City of Albany
Comprehensive Review Report

Financial Restructuring Board
for Local Governments

February 2015

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Overview

The City of Albany is a medium Upstate city in Albany County. With a population of 97,856 at the 2010 Census, it is the fifth most populous city in New York State.* 2012 expenditures of $188.4 million were the fifth most of all cities.

The City is governed by a Mayor and a 16-member Common Council, 15 of which are elected by ward and the President is elected at-large. The City Auditor and City Treasurer are also elected. All elected officials serve four-year terms.

The Common Council adopted and the Mayor concurred with a resolution requesting a Comprehensive Review by the Financial Restructuring Board (see Appendix A). On February 26, 2014, the Financial Restructuring Board approved this request for a Comprehensive Review with Resolution No. 2014-06 (see Appendix B).

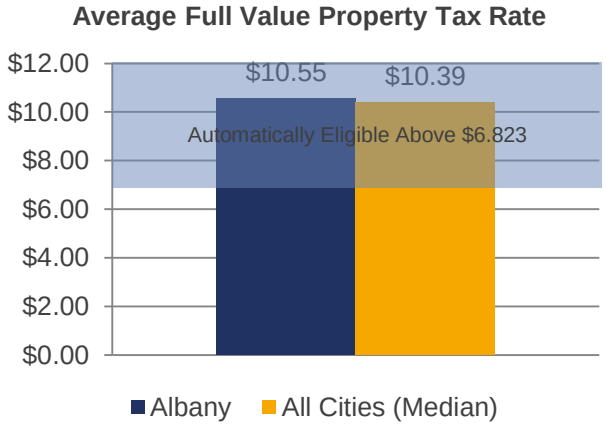
This Comprehensive Review first gives some background on the City's fiscal eligibility and demographic profile. It then provides information on the organization and finances of the City. Finally, it presents the Comprehensive Review's findings and recommendations.

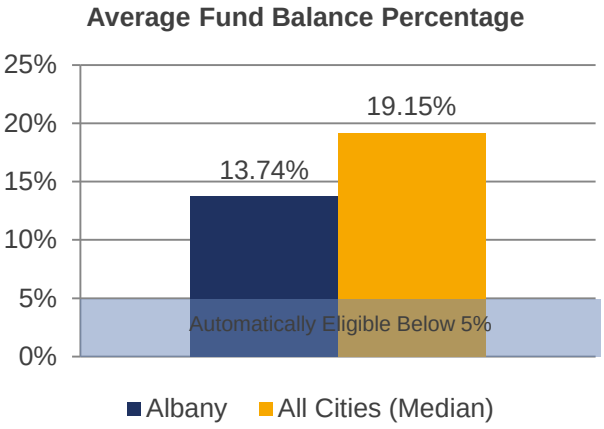
Background

Fiscal Eligibility and Stress

The City of Albany is automatically considered a Fiscally Eligible Municipality because its Average Full Value Property Tax Rate (2008-2012) of $10.55 per $1,000 is above $6.823 per $1,000 – the 75th percentile for all municipalities. This is the 30th highest for cities.

The City's Average Fund Balance Percentage (2008-2012) of 13.74 percent is the 18th lowest for cities but is still above the five percent threshold.



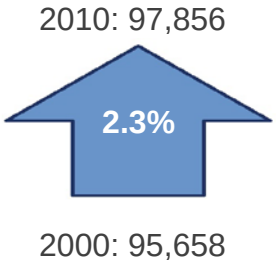


The Office of the State Comptroller's (OSC) Fiscal Stress Monitoring System gives the City of Albany a Fiscal Rating of No Designation with a score of 40.0 percent for 2013, which is worse than the City's 2012 score of 35.4 percent and is worse than the median score of 19.8 percent for all cities that are rated for 2013 (a local government would be determined to be Susceptible to Fiscal Stress with a score of 45.0 percent or higher). Negative fiscal factors include: a low fund balance, operating deficits, low cash as a percentage of current liabilities, and high level of personal service, employee benefits, and debt service spending compared to revenues. OSC projects that the City's score will decrease slightly to 39.9 percent in 2014, remaining at No Designation.

OSC's Fiscal Stress Monitoring System gives the City of Albany an Environmental Rating of # (considered to have bad environmental conditions) with a score of 30.4 percent for 2013, which is worse than the City's 2012 score of 24.6 percent and is worse than the median score of 28.8 percent for all cities that are rated for 2013 (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 high child poverty rate (35.6 percent), which increased from 2000 to 2010; a decrease in property values; a high unemployment rate that has increased, and a decrease in intergovernmental aid.

Demographic and Socioeconomic Profile

Population Change



The City's population grew 2.3 percent from 2000 to 2010 to 97,856. This growth is significantly more than the 0.5 percent population increase experienced by the typical city over that same period.

The City of Albany's median household income in 2012 was $40,145, which is slightly more than the typical city's median household income of $38,913.

The City's median home value of $180,100 is significantly more than the median home value of the typical city of $102,300. Its property value per capita of $45,919 in 2013 is more than the property value per capita of the typical city (with a 2013 OSC fiscal stress score) of $40,021. The four-year average change in property value of -3.0 percent is less than the average change of the typical city (with a 2013 OSC fiscal stress score) of 0.1 percent.

