



Alan G. Hevesi

## LOCAL GOVERNMENT ISSUES IN FOCUS

# Fiscal Challenges Ahead for New York's Cities

**“The average gap is projected to be 5.2 percent of total revenues in 2007 growing to 9.8 percent by 2009.”**

**“A central State review of multiyear plans would ensure that cities prepare more consistent and comparable plans.”**

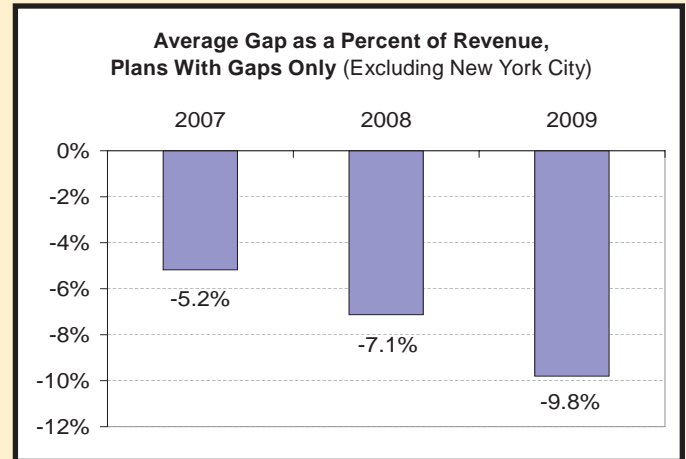
### Summary

Many cities in New York State face fiscal challenges as expenditure pressures often outpace projected revenues in an environment of stagnant property values, shrinking populations and heightened demands for service delivery. To help cities focus on long-range planning as a tool for coping with these fiscal realities, new State revenue sharing funds for cities are contingent upon development of multiyear financial plans. Earlier this year, all cities certified that they had created such multiyear financial plans, which had previously only been required of a handful of cities in fiscal stress.

Analysis of these plans indicates that, not surprisingly, most cities in the State are projecting budgetary gaps which grow in the outyears of their respective plans. For those cities projecting budget gaps, the average gap is projected to be 5.2 percent

of total revenues in 2007 growing to 9.8 percent by 2009. Further analysis shows that projected gaps widen to serious levels in future years, with 10 cities projecting gaps in excess of 10 percent of revenues in 2009. Projected gaps exceeding 10 percent of revenues are generally indicative of severe fiscal stress.

Plans shared with the State varied greatly in quality and methodology, with several plans addressing anticipated budget gaps with increases in property taxes or other policy changes. The assumptions and approaches used by some cities could have benefited from State review and assistance, but the current statute does not require any State analysis



of cities' multiyear financial plans. Since this great variation means that comparisons across cities could be misleading, this report does not generally include any city-specific projections. OSC believes that cities would benefit from additional training and technical assistance, and a process that requires formal submission, review and approval of each multiyear plan.

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## Background

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In recent years, local government expenditures have been growing at twice the rate of inflation, often due to factors outside the immediate control of these governments, such as the high cost of employee health care, energy and other fixed costs. Revenues, on the other hand, have increased largely as a result of tax rate increases rather than underlying economic growth, thereby placing an ever-greater burden on local taxpayers. This structural tension between expenditures and revenues reflects the delicate balance that local officials must achieve between service delivery and fiscal responsibility as they develop their annual budgets. Upstate cities, in particular, are prone to fiscal stress due to stagnant property values, aging infrastructures and the high service needs of residents and commuters.

Fiscally stressed localities can be tempted to address budget difficulties as a series of one-time problems, spending down reserve funds and using other non-recurring revenue solutions to plug budget gaps. However, as cities ranging in size from New York City to Troy have found, these problems have a way of emerging suddenly as full-blown crises.

Multiyear financial planning has generally been one of the tools used by State-imposed control boards to help local governments in fiscal crisis get back on their feet financially, primarily because such requirements force local governments to make concrete plans to address their financial difficulties. Over the last few years, the State has added new requirements for cities in fiscal stress to prepare such plans as a means of focusing local officials on the importance of long-range planning, culminating in the requirement for all cities to do so under the Aid and Incentives for Municipalities (AIM) revenue sharing program. (See AIM text box.)

### **Aid and Incentives for Municipalities (AIM) Financial Planning Requirements**

The 2005-06 State budget provided substantial additional funding for cities under a new Aid and Incentives to Municipalities (AIM) program, on the condition that all cities certify that they have completed multiyear financial plans. The required plans must cover at least three fiscal years (i.e., the current year and two subsequent years) and project: employment levels; expenditures, including personal service, fringe benefits, non-personal service and debt service; revenues, including property taxes (including property tax rates, the value of taxable real property, resulting tax levy and estimated revenue), sales tax and other annual non-property tax revenues; one-time revenue sources and reserve fund amounts. They must also show that cities are using new AIM funding and seeking other cost savings to minimize property tax growth.

In response to this new statutory requirement, the Office of the State Comptroller developed a Local Government Management Guide (LGMG) to provide general guidelines to assist cities in the development of their multiyear financial plans, including suggestions for how to make good long-term revenue and expenditure projections and how to draw those projections together in a useful document for decision-makers. Developed with input and assistance from local officials across the State, the guide also includes an electronic template for cities to use in the preparation of their plans. OSC has also presented training on financial planning at several conferences and training sessions for city officials. This information is available at [www.osc.state.ny.us/localgov](http://www.osc.state.ny.us/localgov).

The 2006-07 State budget provided additional funding for cities and continued to require that cities prepare multiyear financial plans.

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Used in advance of a crisis, a good multiyear financial plan allows a local government to see the long-term consequences of current choices and to make smaller adjustments up front that help avoid major tax increases or spending cuts down the road. The Office of the State Comptroller (OSC) recommends multiyear financial planning as a valuable tool for local governments and provides training and technical assistance to localities. The Office of the Special Deputy Comptroller for New York City has long provided oversight of that city's multiyear financial plan, and more recently OSC has performed reviews for the cities of Rochester and Syracuse as a condition of their receiving State aid accelerations.

## Quality of Plans

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Although AIM required that cities certify that they had multiyear financial plans in place by March 31, 2006, the statute did not require that cities submit plans for review by any State agency, unless they already do so for some other purpose. Thus, there is no mechanism to ensure that the plans reflect reasonable assumptions, include all elements required by the legislation or represent complete financial conditions.

In addition, the statutory guidelines for the plans are very broad, so even when following them closely, cities might not create plans that are of particular assistance in planning their fiscal futures. For instance, although the main reason for creating a plan is to quantify upcoming fiscal challenges given continuation of current policies, cities often assumed that they needed to balance their budgets in each year of the plan and projected property tax increases or other policy changes, rather than showing these changes as part of a discrete “gap-closing” plan.

