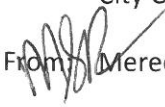


To: Mayor

City Council

From:  Meredith S. Robson, City Administrator

Re: Impact of 2% CAP

Date: December 2, 2011

As I have stated on numerous occasions since we began discussions about the 2012 budget, I am urgently requesting that you consider an override to the 2% cap. For all of the reasons stated below, I respectfully request that you consider adding the public hearing on a local ordinance to override the 2% cap to Monday's agenda. You are NOT making the decision Monday to override, you are simply allowing for more discussion of the issues and public input. You will not have to make your final decision until the meeting of the 19th, which will need to be done prior to your vote on the 2012 budget itself. Please give me the opportunity to discuss this with you further on the 12th. If you choose not to add it to the agenda, you are simply closing the door on any further consideration unless you choose to hold special meetings by the end of the year. I am, as always, available for further discussion on this - you need just call.

My specific reasons for such an unpopular request are as follows:

1. The cap is arbitrary and has no legitimate connection to the annual operating expenses of local government. For the cap to be truly fair and meaningful, it should have been enacted jointly with State mandate relief. When you look at our departmental operating expenses over the past 4 years and the reduction in staff that the City has endured, you can see that there is nothing left to cut from those items over which the City has direct control.
2. The State is taking absolutely no responsibility for oversight of the cap calculations that local governments are making according to this new legislation. They are NOT "approving" the calculation at all. However, they have the right to audit it at some point in the future. Should they find several years from now that the calculation for the 2012 levy had been done incorrectly and too much was permitted, they will require the "excess" to be placed in a reserve and used to offset the levy in the next fiscal year. While we obviously think we have calculated this correctly, the fact that the State will take no ownership of it and will, in fact, require any mistaken amount to be used in some future budget year, it does leave open the possibility of a correction needed in some out year that the City cannot "fix" now or appropriately plan for in the future.
3. Keep in mind that although you've made no final decisions on the budget, we have discussed the ADDITION of some costly items: \$108,000 in fire OT, \$91,000 in workers' compensation insurance, \$95,000 (or some portion thereof) for paid Fire Chief, as well as the other items on

the “alternative” list I provided at budget time. These could not possibly be considered under the cap.

4. Going into the 2012 budget, the cap calculation provides for an increase in expenditures of \$414,371. Our actual increase requested in the Mayor’s Budget is \$609,437 (we’ve been able to offset some of that increase with use of fund balance and other budgetary calculations). We have estimated the cap calculation for 2013 and, given the assumptions we’ve made, the amount that will be provided for going into the 2013 budget will be approximately \$137,235! This is obviously well short of the type of increase we requested this year and I do not expect, realistically, that next year will be any different than this year, and may in fact be worse. This does not take into account any salary increases that may be required (remember that the employees have not seen an increase since 2009 and the PBA arbitration will likely not be decided until sometime in February 2013; there has been no CSEA or Fire contract renewal since their expirations at the end of 2009 and fire also has the option of going to binding arbitration) or increases in high cost items such as severance payments, health insurance and workers’ compensation insurance. Since I truly believe that we have already scoured the operating budgets for departmental savings every year, there will be no place to go to cut (the only “discretionary” expenditure still available would be garbage collection service). We have barely enough staff to get the job done now and, in fact, much of the work we’d like to get done is regularly put off or eliminated altogether. The “shortages” created by the amount available through the annual adherence to the 2% cap will only compound from year to year unless there is significant improvement in our revenue receipts. This decision should not be made based on one year’s budget, but should be considered a multi-year decision.
5. The override in any given year provides a new “base” on which to calculate the subsequent year’s tax cap, which then provides some budgetary relief going forward, as well as in the budget year for which the cap was overridden. So there is a longer term benefit that just for one year.
6. The 2013 cap calculation that we completed assumes the following: the estimated pension increases provided by the State Comptroller’s Office to the City, the same growth factor as in 2012 (we will not actually know this until Fall 2012 since the State calculates this), the 2012 levy at the full amount allowed under the cap, and the same value for PILOTS receivable used for the 2012 calculation. It does not include any potential increases in revenue. Increased revenue is not something we have been able to count on the past four years. In fact, we could potentially face the same thing that’s happened before where the State DECREASES the AIM revenue DURING the fiscal year! Given the continuing fiscal conditions, it is not likely that mortgage tax will increase. If the remaining sales tax we receive is similar to that which we received during the same period last year, we will be approximately \$220,000 short for the 2011 anticipated revenue! I don’t think this is revenue we can count on increasing either. While the 2013 estimate does not include revenue increases, it also does not assume any decrease in total assessed valuation. In speaking with Kathy Martin, however, she’s looking at a DECREASE once again in assessed valuation of anywhere between 3 and 6%. That will negatively affect the tax levy. It also does not include any adjustments we’ll need to make in next year’s budget for uncollectible taxes and collectible delinquent taxes. Continued “over-reliance” on our fund

balance, if that's where you believe we'll be able to go to absorb the tax levy difference needed, will likely lead to a degradation of our bond rating, which in turn would increase our debt service costs because of the higher interest payments required. The increase could be significant. If you recall, this was one of the very strong cautions offered by our financial advisor in our initial financial report to you earlier this year.

Please understand that I completely agree with your reasons for not wanting to override the cap. There is nothing I'd rather do than come up with ways to reduce taxes every year, rather than increase them. But I have no more magic tricks up my sleeve, no more insight into what the future will hold than anyone else, and no other ideas (other than the ones we're currently working on) to compensate for the unprecedented worldwide fiscal collapse. Ultimately, as I said in my budget message, I truly believe that this cap, if not modified and if no State mandates are addressed, will lead to the significant decline of our communities. There are over 100 communities thus far that have chosen to override the cap. There are numerous articles regarding the problems with the cap and cautions against staying under it and I have provided several of them to you, including the New York Times. I am not the only one voicing strong caution and advising against adhering to the cap. I realize that you will make the ultimate decision, but I would hope that you would at least hear me out and take into account the information I have provided. Those of you who will be dealing with next year's budget will be most impacted by the decisions you make on the 2012 budget, at least from the local official point of view.