The City's unemployment rate of 8.7 percent is less than the unemployment rate of the typical city (with a 2013 OSC fiscal stress score, or its surrounding county if the city has a population less than 25,000) of 8.8 percent. With a child poverty rate of 35.6 percent, the City of Albany has a higher child poverty rate than the typical city (with a 2013 OSC fiscal stress score), which is 25.8 percent.

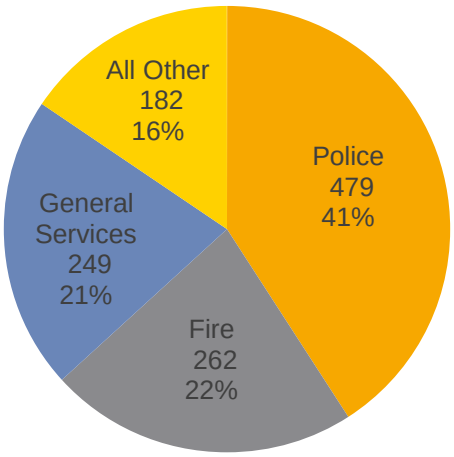
Organization and Finances

Organizational Profile

The City of Albany is governed by a Mayor and a 16-member Common Council, 15 of which are elected by ward and the President is elected at-large. The City Auditor and City Treasurer are also elected. All elected officials serve four-year terms, which expire December 31, 2017.

The City has 1,172 full-time equivalent (FTE) positions with nearly 75 percent of the City's 2014 General Fund budget being spent on personal services and employee benefits.

2014 City of Albany FTEs by Dept.



The Police Department is the City's largest department with 479 FTEs. In addition to police services, the Department handles the City's 911 response system, traffic engineering, and animal control.

The Fire Department is the City's second largest department with 262 FTEs. The Department handles fire protection, emergency medical services, and code enforcement.

The Department of General Services is the third largest department with 249 FTEs. The Department handles a very broad array of services, including waste collection and disposal, street maintenance, engineering, building and parks maintenance, and special events.

The remaining 16 percent of the City's FTEs are spread across a number of different departments, including: Department of Recreation/Youth Services (32 FTEs); Buildings and Regulatory Compliance (23 FTEs); Department of Planning and Development (23 FTEs); Treasurer (22 FTEs); and City Council (20 FTEs).

The City's workforce is represented by nine bargaining units – all of which have expired contracts. The City had agreements through 2013 with three of its unions – blue collar employees, operating engineers, and police patrol officers – and an agreement through 2011 with the police officers civilians unit. Binding arbitration awards were made through 2011 with two of its unions – firefighters and police supervisors. All other agreements expired in 2009.

City of Albany Labor Contracts

Union	% Salary Increases			
	2010	2011	2012	2013
Blue Collar and Operating Engineers	0.0	0.0	2.5	3.0
Police Patrol Officers	2.0	2.0	3.0	2.5
Police Civilians	2.0	2.0		
Firefighters – *Binding Arbitration Award*	2.0	2.0		
Police Supervisors – *Binding Arbitration Award*	3.0	3.0		
All Other	Contracts expired in 2009			

All of these expired contracts are a risk to the City's budgetary balance. Of particular risk are the open contracts that can be subject to binding arbitration – firefighters, police patrol officers, and police supervisors. The City acknowledges that binding arbitration is currently pending for City firefighters for the 2012 and 2013 contract years. Future arbitration awards could result in a significant financial impact to the City. Despite the recent economic recession, arbitration awards to local police and firefighters unions have continued to provide retroactive pay increases, typically with minimal adjustments to employee contributions for health insurance premiums.

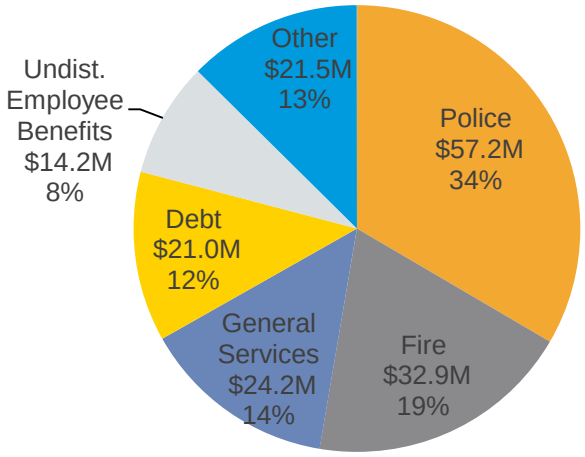
In February 2013, the Albany police supervisors union received a binding arbitration award providing retroactive base pay hikes totaling more than six percent for 2010 and 2011. This award also did not require the union to agree to the same increase in employee health insurance contributions that had been previously negotiated by the City's police patrol officers. The arbitration panel concluded that the City of Albany could afford higher wages because it was not unreasonable to assume City residents were not overtaxed at the time. It should be noted that Albany's high property tax burden over that same period is what allows it to be automatically considered a Fiscally Eligible Municipality for this Board.

