

October 1, 2010

Dear Honorable Members of the Niagara Falls City Council:

I am happy to present to you today the recommended Municipal Budget for the City of Niagara Falls. I know there is great trepidation in the community about what the future may hold. North Tonawanda had to close a budget gap, and even after layoffs, Mayor Ortt had to propose an overall increase of \$.98 per thousand dollars of assessed value. The Town of Wheatfield has to do short-term borrowing of \$620,000 this week just to make payroll; they have \$200 left in their sales tax account. Salamanca announced that it was laying off 49 workers, including police officers, as a result of late delivery of casino revenues. Lockport isn't able to finish the budget yet, and may not until mid-November. In Erie County, Executive Chris Collins is laying off 223 current employees, including 14 people from the office of the elected County Comptroller whose job it is to make sure funds are spent wisely. So things are tough all over.

As we meet here today, we face at all levels of government a set of challenges that are almost unprecedented in the history of our nation, our state and our city. These are not unanticipated challenges. By late spring of 2008, with the State sinking deeper into fiscal crisis and the national economy reacting to the shocks emanating from Wall Street, it was already apparent that all New York municipalities faced a series of tough budget years ahead. Therefore, with the able assistance of the City Administrator and City Controller, with the cooperation of the Niagara Falls City Council, and based on the theory that prior planning prevents poor performance, we immediately began taking steps to prepare for what we knew would be a very uncertain future. Today, I will explain how tough decisions made then will help us weather the storm we face today.

In October 2008, I presented a budget that held the tax levy constant, but warned that we were likely experiencing the "calm before the storm." Last year, recalling that warning, I reported that the "tsunami of tough economic news" was at full swell, but we were keeping our heads above water. Once again, I announced we would be able to keep the tax levy constant in 2010. But I warned that "finding a way to keep your head above water until the day the waters finally subside" was what surviving an economic crisis was all about. Today, as I present my proposed 2011 budget, that's still the name of the game. But the water has gotten higher.

One of the most important survival principles when you're in a tough spot is that everyone has to share the pain. Throughout the ongoing 2010 budget year, we have taken steps to cut our expenses to operate city government. At the initiative of Council Chairman Fruscione at the September 7 City Council meeting, the City Council passed a resolution recommending a spending freeze. A memo went out from the City Administrator and Mayor to all Departments on September 15 directing all Department heads to "cease any and all discretionary spending in all budget account lines." This included requests for upgrades or stipends even if otherwise well-deserved.

These actions were just the latest in a series of initiatives dating back over two years. The goal was to control and where possible reduce spending already in the budget pipeline in order to

generate fund balance to be re-appropriated for subsequent budgets, including 2010. We saw the writing on the wall. For three years, we have been building Special Project Fund balance, created as a source of funding for the Fire SAFER grant and road and other infrastructure projects. In 2008, we learned that our State aid (i.e., Aid and Incentives to Municipalities or AIM), rather than increasing 9% annually as we had been promised, would be decreasing in future years (\$676,606, as it turns out, in 2009 and 2010). Interest income on City bank deposits also declined, and the continuing recession impacted sales tax revenues. Despite this, we were able to generate over \$10 million in savings through 2009 and 2010, and even though part of it has been used as planned for major paving and other capital projects, our frugality in the past means we are now in a position to use Special Project Fund Balance to deal with emerging fiscal threats. With that said, because we are doing responsible, multi-year financial planning, I assure you we will have the wherewithal going forward to buffer economic shocks and protect our city from fiscal instability. Everyone is going to have to sacrifice, but we are going to get through this.

Usually storms in this region come in from the southwest, across Lake Erie. The economic storm that we are currently enduring, on the other hand, clearly has its origins to the east—not surprisingly, in the Albany area... Here's what hit us.

First, as noted above, AIM aid—the major source of State aid to distressed municipalities—was cut instead of being increased, which was the State plan. This was especially galling to us, because the whole point of AIM aid was to encourage municipalities to do multi-year planning by guaranteeing them a stable source of income that could be budgeted against recurring expenses. Albany told us we could count on them. Albany was wrong.

Second, we saw our total obligation for wages increase by over \$1.5 million from 2010 to 2011. The vast majority of this is in the Police and Fire Departments, where it was driven not by an arbitration award by which we must abide. We recently expanded manpower in both our Police and Fire Departments by implementing COPS and SAFER grants, which are federal grants. I do not regret in any way expanding our ranks of police and firefighters because the taxpayers told me it was their priority. But these things come with a cost that must be paid.

