Financial Restructuring Board for Local Governments

RESOLUTION No. 2015-01

APPROVING THE COMPREHENSIVE REVIEW REPORT FOR THE CITY OF ROCHESTER

WHEREAS, pursuant to New York State Local Finance Law section 160.05(3), upon the request of a fiscally eligible municipality, by resolution of the governing body of such municipality with the concurrence of the chief executive of such municipality, the Board may undertake a comprehensive review of the operations, finances, management practices, economic base and any other factors that in its sole discretion it deems relevant to be able to make findings and recommendations on reforming and restructuring the operations of the fiscally eligible municipality (the “Comprehensive Review"); and

WHEREAS, on February 11, 2014 the Board of the Financial Restructuring Board (the “Board”) approved Resolution No. 2014-01 agreeing to undertake a Comprehensive Review of the City of Rochester (the “City”) in accordance with New York State Local Finance Law section 160.05(3); and

WHEREAS, the Board subsequently undertook a Comprehensive Review of the City; and

WHEREAS, pursuant to New York State Finance Law section 54(10)(t)(ii), the Board may award funding under the Local Government Performance and Efficiency Program to fiscally eligible municipalities for financial restructuring and related purposes, as determined by the Board;

NOW THEREFORE BE IT RESOLVED that the Board approves the attached report on the Comprehensive Review of the City and all of the findings and recommendations therein (the "Comprehensive Review Report"); and

BE IT FURTHER RESOLVED that if the City agrees to abide by and implement one or more of the recommendations contained in the Comprehensive Review Report, the Board may, in its sole discretion, award funding to implement the recommendations of the Report; the specific structure and conditions of any such funding, which would be developed in consultation with the City, and any other aspects of such funding would be subject to an affirmative vote of a majority of the total members of the Board at a later date.

This resolution shall take effect immediately and remain in effect until modified, replaced or repealed by resolution of the Board.

No. 2015-01
Dated: 2/24/15

NEW YORK
STATE OF
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City of Rochester Comprehensive Review Report

Financial Restructuring Board for Local Governments

February 2015

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Overview

The City of Rochester is a large Upstate city in Monroe County. With a population of 210,565 at the 2010 Census, it is the second most populous city in New York State.* 2012 expenditures of $523.1 million were the most of all cities.

The City is governed by a Mayor and a nine-member City Council. The Mayor is elected citywide for a four-year term. The Council is elected for four-year terms, with five members elected at-large and four members elected as district representatives.

The City Council adopted and the Mayor concurred with a resolution requesting a Comprehensive Review by the Financial Restructuring Board (see Appendix A). On February 11, 2014, the Financial Restructuring Board approved this request for a Comprehensive Review with Resolution No. 2014-01 (see Appendix B).

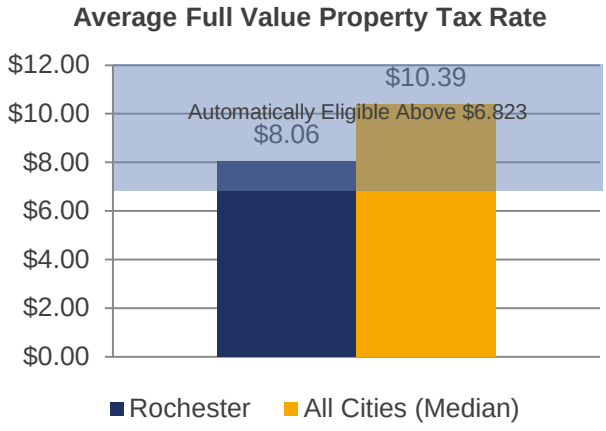
This Comprehensive Review first gives some background on the City's fiscal eligibility and demographic profile. It then provides information on the organization and finances of the City. Finally, it presents the Comprehensive Review's findings and recommendations.

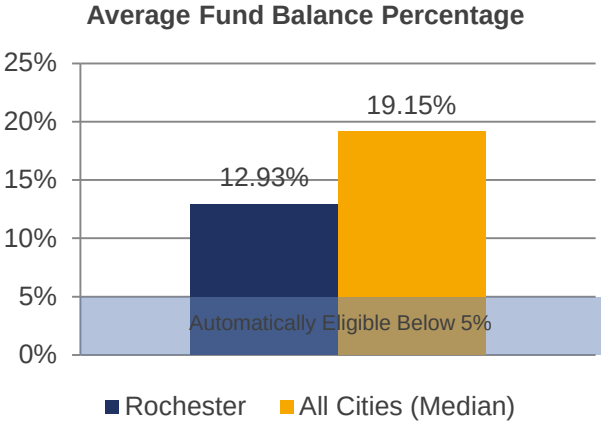
Background

Fiscal Eligibility and Stress

The City of Rochester is automatically considered a Fiscally Eligible Municipality because its Average Full Value Property Tax Rate (2008-2012) of $8.06 per $1,000 is above $6.823 per $1,000 – the 75th percentile for all municipalities. This is the 46th highest for cities.

The City's Average Fund Balance Percentage (2008-2012) of 12.93 percent is the 15th lowest for cities but is still above the five percent threshold.





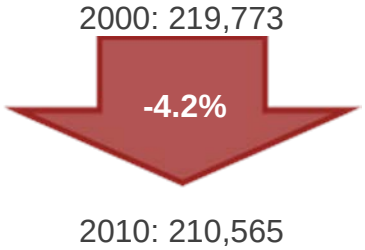
The Office of the State Comptroller's (OSC) Fiscal Stress Monitoring System gives the City of Rochester a Fiscal Rating of No Designation with a score of 20.4 percent for 2013, which is worse than the City of Buffalo's score (15.8 percent) but better than the City of Syracuse's score (34.2 percent) (a local government would be determined to be Susceptible to Fiscal Stress with a score of 45.0 percent or higher). The only negative fiscal factors are a low fund balance and a high level of personal service and employee benefits spending compared to revenues. OSC projects that the City's score will decrease in 2014 to 11.8 percent, remaining at No Designation.

OSC's Fiscal Stress Monitoring System gives the City of Rochester an Environmental Rating of ## (considered to have nearly the worst environmental conditions) with a score of 48.3 percent for 2013, which is slightly better than the City of Buffalo and the City of Syracuse (both at 50.8 percent) (a local government would receive a designation with a score of 30.0 percent or higher). Negative environmental factors contributing to this score include: a decrease in population from 2000 to 2010 (-4.2 percent); a high child poverty rate (43.8 percent); and a high rate of constitutional tax limit exhaustion (69.2 percent).

Demographic and Socioeconomic Profile

As noted above, the City's population decreased 4.2 percent to 210,565 from 2000 to 2010. In contrast, the typical city's population grew 0.5 percent over that same period.

