CITY MANAGER'S MESSAGE
"Status of the Administration"
(Delivered to the Corning City Council on February 3, 2020)

INTRODUCTION

This is the twenty-third annual report on the Status of the City's Administration which I have presented to the City Council as required by the City Charter.

Overall, our departments and administrative functions are operating well; although we are continuing to feel the strains of a reduced workforce and the need for additional staff in key functional areas such as human resources, information technology, and Public Works project management. We are also experiencing challenges with the recruitment and retention of police officers for a variety of reasons including the competitiveness of compensation from other agencies and increasing demands on law enforcement.

As we complete our twenty-fifth year of the Council-Manager form of government here in Corning, I am going to diverge from the traditional recital of organizational accomplishments and community projects and reflect upon the City's financial standing.

Our finances are stable as evidenced by our ability to recently maintain our A1 bond rating from Moody's Investors Service and our latest audit report which you reviewed a few weeks ago. However, our limited revenue growth, continued increases in large cost drivers, and lack of funding from New York State will continue to put pressure on property taxes, and could undermine our stability, especially if the economy begins to decline.

CHANGE IN FORM OF GOVERNMENT

In the 1990's, the City experienced a series of double-digit tax levy increases and near elimination of our General Fund Balance and reserve funds. These difficulties in financial performance resulted from a lack of professional management, which led to a change in our form of government. In 1995, the City moved from a Mayor-Commission form of Government to the Council-Manager Plan.

I compared property levy increases for the last 10 years of the Mayor-Commission form of government with our past 10 years. The average tax levy increase was 15.38% compared to 4.08%. Since changing to a professional form of government, a few of our other organizational accomplishments include:

- Increasing the City's bond rating from A3 to A1.
- Increasing our General Fund Balance from $133,208 in FY95 to $2,056,564 in FY19.
- Increased overall fund balances and reserves from $145,455 in FY95 to $7,992,749 in FY19.
- Continually improving internal controls and increasing financial transparency.
- Securing over $40 Million of grant and private sector contributions.

- Reducing our full-time workforce by 33.5% (149 to 102) while still maintaining service levels.
- Securing long-term labor contracts to provide stability for our remaining workforce and predictability in estimating expenses.
- Developing a 5-year Capital Improvement Plan which is updated annually.
- Reducing our fleet size by 19.5%
- Establishing water and sewer services as enterprise funds to make them self-supporting.
- Developing a descending block structure for water and sewer rates to more appropriately allocate charges based on the amount of use and the size of our systems.
- Consolidating the Senior Center and Recreation Department to provide savings while expanding programs.
- Transitioning the library from an inter-municipal library system to an association library to provide the library with a stable funding stream.

Since I was appointed in 1997, we have experienced challenging economic times, but have avoided double-digit tax increases through proper financial planning and consistently strong management. This hasn't been easy and required a few years of above average tax levy increases; adjustments to user fees and charge backs; a reduction of our full-time workforce; and careful management of fund balances and reserves.

WORKFORCE REDUCTIONS

Over the years, we have frequently talked about our workforce reductions. I know you've seen this list before, but it's important to keep in the forefront, so we don't lose sight of our organization's limitations to deliver services, make internal organizational improvements, and provide policy support.

TITLE	#
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
Buildings & Grounds Supervisor	1
Senior Citizens Center Director	1
TOTAL	29

In FY97, we had 131 full-time employees. Since that time, I have reduced our full-time workforce to 102 employees. This is a loss of 29 positions or a 22.14% decrease. However, there are longer trends that are also worth reviewing. Prior to my actions, the previous City Manager, Suzanne Kennedy, reduced our workforce from 19 full-time employees in FY95 to 131 in FY97, a reduction of 18 full-time employees or 12.08%. Even prior to the change in our form of government, the City had been losing full-time positions. In FY90, the City had 167 full-time employees, bringing the total decrease to date to 65 employees or a 38.92% reduction.

It takes constant work to mitigate the impact of these reductions through refinements to workflow processes and the introduction of new technologies. As I have mentioned to you in the past, not having a Personnel & Labor Relations Administrator is an impediment to designing workflow refinements, personnel policy development, training, and statutory compliance. It is the one position that would be most beneficial to the overall operation of the organization if funding becomes available to restore any workforce losses.

Labor Agreements:

With a significantly smaller workforce, it is increasingly important to provide compensation packages sufficient to attract and retain a high-quality workforce while minimizing turnover. This requires having current long-term labor agreements.

We are nearing the end of the contract periods with all four of the City’s collective bargaining units and are in the process of commencing negotiations to reach successor agreements.