A majority of City employees are required to share in the cost of the health insurance premiums – 10 percent for individual coverage and 25 percent for family coverage. This premium sharing was added for employees hired after a certain date, which varies by contract. However, in the mid-2000s, this premium sharing requirement was eliminated for police and firefighters with eight or more years of service. It was restored for all new police officers hired after December 3, 2012, but has not yet been restored for police supervisors or firefighters. As a result of these agreements, only 4.6 percent of firefighters receiving coverage from the City and 30.5 percent of police officers receiving coverage from the City share in the cost of their health insurance premium. In contrast, 86.9 percent of all other employees receiving coverage from the City contribute to their health insurance coverage.

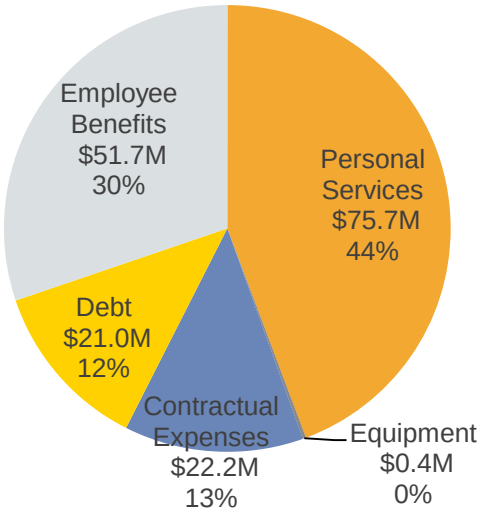
Budget Profile

The City's 2014 General Fund adopted budget totals $171.1 million. This is a 0.28 percent decrease from the 2013 adopted budget. The department with the largest expenditures is the Police Department, followed by the Fire Department and the Department of General Services. The largest expenditure by object is personal services, followed by employee benefits.

2014 City of Albany GF Expend. by Dept.



2014 City of Albany GF Expend. by Object

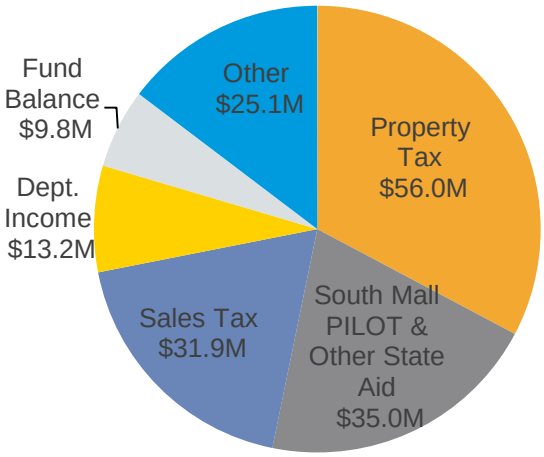


The 2014 General Fund revenue sources include: 32.8 percent from real property taxes; 20.5 percent from the South Mall payments in lieu of taxes (PILOT) and other State aid; and 18.7 percent from sales tax. The 2014 property tax levy is $56.0 million – an increase of 1.6 percent from the prior year.

According to its 2014 Budget, the City has $102.5 million in outstanding bonds, $20.7 million in outstanding bond anticipation notes, $10.0 million in revenue anticipation notes, and $0.9 million in leases.

As of its 2012 Financial Statements, the City had a General Fund fund balance of $22.8 million (13.9 percent of 2012 General Fund expenditures) and a Total Governmental Funds fund balance of $28.7 million (15.0 percent of 2012 Total Governmental Funds expenditures).

2014 City of Albany GF Revenues



The City expected its General Fund fund balance to be $18.2 million at the end of 2013 (10.6 percent of 2013 Adopted Budget General Fund expenditures), as of its 2014 Adopted Budget. The 2014 Adopted Budget planned on using $9.8 million in General Fund fund balance – leaving $8.4 million (4.9 percent of 2014 Adopted Budget General Fund expenditures).

According to the Mayor, the 2014 Adopted Budget was out of balance by more than $5 million due to an underestimation of health care costs, unsupported cuts in operating expenses, and overestimation of revenue. Actions such as cutting operations and not filling positions were taken, but the estimated fund balance remaining at the end of 2014 was reduced to $6.5 million (3.8 percent of 2014 Adopted Budget General Fund expenditures).

The City's 2015 Adopted Budget includes a 1.4 percent tax levy increase, uses $2 million from fund balance, anticipates $5 million from the sale of property in the Town of Coeymans to the State Department of Environmental Conservation, and anticipates $5 million in grants from the Board. It also includes an agreement with the Fire Department to cut and/or save $1.2 million through various actions.

Findings and Recommendations

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

Economic Development

Harriman State Office Building Campus

Background

Built throughout the 1950s and early 60s, the W. Averell Harriman State Office Building Campus totals roughly 330 acres, contains millions of square feet of office space, and houses thousands of State employees. The lands and infrastructure of the Campus are owned by the State and managed by the Office of General Services (OGS).

In the City's application to the Board, the Mayor cited its high percentage of tax exempt property as one of the issues plaguing the City – approximately 65 percent of the total tax base and approximately 80 percent of the commercial tax base are exempt.