As might be expected under these circumstances, the quality of the plans received by the State in 2006 varied from extremely thorough plans with well-documented assumptions to plans with too little information to be useful for financial planning.

All 62 of New York State's cities certified that they had prepared multiyear financial plans in 2006, whether for AIM or some pre-existing requirement. Fifty-one cities shared copies of those plans with the State, and this analysis covers 48 of them: New York City was excluded from the analysis, since its financial situation is much more complex than the other cities, and two other plans were removed for lack of information.

All 48 plans analyzed below met the AIM requirement to provide data for the base year and two subsequent years, and most included historical information as well. The time period covered by the plans varied, with most treating 2006 as either the base (current budget) or first projected (proposed budget) year, and projecting through 2009.

Although most plans in this analysis were fairly comprehensive, some were missing at least one element required by the AIM legislation, or presented financial information in a different format.<sup>1</sup> For example, debt service was often tracked as an interfund transfer, rather than as a debt service expenditure. Based on our review, 38 plans substantially met the AIM requirements. Several others were also comprehensive, but presented expenditure data differently than required by statute.

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## City of Geneva: A Straightforward Plan for a Small City

The city of Geneva faced many of the same issues as other small cities when charged with multiyear planning. The finance department had three full-time staff and no previous experience with such plans. The city's comptroller made use of State and academic training and assistance, as well as resources such as OSC's template and other plans, and then tailored these to construct the best plan for the city's own purposes.

Geneva's plan accomplished all of the goals for multiyear planning:

- The city's plan included all AIM-required elements (many plans missed several elements) and included a written explanation of assumptions. Many plans did not explain these adequately to allow readers to assess how realistic they were.
- The city kept it simple. Geneva used OSC's template, made broad but reasoned assumptions and added an introduction documenting their methodology.
- The city manager and comptroller used the plan to focus budget discussions with the city council on the trade-offs involved between service levels, fund balance and property taxes. The council used this information to make decisions about that year's budget. This is a very important use of the plan, because it both helps guide decisions and increases accountability. Thus, even when council members decide to do something that may add long-term risks, such as reducing property taxes, they are doing so with more knowledge than if they were only to consider one-year implications.
- The city administration paired the financial plan with other long-term initiatives. For example, Geneva has undertaken a major road improvement plan based on complete assessments of the condition of existing roads. The city then compiled a six-year plan that includes one major road reconstruction project, one large rehabilitation project and several maintenance projects each year, until the major projects are finished and all that remains is regular road maintenance. This type of long-range planning helps ensure that the city gets the best value for its dollar and makes such decisions as whose road is fixed first more analytical.

The city is also currently undertaking another multiyear initiative. Having determined that it is cost-effective to conduct fleet maintenance in-house, the city is determining decision rules for when to replace city vehicles versus continuing to maintain them.

There are some minor areas for improvement in Geneva's plan, but in general, its assumptions seem reasonable and well-documented. Geneva's experience showed that multiyear financial planning, when done well, can help small cities address their financial future.

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## Analysis of Submitted Plans

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The following analysis uses projections from the plans to develop an understanding of the fiscal challenges facing New York's cities. As mentioned above, the plans varied greatly in approach and quality. Fourteen of the 48 plans analyzed seemed to do a particularly good job of making realistic and comparable projections based on current policies, either because they have been subject to formal review,<sup>2</sup> or because their projections seemed reasonable based on explanations of their assumptions. The analysis below contrasts these "comparable" plans against the averages of all plans. The biggest differences between these groups were in projections for property taxes, State aid and employee benefits.

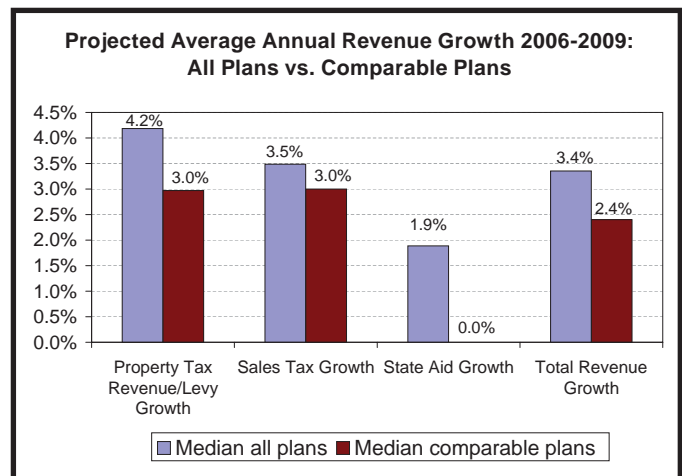
## Revenue Trends

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Forty-seven of the 48 plans analyzed included total revenues. The median plan projected total revenue increases of 3.4 percent per year from 2006 to 2009, as compared with actual aggregated annual average growth from 1999 to 2004 of 3.6 percent for all cities outside of New York City. The median of the 14 comparable plans, however, was quite a bit lower, estimating only 2.4 percent annual average growth over the period. The biggest components of this difference were property tax and State aid projections.

Six cities actually projected declines in total revenue over the 2006 to 2009 period, and nine cities projected declines from 2006 to 2007, including all of the "Big Four" cities of Buffalo, Rochester, Syracuse and Yonkers, all of whom projected little or no growth in sales and property taxes and some of whom anticipated cuts in State aid. On the opposite end of the spectrum, five cities projected over 7 percent annual revenue increases from 2006 to 2009, and two cities projected increases of more than 10 percent from 2006 to 2007. Many of the larger revenue increases were generated by the real property tax, although in at least one case it reflected windfall revenue from a new sales tax sharing agreement with the county.

