


City of Batavia

To: Honorable City Council

From: Jason Molino, City Manager 

Date: March 2, 2015

Subject: Budget Sustainability

Throughout the budget process the majority of discussion has been focused on justifying, and if necessary, curtailing certain expenditures. In addition, the topic of constraints on our community imposed by a large percentage of households on fixed incomes on one hand and a lack of wage growth for many on the other has further occupied budget discussions.

It's generally been the case that the problem of the latter has been expressed as the reason the City Council has to discuss the former. In this vein, we have discussed specific initiatives that would streamline operations through gains in efficiency, and other means of improving the productivity of City departments. Without question, these are all very important initiatives in managing a budget and controlling costs.

However none of the efforts at reducing costs, regardless of how much they result in more efficient operations, should be confused with what is needed - and overdue - to address what is the central issue: *the imperative of strengthening City revenues*. Little discussion has been centered on the revenue portion of the budget, more specifically on our options for generating more revenue, which is a reflection of the degree to which Batavia is economically vibrant. We can shrink the City workforce to 10% of its current size, thereby reducing taxes, but if the result is not a City that is economically vibrant, then we just have a depressed Batavia with little municipal service capacity.

What we really need to be spending time on is the matter of long-term revenue sustainability. The budget message reported that the decreased size in the general fund spending plan (over \$250,000) is a result of an expected decrease in revenues in the upcoming year. Specifically, the budget message highlighted the slow growth in sales tax, taxable assessed value, utilities gross receipts tax and a higher dependence on unassigned fund balance. Combined, these revenues account for 75% of the general fund revenue.

Sales taxes are the result of two things: 1) spending capacity by locals and 2) spending activity by the overall market in response to what we in Batavia and Genesee County have to sell. Neither is improved by shrinking the size of City departments. Should City departments always operate as efficiently as possible? Without question. In fact the City has made great strides over the past eight years improving operations, right sizing the workforce and engaging in shared services. But we cannot confuse an

Office of the City Manager
One Batavia City Centre
Batavia, New York 14020

Phone: 585-345-6330
Fax: 585-343-8182
www.batavianewyork.com

efficient operation with fiscal stability. Taxable ad valorem (tax base) is important. It is the primary basis of public revenue, of the funds needed to salt and plow roads, provide public safety, maintain our parks, and operate. However, assessed value is a function of the desirability of property in the real estate market, the primary determinant of which is price. Assessed value is a function of reinvestment levels by owners, residential, commercial and industrial. Homes get upgraded when residents have confidence in the future value of their property. Business owners invest in makeovers and improvements when they anticipate increased demand for products and services. And industries reinvest when plants need modernization and enlargement.

Public revenue needs an employed community, and so the right question is not necessarily where should we be trimming the City workforce or budget, but rather, the right question is: Are City resources optimally structured to reposition Batavia as a great place to raise a family, start and operate a profitable business, and in general, appeal to families?

While these issues were reviewed in the budget message, they are not new to the City.

- For the past three years, the City's financial statements have stated the City's lack in taxable assessed value growth as both a short and long-term factor affecting the City. The FY 13/14 financial statements stated *"Considering taxable assessed value is the City's largest stable source of revenue, the City needs to make improving the City's tax base, particularly the non-residential tax base, a priority and encourage future commercial and industrial redevelopment throughout the City's Central Corridor."*
- The most recent review of the City's bond rating by Moody's Investor Services July 9, 2014 stated that while the City is in a *"very strong financial position"* the median family income is below-average of the US median, poverty is high and full (taxable assessed) value per capita is well below average.
- Three of the City's six census blocks have been identified as *"Highly Distressed Areas"* pursuant to New York State General Municipal Law defining higher than average poverty and unemployment rates in the City's Central corridor.
- Five of the City's six census blocks are deemed *"Low-Income"* per the federal Community Renewal and Tax Relief Act of 2000

As mentioned, slow tax base growth and the City's socio-economic position has been part of the recent budget discussions.

A balanced approach to the City budget needs to include strong initiatives that will provide cost containment, but also strategic direction that will improve quality of life. Growth in tax base and resident income are the lifeblood to supporting municipal services, as well as improved quality of life for City residents. All our focus must be on retaining our households and repositioning Batavia in the coming years to attract more households and businesses.

The City's strategic plan outlines two initiatives that support these aims by recommending the continuation of the economic development services agreement with the Batavia Development Corporation, and Vibrant Batavia funding.

The BDC has facilitated more than \$2 million of public and private partnership investments and impacted over 50 jobs in the last three years. The BDC is also the sole entity focused on returning abandoned, undervalued property to the City tax rolls, as witnessed with the Carr's Warehouse redevelopment and the beginnings of the Della Penna project. These projects will increase tax base, create new job opportunities, bring disposable income to City businesses and create new dwelling units which, in turn, also strengthens the retail sector. Vibrant Batavia has already engaged more than 120 residents and inspired the business community to pledge support for developing positive habits and to celebrate the City. Programming to enhance pride and value amongst the neighborhoods is paramount to moving forward.

Comparatively, these initiatives are equivalent to less than 2% of the City's general fund budget. When put in the context of all City services and programs, these are the only initiatives that are responsible for increasing tax base, job growth and personal income. City leadership has an opportunity to fully leverage tax dollars in a way that will result in greater returns for our residents overall and have a direct connection to the work of making the City economically viable.

The results achieved from the Batavia Development Corporation and Vibrant Batavia, and the partnerships they have developed, provide long-term stability of City revenues and improve opportunities for City residents. In other words, continuing the focused efforts of the BDC and Vibrant Batavia is a down payment that will generate significant long-term returns for Batavia, and the region.

Attached please find a summary of the recommendations for BDC and Vibrant Batavia.

Batavia Development Corporation – Economic Development Services Agreement

It is recommended that the City Council renew the economic development services agreement for a two year period, annually utilizing a total of \$125,000 of VLT aid should it be received. \$90,000 to underwrite economic development activities and \$35,000 to re-capitalize the City's revolving loan fund.

Vibrant Batavia Funding

Make a commitment of \$70,000 of this year's VLT aid to support Vibrant Batavia efforts for the next two years in order to honor the Community Improvement Plan as presented in 2012. Conditions may include:

1. \$45,000 be committed for fiscal year 2015-2016 and \$25,000 be committed for fiscal year 2016-17;
2. Vibrant Batavia develop a plan to be presented to City Council during the 2016-2017 fiscal year that will outline a multi-year funding approach, that demonstrates Vibrant Batavia's sustainability and deliverables in future years.
3. The multi-year plan should include financial commitments from community partners, institutions or alternative funding sources such as, but not limited to, grants, foundation support, etc. and articulate a steady or decreased City financial commitment during the multi-year plan period.
4. Vibrant Batavia is to secure a minimum financial goal of \$15,000 from alternative funding sources other than the City for the fiscal year 2016-2017.
5. The City Council reserves the right to revoke the 2016-2017 funding if the alternative funding source goal cannot be demonstrated.
6. \$5,000 from the current Vibrant Batavia budget (2014-2015) be committed to the replacement of a playground slide at Austin Park and Vibrant Batavia is tasked with the responsibility of raising the remaining funding needed to cover the cost of the replacement slide.

This recommendation gives direction to Vibrant Batavia to bolster community support for longer-term success but also gives a City commitment of financial capacity and leverage.