Population Change



The City of Rochester's median household income in 2012 was $30,708, which is less than the typical city's median household income of $38,913.

The City's median home value of $75,800 is less than the median home value of the typical city of $102,300. Its property value per capita in 2013 was $27,833, and its four-year average change in property value was 0.7 percent. The City's unemployment rate is 10.8 percent, and its child poverty rate is 43.8 percent.

As noted in the below chart, many of the City's socio-economic metrics are comparable to those of similar large Upstate cities, including the City of Syracuse and the City of Buffalo.

Socio-Economic Indicators: Comparable Cities

	Rochester	Syracuse	Buffalo
Property Value per Capita	$27,833	$29,898	$24,555
4-Year Change in Property Value	0.7%	2.1%	1.5%
Unemployment Rate	10.8%	10.0%	10.9%
Child Poverty Rate	43.8%	44.1%	43.1%

Organization and Finances

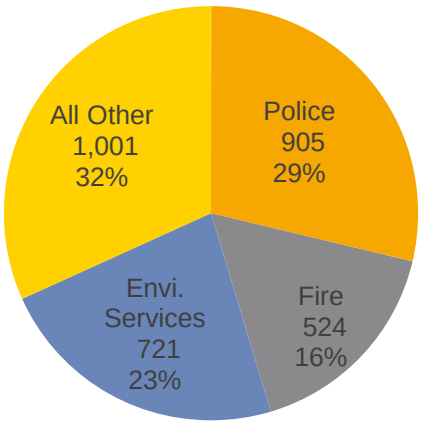
Organizational Profile

The City of Rochester is governed by a Mayor and a nine-member City Council. The Mayor is elected citywide for a four-year term, expiring December 31, 2017. The Council is elected for four-year terms, with four district representatives elected in the same year (current terms expiring December 31, 2015) and five at-large councilors elected two years later (current terms expiring December 31, 2017).

The City has several departments: the City Council and Clerk's offices, Administration (including the Mayor's office, the Office of Management and Budget, Human Resources, Communications, and Law), Information Technology, Finance, Neighborhood and Business Development, Environmental Services, Emergency Communications, Police, Fire, Library, and Recreation and Youth Services. The Rochester City School District is separately governed by a seven-member elected Board of Education, but is financially dependent on the City.

According to the personnel summary in the 2015 adopted budget, the City has 3,151 full-time equivalent (FTE) positions (for purposes of this report, the Board is treating the City's "employee years" as equivalent to FTEs). This is down from 3,355 FTEs in 2005. The City Police Department has the most FTEs at 905, followed by the Department of Environmental Services at 721, and the Fire Department at 524. Of the $312.0 million in personnel expenses in the 2015 budget, the Police Department represents $71.1 million (22.8 percent) and the Fire Department represents $41.5 million (13.3 percent).

2015 City of Rochester FTEs by Dept.



Several unions represent the City's unionized workforce, with various contract terms and salary increases, as provided below. Unionized employees hired after July 1, 1981 contribute nothing for health insurance if they opt into the "Core" or "Value" plans offered by the City. If they wish to enroll in the "Enhanced Plan," they must pay the full premium difference. Part-time unionized employees pay the full cost of health insurance.

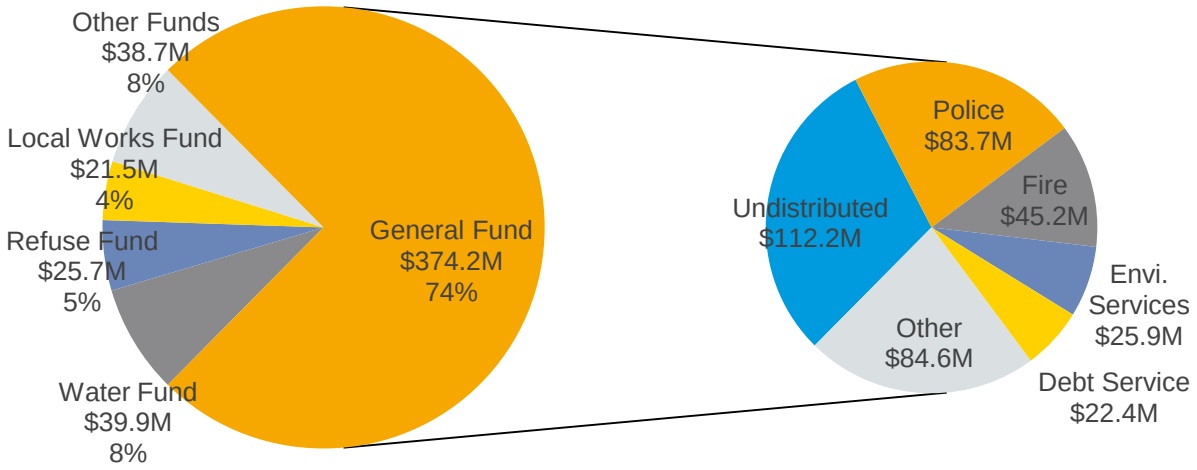
City of Rochester Labor Contracts

Union	Contract Status	Contract Expiration	% Salary Increases				
			2012	2013	2014	2015	2016
AFSCME Local 1635 Full Time	Current	06/30/2017	2.0	2.0	1.0	2.0	2.0
AFSCME Local 1635 Part Time	Current	06/30/2015	2.0	2.0	1.0		
Rochester Police Locust Club, Inc.	Current	06/30/2016	1.0	1.0	3.0	2.0	3.0
International Association of Firefighters, Local 1071, Uniformed	Expired	06/30/2013	1.0				
International Association of Firefighters, Local 1071, Non-Uniformed	Current	06/30/2017	2.0	2.0	1.0	2.0	2.0
International Union of Operating Engineers, Local 832-S	Current	06/30/2018	2.5	2.5	2.0	2.0	2.0
CSEA, Local 828, Rochester Public Library Part Time Employees Unit	Current	06/30/2017		2.0	1.0	1.75	2.0

Budget Profile

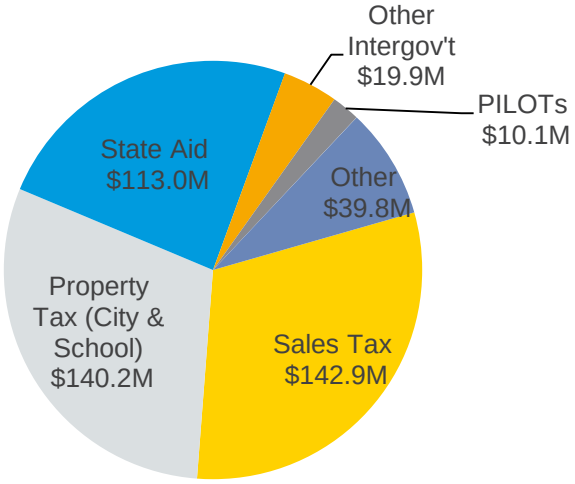
The City's 2015 all funds adopted budget totals $500.0 million. This is a 3.6 percent increase from the amended 2014 budget. For the General Fund, the largest expenditure is for undistributed expenses, primarily employee benefits, at $112.2 million (30.0 percent of General Fund expenditures), followed by police at $83.7 million (22.4 percent of General Fund expenditures).