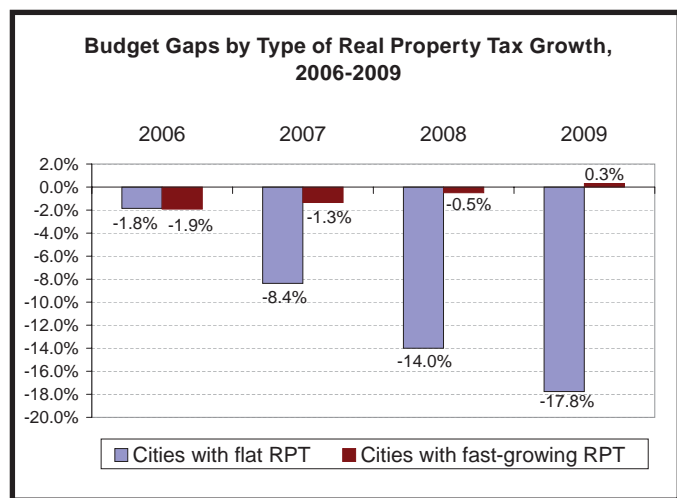
OSC guidelines suggest being cautious when projecting revenue, but this can mean a different approach for each major type of revenue. The property tax, which is generally under the control of the city involved, is the most flexible. OSC suggests leaving potential property tax increases for discussions of gap-closing strategies, but even this is open to interpretation: it is up to the city to determine whether this entails maintaining its current tax rate, its current tax levy or a moderate increase in projected rates. Sales tax, on the other hand, is controlled by both policy changes (rate or base changes by the city itself, the county with which it has a sharing agreement<sup>3</sup> or even the State) and the regional economy. Since it is volatile, the most cautious approach is to project revenues based on recent history, projected economic trends and policy changes, and then to assume the low side of the range of what might be expected. State aid, the final major source, is mostly out of the control of cities, and includes revenue sharing, mortgage taxes and various categorical grants. Thus, it is safest for cities to project no changes in funding, unless there are statutory guarantees or risk of decreases.



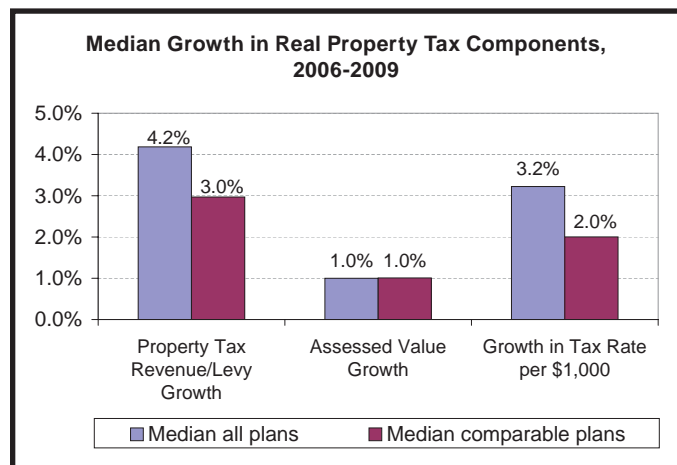
- Property tax:** Property taxes are the largest single source of city revenues, accounting for more than a quarter of the total (27 percent for all cities outside NYC). All 48 cities provided projections of either property tax revenue or levy. The median property tax growth projection was 4.2 percent, while the mean was 5.1 percent, indicating that the average is affected by a relatively small number of high projections.<sup>4</sup>

Many cities projected no growth in tax levy, saving potential levy increases to use as a strategy to achieve budget balance. Others projected moderate growth rates based on historical experience. Only two cities projected significant decreases in property taxes, both due to issues of Native American tribal property ownership.

On the high end, five cities projected annual growth rates averaging more than 10 percent in property tax revenues. In all of these cities, the plans assumed financial improvement from 2006 to 2009, rather than the more typical structural imbalances. This seems to indicate that these cities expect to use property tax increases as a strategy to avoid or ameliorate budget gaps. Indeed, several plans employed the method of calculating other revenues and expenditures, then treating property taxes as a gap-filler instead of showing projected gaps. Although this is one method of illustrating fiscal challenges, it assumes policy changes (i.e., tax increases), and therefore makes it harder to compare projections between cities. Furthermore, such assumptions may not be realistic given actual financial, economic and political conditions. For example, taxpayer resistance or constitutional tax limits may prevent recurring property tax increases. (See text box on Hudson.) For these reasons, such plans were not included in our group of “comparable” plans for purposes of analysis – even though their other assumptions may have been reasonable.



Officials of some cities may have also interpreted the planning requirements to incorporate a gap-closing plan into projections of revenue and spending. The law does not actually require any such plan, and OSC recommends showing any gap-closing strategies separately from financial projections. This confusion highlights the need for better guidance and review.

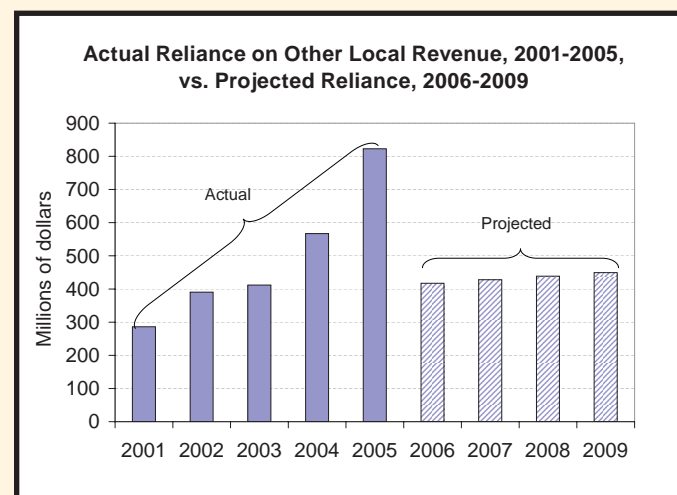
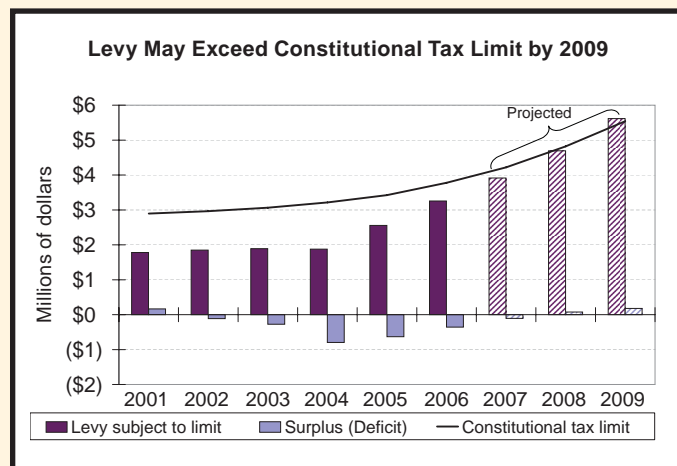


## City of Hudson: Closing Potential Budget Gaps

The city of Hudson’s multiyear plan illustrates a major problem faced by many cities: in order to address ever-widening budget gaps while continuing to provide existing services to its community, property tax increases or sharp service cuts may be required. Assuming (as Hudson’s plan does) that property values will grow even more quickly than the brisk pace of the past few years (14 percent per year vs. 8 percent), tax rate increases would remain reasonable (3 percent per year). However, these result in projected levy increases of 18 percent annually, on top of an average of 13 percent per year from 2000 to 2005, followed by a 20 percent increase in 2006. Even given projected property value growth, such large levy increases could bring Hudson very close to exceeding its tax limit by 2008. In fact, Hudson exhausted 86 percent of its tax limit in 2006. Furthermore, if property values do not rise as briskly as projected, as seems possible given the cooling real estate market, the city’s constitutional tax limit could easily be exceeded sooner, which could jeopardize the city’s State aid.

