



City of Saratoga Springs

**2019 BUDGET MESSAGE
COMMISSIONER OF FINANCE MICHELE MADIGAN**

Office of Finance

October 2, 2018

2019 BUDGET MESSAGE OF THE COMMISSIONER OF FINANCE

To the Members of the Saratoga Springs City Council and the People of the City of Saratoga Springs:

I am pleased to present the 2019 Comprehensive Budget, the seventh budget that I have submitted to the City Council for the taxpayers of our City. Our budget serves as a roadmap for the City, through which we aim to match the wants and needs of each of our departments within the tight fiscal framework we reside in.

In years past I've spoken about the difficulties the City has faced from a budgetary standpoint, such as our prolonged recovery from the Great Recession, unavoidable healthcare increases, and unpredictable legal expenses. Thanks to our prudent approach to budgeting the City has been able to weather any and all such issues admirably, and with a strong bond rating, healthy reserves, and several years of virtually no tax increase to show for it. That being said, I must admit that lightning striking City Hall, and the resulting extensive water damage to every floor, was not a scenario I envisioned facing while in office, and especially not the day after Requested Budgets were due. This incident has impacted every City department, as well as every resident who interacts with the City, and the timing of the strike has resulted in a 2019 Comprehensive Budget that focuses on the City's immediate demands, while allowing flexibility as the City determines our steps in the near future.

Before I go much further let me thank every department, and truly every City employee, for their response to this incident. A government that communicates and works well together is not a given in any form of government, but if lightning was destined to strike City Hall during my time in office, I'm thankful it was with this City Council and with this group of employees. Each department has played a critical role as the City has transitioned from responding to the emergency to the reconstruction phase. Our dual goal, and the touchstone for this Comprehensive Budget, has been to maintain City operations as best as possible, while also pushing to get City employees and the public back in City Hall in a timely and safe manner.

To that end, the 2019 General Fund Comprehensive Budget is \$47.0 million, a 1.8% increase from the 2018 Adopted Budget of \$46.1 million. As I mentioned at the previous City Council meeting, 2019 General Fund Requested Expenses came in at \$50.2 million, an increase of 8.8%, while 2019 General Fund Requested Revenues totaled \$43.9 million assuming a stable tax rate and no usage of Fund Balance. That \$6.3 million difference was untenable, and resulted in a 2019 Comprehensive Budget that eliminated many of the requests submitted, such as new hires and vehicles. This was a necessary step to bring forward a balanced Comprehensive Budget.

To review the budget process at a high level for both Council members and the general public, per the City Charter, as Commissioner of Finance I am required to bring the Comprehensive Budget forward at the first City Council Meeting in October. The process of constructing the Comprehensive Budget begins with a Budget Call Letter to departments in July of each year for Requested Budgets. Following this, each department submits their Budgetary Requests and Projections, and then Finance begins the process of meeting with representatives from each department to review departmental and City-wide priorities.

Following tonight's submission of this Comprehensive Budget there will be two public hearings on the budget, along with at least three workshops to review the budget in more detail. Per the City Charter, *"the Council shall adopt the budget on or before November 30th each*

year”, and it is my full intention to do just that. I would note that in the event the City Council fails to pass a budget by November 30th, the Comprehensive Budget shall become the budget for the ensuing fiscal year.

As I alluded to earlier, turning \$50.2 million of Requested Expenses into a \$47.0 million balanced Comprehensive Budget was not an easy task, though I want to stress to each City Council member, and to the public, that this a step in a larger process. As is my goal every year, I aim to bring forward an Amended Budget that is unanimously approved and meets the needs of the City. Over the next two months my department will work with each of you in revisiting a variety of expense and revenue lines to see how we can build upon this Comprehensive Budget.

2018 Recap

Before getting into the 2019 Comprehensive Budget details, I want to highlight what the City has done since my last Comprehensive Budget presentation, as a reminder of what the City can accomplish even within our fiscal constraints. The 2018 General Fund Adopted Budget was \$46.1 million, and the 2018 Capital Adopted Budget was \$7.0 million. This Capital Budget allowed for much needed improvements to City infrastructure, along with new equipment that will benefit residents across Saratoga Springs.