2015 City of Rochester Expenditures



The 2015 General Fund revenue sources (adjusted for interfund revenue and transfers) include: 30.7 percent from sales tax; 30.1 percent from real property taxes (City and School District combined); and 24.3 percent from state aid. The property tax levy (City and School District combined) is $171.9 million – an increase of 2.9 percent from the prior year.

2015 City of Rochester GF Revenues



According to its 2013 Annual Financial Report, the City had $218.0 million in general obligation bonds outstanding and $8.7 million in BANs outstanding at the end of 2013. The City maintains a conservative debt policy with accelerated repayment. In the 2013 report, the City had a bond rating of Aa3 from Moody's and A+ from Standard and Poor's and Fitch.

At the end of 2013, the City had a Total Governmental Funds Balance of $258.0 million (45.1 percent of Total Governmental Funds expenditures for 2013). The City's General Fund balance has generally increased, from $28.7 million five years ago to $68.6 million at the end of 2013 (14.6 percent of General Fund expenditures). According to the City, this increase is largely attributable to Governmental Accounting Standards Board accounting changes.

The City has faced structural budget gaps over the past few years that have continued to strain available resources. In 2013, the City offset a $40.2 million structural gap by taking advantage of a $15.4 million state aid spin-up, reductions in capital investments, and the use of $3.5 million in reserves. The City's 2014 budget gap of $42.7 million was closed through modest fee increases (including a 2.1 percent water rate increase, a 2.0 percent local works rate increase, and a 1.9 percent residential refuse rate increase), additional reductions in capital expenses, nearly $11 million in pension amortization, and other miscellaneous actions.

For 2015, the City's budget increases the property tax levy by $4.8 million, or 2.9 percent. The remainder of the $37.5 million budget gap will be closed with $10.4 million in capital reductions, $7.4 million in fringe benefit savings, $6.0 million in retirement reserves, and $2.6 million in tax relief reserves.

Supplementing the City’s gap closing efforts, the 2015 enacted State Budget authorized a one-time payment of $6 million to the City via the Mortgage Insurance Fund and the Municipal Bond Bank.

Recent economic downturns have added to the fiscal challenges facing the City. One of the City's largest employers, Eastman Kodak, filed for bankruptcy in January 2012. Another major employer, Bausch & Lomb, recently went through a corporate acquisition that led to significant layoffs and the relocation of its corporate headquarters out of Rochester.

In response to the significant demographic, economic, and fiscal challenges confronting the City, officials have already begun some shared service initiatives. The City has consolidated or shared services with Monroe County in the areas of public safety (911 call center, shared training facility), the Water Authority, the library system, and the Rochester International Airport. More work will be needed to continue restructuring the City's operations and reversing the trend of structural budget gaps.

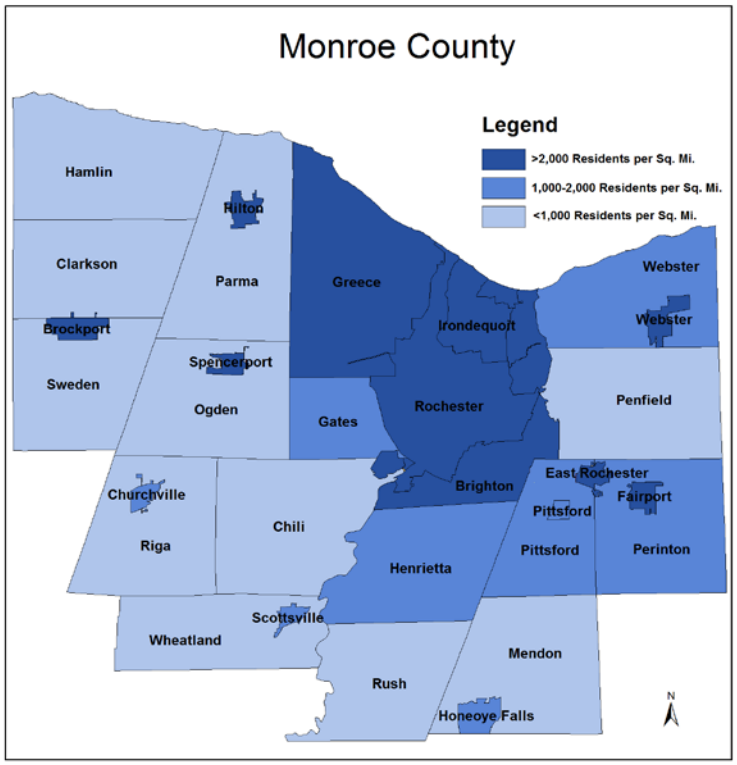
Findings and Recommendations

After a thorough review of the City's operations, the Board identifies findings and recommendations in the following areas: shared services, efficiencies, workforce, economic development, and fiscal performance and accountability.

Shared Services

Regional Government Context

As of the 2010 Census, Monroe County had a population of 744,344 and was the 5th most populous county out of the 57 counties outside of New York City. With a land area of 657.2 square miles, it is the 30th largest county. With a population density of 1,133 residents per square mile, it is the 5th most densely populated county.



The County is governed by a County Executive and a 29-member County Legislature. Other elected County officials include: the Sheriff, the District Attorney, and the Clerk. As of 2012, the County had total expenditures of $1.6 billion, which is the 4th highest for counties, and total expenditures per capita of $2,182, which is the 19th highest for counties.

Within the County, there are 1 city, 20 towns, 10 villages, 18 school districts, 24 fire districts, and more than 550 town or county special districts and other entities.

The City of Rochester is in the northern and central portion of the County, and is directly surrounded by the Towns of Irondequoit, Greece, Gates, and Brighton.

Property Tax Freeze Credit Program

As part of the 2015 State Budget, Governor Cuomo advanced and the Legislature enacted a new Property Tax Freeze Credit to provide relief to New York homeowners and address one of the primary drivers of the State's high property taxes – the outsized number of local governments. The property tax relief package is designed to incentivize local governments and school districts to share services and reduce their financial burden on the taxpayer.

In the first year under the reform plan, New Yorkers will receive property tax relief if their local governments stay within the property tax cap. The property tax relief will be awarded for a second year in jurisdictions that comply with the tax cap and put forward a Government Efficiency Plan to save one percent of their tax levy per year, over three years that is determined to be compliant by the State Division of Budget.