If the high levy growth projections prove unrealistic, the city may have to make major cuts to maintain budget balance. For example, to keep levy increases to 5 percent per year after 2006 (rather than 18 percent), the city would have to find other ways to close budget gaps of 7 percent of revenue in 2007, 11 percent in 2008 and 17 percent in 2009.

While Hudson has found other ways to avoid such problems in the past, like many other cities it may be depending increasingly on one-time revenues, including the use of reserves, to annually balance its budget. Indeed, Hudson did not reflect the use of non-recurring revenues in its multiyear plan, despite the fact that its “other local revenue” category grew by an average of 30 percent per year from 2001 to 2005, and was projected to drop steeply in 2006. Encouragingly, the plan appears to avoid reliance on other revenue increases in future years, highlighting the starkness of the city’s underlying choices: raise large amounts of additional recurring revenue or enact budget cuts with recurring impact.



Overall, most of the growth in property tax revenues, however projected, appears attributable to rate increases rather than growth in tax bases. The median city projected annual average increases in assessed property value of only 1 percent, compared to median projected tax rate growth of 3.2 percent, in order to reach the median property tax growth of 4.2 percent. Even the more comparable plans already discussed showed this pattern, indicating that they did not all hold property tax rates or levies flat. Some that did, did so out of necessity – cities in danger of exceeding their tax limits due to slow property value growth tended to project little or no change in property tax levies. (See Niagara Falls text box.)

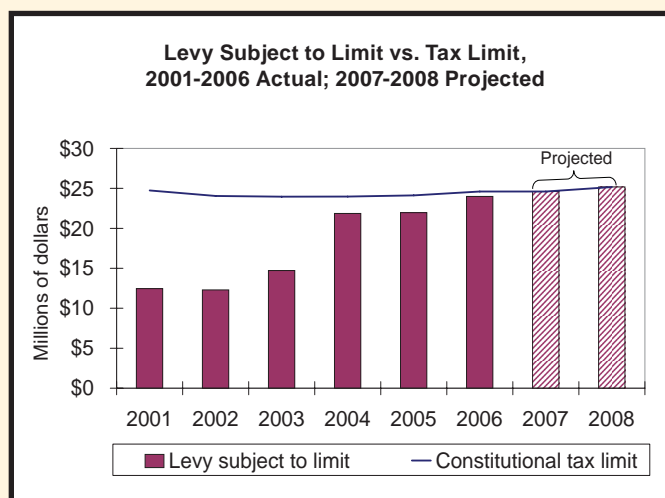
### Niagara Falls: Planning with Tax Limits and Stagnant Property Values

Niagara Falls is an older upstate city with typical urban problems such as aging infrastructure and stagnant property values. In addition, it has been operating very close to its tax limit since 2003, a situation that gives it very little flexibility to deal with any rising costs. For three of the past four years, OSC has reviewed the city’s budget at the city’s request to provide feedback on risks.

In the most recently published review, OSC found that the increase in State revenue sharing from AIM allowed the city to increase its general fund balance to about \$7.5 million (about 10 percent of revenues) by the end of 2006. The review also noted that none of this amount had been appropriated to balance the 2007 budget, a healthy sign.

Nonetheless, the property tax limit is a major issue. As the Niagara Falls multiyear plan shows, even with new housing and retail developments scheduled, the city anticipates only 2 percent increases in assessed value in 2007 and 2008, far less than the city’s historical annual average growth in expenditures of 5 percent per year. For the 2007 budget year, the city proposed raising property taxes by \$1 million, but OSC’s budget review noted that this increase would bring it to almost 99 percent of its constitutional tax limit. If a city exceeds its limit, the Comptroller is mandated to withhold certain State aid revenues. Being this close to its limit puts the city at risk should a property owner win a certiorari action. Even with the slightly older assumptions in the multiyear financial plan filed in February 2006, it is obvious that the city faces ongoing property tax concerns.

The sales and use tax has been flat as well, making State aid the city’s only growing source of revenue in recent years. Unless the city is able to generate more economic growth or receive regular increases in State aid, its fiscal future, however carefully planned, is tenuous.



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- **Sales tax** is the second most significant source of locally generated revenue for most cities, averaging 17 percent of total city revenues outside NYC in 2004. The median projection was 3.5 percent growth per year, compared with historical statewide city sales tax growth of 4.1 percent annually (outside of NYC) from 1999 to 2004. The most comparable plans tended to project slightly lower growth (median of 3 percent) compared with other plans in the sample (3.9 percent), but the disparity was not as wide as with the property tax, as there were very few cities that projected changes in sales tax rates or distributions.

More than half of the cities analyzed projected average sales tax revenue growth of less than 4 percent per year. One city projected overall declines in sales tax revenue from 2006 to 2009. Although the plan did not explain why this was, it did note that the city was making up the difference with property tax increases. On the opposite end of the spectrum, five cities projected growth of 7 percent or more. Two such cities seemed to be basing this strength on recent history, another noted anticipated revenue increases from a new shopping center opening and one projected the effect of a new distribution of county sales tax revenues.

- **State aid** is also a significant revenue source for cities, accounting for 18 percent of city revenues on average outside of NYC in 2004. The median projected annual average increase of 1.9 percent from 2006 to 2009 was lower than the 3 percent actual average growth for cities from 1999 to 2004. However, these projections varied more than the sales tax, with the median projection by more comparable plans showing no growth at all, and the median of other plans being 2.5 percent annual average growth.

Thirteen cities projected no change in State aid over the entire period, and more than 20 did so in one or more years. Eight projected overall declines over the period, usually based on expected reductions to specific grants or in mortgage tax revenues, which had been very high during the peak of the housing market. On the opposite end of the spectrum, however, nine projected overall increases of 5 percent or more. Not all of these were explained, although some were based on specific agreements with the State, including one city that is anticipating revenue generated by a new casino.