As the Capital city, there is obviously a strong governmental presence in Albany. Within the City, State property totals more than 3,000 acres. Since 2000, the State has made PILOT payments to the City for the "South Mall" complex, now better known as the Empire State Plaza. At present, the City receives $15 million annually from the State. These payments will continue at this level through 2030. The State also makes PILOT payments for several other buildings and structures within the City, which total more than $4 million per year.

While there are no PILOT payments paid specifically on behalf of the Harriman Campus, the Campus helps provide a necessary and vital service for the State and its operations, and the State has focused its efforts on maximizing the value of the Harriman asset for the good of all taxpayers and residents – both State and City.

To this end, and as recently announced in the Governor's 2015 Opportunity Agenda, OGS has been steadily progressing with its Real Estate Optimization plan for its State-owned facilities, including restacking and redesigning agency footprints and razing buildings at the Campus that no longer serve the public's best interest.

Expanding Revenue for the City

From a commercial aspect, the locale of the Campus land is attractive, as it is presently not overly-developed or saturated by businesses; it offers population density including a nearby college student presence; and it is easily accessible via major thoroughfares.

The State will begin implementing Governor Cuomo's Harriman Campus Strategic Action Plan, which includes making available a sector of Campus land for new commercial development. In 2015, the State will be in a position to offer up to 30 prime acres for new private development. A

request for proposals will be issued in the coming months, and it is estimated that, when fully developed, the City could realize new, substantial additional annual revenue.

Further details on this new endeavor will be disseminated by OGS in the coming months.

Downtown Albany Development Site – Original Convention Center Location

Background

In 2004, then Albany Mayor Jerry Jennings began to consider the value of a new convention center to the City. In 2006, legislation authorized the formation of the Albany Convention Center Authority (ACCA) in statute.

With the new statute came $75 million in state funding to begin operation of the ACCA, including hiring staff, leasing office space, and acquiring property for the convention center.

The first land purchase was made in 2009 with a piece of property from Greyhound and then followed by pieces from the City, County, the former eComm Square from Mercer, and finally a parcel from Trailways. In totality, the parcels pieced together by the ACCA for the site total approximately eight acres when land owned by the State is included.

In 2012, Governor Cuomo asked that the ACCA re-imagine a convention center that could be completed with no new State money. The ACCA met that challenge and responded with a new plan for the “Albany Capital Center,” a somewhat scaled-down convention center, which is presently under construction. The new location is in close proximity to the Empire State Plaza and the Times Union Center, and utilizing new partnerships with the State, City and County, the ACCA, through its operator, will endeavor to utilize these three spaces synergistically to bring world class events to Albany. Improvements to the Times Union Center and the Empire State Plaza Convention Center are planned, as well as to the enclosed walkway that will connect all three sites.

The new plan also brought with it the availability of shovel-ready, highly-developable space that could be utilized to put a significant parcel of land back on the tax rolls of the City and County.

Expanding Revenue for the City

From a commercial development aspect, the original identified site assembled by the ACCA will be the most advantageous development opportunity in the City of Albany in recent memory.

OGS and Empire State Development (ESD) have recently issued a request for proposals with respect to the approximately six acres of development parcels. The winning proposal will include mixed-use commercial development that will create job opportunities and expand the tax base for the City of Albany. The ACCA will convey the acreage to the State, which will convey it to the developer with the winning proposal after input from the City.

The direct positive fiscal impact will depend on the extent and scope of the project. It is estimated that, when fully developed, the City could realize new, substantial additional annual revenue through locally negotiated PILOT agreements.

Further details on this new endeavor will soon be disseminated via OGS and ESD.

Recommendation: In recognition of the opportunity for additional economic growth that may be realized by the City at the Harriman Campus and former convention center site, the Board may, in its sole discretion, award a grant of up to $3.9 million to help temporarily stabilize the City's 2015 budget and help limit further erosion of the City's current fund balance. 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.

Socio-Economic Issues

The socio-economic problems facing cities like Albany, from economic opportunity to crime, are interwoven and difficult to address. This complexity is further magnified when these issues are concentrated in certain neighborhoods of a city, as they often are. The result is that local resources are stretched thin, placing pressure on local government finances and operations.

The Governor's Community, Opportunity, and Reinvestment (CORe) Initiative uses data-driven, placed-based strategies to help localities and neighborhoods better address some of their most pressing issues. State and local stakeholders are brought together on a monthly basis to have a dialogue around key issue and policy areas, looking for ways to better integrate and structure public programs and resources. Meetings take place at the State and local levels, and are built around the COReSTAT data tool.

The City of Albany's participation in the CORe and COReSTAT Initiatives focuses on three neighborhoods – Arbor Hill, West Hill, and the South End. Each of these neighborhoods has multiple indices of severe distress, including high rates of criminal activity, low high school graduation rates, and high unemployment rates. As part of the CORe Initiative, Albany receives the benefit of multiple State agencies working together to coordinate, integrate and streamline resources to help solve some of these distressed neighborhood's most intractable problems.