Unit	Expires
CSEA 8702	June 30, 2020
CSEA 8702-01	December 31, 2020
Crystal City PBA	December 31, 2020
Corning IAFF	June 30, 2021

These agreements provide the basis for healthy labor/management relations. Long-term agreements provide: 1) the ability to better predict expenses; 2) our current employees and those we are recruiting greater wage and benefits certainty; and 3) stability to the terms governing employment, so we can focus on providing services rather than being distracted by resolving differences in assumptions and expectations.

I am optimistic that we will be able to reach fair agreements with these collective bargaining units, while trying to minimize the increase in property taxes. However, given our stagnant revenues it is only realistic to expect that there will be some impact to taxes.

SAFEGUARDING ASSETS

Our finances are at the core of our operations. We aim to generate the resources necessary to fund local service levels through fair taxation and fee schedules, and through external resources such as State aid. Since converting to a professional form of government, we have significantly improved our financial controls, planning, and transparency. To safeguard and account for these funds, we need adequate staffing, training, equipment, and cybersecurity resources.

Recently, we have been focusing on improving our cybersecurity, but this is proving difficult without an Information Technology (IT) department. We are also beginning the process of replacing the City's computerized accounting system which is now 20 years old with one major upgrade over 10 years ago. We expect installation of the new system will happen later this year. It will take a significant amount of the Finance Department's time to ensure the changeover happens as smoothly as possible, as well as the need to train personnel in all departments on its use. This will certainly limit staff's time to focus on other areas as we upgrade this technology.

As I have mentioned to you in previous correspondence, Microsoft announced it will no longer support Windows 7 which leaves computer systems vulnerable to cyber-attack. The National Security Agency (NSA) is urging users to upgrade these systems to Windows 10. We are currently reviewing our Windows 7 units which are widespread throughout the various departments. I will be prioritizing budgeted funds to upgrade and/or replace these units a soon as possible. We will also likely need to include additional funding in the upcoming budget process.

PROPERTY TAX REVENUES

The property tax cap was introduced in FY13 and has was promoted by the Governor and State Legislature to control property taxes even though they have not restored funding to the Aid & Incentives to Municipalities (AIM) program or enacted meaningful mandate relief to help control our cost drivers. As I have cautioned the City Council in the past, staying under the tax cap year after year will be unrealistic without further revenue growth and support from the State.

Our last two credit opinions issued by Moody's Investor Services stated, "Property taxes make up approximately 50% of the city's annual revenues and, positively, the city has demonstrated a willingness to exceed New York State's 2% cap on property tax levy increases in order to maintain structurally balanced financial operations." Although we haven't exceeded the cap since FY18, it is becoming increasingly likely we will need to soon if we are to maintain our financial stability.

Property Tax Burden:

The overall property tax burden is comprised of the tax levies for the three taxing jurisdictions: The City of Corning, the School District and Steuben County. These levies are spread among property owners based on assessed value.

Jurisdiction	2019-20 Tax Rate	Percentage
City of Corning	$11.79	25.7%
School District	$25.33	54.4%
Steuben County	$8.75	19.9%

The City's property tax is approximately 26% of the overall tax burden with the School District representing 54% of the burden, and Steuben County at 20%. In order to control property taxes, As I've mentioned in previous budget workshops, I encourage policy setters from the taxing jurisdictions jointly discuss the overall property tax burden and how it's proportioned among our agencies.

City Tax Distribution:

I have been talking with our new Assessor about the need to conduct another comprehensive revaluation. This is necessary in order to continue distributing the property tax levy fairly. We strive to keep our equalization rate at 100% of market valuation, but it has been slipping in recent years as the real estate market has strengthened. Our last comprehensive city-wide revaluation was effective in 2014.

The cost of hiring a firm to assist with the process is estimated between $150,000 to $175,000, but I have designated sufficient funds in our Tax Certiorari Reserve to cover these costs when we are prepared to proceed. Most likely, we will try to time the revaluation to commence data collection in 2021, with the new valuations becoming effective in 2022. As we get closer towards implantation, we will hold a workshop for you to explain these issues in more detail as we have done in the past.

<u>NON-PROPERTY TAX REVENUES</u>

***AIM Funding*:**

Once again, Governor Cuomo has not included an increase to the Aid & Incentives to Municipalities (AIM) program in his Executive Budget despite proposing an additional $832 million increase (3%) in school aid. This lack of support for local government is continuing to put pressure on local property taxes and limits the ability of communities to provide needed services. Our current AIM allocation is $1,499,566, a reduction of $122,734 or 7.6% from FY09. If we would have received an annual increase of 3% in AIM starting in FY10, we would be receiving $2,245,643 in AIM funds for an increase of $746,077. (Please note, that is approximately 10% on our tax levy.)