- **Non-recurring revenue** was not reported by most cities, either because they did not anticipate depending on any, or because they did not break it out of the total. Of the 13 cities that projected any non-recurring revenue in 2006, the average amount was 4.3 percent of total revenue. This average shrank, along with the number of cities projecting any such revenues, to 3.5 percent in 2007 and 2008, and 2.7 percent by 2009, when only three cities projected any non-recurring revenues at all. One other issue with this source of revenue is that cities tended to interpret its meaning differently. For example, the sale of a single large property can be a one-time event, but if a city sells tax defaulted properties regularly, it would not necessarily list those sales as non-recurring.

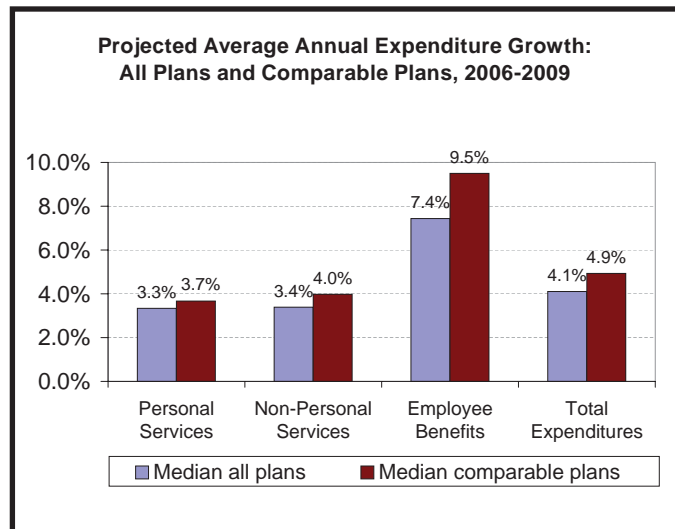
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## Expenditure Trends

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All but one of the plans contained in this analysis projected total expenditures, but not all of them split those expenditures in the same manner. The AIM language requires cities to project personal services, employee benefits, non-personal services (including contractual/equipment) and debt service, and 40 cities showed all of these objects of expense in their projections. Eight cities chose, instead, to show at least some of their expenditure projections only by functional category of expense, such as general government, public safety, culture and recreation, etc. Even so, 47 plans projected employee benefits and 45 projected debt service separately.

Total expenditure projections over the period from 2006 to 2009 averaged 4.1 percent annually, which is identical to historical aggregate city expenditure growth of 4.1 percent per year, on average, from 1999 to 2004. The median annual average expenditure growth of the most comparable plans was higher (4.9 percent, compared with only 3.7 percent for other plans).



Not a single city projected overall expenditure decreases over the 2006-2009 period, which is not surprising given inflation, contractual obligations and other cost pressures, although five cities projected decreases from 2006 to 2007. Seven cities projected annual expenditure increases of 6 percent or greater through 2009. In most cases this was due to conservative projections for employee benefits and other components of growth, although one city did plan to hire new police officers due to the construction of a new shopping center.

- **Personal service costs** are by far the largest portion of city expenditures, accounting for 48 percent of expenditures on current operations (that is, not including debt service or capital outlay) in 2004. The 43 cities that split out personal service costs projected them to grow by about 3.3 percent per year on average, compared with historical annual average growth of 2.9 percent from 1999 to 2004. Two cities projected overall decreases in personal service costs, in both cases reflecting a single year of sharp cuts. Buffalo, which is under the oversight of a control board, projected no change in personal service costs, reflecting the continuation of the wage freeze which it has been operating under for the past several years, but so did two other cities that are not under the same constraints. One of these cities is planning for attrition, but the other did not explain this assumption. Only four cities projected personal service costs increasing by an average of 5 percent or more over the projection period. Of these, only one noted personnel increases (as mentioned above) and another appeared to be basing the projection on recent history.
- **Employee benefit costs** have been growing much faster than personal service costs in recent years. From 1999 to 2004, city employee benefit costs grew almost 12 percent, due to a combination of factors including health care cost increases and the return of pension contribution rates to historic

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norms following the boom market of the 1990s. Most plans continued to project higher growth in benefit costs than in personal services for 2007 through 2009. However, the median annual growth projection for this category was 7.4 percent during that period, which is quite a bit lower than recent historical growth. While this is due, in part, to the fact that pension contribution rates have stabilized, it also reflects a significant difference between the median growth rates of more comparable plans (9.5 percent) versus others (6.5 percent).

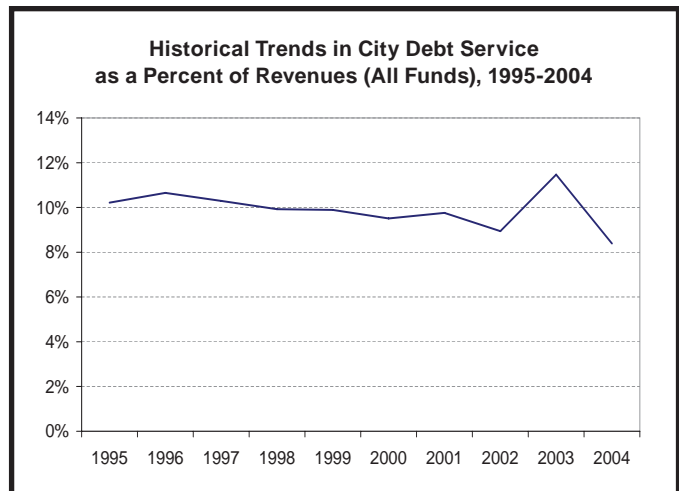
At the low end, seven cities projected average employee benefit increases of 3 percent or less per year, and 12 cities projected 5 percent or less. Although one city anticipated some planned attrition, most did not explain the reason for these low projections. Barring some specific reason for such low growth rates, these estimates would seem to expose these cities to substantial risks of underestimating these expenditures, especially since in many cases the projected growth rates are substantially lower than recent history for those cities. On the opposite end of the spectrum, 11 cities projected double-digit annual average increases in employee benefit costs for the projection period, which is more in line with recent growth.

- **Non-Personal Services (NPS)** includes contracts for services and supplies as well as equipment and capital expenditures. Pay-as-you-go capital spending is predictable but volatile, while contractual services can be impacted by general inflation and energy costs (due to their influence on transportation and utilities). Partly due to the variances in capital expenditures, the range of these projections was wide. Although the median average annual increase was 3.4 percent, the more comparable plans again projected more growth in this category, with a median projection of 4 percent growth, versus 2.9 percent for all other plans. NPS projections had some of the widest disparities between cities. Five cities projected overall decreases, mostly based on anticipated across-the-board cuts to departmental supply and travel budgets. On the other hand, two cities projected double-digit increases, one of which was adding staff for a new department.
- **Debt service** expenditures were difficult to track from the plans, since the plans may show debt service either as an expenditure or as an interfund transfer to a debt service fund. Most plans did not separate debt service transfers from other types of transfers. In addition, because this analysis examined primarily general fund plans, some major city capital projects (such as sewer and storm water replacements) were not included, making a measure such as debt service as a percent of total revenue less relevant.