With our Adopted 2018 Budget we made key personnel improvements, including the conversion of the City Attorney into a full-time position and reorganizing the Building Department to better serve City residents. We’ve also made significant headway in a variety of City endeavors, including the Unified Development Ordinance (“UDO”) spearheaded by the Mayor’s Office and continued IT hardware and software upgrades across departments, notably in the Departments of Public Works and Public Safety. We’ve done all of this while maintaining our AA+ bond rating from S&P, stable property taxes for the last seven years, and remaining one of the safest municipalities in New York State. This is just a sampling of what we’ve been able to achieve in the past year, and I personally look forward to seeing what the City can achieve in 2019.

2019 Comprehensive Budget Overview – General Fund

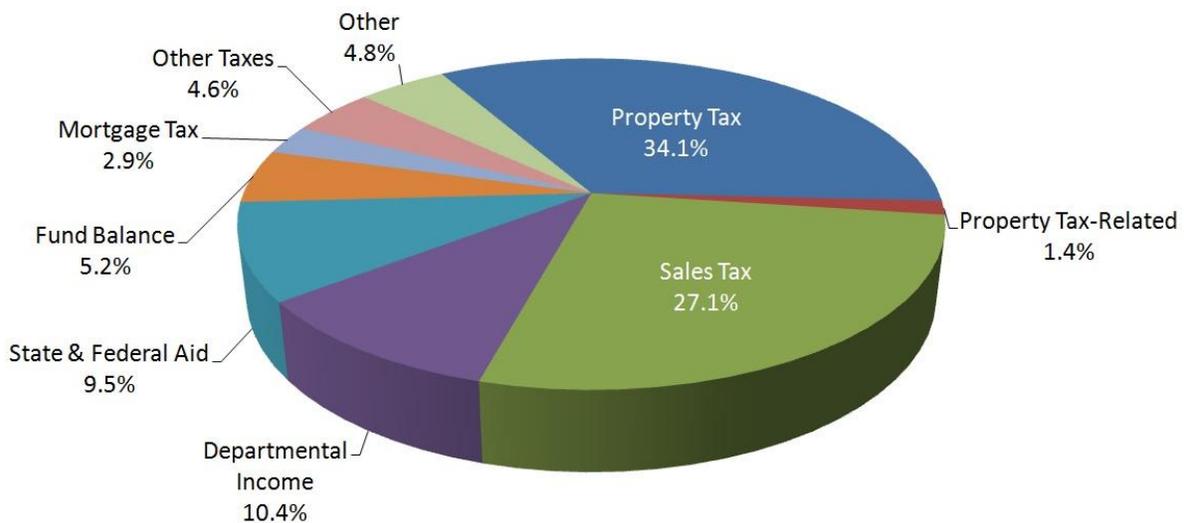
The 2019 Comprehensive Budget calls for a General Fund Operating Budget of approximately \$47.0 million, a 1.8% increase from the 2018 Adopted Budget. As you can see in the Expense summary below, Personnel expenses are the largest driver of this increase. An increase in this category is especially important as it represents 57% of the total General Fund Operating Budget.

Revenues	2018 Adopted	2019 Comp.	% Change
TOTAL	\$46,136,623	\$46,968,984	+1.8%
Expenses	2018 Adopted	2019 Comp.	% Change
TOTAL	\$46,136,623	\$46,968,984	+1.8%
Personnel	\$25,841,471	\$26,774,590	+3.6%
Benefits	\$12,579,046	\$12,581,482	+0.0%
Equipment	\$508,148	\$494,088	-2.8%
Contracted Services	\$6,602,018	\$6,766,532	+2.5%
Other	\$605,940	\$352,292	-41.9%

I will discuss specific year-over-year changes later, but I did want to highlight that Benefits remained flat in the 2019 Comprehensive Budget. Despite some healthcare rates slightly increasing for next year, there was a partially-offsetting decrease in the cost for one of the City’s smaller healthcare plans. Additionally, several 2018 retiree replacements elected for less expensive plans and certain personnel changes in City Hall decreased expected healthcare costs.