For the City of Rochester, this prospective plan will need to generate savings of one percent of the tax levy, which would be $1.7 million annually on a $171.9 million levy (combined City and School District). The City would be required to work with its dependent school district on the Government Efficiency Plan. Based on the below Index of Municipal Services Provided, the City of Rochester and its neighboring municipalities do provide many duplicative services. If the City were to consolidate functions or enter into inter-municipal agreements to share services, the savings generated would help the City meet the one percent threshold for the Tax Credit.

Survey of Shared Services

The State Division of the Budget procured the services of the Center for Governmental Research (CGR) to conduct a survey on the general functions of the City and neighboring municipalities to ascertain duplication of services and potential areas for further consolidation. The City and its surrounding governments were asked to briefly describe current shared service arrangements in each service/function area and to identify any obstacles or opportunities for additional shared services.

Below is a summary of the results identifying which services are provided by each municipal entity:

Index of Municipal Services Provided								
Service/Function	**City**	**School**	**County**	**Brighton**	**Greece**	**Chili**	**Gates**	**Irondequoit**
Police	X		X	X	X		X	X
Dispatch/E-911	X		X					
Fire	X		X	X				
Ambulance/EMS	X		X					
Tax Collection	X		X	X	X	X	X	X
Tax Bill Printing	X		X	X	X	X	X	X
Tax Foreclosure	X		X					
Assessing	X			X	X	X	X	X
Personnel/HR	X	X	X	X	X	X	X	X
Civil Service	X		X					
Payroll	X	X	X	X	X	X	X	X
Purchasing	X	X	X	X	X	X	X	X
Budget/Finance	X	X	X	X	X	X	X	X
Code Enforcement	X			X	X	X	X	X
Building/Zoning/Plan.	X		X	X	X	X	X	X
Park Maintenance	X	X	X	X	X	X		X
Animal Control	X			X	X	X	X	X
Plowing	X		X	X	X	X	X	X
Paving/Street Maint.	X		X	X	X	X	X	X
Lighting/Traffic Controls	X		X	X	X	X		X
Sanitation/Garbage	X	X	X					
Water	X							
Wastewater/Sewer	X		X	X	X	X		X
Library Operations	X	X	X	X	X	X	X	X

Shared Services Plan Development and Implementation

A local government's primary responsibility is to deliver services for the benefit and well-being of its residents. As the above chart aptly displays, there is significant duplication of services among the City of Rochester and its neighboring municipalities.

If the City of Rochester is to address its future budget gaps, it must maximize available savings from pursuing and implementing a new shared services plan with its governmental partners. An effective plan will not only enable the City to reduce its cost structure going forward, but should also help partnering governments to reduce their costs as well.

The Board's and CGR's analysis of municipal services provided by the City of Rochester and its neighboring municipalities identified several areas of overlap. Some of the most promising opportunities for shared services including the following:

Civil Service

The City maintains and funds its own Civil Service Commission based in the Department of Human Resource Management. By contrast, all other local governments in the region (as well as the School District) receive this service through the Monroe County Civil Service Commission. Dissolving its own Commission and utilizing the County's regional service could generate savings for the City of as much as $470,000 and result in staff reductions of as many as 6.5 FTEs.

Monroe County's Civil Service Commission operates out of the County's Department of Human Resources, within its Civil Service Exam and Personnel Support Division. The Commission administers all aspects of the state mandated civil service system for all jurisdictions in the County, except the City of Rochester. Those participating jurisdictions include the County, towns, villages, school districts (including the Rochester City School District), fire districts, libraries, Monroe Community College and the Monroe County Water Authority. As the primary regional civil service provider, the County's Commission is a more robust operation than the City's, offering more than double the number of exams in a typical year.

Energy Aggregation

The City currently purchases electricity and natural gas as a standalone customer. It has a multi-year fixed price contract for electricity, and, with the exception of one facility where it purchases natural gas through a wholesaler, operates as a standard customer for all its natural gas needs. The City should consider joining the Monroe County Energy Aggregation Group (EAG), since the pooled wholesale procurement of energy supply may offer unit price advantages over time.

The County EAG, established in 1999, includes 23 organizational members, including the County, the School District, and the Towns of Brighton, Chili, Gates, Greece, and Irondequoit. The EAG procures energy supply directly through the New York Independent System Operator for electricity and on a wholesale basis for natural gas. EAG members have collectively saved over $20 million since 1999.

There are a number of advantages to aggregate commodity purchasing. According to the New York State Public Service Commission, aggregation groups enable savings through bulk purchases of electricity and/or natural gas that would not be available to individual customers. The collective load/usage by a larger pool also makes EAGs attractive to suppliers. The value of potential savings available to the City would be largely dependent on the volatility of energy market pricing and the EAG's purchase strategies at any given time.

The City's current energy contract runs through spring 2016. In the meantime, the City should conduct a cost comparison between the City's and EAG's electricity and gas costs and consider joining the County's program.

Payroll and Financial Management

The City may be able to share services across various back-office functions, including payroll services and financial management, through shared enterprise resource planning (ERP) software with its neighbors.

The City is undertaking an effort to identify a payroll solution that rectifies various internal inefficiencies. As part of that process, it could be beneficial for the City to explore collaborative opportunities to jointly produce payroll, at minimum with the School District and potentially with the County and/or the neighboring towns.

The City, School District, and County also use different software platforms for their respective financial management processes. The City uses a Munis software system, the School District uses an Oracle/PeopleSoft system, and the County uses SAP software. To the extent there are opportunities to create shared efficiencies in areas like financial administration, purchasing, payroll, and other business processes, the different systems represent a threshold challenge to collaboration.

At a minimum, the City and the School District should investigate further the potential benefits of sharing a common financial software, particularly as the City is undertaking a next-version upgrade to its system. However, achieving a common ERP environment would require much more significant up-front costs than just attempting to combine the payroll software/function.

Parks Maintenance

Since 1975, the City and County have collaboratively delivered parks maintenance services in select City parks. Revisiting the current agreement in an effort to identify additional efficiencies would be advisable. Particularly in the area of capital equipment and supplies, greater integration of the two parks maintenance operations would result in a more efficient system overall.

The City of Rochester has more than 3,500 acres of parkland offering a variety of forms of active and passive recreation. To maintain its park and recreation system, the City's 2015 budget provides for nearly $2.4 million and approximately 30 full- and part-time/seasonal personnel. Monroe County has a similarly robust parks operation. Today, its Parks Department operates 21 parks that span more than 11,000 acres. The County's current year budget includes $12.9 million for administration, operations, and support of its parks, and provides for nearly 140 FTEs.