According to the numbers reported, the plans appear to project relatively flat debt service as a proportion of revenue, with a median of 6.3 percent in both 2006 and 2009. This is less than the 8 to 10 percent growth captured by the all-funds data gathered annually by OSC. Interestingly, between 1994 and 2004, cities increased their outstanding debt by 40 percent as cities borrowed money primarily for replacement of aging facilities and infrastructure, yet debt service as a percent of revenue declined slightly during that same period, from a peak of 10.7 percent in 1996 to 8.4 percent in 2004.<sup>5</sup>

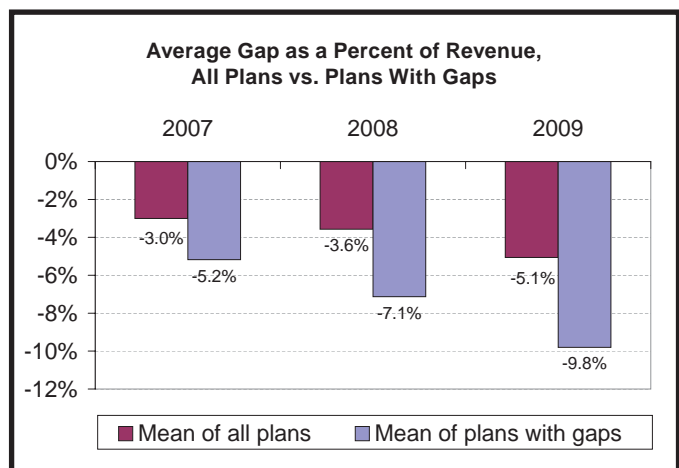
This was due to the interplay of two major factors: first, interest rates dropped during the period, reducing the cost of debt service on new or refunded debt; second, expenditures during much of that period grew twice as fast as inflation, causing debt service to shrink as a percent of the total budget.

The more comparable plans tended to show much higher debt service as a percent of revenue, with medians growing from 9.3 percent of revenue in 2006 to 10.3 percent of revenue in 2009, compared with the medians of other plans, which were 4.7 percent of revenue in 2006 and 5 percent in 2009. This difference may reflect the completeness of these plans, or the fact that larger cities with high debt burdens may be more likely to be required to have their plans certified by the State or a control board.



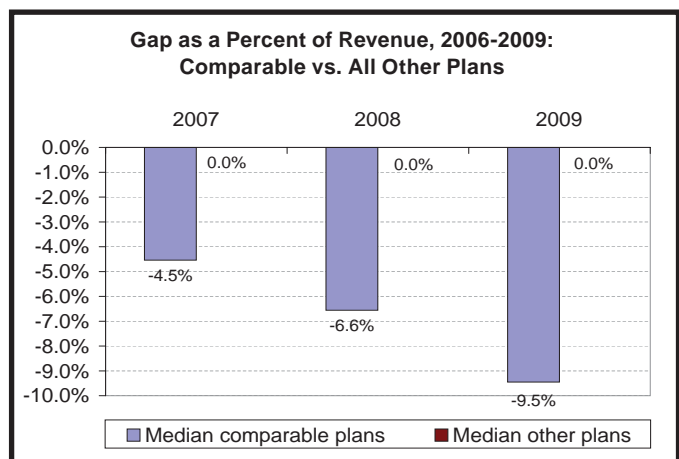
## Projected Gaps

Forty-seven cities either projected annual surpluses/gaps or provided the revenue and expenditure totals necessary to do so. Not surprisingly, as a result of the differences previously discussed, this was the area in which the greatest variation was seen between plans. Although city plans generally reflected balanced budgets in 2006 and median gaps of only 1 percent of revenue in 2009, this disguised a wide range of surplus and gap projections. Even with some large reported deficits, the mean gaps of all plans only grew from 3 percent in 2007 to 5.1 percent in 2009.



One way to get a better sense of the magnitude of the fiscal stress some cities face is to look only at those projecting gaps in each year. After isolating this group, the average gap is projected to be 5.2 percent of total revenues in 2007, growing to 9.8 percent in 2009. Another way is to compare results for the comparable plans versus all others. Looking at either mean or median projections, the comparable plans started with balanced budgets in 2006, but had growing gaps in 2007 through 2009, reaching gaps of around 10 percent by 2009.

Ten of 47 cities projected deficits of more than 5 percent in 2007, including six which were more than 10 percent of revenues. By 2009, 13 of 41 cities projected gaps of more than 5 percent, including ten which were more than 10 percent of revenues. The largest gaps were projected by the Big Four cities (Buffalo, Rochester, Syracuse and Yonkers). (See Big Five text box for more information.)



## The Big Five Cities: Big Cities Facing Big Gaps

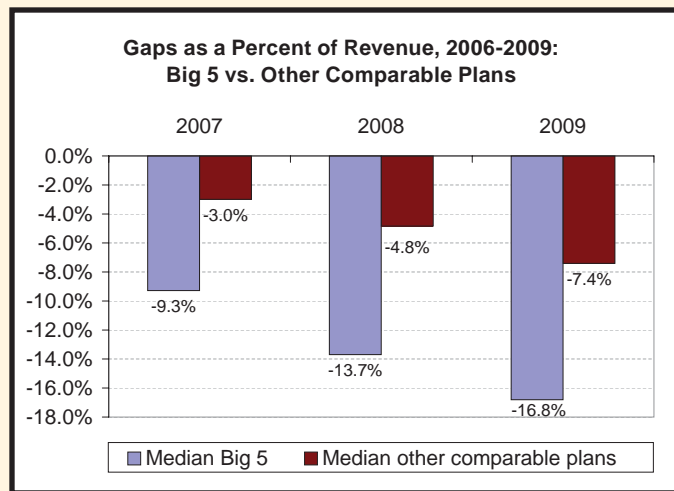
Each of the State's "Big Five" cities must annually provide the State with a detailed multiyear financial plan. In the case of Buffalo (2003), Yonkers (1975 and again in 1984) and, most notably, New York City (1975), these plans have been required as only one of a number of financial remediation measures imposed by State control board legislation, in the wake of full-blown financial crises. Although neither Rochester nor Syracuse have been placed under the oversight of such boards, these cities are also required to submit their plans to the State in order to receive aid accelerations. Thus, their assumptions have been subject to more detailed analysis and review than those submitted under the AIM legislation.