2019 Comprehensive Budget Revenue Overview

Total City inflows continue to be largely driven by Property Tax and Sales Tax. Revenue generated by City departments is now our third largest source of revenue, ahead of funding received from the State and Federal government, such as VLT Aid, State Revenue Sharing, and the Consolidated Local Street and Highway Improvement Program (“CHIPS”). I would highlight that 5.2% of the 2019 Comprehensive Budget is Fund Balance usage, which is roughly in line with 5.4% utilized in 2018.



- Property Tax-Related includes Special Assessment District revenue, PILOTs, and related interest/penalties
- Departmental Income includes City fees, licenses, fines, and permits
- State & Federal Aid includes VLT Aid, State Revenue Sharing, and CHIPS, among others
- Other Taxes includes Utilities, Hotel Occupancy, NYRA Admissions, and Franchise taxes
- Other includes County Revenue, Interest, Rental Income, and Benefit Contributions, among others

Property Tax

The largest single revenue source for the City is Property Taxes. The Comprehensive Budget assumes an average property tax change of 0.38%, essentially keeping property taxes stable for 2019, with the slight increase based entirely on an increase in the Debt Service Fund Levy.

The Property Tax rate calculation uses the taxable assessed value of property within the City as well as the tax levy needed for the general operating budget and the City’s debt service budget. As I said last year, the Capital Budget is a valuable tool that lets the City fund needed and important projects, but I want to remind the Council and public that accessing the bond market comes with a Debt Service obligation that is ultimately passed on to City taxpayers.

Property Tax Levies	2018 Adopted	2019 Comp.
General Fund	\$16,004,075	\$16,003,984
Debt Service Fund	\$3,273,221	\$3,609,032
Other	\$214,759	\$207,902
Total	\$19,492,055	\$19,820,917
Combined Rate	Proposed Rate	Change
Inside District	\$6.0754	+0.33%
Outside District	\$6.0101	+0.43%
Average		+0.38%

I would like to highlight that our City’s debt service levy goes up materially in 2019, in part due to the City issuing debt in 2018 of roughly \$6.8 million.

Debt Servicing represents the total principal and interest paid on City debt, excluding Water and Sewer. The 2019 Debt Service Budget totals \$3.8 million and is funded through the aforementioned Property Tax Levy along with the use of Restricted Fund Balance and a variety of smaller funding sources, as shown below.

Debt Service Revenue	2019 Comp.
Property Tax Levy	\$3,609,032
Restricted Fund Balance	\$89,033
Other (Planning Board Fees, Meadowbrook Tax, Interest)	\$96,383
Total	\$3,794,448

As for the property tax rate itself, the City continues to operate under the New York State property tax cap, which is 2.0% in 2019. This is the first time local governments will be at the full allowable amount since 2013, and represents a far cry from the 0.68% cap of two years ago. Municipalities also retain the right to use an “available carryover,” which refers to the amount by which the tax levy for the prior fiscal year was below the allowable tax levy limit. For 2019, the City available carryover is 1.0%. For reference, a “2.0% tax cap increase” and a “2.0% tax cap plus 1.0% carryover increase” represent \$337,982 and \$590,312, respectively.

To be clear, the 2019 Comprehensive Budget does not include an increase to the tax cap, and these figures are for illustrative purposes only. I have not provided this illustration in prior years because of how low the tax cap has been, but I felt it was my duty to share these figures given the tax cap being at the full 2% this year and because of the requested expenses submitted to my office.

The table below illustrates the impact of the 0.38% referenced earlier in this budget for the majority of City properties, meaning those assessed at \$250,000 dollars or less. For those assessed at \$250,000 dollars, the 2019 Comprehensive Budget as presented results in a \$5 dollar annual increase when compared to 2018 City taxes paid. This is primarily due to increased Debt Service costs. That is the \$1,519 in the third column less the \$1,514 in the second column. For illustrative purposes I have calculated that the 2% tax cap limit represents a \$31 annual increase compared to 2018 (column 4), while the 2% tax cap plus 1% carryover represents a \$51 annual increase (column 5).