Third, pension expenses for public safety and other public employees increased about \$1.3 million. The New York State pension fund, in which we and all other New York municipalities participate, was hard hit by the collapse of Wall Street. Lower returns on the fund's investments created gaps in the State's pension fund that get passed on to local government. Mismanagement on Wall Street sunk the State pension fund; we're stuck with the bill to get it afloat again. There is no alternative.

Fourth, contractual health insurance expenses increased over \$1.25 million from 2010 to 2011. Health insurance costs, as we all know, will continue to increase for the foreseeable future. In 2009, in order to address this significant cost, we switched to self-insurance and changed health care brokers, while continuing with the same coverage for our employees. God only knows where we would be today if we had not taken that step last year. We were able to save money without compromising employee health care. Instead of the 12-14% increases in health care costs we sustained in past years, this year our overall increase was only 8%--driven largely by a

whopping 20% increase in contractual retiree health care expenses which no mayor can touch. Working together, we kept the increase for our current employees to a modest 4%. One of my goals for this year is to sit down with our City unions and discuss how we can cooperatively lower our future health care costs without diminishing the quality of care our current and former employees need and deserve. We can't ask the taxpayers to pay the insurance companies more than they can afford to pay for policies to cover their own families.

Finally, whereas new construction and the end of some PILOT (payment in lieu of taxes) agreements brought \$22.7 million of new business properties on to the tax rolls in 2010, new PILOTs granted by the County IDA in Lockport helped cause a \$2.2 million drop in the business tax rolls for 2011. That's bad for everybody, because the rest of us---and especially the other businesses that don't have PILOTs and pay their taxes---have to pick up the slack. I don't think that's fair, and this year we're going to do something to try to address the issue. More on that later.

This "perfect storm" of increased expenses and declining revenues--factors over which we had no control--created a potential budget gap of over \$7 million, as we reported to the City Council on September 20, 2010. We asked all Department heads to cut any vacant positions in their current budgets, and submit 10% cuts for 2011 in their discretionary lines. On the 22nd, we followed up by asking for cuts in temporary personnel (excluding youth bureau programs, parking and the golf course), non-contractual uniforms and discretionary overtime. It is not easy to make cuts in a budget that has already been combed over in past years, but I'm proud to report that this process resulted in an estimated \$1.2 million dollars in cuts from an already bare-bones budget.

In spite of the extreme challenge we faced, we have a balanced budget, meeting our responsibilities to provide services, limiting the impact to taxpayers, with no layoffs of public safety or other personnel, and with the absolute minimum tax possible under the circumstances. In addition, we were able to do so without backsliding on our past policy of equalizing homestead and non-homestead tax proportions as a way to stimulate job creation and business investment.

For the last three years, we have held the tax levy steady at \$27,374,235. Since the cost of living goes up each year by a few percent, that meant having to do more with less each year. We found a way. For 2011, facing a \$7 million gap, we had to increase the levy by \$1 million, to \$28,374,235. That's approximately a 3.6% increase total for the entire period from 2008 to 2011, for an average of less than 1% per year. Another way to look at this: we are running the City with only \$100,000 more than the levy raised in 2007.

This was achieved without using the reassessment process as a back-door method of increasing taxes—we have had no reassessment since 2006. How did we do it?

We paid debt obligations in the budget using \$1.5 million from a debt service fund reserved only for that specific purpose. Funds were identified after a careful review showed they were left over from capital projects that had already been completed and paid for.

Starting in 2005, the State began increasing our State aid (AIM). We were told it would increase 9% each year. But we didn't count on that, and that was a good thing, as we know today. However, in the years we did get additional funds, we set them aside for property tax relief, which was a requirement of the AIM program. Now that AIM aid has been cut, those funds are gone. We used \$3 million from AIM Fund Balance in 2009, \$1.5 million in 2010, and we are left with approximately \$756,000 to help close the gap in 2011. That's why we decided to begin using Special Project Fund Balance as a source of funds for property tax relief.

So, in order to address cuts in State aid under the AIM program noted earlier, we used \$2.5 million from Special Project Fund Balance, now adding property tax relief to the other restricted purposes (e.g., paving and other capital projects) for which we will also use these funds

As I noted earlier, some businesses in our City have received PILOT agreements from the County IDA that decrease or eliminate their tax liabilities in return for making investments and creating jobs. Other businesses that are opening or expanding are able to take advantage of financial assistance provided by our Niagara Falls City Development Corporation or USA Niagara, the local affiliate of Empire State Development Corporation. On one short stretch of storefronts in the downtown area, the City has already made \$300,000 in grants and another \$100,000 in loans, with USA Niagara chipping in \$307,000. That doesn't include a \$50,000 weatherization grant, various façade grants made or in process, or the cost of various infrastructure improvements that benefit all the businesses in the neighborhood. We're glad we're able to help out in strategically important but economically challenged neighborhoods, using funds like slot machine revenues that don't impact anyone's tax bill. We're not going to quit now. But what about the other guys, the existing businesses not planning a major expansion that are just trying to hang on and preserve the jobs they've already created, and the investments they've already made? They're already carrying the burden for the taxes that were lost when properties were taken off the tax rolls so the Seneca Nation of Indians could open the casino. We think we need an economic development program for them, too.