In FY13, we did receive a one-time increase through a budget strategy commonly referred to as "spin-up" aid. This was an advancement on our FY14 payment resulting in the City of Corning receiving an additional $900,000 for FY13. The amount of the "spin-up" will be advanced each fiscal year thereafter, as not to create a shortfall in any individual budget year. We used these funds for capital improvements, not to support ongoing expenses. It should be noted that the advancement has fundamentally changed our cashflow with nearly all of our AIM funding now being realized during the last month of the fiscal year. Having sufficient fund balances and reserves has allowed us to absorb this shift and avoid issuing Tax Anticipation Notes to bridge the financial gap.

New York State Street Maintenance Funding:

We receive various types of funding for street maintenance from New York State. The Governor's recent Executive Budget maintained Consolidated Local Street and Highway Improvement Program (CHIPS) funding at the current levels. The amount of CHIPS funding allocated to the City of Corning is proposed to remain at $403,972. The Governor did include an extension to the PAVE NY program which, if administered using the prior formula, will continue to provide the City with $92,211 for FY21.

Unfortunately, the Governor's Executive Budget eliminated Severe Winter Recovery Aid to municipalities. If this funding is not restored by the Legislature, we will experience a loss of $62,867 for street repairs in the upcoming fiscal year. The New York Conference of Mayors and Municipal Officials (NYCOM) is advocating for this funding to be restored. I have also discussed this issue with Assemblyman Palmesano who has been successful at leading efforts in the past to restore these funds.

As you know, the City of Corning also receives Arterial Reimbursement Aid from the State of New York for the maintenance of Centerway and Denison Parkway. Both are State highways. This year, we anticipate we will receive approximately $55,129. The reimbursement rates have not changed since 1987. If the rates were adjusted for inflation, I estimate we would receive approximately $121,284 for an increase of $66,155. We have been working with NYCOM for several years to restore this funding, and I have testified before the New York State Assembly Committee on Cities in the past to stress the importance of these funds. (That testimony is posted on the City's website.) Last year, the Senate and Assembly passed legislation to adjust Arterial Aid funding for inflation, only to have the bills vetoed by the Governor.

Sales Tax:
The City receives a portion of County-wide sales taxes based on a sharing agreement with Steuben County and the City of Hornell. In addition to sales tax revenues from the sharing formula, Corning and Hornell also receive $780,000 annually from the County's 1% Local Sales Tax Option. (Please note: A more detailed explanation of our sharing agreement and the 1% Option can be found on page 21 of the City's budget.)

For FY20, I have estimated sales tax revenues at $3,858,000 up from $2,947,683 when I started in 1997. Our sales tax increases are a result of former Hornell Mayor Shawn Hogan and I successfully negotiating more favorable allocations. In addition, I recently negotiated a $40,000 increase for both the Cities of Corning and Hornell from the 1% Local Sales Tax Option. If approved by the State, this latest increase will become effective in November.

Because sales tax revenues rise and fall with economic conditions, we need to be cautious about our expenditure commitments over the next few years. When the economy begins to decline, we will need to find ways to offset the loss of higher sales tax revenues we are currently experiencing or reduce service levels.

Gross Receipts Tax:
Under NYS General Municipal Law, the City imposes a 1% tax on companies providing utility services in Corning. The tax is levied on gross income from utility sales and services. Several years ago, when the Public Service Commission (PSC) allowed consumers to purchase energy commodities separate from delivery services, we began to see our Gross Receipts Tax revenues decline. In FY97, we received $359,460 in Gross Receipts Tax revenues. In our current fiscal

year budget, I have estimated these revenues at $150,000 for a decrease of $209,460. We have been working through the New York Conference of Mayor and Municipal Officials (NYCOM) for several year to seek legislation and agency rulings to require these utilities to pay this tax.

Interest Earnings:
Our interest earnings are still stagnant. For FY20, I am estimating interest of $11,000 which is a $295,160 decrease or 96.4% from the actual amount of $306,160 realized in FY07.

Building Permits:
We are predicting our building permit revenue will be $192,526 for FY20, up from the $185,518 we estimated for FY19. Building permit revenue is largely a function of the economy. We are currently benefiting from several large development projects being undertaken in the community, but that could change if the economy begins to cool.