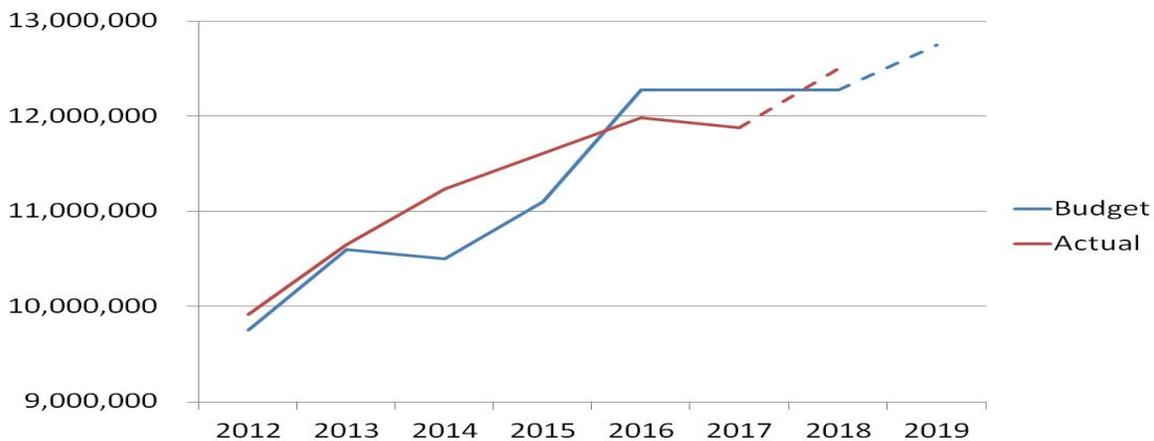
Roughly three-quarters of all City parcels are assessed at less than \$400,000, and in 2018 those assessed at \$400,000 owed \$2,422 in City taxes. The 2019 Comprehensive Budget as presented results in an \$8 annual increase. For homes assessed at \$400,000, the 2% tax cap limit represents a \$50 annual increase compared to 2018, while the 2% tax cap plus 1% carryover represents a \$81 annual increase.

Assessed Value	2018 City Taxes	2019 (Comp.)	2019 (2% increase)	2019 (2% + 1% increase)
\$250,000 (<52% of City)	\$1,514	\$1,519	\$1,545	\$1,565
\$400,000 (<74% of City)	\$2,422	\$2,430	\$2,472	\$2,503

Sales Tax

The second largest revenue source is Sales Tax. Last year I spoke at length about a negative prior period adjustment, through which the 2017 Sales Tax total was decreased due to certain 2015 and 2016 audit findings by the State. Thankfully, Sales Tax in 2017 performed well post-adjustment, and ultimately the year-over-year decrease was less than 1%.

That strength has continued into 2018, which is trending to be the best year for Sales Tax in City history. As of the last monthly distribution received in mid-September, aggregate Sales Tax is up 9.7% as of the same period last year. If we assume Sales Tax collected for the remainder of 2018 mirrors what was earned in 2017, our full year estimate for 2018 Sales Tax is \$12.5 million. Based on this continued growth, the 2019 Comprehensive Budget assumes a Sales Tax total of \$12.75 million, a 2% increase from the 2018 estimate.

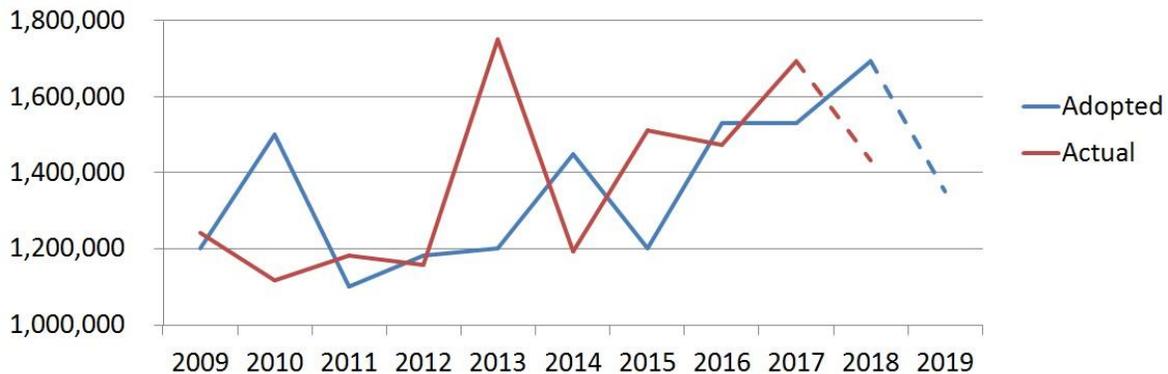


The City will receive its next Sales Tax distribution from the State in mid-October, which represents the July/August period and has traditionally been the City's strongest single distribution month. The strength, or lack thereof, of this distribution may result in a revised 2019 estimate.

