development is proposing to significantly renovate and improve this property. They have already met with the Planning Commission and have obtained site plan approval for Phase I. Their plans include a new building with 60 new units on the site in the first phase. Phase II will include further renovations and possible demolitions. The total estimated investment is approximately \$14 million. The City also received a \$600,000 CDBG award this fall for reconstruction of the Lamphear Court road.

Hospital Redevelopment:

We have continued to participate in discussions about the redevelopment of the former Corning Hospital site on Denison Parkway. Corning Community College is pursuing the redevelopment of the portion of the site on the southwest corner of Chemung Street and Denison Parkway for its nursing and other health related studies. In December, CCC was awarded \$3.5 million through the Regional Economic Development Council's Consolidated Funding Application process, and CCC is applying for an additional \$2.5 million grant. Having students closer to our downtown will help boost retail activity. Demolition of the structure on the main site is planned for 2016 to make way for a mixed-use development bringing much needed housing options into the city.

Bridge Street Pedestrian Safety Improvement Project:

The final design layout for the Bridge Street Project has been completed. The project will focus on pedestrian safety improvements and traffic calming from Pulteney Street to the Bridge Street Bridge many of which were identified in our 2011 evaluation of the area. We will also be paving Bridge street in front of Wegman's from Denison Parkway to the bridge. The total project cost is estimated at \$550,000, with a substantial portion coming from a Transportation Alternatives Program grant, and private sector contributions. We are anticipating issuing the bid documents in March or Early April.

STRATEGIC AREAS

In 2013, I suggested the City Council develop strategies around three core areas: 1) infrastructure financing; 2) our housing stock; and 3) economic development. Since that time, we have made significant progress in charting the City's strategic direction.

Infrastructure Improvement Strategy:

We have continued to follow the trajectory the infrastructure committee recommended in its financing model a few years ago. Although, we have delayed bonding additional funds due to the lack of state aid, unfunded mandates and the stagnant tax base growth, the City Council has continued to support building an additional \$100,000 each year into the tax levy to provide long-term sustainable street paving funding. This funding has been critical in financing the mill and overlay work we have conducted during the past two paving seasons, and public support for this approach seems to remain high. As we have discussed in the past, once our streets are up to acceptable driving standards we can then refocus our efforts again on reconstruction work.

Rapidly rising to the top of the priority list are the ice rink, swimming pools, and the Denison Park stormwater outfall pipe. The infrastructure finance committee will need to focus attention on these items this year and may want to look at alternatives such as consolidating the pools with the school district. I am continuing to try to identify funding for the Denison Park stormwater outfall pipe that is in need of replacement. The City staff is also continue to discuss funding options for the rehabilitation of the Bridge Street Bridge with the New York State Department of Transportation. Alison Hunt, in her capacity with Congressman Reed's office has also been researching funding options for us which is greatly appreciated.

Housing Improvement Strategy:

The adoption of a city-wide housing strategy was an important first step to improve our housing stock. Housing is a significant concern whether it be the condition of homes or the variety of housing types available to our residents. Approximately 70% of the homes in Corning were built before 1960. In recent years, there has been a need for newer housing which meets the lifestyle choices of our population as evidenced by the number of successful upper-floor conversions in the Gaffer District. The strategy deployed in the downtown, through our public-private partnership with the Gaffer District, is working well, and the new city-wide strategy holds significant promise if structured and resourced appropriately.

We have taken steps to begin implementing this strategy by hiring a consulting firm to update our zoning ordinance. We have also continued discussing with Three Rivers Development and Arbor Housing how to best structure the public-private partnership called for in the housing study and strategy.

Economic Development Strategy:

This fall we were awarded, a grant through the Regional Economic Council's Consolidated Funding Application process in the amount of \$24,000 to help develop his strategy. We are awaiting a final announcement on the \$30,000 Appalachian Regional Commission (ARC) grant we applied for in 2015. I am in the process of working on identifying the anticipated \$6,000 in City match. Once we have received the final ARC award and are under contract with the State of New York for the CFA awarded funds, the Mayor can appoint an Economic Development Strategy Committee.

The purpose of this project and the committee's work will be to develop a comprehensive economic development strategy. Our efforts in partnership with the Gaffer District have resulted in significant investment in the downtown. However, our overall taxable assessed value on a city-wide basis is not growing at a rate to sustain our service levels long-term or make necessary infrastructure improvements.

We need an economic development strategy for the staff to focus its efforts and to indicate the City's priorities to community partners and funding sources.

CONCLUSION:

Although we are financially stable, we are still facing considerable financial pressure due to the State's unwillingness to restore cuts to the AIM program or provide us with meaningful mandate relief. We need to continue to exercise caution in our financial planning and service level commitments.

We have made great progress in developing strategies around our three main initiatives: 1) Infrastructure Finance; 2) Housing and 3) Economic Development. Researching and building consensus around strategic directions by its nature is a time intensive and long process. But in the long run, if done right, it will be rewarding. I asked for everyone continued patience and focus on these three key areas.

As always, I appreciate your support, and I look forward to working with you as we continue to make difficult decisions to address the City's most pressing issues.