Guthrie Contribution:
In 2016, I negotiated a voluntary contribution from Guthrie Medical to offset some of the property tax losses resulting from the reclassification of the Centerway medical building to an exempt status. The commitment I was able to secure totaled $500,000 over a 4-year period. The current year's budget includes the last $125,000 payment under this arrangement. For next fiscal year, the approximate impact to property taxes will be 1.8% due to the expiration of Guthrie's commitment

LARGE COST DRIVERS

State Pension Costs:
Municipal governments in New York State are mandated to offer employees enrollment in the State's pension plans. Our employees are members of the Employees' Retirement System (ERS) and the Police & Fire Retirement System (PFRS). These are defined benefit plans, guaranteeing certain payout levels upon retirement based on date of hire, years of service, and earnings regardless of market performance. A few years ago, the State of New York established new Tier V and Tier VI pension categories with higher employee contributions and longer length of service requirement to help control pension costs. Despite these efforts, and the reductions to our full-time workforce, pension rates continue to be one of our largest cost drivers. In 2019, our pension payments totaled $1,109,203, an increase of 2,178% from our required payment of $48,683 in 2002.

Pension rates are tied to the performance of capital markets. The New York State Comptroller uses actuarial calculations to set annual rates based on the value of the plans' assets on March 31^{st}. If the economy declines, we will likely experience rising pension rates. I have reserved some funds in the Retirement Reserve which we can use to assist in transcending an economic downturn, but they should only be used as part of a well-thought out budget stabilization and recover strategy similar to the ones I crafted for FY04 and FY11.

Health Insurance:
Although there has been much discussion over the years at the Federal level about healthcare reform to expand coverage and control costs, the City's health insurance premiums are much

higher than they were 10 years ago despite the reductions in our full-time workforce. 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 $1,897,566.

Retiree health insurance costs are also escalating significantly due to a growing number of retirees and higher premiums. In FY04, total retiree health insurance premiums were $361,643. This fiscal year, we have budgeted $1,471,206.

For the fiscal year ending June 30, 2019, our accrued liability on our financial statements resulting from future retiree health insurance payments was estimated at $35.7 million. I have negotiated cost control measures over the years into our collective bargaining agreements to reduce our exposure. If I hadn't successfully negotiated these concessions at the bargaining table our total liability would be approximately $63.7 million. One idea that I am analyzing is to provide buy-out options for retired employees. This would have to be carefully crafted, but might be a benefit to both to the City and the retirees.

FUND BALANCES & RESERVES

Use of Fund Balances & Reserves:

Fund Balances and Reserves have many uses:

1. They allow us to take advantage of grant opportunities which require funds to be dispersed on a drawdown basis after expenditures are made;

2. They are used to assist with our cash flow;

3. They can help reduce the amount of bond issuances for capital projects; and

4. They can be used to mitigate property tax impacts.

Although our fund balances and reserves are generally stable, we need to continue to use these funds conservatively. In FY10, we budgeted $569,403 as a means to lower the tax levy. Since FY10, we have been making progress in reducing our reliance on these funds. We did budget an increase in FY14 and FY15, before again reducing our reliance in FY16 – FY20. In the current fiscal year, we budgeted $175,000. At the end of each fiscal year, we have also reduced the amounts we actually use, even when budgeted, when expenses were lower than anticipated. Because we have high fixed costs, overreliance on these fund balances and reserves could lead to higher property taxes and greater service reductions in future years.

Water/Sewer Fund Balances & Reserves:

As we have discussed in past budget and audit workshops, our Sewer Fund Balance had been extremely low leading into FY11. 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 $85,680 at the end of FY16. A few years ago, I developed a strategy to stabilize the fund. This strategy has been working, as our

Sewer Fund Balance was $454,872 at the end of FY19. As we work through upcoming budgets and capital projects, we will need to continue maintaining a strong Sewer Fund Balance.

CAPITAL EXPENSES

Bond Rating:

Our bond rating is an important indicator of our overall financial health. Our last rating was an A1 from Moody's Investors Services for our most recent debt issuance. In 1997, our rating was an A3. We have made some progress over the past 20 years based on our sound financial operations, strong reserve levels, and stable tax base. Our credit challenges continue to be our elevated fixed costs and a significant taxpayer concentration in one industry which will probably preclude us from rating higher in the future.

Total Indebtedness and Constitutional Debt Limit:

For several years, I have worked to reduce our overall indebtedness and reduce our debt as a percentage of our constitutional debt limit. However, we are at a crossroads with several large capital projects in front of us which will undoubtedly require the need to borrow some funds. These include items such as swimming pool improvements and sewer upgrades.

In FY97, our total debt was $14.3 million which, at the time, placed us at 50% of our constitutional debt limit. At the end of FY19, our total debt was $7.9 million using 15.9% of our constitutional limit. Continuing to manage our debt will be a high priority. As we tackle outstanding capital projects, we will continue to seek outside contributions such as grant funds to avoid over-reliance on capital debt.