Mortgage Tax

Mortgage Tax is one of the most volatile revenue sources within the City budget, and the graph below shows Mortgage Tax collection dating back to 2009. That volatility is particularly tough to budget for as the City receives the Mortgage Tax distribution only twice a year, with the second distribution occurring in mid-to-late November.

This year, the first distribution was materially lower than the first distribution in 2017, leading us to believe the full year total will be roughly \$1.4 million, well below the 2018 Adopted Budget estimate of \$1.7 million. The 2019 Comprehensive Budget estimate for Mortgage Tax is \$1.35 million, though that estimate has the potential to move materially in either direction in the Amended Budget depending on what the City receives this November.



Other Revenue

Other Revenue	2018 Adopted	2019 Comp.	% Change
VLT Aid	\$2,325,592	\$2,325,592	0.0%
State Revenue Sharing	\$1,649,701	\$1,649,701	0.0%
Hotel Occupancy Tax	\$625,500	\$615,000	-1.7%
NYRA Admissions Tax	\$591,000	\$591,000	0.0%
Departmental Income	\$4,081,640	\$4,871,669	+19.4%

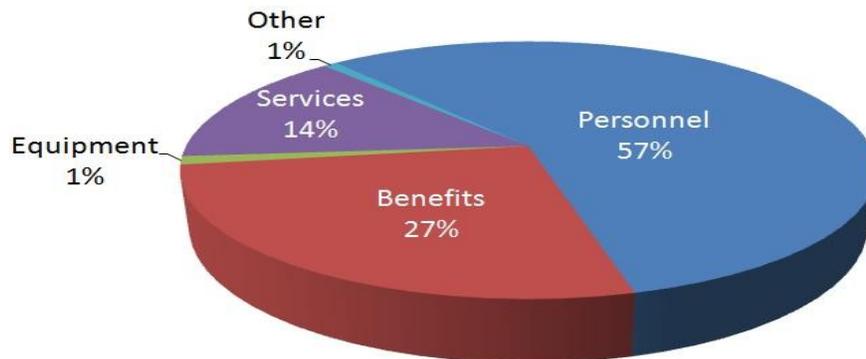
Much like Mortgage Tax, several material items are expected to be updated in the coming weeks. Based on guidance we’ve received from the State, we’ve kept our State-related revenue items, such as VLT Aid, flat for 2019. Another item we’ve kept flat is Admission Tax. I would like to congratulate the New York Racing Association (“NYRA”), and those that worked the 2018 Saratoga Race Course meet, for drawing over 1.1 million paid admissions for the third year in a row.

Despite the City remaining one of the most desirable places to visit in the State, if not the Country, Occupancy Tax is one of the few items estimated to be slightly lower in 2019. This is due to how online short-term rental companies such as Airbnb are impacting not just the City, but communities around the State. The City has looked into ways to ensure a level playing field between these web rental businesses and traditional lodging establishments; though it appears whatever steps we take will need to be initiated by the State or County. The City Council continues to have conversations with representatives from both on short term rentals, but at this point there does not appear to be an eminent solution.

As I did last year, I would like to highlight Departmental Income which is up materially compared to 2018, largely due to increased efficiencies across City Hall. I’d like to recognize and thank the Building Department and the Department of Public Safety in particular for their notable year-over-year increases.