The City and County already collaborate in the delivery of certain parks services, due in part to a 1961 agreement (with a term of 99 years) that turned responsibility of managing certain of the City's major parks over to the County. Building on the current sharing arrangement and further integrating the City and County parks maintenance operations has the potential to generate additional efficiencies, particularly around joint administration and the shared use of capital and grounds-keeping equipment and supplies.

Purchasing Operations

The City staffs and maintains a Purchasing Bureau within its Department of Finance. Likewise, the School District and Monroe County have purchasing functions of their own. Given the fiscal dependence of School District on the City and their past and present collaborative efforts, it would naturally flow that the City and School District, at a minimum, should explore the synergies and cost saving opportunities of additional cooperation from purchasing goods and services jointly, as well as potentially staffing and maintaining one purchasing department for both entities and utilizing the same software platform. Moreover, there could be additional efficiencies and monetary savings if all three entities (City, School District, and County) were utilizing a common technology platform in one purchasing function.

The replication of bidding processes and vendor services in the City, School District, and County requires redundant staffing and technology infrastructure. Capitalizing on opportunities to streamline redundant processes – especially those involving routine bidding processes, contract awards, compliance monitoring, vendor information gathering and so on – could enable the City and one or more partners to build a more streamlined and robust purchasing operation. In addition to staffing efficiencies, a coordinated procurement operation may yield unit price reductions (i.e. economies of scale) in the purchase of common goods and supplies.

Tax Assessment

Section 579 of the Real Property Tax Law allows two or more assessing units located in the same county (or adjoining counties), having the same level of assessment, and having the same assessor, to enter into an agreement to become a Coordinated Assessment Program (CAP). Under this arrangement, the State Board of Real Property Services establishes identical equalization rates for all of the assessing units in the CAP. In addition to yielding standardization benefits, the CAP model can be particularly useful in spreading assessment costs between or among jurisdictions. For example, multiple assessing units in a CAP may be able to acquire professional assessment services that would otherwise be cost prohibitive were they acting separately. In addition, licensing fees for assessment software can be shared between municipalities, thus reducing the cost.

The CAP model also may represent an opportunity for further collaboration and efficiencies going forward. For example, a CAP (or series of CAPs) may serve as a building block for bringing all assessing units under agreement across the County in a way that enables standard levels of assessment and valuation standards.

With a local CAP, the City could also build on its comparatively robust assessment staff and capacity to provide assessment services to any of the surrounding towns on a contractual basis.

Some of the surrounding municipalities have already expressed an interest in this option, which would also generate a new revenue source for the City.

If the City decides to pursue a local CAP, State aid is available through the Office of Real Property Tax Services within the Department of Taxation and Finance. The aid is provided in a one-time payment of up to $7 per parcel.

Fire Services

The Rochester Fire Department is the region's largest fire service provider, but it is one of many. More than three dozen additional agencies deliver fire services throughout Monroe County within a mixture of fire districts, fire protection districts, and villages. Collectively, more than $80 million is spent on fire services countywide (excluding fringe benefits).

A high-level consolidation of fire services would face significant obstacles, including the structure of separate fire districts with elected fire commissioners, areas that are currently served by volunteer departments, and collective bargaining considerations. However, there may still be room for collaboration between the City and its neighboring municipalities within more targeted functions. For example, several public safety specialty teams are duplicated at the City and County level (such as bomb response teams, SCUBA teams, SWAT teams, and HAZMAT teams).

There may be opportunities to reduce cost and increase the effectiveness of these specialty teams through consolidation. Although existing coordination has ensured that equipment is generally interoperable, there are essentially two full sets of equipment for each specialty area. Some of the initial expense was underwritten by grants, but the long-term maintenance (and eventual replacement) will likely fall to the City and County.

A joint team for any of these specialty units could reduce costs through elimination of duplicative equipment, create a unified team command structure, and broaden the teams' membership base. An example of the latter could be to open certain specialty team units to employees of fire districts and police departments in neighboring towns.

Building Systems

The City and School District each have their own robust building maintenance operation. This operation is budgeted and administered within the City's Department of Environmental Services, and spans construction and repair, building operations, heating/ventilation/air conditioning, security systems and the Downtown District. Its $8.3 million in budgeted 2015 expenditures supports materials and supplies, services and personnel – more than 85 FTEs in all. The School District's facility duties are handled by the District Operations Department, which spans educational facilities, transportation, food service and adult/continuing education services. Staffing totals attributable to building and systems maintenance is approximately 95 FTEs. These positions include custodial engineers, maintenance mechanics, plant engineers and cleaners.

There are long-range efficiency opportunities through the standardization of facilities in the City and School District. Decisions on building systems should be made in the context of an overall strategy rather than on a building-by-building basis. This is particularly noteworthy in light of the

ongoing Facilities Modernization Plan in the School District. Over the long-term, having common building systems will provide an opportunity to standardize inventories and equipment, as well as share building engineer and maintenance personnel.

Recommendation: The Board recommends that the City, in conjunction with its governmental neighbors, develop and implement a shared services plan that will lower the annual cost of providing specific services and address the inherent duplication of services via multi-governmental jurisdictions. If the City agrees to abide by and implement this recommendation, the Board may, in its sole discretion, award a grant to assist the City and its neighboring governments with implementing such shared services plan. The specific structure and conditions of such grant, which would be developed in consultation with the City, and any other aspects of such grant would be subject to an affirmative vote of a majority of the total members of the Board.

Local Government Efficiency Grant Program

The State also offers competitive grants through the Local Government Efficiency Grant program (LGEG) to local governments for planning or implementing a local government efficiency project, including sharing services, functional consolidation, and regional service delivery. The maximum grant for an implementation project is $200,000 per municipality/ $1 million per grant. The maximum grant for a planning project is $12,500 per municipality/ $100,000 per grant. Planning projects require a 50 percent local match and implementation projects require a 10 percent local match. If a planning project is later implemented, the local match for implementation is offset by the amount of the local match for the planning project.

LGEG is administered by the Department of State. More information on grant requirements and how to apply is available at https://www.dos.ny.gov/lg/lge/index.html.

Efficiencies

Consolidate Fleet Maintenance

The City currently runs two separate fleet maintenance facilities – one large citywide operation out of the Department of Environmental Services (DES), and another out of the Fire Department (RFD) that services only fire apparatus and equipment. Combined, the operations span two separate facilities, are supported by a workforce of approximately 70, and account for nearly $15 million in budgeted expenditures.

The two fleet maintenance operations function independently of one another. Each has its own administrative infrastructure, facility, stockroom, inventory control system and workforce. Consolidation of the two operations could generate recurring efficiency savings of at least $240,000 annually.

Restructuring Options

Restructuring fleet maintenance would yield three primary benefits for the City of Rochester: 1) elimination of duplicative administrative costs required by two separate operations, 2) more optimal staff deployment through an integrated workforce, and 3) expansion of DES's more robust computerized inventory control system to cover RFD parts and supplies.