New and better approaches are also being implemented to solve local problems, such as an enhanced case management model the Office of Temporary Disability Assistance and Department of Labor are developing to support job placement. Other ongoing Albany CORe efforts include a Home Health pilot with a focus on employment, data sharing to support local coordination, and Community Condition Surveys to help identify unmet needs, overlapping services, and key intervention points at the local level.

Addressing the City of Albany'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 10 such land banks through Chapter 257 of the Laws of 2011, and this authorization was expanded to a total of 20 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 ESD. Albany County submitted an application to create a land bank to ESD in March of 2014, which was approved the following May. According to the County's application, the initial focus of the land bank will be several downtown areas in the City of Albany. The focus will be expandable to other municipalities in the County after this initial phase. The land bank intends to acquire around 300 properties within the initial target areas.

The Albany County Land Bank is expected to be funded by both Albany County and the City of Albany. The County has committed $1 million for start-up and operating capital over two years, and the City has committed $500,000 in funding. The Land Bank also intends to apply for funding from various outside sources, including the Regional Economic Development Councils, private donations, and grants.

The Land Bank's stated priorities for repurposed properties include the development of affordable mixed income housing (owner occupied or rental properties), mixed use commercial/retail properties, public green space, transitional and senior housing, parking, and community gardens.

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 Albany County Land Bank was recently awarded over $2.8 million in funding as part of the second round of funding.

The Board finds that the continued development of the Albany County Land Bank will be beneficial for the City of Albany 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.

Efficiencies

Enhancing Efficiency and Productivity through Information Technology

The City of Albany has outdated and inefficient information technology systems. Over the last 20 years, the City has operated with decentralized management of many of its core business processes in finance, procurement and human resources. Important City operations are supported by aging, stand-alone, paper-based, and labor-intensive systems.

When these systems were installed, no centralized enterprise-wide systems existed for important business areas, such as time and attendance, human resources, general billing, cash management or budget development and reporting. Using separate, non-integrated systems requires expensive and inefficient manual intervention to perform transactions.

Example of Inefficiency – Time and Attendance

The City of Albany uses multiple, manual time collection systems. A number of the City's 1,200 employees are on a "self-record", paper-based systems, creating opportunities for error and abuse. Some department accrual balances are tallied in binders and others departments use Excel or department-specific systems.

Currently department payroll clerks collect paper timecards, as well as compensatory time sheets for salaried employees, and submit a summary sheet to Payroll. Payroll staff examine each sheet, check for irregularities, enter the time, and check compensatory time records after payroll is processed.

These manual systems are marked by inconsistent policy enforcement and an inability to readily determine where overtime is occurring. Use of multiple manual time collection systems create little accountability and opportunities for over reporting of employee time and unnecessary labor costs.

The City Auditor and other officials have recommended that the City move to an automated timekeeping system for more accurate reporting of employee time and to save money. With all employees on an enterprise-wide time and attendance system, both the City and its employees will have greater visibility of actual hours worked and accrued time available. A new time and attendance software module can be implemented within eight months with a payback period of less than four months.

An Enterprise-wide System

Today, there are new factors facing the City that require a re-evaluation of its core business processes and the software applications that support them. An enterprise resource planning system (ERP) is software that will replace many stand-alone and manual systems of individual departments and offices – such as finance, budget, purchasing, project and grants management, payroll and human resource management – and integrate the functions into an automated system that runs off a single database.

Local government officials and public managers are realizing that new technologies such as ERP systems can enable organizations to process transactions more efficiently and effectively.

ERP systems, for example, integrate all facets of the business across all departments and functional processes. This capability provides significant advantages over current legacy financial and administrative systems, which are comprised of a variety of separate systems and databases that perform the various accounting, payroll, and maintenance operations tasks.

An ERP can provide many modern tools that will enable the City to maintain and improve service to its customers. A modern ERP system can reduce the complexity of accessing, viewing, and managing the vast sums of information collected and disseminated by City departments. In addition to creating new opportunities for reshaping core internal functions, such as how accounting, purchasing, and payroll activities are performed, these systems also enhance the ability of how public sector agencies conduct business with their stakeholders, such as residents and suppliers/vendors.

Such a system will enable the integration of core business processes and facilitate consistent, integrated reporting with fewer resources. This in turn will enable additional oversight and accountability. Once integrated and automated, these processes would be monitored by management through the use of online reporting tools and on demand dashboards.

Implementing ERP will integrate processes across functional departments and agencies and substantially reduce, if not eliminate, manual, paper-based systems. This will position the City for greater efficiencies in operations at a reduced cost.

City officials seek to invest in and begin to implement components of such a system in the coming months. As such, the City's 2015 Adopted Budget estimates $2 million in annual savings when this is fully implemented. Further, an ERP will provide many modern tools that will enable the City to maintain and improve service to its customers.

Recommendation: The Board recommends that the City pursue advancements in information technology that will improve efficiency for the City, that could be expanded to its neighboring local governments, and that could be used as models for local governments statewide. If the City agrees to abide by and implement this recommendation, the Board may, in its sole discretion, award a grant of up to $1.1 million to pursue these advancements. 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.

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 (NYSERDA), 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 the 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.

For the City of Albany, 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.