2019 Comprehensive Budget Expense Overview

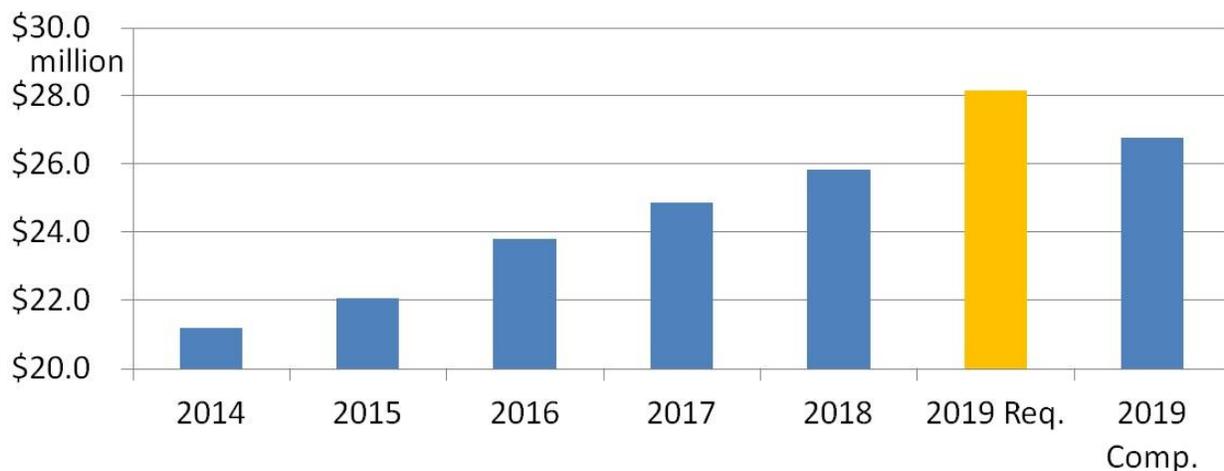
Turning to Expenses, as I've said in years past the largest expenses for the City are related to Personnel and Benefits. As shown on the initial Overview table, Personnel-related expenses are up 3.6% in 2019 due to multiple salary upgrades, including material increases for the Human Resources Administrator and the newly-full time City Attorney, as well as contractual increases approved by the City Council across all seven union contracts and the non-union resolution. Benefit-related costs are flat in 2019 due to the reasons mentioned earlier.



Finance continues to receive updated healthcare and retirement information, so I would like to caution all Council members that these numbers, particularly Personnel- and Benefit-related line items, may grow rather than shrink as we move toward the Amended Budget.

Personnel

The graph below shows how the City's largest expense has grown over the past few years. These increases are due to contractual salary increases, the settlement of union contracts, and necessary headcount additions to City Hall as the City, and the responsibilities of our government, have grown. The orange bar represents the total Personnel Expense of the 2019 Requested Budgets submitted by the various departments, which was up 9.0%, or \$2.3 million compared to 2018. This massive increase was in part due to 26 new hire requests and seven position upgrade requests. Given the City's revenue expectations and the unavoidable expenses I've discussed, almost all new hire and upgrade requests have been excluded from the 2019 Comprehensive Budget. Removing these requested increases, Personnel Expenses in the 2019 Comprehensive Budget are still up 3.6%, or approximately \$933,000, compared to the 2018 Adopted Budget.



As I said earlier, the Comprehensive Budget is just a step in the budgetary process. We will discuss requested items, and their priority, in budget workshops to come.

Benefits

Aggregate Benefit-related expenses in the 2019 Comprehensive Budget were flat compared to the 2018 Adopted Budget. Costs specifically related to Healthcare are up 0.1% year-over-year. While the cost of City health insurance rates are up an average of 1.5% across the various plans, this increase was offset by several 2018 retiree replacements electing less expensive plans and certain personnel changes in City Hall decreasing expected healthcare costs.

BENEFITS	2018 Adopted	2019 Comp.	% Change
Total	\$12,579,046	\$12,581,482	+0.0%
Healthcare	\$8,266,941	\$8,272,222	+0.1%
Retirement System	\$4,086,915	\$4,051,858	-0.9%
Other Benefits	\$225,190	\$188,802	-16.2%

Regarding the last point, when an employee retires, the City bears the burden of both the retirees benefit costs and the benefit costs of the new employee hired. In planning for retirements, the City assumes the replacement will sign up for the family plan. If a new employee takes one of the less expensive plans, that results in a budgetary savings for the City.

The 0.9% decrease in Retirement System-related line items is due to retired personnel being replaced with new hires enrolled in plans that require more contributions from the employee and less from the City.