Two options exist for restructuring the City's fleet maintenance operation. The first would involve full consolidation of the DES and RFD fleet maintenance operations within DES, resulting in a merger of administrative, facility, and workforce components. Under this option, the RFD Apparatus Division would be housed at DES's Mt. Read Blvd. facility; DES would retain current RFD mechanics; the position of Superintendent of Fire Equipment Maintenance would be eliminated; all RFD Apparatus Division tools and equipment would transfer to DES; and all other expenses associated with the Apparatus Division would transfer to DES.

The second would involve consolidation of DES and RFD fleet maintenance administration and facilities, but the retention of separate workforces due to the potential implementation challenges of merging two collective bargaining units and pay scales.

Potential Savings

Savings to the City are greatest under the first restructuring option, with potential annual savings of more than $240,000, with additional savings realizable over time. Immediate savings come primarily from the elimination of duplicative administrative positions required to operate separate facilities and the more efficient use of senior mechanic/mechanic personnel through a more integrated operation. These projections are based on the assumption that DES has the capacity to absorb a large portion of RFD's staff support vehicles and light trucks maintenance and repair. Also under this model, warranty repairs RFD is currently contracting to outside vendors would be handled in-house, as DES is a warranty work-capable shop. This has the potential benefit for the City to recoup costs directly from manufacturers to offset fixed employee expenses when staff capacity allows.

Savings to the City under the second option are projected at $115,000, resulting primarily from the elimination of duplicative administrative positions required to operate separate facilities.

Implementation challenges exist with both options. Accordingly, the City would have to work through any related workforce issues if it decides to pursue this endeavor.

The Board finds that either option for consolidated fleet maintenance would generate recurring savings and efficiency improvements for the City. Although some challenges exist, especially pertaining to workforce modifications that may require collective bargaining, the Board's analysis suggests that consolidation is feasible for the City to implement while still maintaining current service levels. The City should pursue a full or partial consolidation of fleet maintenance between RFD and DES.

Energy Efficiency – Streetlights

The New York Power Authority (NYPA), in coordination with city governments, oversaw the development of Energy Master Plans for Albany, Buffalo, Rochester, Syracuse, and Yonkers to help reduce energy costs and carbon emissions, to advance energy sustainability, and to support green industries and jobs. Several state agencies and authorities were involved in the effort, including the New York State Energy Research and Development Authority, Empire State Development, and the Departments of Transportation, Environmental Conservation, Public Service, and State. The master plans were released in January 2015.

NYPA, in coordination with the other state agencies, will work with the cities to implement cost-effective recommendations, including those related to street lighting. NYPA will support each city through the Authority's Energy Efficiency Program, which provides energy audit, design, construction, and financing services in a single turnkey program format. NYPA has familiarity with these cities through multiple past collaborations.

Specifically, conversion of streetlights to LED technologies is among the priorities identified by the City of Rochester. Unlike many local communities, the City owns its streetlights and controls the ability to convert older street lighting technology and infrastructure to a more modern, cost effective product.

The City owns approximately 28,000 streetlights, of which less than 100 are LED/modern technology. The City began purchasing the lights and related poles/infrastructure in the early 1980's, and in 2010 completed the remaining inventory from Rochester Gas & Electric utility company. The City estimates that it spent close to $1.75 million in energy and delivery costs to run lights in its most recently completed fiscal year.

For the City of Rochester, converting from existing metal halide or high-pressure sodium lighting technology to LED would undoubtedly reduce energy draw and help the City save money. In addition, LED lights, on average, last longer, require less maintenance and attention compared to their older counterparts, and offer improved lighting quality. Therefore, conversion to LED lights would benefit the City through reduced wattage draw (potentially upwards of 70 percent) as well as lowered average annual maintenance costs.

One of the barriers to implementation is clearly the capital investment to convert each light/lamp. According to City estimates, converting 10,000 lights to LED would cost approximately $3.75 million, and could produce annual recurring savings of nearly $500,000 per year. It should be noted that several variables come into play when trying to estimate the

associated costs and savings in this arena, and that, at this point in time, no estimate can be considered precise.

Recommendation: The Board recommends that the City pursue efficiencies, such as consolidating fleet maintenance and energy efficiencies. If the City agrees to abide by and implement this recommendation, the Board may, in its sole discretion, award a grant to assist the City with implementing efficiency projects. The specific structure and conditions of such grant, which would be developed in consultation with the City, and any other aspects of such grant would be subject to an affirmative vote of a majority of the total members of the Board.

Workforce

Employee Health Insurance Costs

For many municipalities across the State, including Rochester, employee benefits – primarily pension and health care contributions – have been straining municipal budgets. With local governments facing significant budget deficits and needing to identify ways to reduce spending, more attention has been focused on healthcare costs for public sector employees.

According the City of Rochester's 2015 budget, personnel expenses account for about 62.4 percent of expenditures ($312.0 million). Of this $312.0 million, the City expects to expend $129.6 million on employee benefits for both current and former employees in 2015 (including health insurance, pension benefits, Workers' Compensation, disability insurance, life insurance, and Social Security).

Unionized employees hired after July 1, 1981 contribute nothing for health insurance if they opt into the "Core" or "Value" plans offered by the City. If they wish to enroll in the "Enhanced Plan," they must pay the full premium difference. Part-time unionized employees pay the full cost of health insurance. Out of a total estimated current year premium of $38.1 million, employee contributions represent only $403,803.

In 2013, the City moved to a self-insured health insurance program. The City also reached agreement with its unions to cap the City's increase in health insurance costs to 3.75 percent per year. Any increase beyond 3.75 percent will be offset as determined by a joint labor-management health care committee.

If the City could employ health insurance practices that the State achieved with its unions in the most recent round of bargaining, there is the potential for millions of dollars in annual savings for the City. Overall, however, the City should strive to achieve the proper balance between the factors that affect salaries and employee contributions.

Pending Workforce Turnover

The aging and retirement eligibility of the City’s workforce will lead to a reasonably substantial employee turnover during the next decade, particularly in higher-cost departments like Police and Fire. This transition may offer the City an opportunity to negotiate more cost effective and flexible collective bargaining agreements that reduce costs and better empower managers to deploy resources according to service demand.

In the Fire Department, the average number of years of creditable service is 15.1. Presently, 31 percent of sworn fire personnel are retirement eligible. That figure grows annually, reaching 44 percent in three years, 55 percent in six years and 62 percent in nine years. Over the next decade, more than two-thirds of the entire current Fire Department workforce will be retirement eligible.

A similar phenomenon exists in the Police Department, where the average number of years of creditable service is slightly lower, at 13.5. Presently, 26 percent of sworn police personnel are

retirement eligible. That figure grows to 36 percent in three years, 42 percent in six years and 52 percent in nine years.