Unlike the City of Rochester, which owns all of its streetlights, the City of Albany leases all of its lights, poles and fixtures from its utility company, National Grid. Through an all-encompassing "tariff" (master rate) approved by the New York State Public Service Commission (PSC), the City pays National Grid for the cost of the energy (kilowatts) used, maintenance and leasing of the infrastructure. In total, the City pays National Grid approximately $4.2 million annually for approximately 10,300 lights/poles/fixtures.

Due to the fact that it does not own the infrastructure, the City of Albany has generally two options if it desires to lower its operating costs through converting the older lights to potentially LED. First, it could approach National Grid in an attempt to buy the infrastructure. Based on early indications, this option could be cost-prohibitive as the City would have to pay National Grid for the present amortized value of each applicable light/pole, and potentially associated wiring, as well as the cost of the "business model" – the future value of operations to National Grid. On top of this, the City would then have to purchase the necessary materials to upgrade and/or replace the light fixtures, and staff the necessary personnel to maintain the new infrastructure the City would then own. The costs to address over 10,000 units could be quite significant.

The second option is to encourage National Grid to upgrade their lights, in the hopes that the City would see reduced charges due to lower energy usage and expected lower maintenance due to the durability and longevity of LED versus older technology. With this option, however, it is completely up to National Grid as to the timeline. The PSC has indicated that they believe the utility company will apply for a new LED "tariff" in the coming year, but no guarantees can be made. Further, it is not clear what net savings this new tariff will offer compared to the current one the City and National Grid are operating under. While lower wattage and maintenance would favor future City expenses, the new tariff would also have to incorporate and consider the capital, installation and amortization costs borne by the utility company.

The Board finds that the City should continue to work with National Grid to acquire and/or convert and modernize its streetlight inventory. Further, the City should continue to seek technical assistance and guidance from NYPA and NYSERDA, as appropriate.

Procurement

Unlike other municipalities reviewed by the Board, the City of Albany does have a Purchasing Division within the Department of Administrative Services, and a Director of Purchasing (i.e., a Purchasing Agent). All City purchases go through this office via requisition, and the City's budget office approves the amount. Finally, a purchase order is issued. Any procurement that exceeds the statutory thresholds pursuant to the General Municipal Law (GML), is bid through the City's Board of Contract and Supply. The Purchasing Agent attends those meetings and is aware of all the bids and purchase contracts.

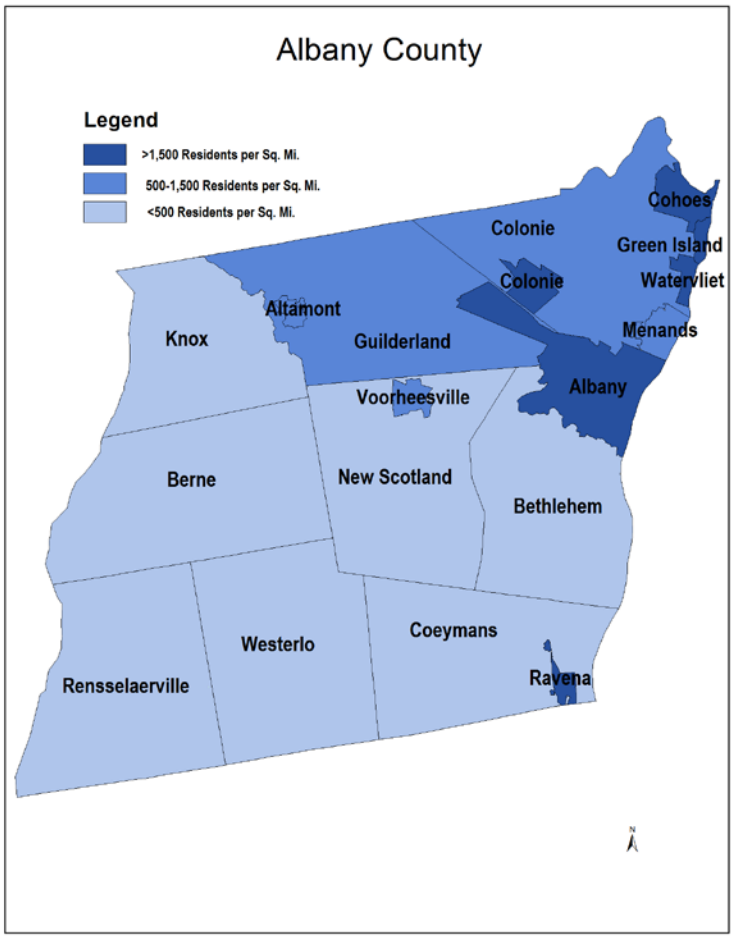
Chapter 42 of the City Code is entitled "Departments and Commissions". Within that chapter is established the Department of Administrative Services, and the Purchasing Division, as well as the Board of Contract and Supply. That Board is to promulgate rules and regulations prescribing procedures, methods, and practices for procurement. The City has an adopted Purchasing Policy, which is currently being reviewed and updated, but in its current form does contain necessary provisions. In fact, it is very thorough and comprehensive.

The Purchasing Agent is aware of the amendments to the GML, authorizing piggybacking from other states and the federal government and authorizing "best value" purchases. The City is considering adoption of a "best value" local law, and the Board provided a sample local law.