While New York City's budget outlook has improved recently, the Big Five multiyear plans generally show much larger gaps as a percent of revenue than even the other comparable plans in this analysis. Part of the reason for this is that these cities must make more conservative assumptions due to State requirements. For instance, Buffalo's control legislation imposes stringent requirements, including no growth in sales and property tax revenues, while Syracuse and Rochester's assumptions must be certified as "reasonable" by the State Comptroller.

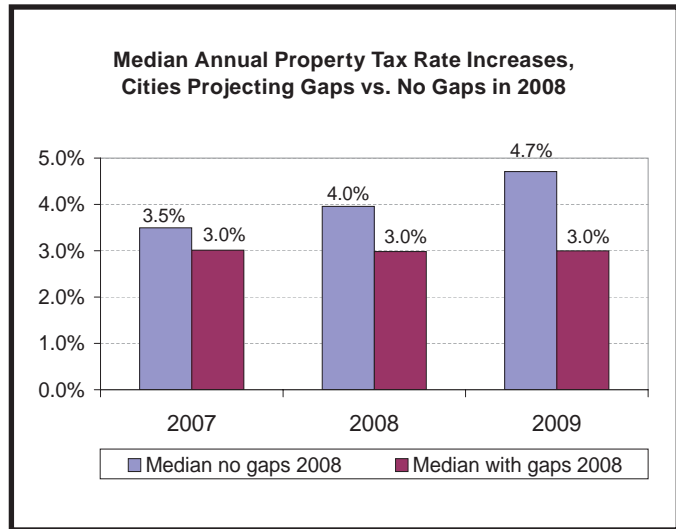
However, there is no denying that the three big upstate cities (Buffalo, Rochester and Syracuse) are facing particularly challenging fiscal situations. With declining or stagnant property values and more than a quarter of their populations in poverty, these cities show significant signs of economic distress. These factors affect each city's ability to raise revenues (Buffalo exhausted almost 92 percent of its tax limit in 2006), as well as generating costs for municipal services (for instance, policing for high-crime areas). Furthermore, all of the Big Five are responsible for funding their school districts as well as city government functions under their constitutional tax limits.<sup>6</sup>

In certifying the multiyear plans of Rochester and Syracuse, OSC noted that both cities were facing gaps of more than 10 percent of revenue in the near future, spending down reserves and coming close to their constitutional tax limits, and even these projections had significant risks. For example, Rochester assumed a constant contribution to its dependent school district, despite the fact that this would create a budget gap for the district that might have to be addressed by the city.

Whether Big Five budget gaps look larger because of more conservative estimates of the challenges ahead, or whether their problems are bigger, it seems obvious that planning, however useful, can only do so much. The State must help cities address these problems through new economic development policies, State aid and other initiatives.

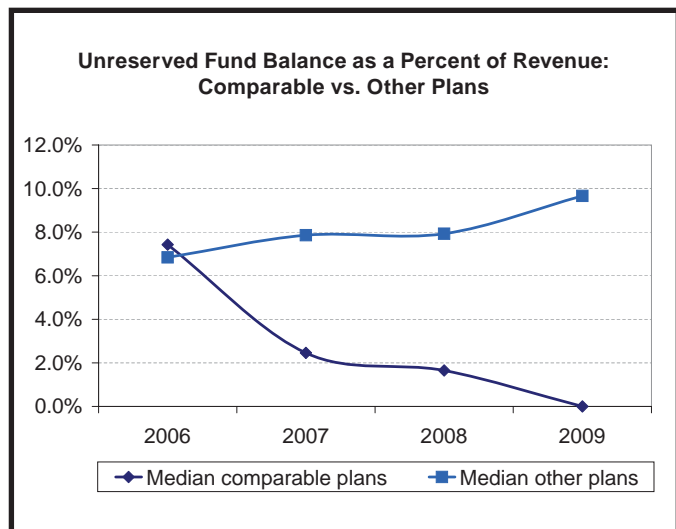


As mentioned earlier, some cities appear to have projected property tax growth as a complete gap-closer. It is harder to evaluate the validity of this approach without information about tax limits, property value growth and local political climates. However, it is clear that these cities felt the need to show balanced budgets in the outyears of their plans, closed by revenue changes that were under their control. Other plans seem to have accomplished this with budget cuts, but since cuts were often spread out over a range of expenses, they were harder to pinpoint unless specifically noted in the assumptions.



## Fund Balances

One of the AIM requirements is that cities must project their budgetary reserves, although these are not specifically defined in statute. OSC recommends projecting unreserved fund balance, which is the amount of reserve that a city has available at the end of the fiscal year after subtracting any funds that have been legally set aside for specific purposes and, therefore, are not available for filling budget gaps. However, the definition of budgetary reserve is open to interpretation, and some cities chose to show total fund balance (including restricted reserves) or total fund equity. This analysis reflects a mix of these concepts, since many cities would have had to be excluded otherwise.



Fund balance is one of the categories most affected by the assumptions behind the plans. For all plans, the median fund balance as a percent of total revenue dipped slightly from 7.4 percent in 2006 to 5.6 percent in 2008 before rising back to 7.2 percent in 2009. This reflects the fact that fund balances in the various plans were treated radically differently. The more comparable group's median projection showed a decline from 7.4 percent in 2006 to zero in 2009, while other plans actually projected a median increase in fund balance from 6.8 percent in 2006 to 9.7 percent in 2009. This was, of course, a function of their assumptions about closing future budget gaps.

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## Number of Employees

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Relatively few plans specifically projected assumptions about numbers of employees, despite the AIM requirement. Some gave the total in the base year with no projections, while some others projected trends without giving a base number. Generally, the plans showed no projected growth in the number of employees. Since personal service costs are the largest portion of city spending, more detail about the number of employees would be beneficial in analyzing the projections.

## Conclusions and Recommendations

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Many of New York State's cities are experiencing fiscal stress in varying degrees. Cities in the Hudson Valley and on Long Island are facing issues that come from rapid property value growth and attendant cost pressures, while those upstate are dealing with continued population decline and property value stagnation, severely hampering their ability to raise revenues within property tax limits.

Despite these differences, good financial planning can help cities capitalize on positive local circumstances or ameliorate the effects of negative trends. The 2006 multiyear financial plans were the first created by many cities in the State and provide a good base for the development and use of future plans.

The difficulties encountered in OSC's review of these plans can help define areas in need of clarification and improvement for 2007. For example, there is a need for more training of local officials to reduce the wide disparity in plan methodology (such as forecasting current policy vs. balancing outyear budget gaps) and to ensure that plans include adequate information on the assumptions behind forecasts.