Large Capital Investments on the Horizon:

One of the challenges we are going to need to confront are large capital projects that are becoming near-term priorities.

> Denison Storm Outfall
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> The replacement of the stormwater outfall pipe in Denison Park is well underway. The depth of the pipe and contamination on the former City dump site has made this project challenging. As I have mentioned to you previously, the bids for this project exceeded the amount of budgeted funds which has required us to divide the project into two phases. In the upcoming Capital Improvement Plan, we will need to include the remaining scope of work we eliminated from the current undertaking. Adding the cost of this additional work to our Capital Improvement Plan will impact are ability to do other projects if we are to keep property taxes stable. I will assess this issue further issues as I continue to prepare my upcoming proposed budget.
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> Fire Apparatus:

The City’s tower truck was purchased in 1992. It is now 28 years old and is requiring more routine maintenance. We need to begin planning for its replacement. The preliminary estimated cost is approximately $1.2 - $1.4 million.

ADA Improvements

As I mentioned in previous correspondence, municipalities are required to prepare an Americans with Disabilities Act (ADA) Compliance Transition Plan. This requires the collection and evaluation of field data for various structure such as curb cuts, crosswalks, publicly accessible buildings, and parking lots. I anticipate the amount of ADA compliance work will exceed what a small community like ours can afford, likely costing several million dollars. Once the plan is complete, we will try to secure alternative sources of funding to fully comply with the ADA.

Swimming Pools

The City of Corning has two outdoor swimming pools. These pools are open 11 weeks each summer, weather permitting, and remain idle the remaining 41 weeks of the year. They are used for open swim, lessons, and special activities.

Originally built in the 1960's, the Denison Park Pool was reconstructed in 1973 after the Agnes Flood. We added a wading pool in 1998. We recently replaced the filtration system for the main pool using proceeds from the FY17 Capital Improvement Bond to allow the facility to remain operational for now.

The Stewart Park Pool was built in 1983. This is the second pool on this site. The first pool was replaced due to soil settlement. We recently conducted some repairs to the pool’s gutter system and a concrete wall in the filter room that had settled. I am concerned that this park may have industrial soil contamination from the glass industry which may make doing anything on this site may cost prohibitive.

Both of these pools are beyond their useful life. The City Council will need to set direction concerning the future of these pools soon, since it takes many years to develop budget estimates, secure funding, complete design and conduct actual construction. As I have mentioned previously, you may want to consider consolidating the pools into one location, or partnering with the School District or YMCA to share their capacity.

CONCLUSION

We have some financial challenges ahead of us. We have stagnant, and in some cases declining large revenue sources, but are temporarily bolstered by strong sales tax and economic sensitive revenues such as building permits. It doesn’t take much imagination to foresee we are going to have a period of financial instability if the economy begins to cool and we can’t secure additional State aid or find ways to increase revenues. It will be necessary to maintain a conservative approach to our finances if we are to remain financially stable. I advise we not add any additional services to the existing workforce given its limited size.

Earlier, I talked about the loss of 65 full-time positions over the past 30 years. Think about what we could accomplish if we had those 65 positions back. We could enhance our public safety services, plow streets quicker, staff your committees better, provide much needed maintenance to our facilities and infrastructure, improve employee training, provide better human resource compliance, establish proper IT services, plant and maintain more street trees, explore additional economic development opportunities, keep up with street light maintenance on City-owned poles, submit and administer additional grants, and the list goes on. But that's not reality. We must live within our means which will require patience to resist the urge to expand services and explain to the public our limitations. It will also require creativity and commitment to find new revenues and re-evaluate user fees.

One creative way to reduce costs and fund service improvements is to transition responsibilities away from local government using public-private partnerships rather growing the organization in a direction we cannot sustain. We have numerous examples of public-private partnership that are successful here in Corning. Some of these include revitalizing the downtown through the Gaffer District; improving the housing stock through the Corning Housing Partnership; housing outside agency services in the Senior Center; and partnering with Regional Economic Development and Energy Corporation (REDEC) to assist with loan administration.

Other areas we might be able to benefit from further partnerships might include consolidating the CEATS system with the County's transportation services; providing improved parks services through non-profits; and coordinating street tree plantings with independently organized volunteer organizations and housing groups. All of these partnerships will require well-crafted written agreements detailing each party's responsibilities and minimizing the City's liability exposure.

We have a lot of opportunities ahead of us despite our challenges. We have successfully addressed difficult economic time before, and I am confident we can do it again if and when the economic downturns during the next few years. I look forward to continuing to work with you to provide high quality services at a reasonable cost, promote economic development, and improve our neighborhoods.