The Purchasing Agent is also familiar with and does utilize State Office of General Services centralized contracts where appropriate. The City is also a member of the National Joint Powers Alliance, which is a national procurement organization based in Minnesota. Contracts that the organization competitively bids are available for piggyback to its members. The City has also taken advantage of many other piggybacking opportunities from Albany County and other counties. The Board finds that the procurement operation for the City of Albany seems to be effectively run, and the only potential improvement is the adoption of a "best value" local law.

Shared Services

Regional Government Context



As of the 2010 Census, Albany County had a population of 304,204 and was the 9th most populous county out of the 57 counties outside of New York City. With a land area of 522.8 square miles, it is the 40th largest county. With a population density of 582 residents per square mile, it is the 9th most densely populated county.

The County is governed by a County Executive and a 39-member County Legislature. Other elected County officials include: the Comptroller, the Sheriff, the District Attorney, the Clerk, and four Coroners. As of 2012, the County had total expenditures of $590 million, which is the 9th highest for counties, and total expenditures per capita of $1,938, which is the 31st highest for counties.

Within the County, there are 3 cities, 10 towns, 6 villages, 12 school districts, 20 fire districts, and more than 50 town special districts and other entities.

The City of Albany is on the Hudson River – the eastern edge of the County. The Town of Colonie, including the Villages of Colonie and Menands, is to its north, the Town of Guilderland is to its west, and the Town of Bethlehem is to its south.

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 Albany, this prospective plan will need to generate savings of one percent of their tax levy, which would be $560,000 annually on a $56 million levy. Based on the below Index of Municipal Services Provided, the City of Albany and its neighboring municipalities do provide 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

A survey was conducted by the City to gather information on the general functions of the City and neighboring municipalities to ascertain duplication of services and potential areas for further consolidation. The City was 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**	**Bethlehem**	**Colonie**	**Guilderland**
Police/Patrol	X		X	X	X	X
Dispatch/E-911	X		X	X	X	X
Fire	X			X (Vol.)	X (Vol.)	X (Vol.)
Ambulance	X		X	X	X	X
Tax Collection	X	X	X	X	X	X
Tax Bill Printing	X	X	X		X	
Tax Foreclosure			X			
Assessing	X		X	X	X	X
Personnel/HR/Civil Service	X	X	X	X	X	X
Payroll	X	X	X	X	X	
Purchasing	X	X	X	X	X	X
Budget/Finance	X	X	X	X	X	X
Code Enforcement	X		X	X	X	
Building/Zoning/Planning	X		X	X	X	X
Park Maintenance	X		X	X	X	X
Animal Control	X		X	X	X	X
Plowing	X		X	X	X	X
Paving/Street Maintenance	X		X	X	X	X
Sanitation/Garbage	X	X		X		X
Water	X			X	X	X
Wastewater/Sewer	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 Albany and its neighboring municipalities.

If the City of Albany 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 analysis of municipal services provided by the City of Albany and its neighboring municipalities identified several areas of overlap. In addition to advancements in information technology that can be expanded to its neighboring local governments, which the Board made recommendations on earlier, some of the most promising opportunities for shared services include working with neighboring municipalities on tax bill printing, dispatch, and animal control. The Board finds that the City should continue to work with its governmental neighbors to share services so as to lower the annual cost of providing specific services and address the inherent duplication of services via multi-governmental jurisdictions.

Local Government Efficiency Grant Program

The State 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 http://www.dos.ny.gov/lg/lge/index.html.

Workforce

Employee Health Insurance Costs

For many municipalities across the State, including Albany, 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 Albany's 2014 budget, employee salary and benefits account for 74.5 percent of expenditures ($127.5 million). Of this $127.5 million, the City expects to expend $51.7 million on employee benefits (including health insurance, pension benefits, workers' compensation, social security) for its workers and retirees.

A majority of City of Albany employees (54.4 percent) are required to share in the cost of the health insurance premiums – 10 percent for individual coverage and 25 percent for family coverage. Less than 10 percent of retirees contribute towards their health insurance premium, as the City currently gives all retirees health insurance at the premium contribution rate at which they retired.

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.

Binding Arbitration Reforms

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 high average property tax rate, the City would likely qualify for application of the heightened ability to pay requirements should its labor negotiations require arbitration.

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 Albany does not currently have a multi-year financial plan. For the reasons outlined above, the Board finds that the City should develop a multi-year financial plan.

Conclusion and Next Steps

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

- In recognition of the opportunity for additional economic growth that may be realized by the City at the Harriman Campus and former convention center site, the Board may award a grant of up to $3.9 million to help temporarily stabilize the City's 2015 budget and help limit further erosion of the City's current fund balance.

- The Board recommends that the City pursue advancements in information technology that will improve efficiency for the City, that could be expanded to its neighboring local governments, and that could be used as models for local governments statewide. If the City agrees to abide by and implement this recommendation, the Board may award a grant of up to $1.1 million to pursue these advancements.

