SAM ZURIER Our Councilman Ward 2 News

January 3, 2016

Dear Fellow East Siders:

I hope you enjoyed the New Year. This week's Ward letter discusses this month's anticipated mid-year assessment of the City's finances.

Last week's end of the calendar year also closed out the second quarter of the City's current fiscal year (which will end on June 30). Over the next few weeks, the Finance Department will make a "mid-year" assessment of government revenue and expenses against what was budgeted, to develop mid-year projections of how the City will manage its budget through this fiscal year's final two quarters.

Three months ago, the administration reported that last year's budget (for the year ending June 30, 2015) finished with a $5 million deficit. This report marked a surprising change from the administration's previous reports last April and July that the budget would finish with a modest surplus or a "break even" position. The fact of last year's deficit, as well as the delays in its reporting, have important ramifications for this month's mid-year fiscal assessment. First, the State's municipal laws call for State intervention when a city or town runs two consecutive years of deficits. Second, last year's delayed recognition of the deficit, which triggered a letter of concern from the Auditor General and a downgrade of Moody's credit rating outlook, affirms the need for greater candor, accuracy and timeliness in the City's assessment of the budget and the implementation of any necessary corrective action at the time such action is most likely to produce benefits, rather than after the year has ended in a deficit.

In the monthly reports it has filed with the State for the current fiscal year to date, the administration projected that the current year's budget will end the year in balance, including a payment of $4.3 million to reduce the City's long-term deficit. With that said, some budget items have shown stress over that period. Before the budget was approved and signed, we already knew that State aid would be $1.5 million less than the budget assumed. When the City was unable to fully fund its pension contribution on July 1, the resulting delays triggered approximately $400,000 in additional required contributions. Through the middle of December, fire fighter "call back" expense has been $4.7 million, which represents almost all of the $5.05 million budgeted for the entire fiscal year. Should this trend continue, the cost of this line item could exceed the budget by $5 million by the end of the year. There are other areas of revenue uncertainty, such as the delayed rollout of the expanded parking meter program. It is critical for the administration to develop a complete and accurate picture of these and other issues this month, along with a corrective action plan to address any possible shortfalls while there is time to do so this year.

A second important development to watch will be the number of fire fighter retirements in January. Their compensation and pension contain incentives to work through the end of a calendar year, and the union president predicted that as many as 20 fire fighters may retire in January. Each retiring fire fighter has a contractual right to a severance payment based on unused sick leave, which historically has averaged more than $25,000 per retiree. Also, the retirements may reduce the number of active, on duty fire fighters. These reductions may lead to greater call back demands on those who remain, which could increase the City's payment of call back, while also increasing the risk of a repeat of the night of December 5, when there were 11 vacancies on the night shift, compromising the City's fire protection capability. (If a fire fighter already was injured when she or he retired, the retirement will not affect staffing or call back expense.) This year's budget includes a $1.3 million appropriation for a training program for new fire fighters, which will likely produce 40 to 45 qualified candidates (with no commitment to hire) after 6-9 months. Despite the City Council's urging, the administration has not begun this program and stated it has no current plans to do so. January's retirement figures may provide additional information on which to review that decision.

Over the past six months, we have seen signs of a bright future for the City, through potential development of the I-195 land and a "cluster analysis" to support a purposeful economic development strategy. We also have seen signs of immediate concern, both from last year's deficit and from stresses on this year's budget. As exciting as our future prospects may be, none of them will come to pass if the City fails to put its fiscal house in order, beginning with this year. We have come too far from the brink of bankruptcy to lose our urgent focus and commitment to a financially stable City government.

Sincerely,

Samuel D Zurier