That's why we are using \$455,000 of casino revenues to create a Business Tax Relief for Economic Development fund. In spite of our multi-year efforts to equalize homestead and non-homestead tax rates, businesses still pay about \$14 more per thousand dollars of assessed value. Creation of the fund will make sure that the burden of balancing the budget doesn't fall disproportionately on the backs of our hard-working small business owners.

Several small sources of revenue are likely to be up next year, including sales tax. But as I noted earlier, after three years with no change in the tax levy, we need to raise some additional revenue in order to keep going. This first proposed tax increase under my administration amounts to about 3.6% for residential properties and, after the Business Tax Relief program is applied, 4.2% for businesses. An average family in an average \$75,000 home would pay about \$46.50 more than last year; the average business property worth \$100,000 would pay about \$130.20, or a little over \$10 a month, more. If you've been following the news, I think most people expected much worse.

Please note that this amount allows us to avoid putting any of our City employees—the cops that patrol the streets, the firefighters we count on in an emergency, the DPW workers that are

rebuilding our fractured streets and sidewalks—into the unemployment line. By working on economic development projects like Globe Specialty Metals, Ashland Advanced Materials, the Norampac expansion, the Culinary Institute and many more, we seek to create job opportunities for our people. But the public sector jobs count, too. How can I ask private-sector employers not to lay off their workers if I can't find a way to keep my own workers on the job? This budget will allow us to continue doing what the voters elected us to do: rebuild the City of Niagara Falls. We have completely funded the request from our public library trustees, and I want to congratulate the library trustees and staff for submitting the most detailed, thorough and complete accounting of income and expenses we have ever received from them; it in effect creates a new baseline for our efforts to preserve and improve this vital City institution. Our crime-fighting programs such as the Roving Anti-Crime (RAC) unit, firefighting and fire prevention, road and sidewalk repair, youth recreation, senior programs, economic development and other vital programs will be as strong as ever. We are headed in the right direction, and we are not going to quit now.

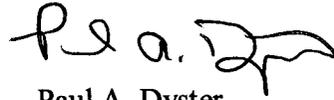
This administration, as I have noted several times already, prides itself on sound financial management, which has been noted by our bond rating agencies, leading to improvements across the board. It will be noted that this 2011 budget makes use of some one-time revenues—funds that are available now because of past good decisions but that will likely not be there for us in future years. This is something of which we are well aware, and just as in the past we had a multi-year financial plan to deal with the crisis we face today, today we have a multi-year financial plan to deal with the challenges we are surely going to face in the next few years. Through multi-year financial planning, we provide *our own* safety net because we know it is the key to success for any city. We're not counting on anyone to bail us out, because, frankly, we think Albany and Washington have problems of their own to deal with. We plan conservatively—that's small 'c' conservative—using only the revenues we know will be there in the future. That's the business-like approach I pledged the voters I would follow.

All plans are living documents and must react to unanticipated events, from unexpected economic catastrophes to natural disasters and other factors beyond our control. But having sound future plans provides a firm foundation on which to build future policy whatever the future may hold. Please note that, with an approximately 3.6% tax levy increase equally shared by residents and businesses—the first in four years—we have been enabled to close a \$7 million budget gap without layoffs or service cuts. This is a very significant accomplishment—and one achieved without touching the recommended 5% of our operating budget (\$4.2 million) that we must hold as undesignated fund balance (what the lay person refers to as the City's "rainy day" fund).

We are not out of the woods yet. But if we continue to be strong, build for the future, and make wise decisions about our finances, a bright future will lie ahead for us on the day when this "great recession," like even the deepest and most prolonged economic turndowns of the past, finally comes to an end.

Thanks to our City Administrator, our City Controller and her staff, and all the Department heads and other staff who have helped make this result possible. I look forward to working with the City Council to finalize the 2011 budget as we started it—as a team effort. God bless you, and don't stop thinking about tomorrow.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul A. Dyster". The signature is fluid and cursive, with a large, stylized initial "P" and a long, sweeping tail.

Paul A. Dyster
Mayor