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 Albany

CITY OF ALBANY
OFFICE OF THE MAYOR
24 EAGLE STREET
ALBANY, NEW YORK 12207
TELEPHONE (518) 434-5100

KATHY SHEEHAN
MAYOR

February 11, 2014

Dear Distinguished Members of the Financial Restructuring Board:

I am writing to request a comprehensive review of the City of Albany by the New York State Financial Restructuring Board ("FRB") pursuant to Local Finance Law §160.05. Albany is a "fiscally eligible municipality" as defined in §160.05 (2) because its average full value property tax rate exceeds the average full value property tax rate of 75% of the other municipalities. In addition, Albany's fund balance is projected to fall below 5% of operating expense at the end of 2014.

As the City's Chief Executive, I requested authorization from the City's Common Council to seek a comprehensive review by the FRB shortly after taking office on January 1, 2014. At a special meeting held on February 6, 2014, the Common Council authorized this request by a vote of 13 in the affirmative and one in the negative, with one member absent.

The City faces significant financial challenges. The 2014 budget, which was proposed and adopted in 2013 under the previous administration, authorizes spending of more than $171 million on revenue of approximately $154 million. The deficit is funded by $9.8 million of fund balance, $2.5 million of debt reserve and $4.2 million of pension amortization. At the end of 2014, the City will have less than $8 million of fund balance and is not projected to have debt reserve.

The City's deficit is exacerbated by the fact that all union contracts are currently open for negotiation. Since 2010, the City's budgeted deficit has grown by 213%, mainly as the result of the loss of temporary "spin up" revenue under Public Lands Law §19-a. Complicating the City's financial outlook is its lack of investment in technology. Albany's outdated general ledger, budgeting and payroll software are inefficient, difficult to use and do not provide the level of analysis necessary to operate a modern city government.

Additionally, the City as home of the State Capital has unique needs and obstacles in obtaining fiscal viability, in part due to the large amount of tax exempt property. Albany is straddled with the costs of maintaining the infrastructure that supports all the property, not-for-profits, and State buildings in the City, as well as the individuals who come to Albany to work.

Albany is faced with a situation in which 57% of all property in the City is tax exempt, while 80% of all commercial property is tax exempt. Just the State, excluding the university system, has approximately $3.1 billion in tax exempt property in the City. In return the City of Albany receives the lowest AIM per capita of any of the big upstate cities and receives only $15 million annually in 19A pilot money to compensate for just the Empire State Plaza.

Finally, the City's economic base continues to erode. Since 2009, Albany's commercial tax base has declined 13.3%, and its overall tax base is down 7%. One in four of Albany's residents live below the poverty level and many of the City's neighborhoods are plagued by vacant, blighted and abandoned property. The City's property tax rate is among the highest in the region, with a commercial tax rate that is 60% higher than neighboring municipalities.

Accordingly, I concur with the Requesting Resolution adopted by the Albany Common Council seeking a comprehensive review by the FRB and I look forward to working with you as you undertake this important work.

Sincerely,

Kathy M. Sheehan
Mayor

Council Member Commisso introduced the following, which was approved:

Resolution Number 11.21.14R (As Amended)

RESOLUTION OF THE COMMON COUNCIL REQUESTING A COMPREHENSIVE REVIEW BY THE NEW YORK STATE FINANCIAL RESTRUCTURING BOARD FOR LOCAL GOVERNMENTS

WHEREAS, the City of Albany is a Fiscally Eligible Municipality based on the criteria established under the New York State Local Finance Law and qualifies to request a Comprehensive Review by the Financial Restructuring Board for Local Governments; and

WHEREAS, the Common Council of the City of Albany understands that the Financial Restructuring Board has the ability to undertake a Comprehensive Review of the City of Albany's operations, finances and practices.

NOW, THEREFORE, BE IT RESOLVED, that Common Council of the City of Albany requests a Comprehensive Review by the New York State Financial Restructuring Board for Local Governments.

BE IT FURTHER RESOLVED, that the Mayor is authorized to execute any and all documents and instruments necessary to fulfill the City of Albany's obligations under the Financial Restructuring Board's Comprehensive Review and that the Mayor will provide the Finance, Taxation and Assessment Committee of the Common Council with copies of any written communications that are received from or provided to the Financial Restructuring Board.

Passed by the following vote of all the Council Members elected voting in favor thereof:

Affirmative – Applyrs, Bailey, Commisso, Conti, Doesschate, Fahey, Flynn, Golby, Herring, Igoe, Kornegay, O'Brien and Robinson

Negative – Krasher

Affirmative 13 Negative 1 Abstain 0

Clerk of the Common Council

Mayor

2/10/14
Date

I, Nala Woodard, City Clerk and Clerk of the Common Council, do hereby certify that Resolution Number 11.21.14R (As Amended) was passed at a meeting of the Albany Common Council on February 6th, 2014.

In Affirmation thereof, I hereto set my hand and affix The Seal of the City of Albany this 7th day of February 2014.

Clerk of the Common Council

Appendix B – Resolution Approving City of Albany

Financial Restructuring Board for Local Governments

RESOLUTION No. 2014-06

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

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 Albany (the "City") is a Fiscally Eligible Municipality because it has an average full value property tax rate of $10.55 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. 2014-06
Dated: 2-26-14