The pending turnover the City will likely experience with its fire and police workforces over the next decade may offer an opportunity to negotiate on specific contractual cost drivers and restrictive work rules. One particular cost driver the City may wish to focus on is paid time off. Applying lower paid time off allocations to new/future hires would offer the City more on-duty time from sworn personnel, and possibly enable the City to contract the size of the workforce over time. The City may also wish to renegotiate various work rules, including flexibility related to the assignment of sworn personnel. Increasing management's ability to deploy employee resources in response to service demand, staffing holes, and seasonal concerns would yield more targeted service and mitigate overtime costs.

Binding Arbitration Reforms

In addition to pending workforce turnover, recent reforms to binding arbitration may help the City address its workforce cost drivers. In 2013, the Governor advanced and the Legislature enacted significant reforms to the binding arbitration process between local governments and police and fire unions. These reforms give increased weight to an eligible local government's ability to pay as well as require arbitrators to consider the limitations of the property tax cap for these local governments.

If a binding arbitration panel finds that a local government is eligible because of its high property tax rate or low reserves, it must give 70 percent of the weight of its decision to the local government's ability to pay and consider the requirements and limitations of the property tax cap. The remaining 30 percent of the weight would be given to the other binding arbitration award factors, including wage comparison, prior contracts, and public interest. Prior to these reforms, higher weight was not given to a local government's ability to pay and there was not a specific requirement to consider the limitations of the property tax cap. Given the City's average property tax rate, it would likely qualify for application of the heightened ability to pay requirements should its labor negotiations require arbitration.

Economic Development

Socio-Economic Issues

A 2013 report from the Rochester Area Community Foundation highlighted the significant socio-economic challenges facing the City of Rochester. The report found that the City of Rochester is the fifth poorest city in the country among the 75 largest metropolitan areas, the second poorest among comparably sized cities, and that it has the third highest concentration of extremely poor areas among the top 100 metropolitan areas in the nation (defined as Census tracts with a poverty rate greater than 40 percent).

In addition, the School District is the poorest in Upstate New York. Child poverty is a likely contributor to the City's challenges with educational attainment and graduation rates in the City. For the cohort of students that began high school in 2009, only 43 percent had graduated by June 2013. This is significantly lower than the rate for the State overall (74.9 percent) and also lower than comparable Upstate cities (53.4 percent in Buffalo and 48.8 percent in Syracuse).

The Governor specifically targeted the problems faced by the City of Rochester when he announced the creation of the Rochester Anti-Poverty Task Force as part of his Opportunity Agenda in January of 2015. This task force will bring together public, private, and non-profit leaders to address the issues of significant poverty and inequality in the City. Greater coordination among State officials and local stakeholders will help target resources in the fight against poverty and could serve as a replicable model for other struggling communities across the State.

Addressing the City of Rochester's underlying socio-economic issues is not simple and will take time. By focusing on improving operations and efficiency, the City can free up resources that could be further dedicated to addressing these concentrated areas of distress.

Land Banks and Community Revitalization

In recent years, municipalities have sought to address problems associated with blight from vacant and abandoned buildings through the creation of municipal land banks. New York State authorized the creation of up to ten such land banks through Chapter 257 of the Laws of 2011, and this authorization was expanded to a total of twenty land banks through Chapter 106 of the Laws of 2014.

Land banks are not-for-profit corporations that are able to more efficiently return vacant, abandoned, or tax delinquent properties back to productive use. They have several powers that are not otherwise afforded to municipalities, such as the ability to dispose of property under negotiated terms, to sell properties for non-monetary compensation, to retain equity in properties, to purchase tax liens, and special bidding privileges when purchasing properties at a tax foreclosure auction. Land banks allow municipalities to have a more efficient and streamlined process for property redevelopment and community revitalization. This in turn reduces the social and economic consequences of blight within a municipality.

In New York State, municipalities must first submit an application to create a land bank to Empire State Development (ESD). The City of Rochester submitted an application to create a land bank to ESD in January of 2013, which was approved the following February. According to the City's application, the land bank intends to acquire an average of 25 properties in each of the first two years. The initial focus of the land bank will be promoting redevelopment for owner-occupied properties and affordable housing. It will be funded entirely by the City of Rochester, using existing staff resources from the Department of Neighborhood and Business Development.

Though the enabling State legislation did not provide any funding assistance, land banks have received funding from the State Attorney General. The Attorney General, through the Community Revitalization Initiative, dedicated $20 million in mortgage settlement funds to support land banks across the State in 2013. The Initiative was aimed at helping communities recover from the devastating effects of the foreclosure crisis. This funding was structured to be distributed through two competitive award cycles. The first round was awarded in October 2013 ($12.4 million), with the remainder to be awarded in October 2014. Instead, in August 2014, the Attorney General announced a new $20 million round of funding to eligible land banks in addition to the $12.4 million allocated last year, bringing the total to nearly $33 million. The City's land bank was awarded $2.78 million in the Attorney General's first round of funding for land banks and more than $1.8 million in the second round of funding.

The Board finds that the continued development of the Rochester Land Bank will be beneficial for the City of Rochester as a tool for combatting blight and encouraging community development.

State 2015 Enacted Budget Actions Will Assist the City's Economic Development Climate

The 2015 enacted Budget keeps with the State's promise to create jobs in every region of the State, while also providing significant tax relief. Specifically, the enacted Budget will:

- Establish a 20 Percent Real Property Tax Credit for Manufacturers: The Budget provides a statewide credit equal to 20 percent of property taxes paid by manufacturers who own or lease property. The credit is nonrefundable for corporate tax filers and refundable for pass-through entities whose members file personal income tax returns.

- Eliminate the Net Income Tax on Corporate Manufacturers: To encourage the growth of manufacturing, the Budget lowers the tax rate on income for corporate manufacturers from the current 5.9 percent to zero in 2014 and thereafter.

- Accelerate the Phase-Out of 18-A Utility Surcharge: The Budget accelerates the phase out the 18-a temporary assessment for all customers. New Yorkers pay some of the highest energy bills in the country, and the temporary utility assessment exacerbates this burden on struggling businesses and families. The Budget will save businesses and residents $600 million over the next three years.

Fiscal Performance and Accountability

Multi-Year Financial Plans

Multi-year financial plans can be an important tool for local government leaders. These plans project a local government's revenues and expenditures for a number of years into the future based on reasonable assumptions. This allows local officials to not only see the current fiscal situation but also see the fiscal situation over the next few years. This empowers local officials in two ways.

First, it enables local officials to avoid creating future problems with a current action. For example, using a one-time revenue source to fund an ongoing program would not show an impact in the current year, but could have a significant impact in future years, when the one-time revenue source is no longer available.