Other Expenses

As for Other Expenses, I've highlighted some of the largest increases and decreases year-over-year below.

Largest Expense Increases	2018 Adopted	2019 Comp.	% Change
Parking Garage Maintenance	\$10,000	\$35,000	+250%
Appraisal Services	\$13,000	\$30,000	+130%
Software	\$56,297	\$87,585	+56%
Pavement Marking Materials	\$50,000	\$77,500	+55%
Salt & Sand	\$210,000	\$240,000	+14%
Service Contracts – Equipment	\$304,244	\$344,760	+13%
Contingency	\$350,000	\$125,000	-64%
Vehicles	\$78,000	\$0	-100%

In regard to increases, this varied list reflects several of the non-Personnel-related expense obligations the City is responsible for in 2019. This includes unavoidable increases for certain critical contracted services, the rising cost of materials and parts, and increased responsibilities as our City grows.

I'd also like to highlight the increase in Appraisal Services, which is being undertaken by the Accounts Department. As anyone who has lived in the City for the past few years can attest to, there always seems to be several projects going on at any one time. Utilizing these Appraisal Services will ensure these projects are properly accounted for. The Accounts Department actually requested a significantly higher number in their budget submission, and I would expect this number to be revisited in the Amended Budget.

The two largest decreases are in Contingency and Vehicles. As I said earlier, all new Vehicle requests were excluded from the Comprehensive Budget as we focused on contracted and immediate needs. I expect that in the workshops each department will review their individual budgets and determine what changes can be made, if any. Regarding Contingency, the 2018 Adopted Budget included one of the largest Contingency balances over my time in office, in part because of the various uncertainties the City faced, notably those related to the 2017 Charter effort. With that concern behind us, and the construction needs of City Hall largely being addressed through the Capital Budget and appropriate reserves, Contingency has been lowered to \$125,000, though that may be increased in the Amended Budget.

Fund Balance

For the 2019 Comprehensive Budget the City utilizes two types of Fund Balance: Restricted and Unassigned. Restricted Fund Balance represents reserves which are funded throughout the year for a variety of reasons, including capital projects, retirement expenses, and City debt, among others. The maintenance and management of the City's reserves and unassigned fund balance allows the City to finance capital improvements at an affordable cost.

Fund Balance	Reserve	2019 Comp.
Restricted	Retirement Reserve	\$300,000
Unassigned		\$2,156,846
Fund Balance Total		\$2,456,846

As you can see on the table above, total Fund Balance usage in the 2019 Comprehensive Budget is \$2.5 million. This total is made up of roughly \$300,000 of Restricted Fund Balance and \$2.2 million of Unassigned Fund balance. During my time in office we have managed Fund Balance in a variety of ways, including the building up of City reserves, the creation of needed Assignments, and building Fund Balance when appropriate, to be used in moments exactly like what we are presented with this year. The Unassigned Fund balance used in the 2019 Comprehensive Budget is higher than it has been in prior budgets I've presented, and as we move toward the Amended Budget my top priority will be to lessen our usage.

2019 Capital Budget

Due to the lightning strike, and the unknown financial impact of the damage caused to City Hall, the Mayor did not present the 2019 Capital Budget to the City Council. Instead, we as a Council decided to wait until we had some clarity on the capital needs of City Hall, and then combine that information with the work done by the Mayor's Office to bring forward a reprioritized 2019 Comprehensive Capital Budget.

The table below totals \$8.2 million, or \$5.7 million excluding Water and Sewer which are funded through their own revenues. This is an increase from the 2018 Adopted Budget, which was \$7.0

million, or \$4.8 million excluding Water and Sewer. The 2019 Capital Budget Comprehensive Budget excludes 12 items originally on the list prepared by the Mayor’s Office. The 2019 Capital Budget and the 2019 Water & Sewer Capital Budget are as follows:

Rank	Capital Budget Project (ex-Water and Sewer)	2018 Request	Source
1	Fire Engine Replacement	\$455,000	Bond
2	Ambulance Replacement	\$180,000	Bond
3	Loughberry Lake Dam Embankment Stabilization and Spillway Project	\$1,200,000	Bond
4	City Building/Facilities Repairs and Upgrades	\$3,400,000	Bond
5	Utility Bucket Lift	\$181,496	Bond
6	Tree Chipper	\$50,608	Bond
7	Playgrounds and Facilities	\$146,100	Bond
8	Ice Rink Rehabilitation	\$73,500	Bond
9	East-Side and West-Side Rec. Improvements	\$40,000	School Contract

Rank	Capital Budget Project (Water & Sewer)	2019 Request	Source
S1	Sanitary Pump Station Upgrades	\$450,000	Sewer
W1	Water Main Capital Improvements – Kaydeross Ave & Stable Ln	\$1,200,000	Water
W2	Improvements at City Water Treatment Facilities	\$100,000	Water
W3	Excelsior Ave Water Treatment Plant Repairs	\$350,000	Water

The City’s Future

As I stated earlier, our immediate focus is on the reconstruction of City Hall. We are making both necessary repairs and some much needed improvements, and intend to be back in the building as soon as we can. The work being done will make coming to City Hall, a taxpayer-owned asset that requires significant care and maintenance, a more enjoyable and efficient experience for both City employees and residents.

Speaking of efficiencies, the City has taken great strides to improve our usage of technology in 2018, and I expect more of the same in 2019. One IT-related initiative that will coincide with the reconstruction of City Hall is the digitization of City files. Some departments have taken initial steps in reducing our reliance on paper copies, but in 2019 there will be a City Hall-wide effort to bring our documentation practices into the modern era. This will not only ensure the safety of the City’s most important documents, but will also be good for the environment and open up much needed space in City facilities. Other IT initiatives include making it easier for the public to submit documentation to various City departments, and also to give City personnel in the field real-time access to functionality they previously could only access at their desk.

As I mentioned earlier, our recent successes can be largely attributed to a coordinated effort to address City needs. This isn’t just evident by the discourse and efficiency of 2018’s City Council meetings, though I admit I am very appreciative of both. Deputies have been meeting regularly, and I’ve seen a renewed effort by employees across departments to work together to tackle problems big and small. With a majority of City Hall operations now on the courts of the Recreation Center I’m sure there will moments that test City personnel, but after what we’ve gone through the last month and a half, I believe that this group will be able to manage any problem we confront by working in the same open, collaborative manner we have thus far.

Finally, I'd be remiss not to mention the two Proposed City Charter referendum questions on the ballot this November 6th. For those unaware, there will be two Charter-related questions on the ballot, as the initiative to increase the City Council to seven members is a distinct question that will allow voters to decide separately from the proposed updates and amendments, and is in accordance with New York State Law.

Based on a Financial Analysis done by the 2018 Charter Review Commission, of which I am a member, the budget impact of Charter Question #1 will be \$0. This ballot question refers to amendments made to the Charter and assumes a five member City Council. Should Charter Question #2, which further amends the City Charter to expand to seven members, be approved there would be an increased cost to the City, though any increase would not impact the City budget until 2020. The Commission's Financial Analysis and the Proposed Charter, along with other Commission information, are available on the City website.

Conclusion

That concludes my 2019 Comprehensive Budget message. I appreciate your time, and I look forward to working with the City Council: Mayor Kelly, Commissioner Scirocco, Commissioner Martin, Commissioner Franck, and the public, throughout the upcoming weeks as we progress toward an Adopted Budget that allows our City to maintain the "exceptional-and-affordable" services our residents have come to enjoy. Having worked with you all for some time now, I have no doubt we can achieve just that.

As Budget Chairperson for the City Council, I have scheduled three Budget Workshops for the Council and Public to delve into questions, details, issues, and concerns the Council may have regarding the Comprehensive Budget. A fourth may be scheduled depending on how the earlier meetings progress. These workshops are tentatively scheduled for:

- Wednesday, October 17th – 1:00 PM: Finance, Accounts, & Recreation Depts.
- Monday, October 22nd – 5:00 PM: Public Works, Capital Budget
- Wednesday, October 24th – 1:00 PM: Mayor, Public Safety Dept.

Again, I look forward to working with you as we move toward a successful 2019 Adopted Budget for the City of Saratoga Springs. Thank you very much.