In addition, a central State review of multiyear plans would ensure that cities prepare more consistent and comparable plans. This could benefit cities in two ways. First, sound plans are much more useful as local planning tools. Second, the State would be able to capture data that more accurately reflects the challenges facing cities, and thus formulate more effective responses, including revenue sharing and other State assistance.

Training and networking opportunities focused on multiyear planning could also provide a forum for city finance officers to share information on how they have compiled and utilized their plans to further discussions about budgetary decisions.

OSC continues to strongly support financial planning for cities and all other local governments, and believes that both the technical and political challenges faced by some cities in developing useful multiyear projections can be overcome, to the lasting benefit of their communities.

### Assessment of Plans Submitted Under AIM

City	Certified	Submitted Plan	Substantially Met AIM Data Requirements	Used Comparable*** Assumptions
Albany	1			
Amsterdam	1			
Auburn	1	1		
Batavia	1	1	1	
Beacon	1	1	1	
Binghamton	1	1	1	
Buffalo	1	1	1**	1
Canandaigua	1	1	1	1
Cohoes	1			
Corning	1	1		
Cortland	1	1		
Dunkirk	1	1		
Elmira	1	1	1	
Fulton	1	1	1	1
Geneva	1	1	1	1
Glen Cove	1	1	1	1
Glens Falls	1	1*		
Gloversville	1	1		1
Hornell	1	1	1	
Hudson	1	1	1	
Ithaca	1	1	1	1
Jamestown	1	1	1	
Johnstown	1			
Kingston	1	1	1	
Lackawanna	1	1	1	
Little Falls	1	1	1	
Lockport	1			
Long Beach	1	1		
Mechanicville	1			
Middletown	1	1	1	
Mount Vernon	1	1	1	1
New Rochelle	1	1		
Newburgh	1	1	1	
Niagara Falls	1	1	1	
North Tonawanda	1	1	1	1

### Assessment of Plans Submitted Under AIM

City	Certified	Submitted Plan	Substantially Met AIM Data Requirements	Used Comparable*** Assumptions
Norwich	1			
Ogdensburg	1	1	1	
Olean	1			
Oneida	1	1	1	
Oneonta	1	1	1	1
Oswego	1	1	1	
Peekskill	1	1		
Plattsburgh	1	1	1	
Port Jervis	1	1		
Poughkeepsie	1	1	1	
Rensselaer	1	1*		
Rochester	1	1	1**	1
Rome	1	1	1	1
Rye	1	1	1	
Salamanca	1	1	1	
Saratoga Springs	1	1	1	
Schenectady	1	1		
Sherrill	1	1	1	
Syracuse	1	1	1**	1
Tonawanda	1			
Troy	1	1	1**	1
Utica	1			
Watertown	1	1	1	
Watervliet	1			
White Plains	1	1		
Yonkers	1	1	1**	
New York City	1	1	1**	N/A
<b>Total</b>	<b>62</b>	<b>51</b>	<b>38</b>	<b>14</b>

\* Submitted plan did not have adequate information for OSC analysis.

\*\* These cities submit plans under different requirements, many of which are more stringent than AIM, and statute specifically states that they need not change their current presentations to meet AIM requirements.

\*\*\* The plans in this group seemed to do a particularly good job of making realistic and comparable projections based on current policies, including holding property taxes relatively steady. They were selected either because they have been subject to formal review and approval or because their projections seemed reasonable based on explanations of their assumptions.

### Annual Average Percent Change, 2006–2009, Major Revenue and Expenditure Categories

	Property Tax Revenue/Levy	Sales Tax	State Aid	Total Revenue	Personal Service	Non-Personal Services	Employee Benefits	Total Spending
Mean all plans	5.1%	3.8%	2.3%	3.4%	3.2%	3.4%	7.3%	4.1%
Median all plans	4.2%	3.5%	1.9%	3.4%	3.3%	3.4%	7.4%	4.1%
Mean comparable plans	3.4%	3.5%	0.3%	2.2%	3.5%	5.1%	9.1%	5.0%
Median comparable plans	3.0%	3.0%	0.0%	2.4%	3.7%	4.0%	9.5%	4.9%
Mean other plans	5.8%	3.9%	3.1%	3.9%	3.0%	2.6%	6.5%	3.7%
Median other plans	5.0%	3.9%	2.5%	4.0%	3.0%	2.9%	6.5%	3.7%

### Gaps as a Percent of Revenue, 2007–2009

	2007	2008	2009
Mean all plans	-3.0%	-3.6%	-5.1%
Median all plans	-1.3%	-0.6%	-1.0%
Mean comparable plans	-6.3%	-8.7%	-10.9%
Median comparable plans	-4.5%	-6.6%	-9.5%
Mean other plans	-1.6%	-1.4%	-2.0%
Median other plans	0.0%	0.0%	0.0%

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## Notes:

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- <sup>1</sup> Thirty of the plans were based on the template included in the OSC guide, which included all of the elements required by the AIM legislation, although several of these cities modified the template or left portions out. The two most commonly omitted elements in all plans, regardless of template use, were non-recurring revenues and projected employment levels.
- <sup>2</sup> Buffalo, New York City, Rochester, Syracuse and Troy are among the cities that must prepare and submit plans for external review. Buffalo, New York and Troy all submit these plans to control boards; Rochester and Syracuse must submit plans to the State Comptroller for certification in order to receive State aid accelerations.
- <sup>3</sup> Although many cities receive a distribution of the local-option sales tax from the county, some pre-empt a portion of the sales tax, collecting 1.5 percent (or, occasionally, more) within their own boundaries.
- <sup>4</sup> Often these reflect adjustments made to reduce the impact of major aberrations, such as properties making PILOT payments moved back onto the tax rolls or lump-sum, back-tax payments.
- <sup>5</sup> Debt service spiked in 2003 due to Niagara Falls' lump-sum payment of principal upon the sale of its water and sewer services to an authority.
- <sup>6</sup> Although New York City's limit is slightly higher, the limits of Buffalo, Rochester, Syracuse and Yonkers are the same as all other cities in the State (2 percent of the 5-year average of full value), despite the fact that other cities do not have to fund dependent school districts within that limit.



**New York State  
Office of the State Comptroller  
Division of Local Government Services  
and Economic Development**

*For additional copies of this report contact:*

**New York State Comptroller's Office  
Division of Local Government Service and Economic Development**  
110 State Street, 12th floor  
Albany, New York 12236  
(518) 474- 6975

**Email address: [localgov@osc.state.ny.us](mailto:localgov@osc.state.ny.us)  
[www.osc.state.ny.us](http://www.osc.state.ny.us)**