It also empowers local officials to address future problems today. As projected revenues seldom exceed projected expenditures, local officials can start to make decisions today to address out-year gaps. By proactively addressing future issues, the impact to the local government, its residents, its taxpayers, and its workforce can be lessened.

OSC has developed an extensive set of resources for local governments on multi-year financial planning. This includes a tutorial, a guide, and a template, which are all available on OSC's website http://www.osc.state.ny.us/localgov/planbudget/index.htm. These are designed to make it as easy as possible for local governments to develop multi-year financial plans.

The City of Rochester currently has a multi-year financial plan. For the reasons outlined above, the Board finds that the City should continue to maintain its multi-year financial plan.

Conclusion and Next Steps

The Board may, in its sole discretion, award any of the following grants:

- The Board recommends that the City, in conjunction with its governmental neighbors, develop and implement a shared services plan that will lower the annual cost of providing specific services and address the inherent duplication of services via multi-governmental jurisdictions. If the City agrees to abide by and implement this recommendation, the Board may award a grant to assist the City and its neighboring governments with implementing such shared services plan.

- The Board recommends that the City pursue efficiencies, such as consolidating fleet maintenance and energy efficiencies. If the City agrees to abide by and implement this recommendation, the Board may award a grant to assist the City with implementing efficiency projects.

The specific structure and conditions of any such grants, which would be developed in consultation with the City, and any other aspects of such grants would be subject to an affirmative vote of a majority of the total members of the Board.

* All city rankings in this report exclude New York City

Appendix A – Letter and Resolution from City of Rochester

City of Rochester

City Clerks Office

Certified Ordinance

Rochester, N.Y., _____

TO WHOM IT MAY CONCERN:

I hereby certify that the following is a true copy of an ordinance which was duly passed by the Council of the City of Rochester on **November 19, 2013** and **Approved** by the Mayor of the City of Rochester, and was deemed duly adopted on **November 20, 2013** in accordance with the applicable provisions of law.

Ordinance No. 2013-371

Authorizing A Request To The Financial Restructuring Board For Local Governments For A Comprehensive Review

BE IT ORDAINED, by the Council of the City of Rochester as follows:

Section 1. The Council hereby authorizes the Mayor to request that the Financial Restructuring Board for Local Governments undertake a comprehensive review of the operations, finances, management practices, economic base and any other factors that in its sole discretion it deems relevant to be able to make findings and recommendations on reforming and restructuring the operations of the City.

Section 2. This ordinance shall take effect immediately.

Passed by the following vote:

Ayes - President Warren, Councilmembers Conklin, Haag, McFadden, Miller, Ortiz, Palumbo, Scott, Spaull - 9.

Nays - None - 0.

Attest _____

City Clerk

City of Rochester

City Hall Room 308A, 30 Church Street
Rochester, New York 14614-1290
www.cityofrochester.gov

Lovely A. Warren
Mayor

February 3, 2014

Mr. Robert Megna, Chair, Director of the Budget
The Financial Restructuring Board for Local Governments
NYS State Capitol Building, Room 135
Albany, NY 12224

Dear Mr. Megna,

I, Lovely A. Warren, Mayor of the City of Rochester do hereby concur with the request authorized by the Rochester City Council by Ordinance No. 2013-371 for a Comprehensive Review of the City of Rochester by the Financial Restructuring Board for Local Governments.

The City of Rochester has a continuing structural deficit. It is caused by an imbalance of revenue and expense that will last for the foreseeable future. Rochester's revenues are constrained by: changed local economies; tax exempt properties; a concentration of significant population living in poverty; the property tax cap; and limited growth in sales tax revenue. Our expenses are strained by: high pension and medical insurance costs; collective bargaining rules and existing labor contracts; the City School Maintenance of Effort mandate; urban public safety needs; service delivery needs related to the concentration of poverty; and demands of an aging infrastructure.

The City of Rochester faces several challenges. There has been long term population loss. The industrial base in the City has severely eroded. As the recent report by the Rochester Area Community Foundation shows, Rochester is the 5th poorest City in the country among the top 75 metropolitan areas, with high concentrations of poverty and 46% percent of children living below the federal poverty line. This combination of factors drives demand for public safety and other services and at the same time reduces Rochester's capacity to pay for them.

Aid and Incentives to Municipalities (AIM) funding from New York State is critical to our financial success; however, Rochester receives less AIM per capita than our neighboring upstate cities and almost $31 million less than we are mandated to give to our school district.

Rochester has a proud history, but we are not the city we were 20 or 30 years ago. We have participated in several consolidation and shared-services initiatives over the years, including initiatives with Monroe County, the City School District, and the Monroe County Water Authority, but we see few similar opportunities ahead of us.

We have taken steps to manage ourselves prudently in the face of our challenges, including reducing our workforce from 4,000 full-time employees in the 1970's to our current level of 2,714. We have done so while maintaining critical services to our citizens and investment in our community.

I ask that the Financial Restructuring Board work with us to review our circumstances and help Rochester find a path to financial sustainability so that we can thrive and continue to be a city in which to believe.

Sincerely,

Lovely A. Warren,
Mayor

Phone: 585.428.7045 Fax: 585.428.6059 TTY: 585.428.6054 EEO/ADA Employer

Appendix B – Resolution Approving the City of Rochester

Financial Restructuring Board for Local Governments

RESOLUTION No. 2014-01

APPROVING THE REQUEST FOR A COMPREHENSIVE REVIEW FROM THE CITY OF ROCHESTER

WHEREAS, pursuant to New York State Local Finance Law section 160.05 (2)(a), the Board of the Financial Restructuring Board (the "Board") must find that the City of Rochester (the "City") is a Fiscally Eligible Municipality because it has an average full value property tax rate of $8.06 per $1,000, which is greater than the average full value property tax rate of seventy-five percent of counties, cities, towns, and villages with local fiscal years ending in the same calendar year as of the most recently available information; and

WHEREAS, pursuant to New York State Local Finance Law section 160.05 (3), upon the request of a fiscally eligible municipality, by resolution of the governing body of such municipality with the concurrence of the chief executive of such municipality, the Board may undertake a comprehensive review of the operations, finances, management practices, economic base and any other factors that in its sole discretion it deems relevant to be able to make findings and recommendations on reforming and restructuring the operations of the fiscally eligible municipality (the "Comprehensive Review"); and

WHEREAS, the governing body of the City with the concurrence of the City's chief executive has requested that the Board undertake a Comprehensive Review of the City;

NOW THEREFORE BE IT RESOLVED that the Board agrees to undertake a Comprehensive Review of the City in accordance with New York State Local Finance Law section 160.05(3).

This resolution shall take effect immediately and remain in effect until modified, replaced or repealed by resolution of the Board.

No. 2014-01
Dated: 2-11-14