City of Auburn, New York
Financial Plan 2017-2021

Introduction

The following updated five year financial plan for the City of Auburn was developed based upon guidance from the State Comptroller's office with adjustments for local conditions.

The financial plan alone is not a solution to improving the fiscal condition of a City, but a tool to be used to guide decision making to help improve the City's fiscal condition. As stated by the State Comptroller's office, "A financial plan can help residents and elected local government officials see the impact of their fiscal decisions over time. They can then decide what program funding choices to make in advance, avoiding sudden tax increases or dramatic budget cuts".

The plan is a tool and not a static document. It is important that the plan be updated at least annually to reflect the decisions made by the City Council during approval of the City's annual budget. For example, if the City Council approves a significant new expenditure for a program or new personnel not already included in the plan, those need to be added to the expenditure projections in the plan. If the City Council cuts a program or service from the plan the savings likewise need to be incorporated into the plan. Adjustments for higher or new sources of revenue also need to be included in updates of the plan.

This plan projects major categories of expenditures and revenues in the General fund through the 2021 budget year. It does not include special revenue or enterprise funds because those by design and practice operate with their own sources of revenue and should be self-sustaining. Where subsidies from the General Fund to those funds are expected they are included in the General Fund financial plan. Where those funds provide financial support to the City those sources are included as revenues to the General Fund.

Revenue projections are intentionally conservative while expenditures are based upon historic trends, known contractual obligations and estimates of future contractual obligations and expenditures. This approach provides an overall conservative projection because it hopefully results in an underestimate of revenues and an over estimation of expenditures because it ignores possible reductions that could occur through efficiency initiatives, reorganization, outsourcing, consolidation or elimination of services. As with any forecast, the further we look into the future the more uncertain the estimates. So, it is important to recognize, especially in the out years of the plan that actual fiscal conditions could become significantly better or worse, therefore, it is important to revisit the plan annually and take appropriate actions every budget year to adjust for unanticipated trends in expenditures and revenues.

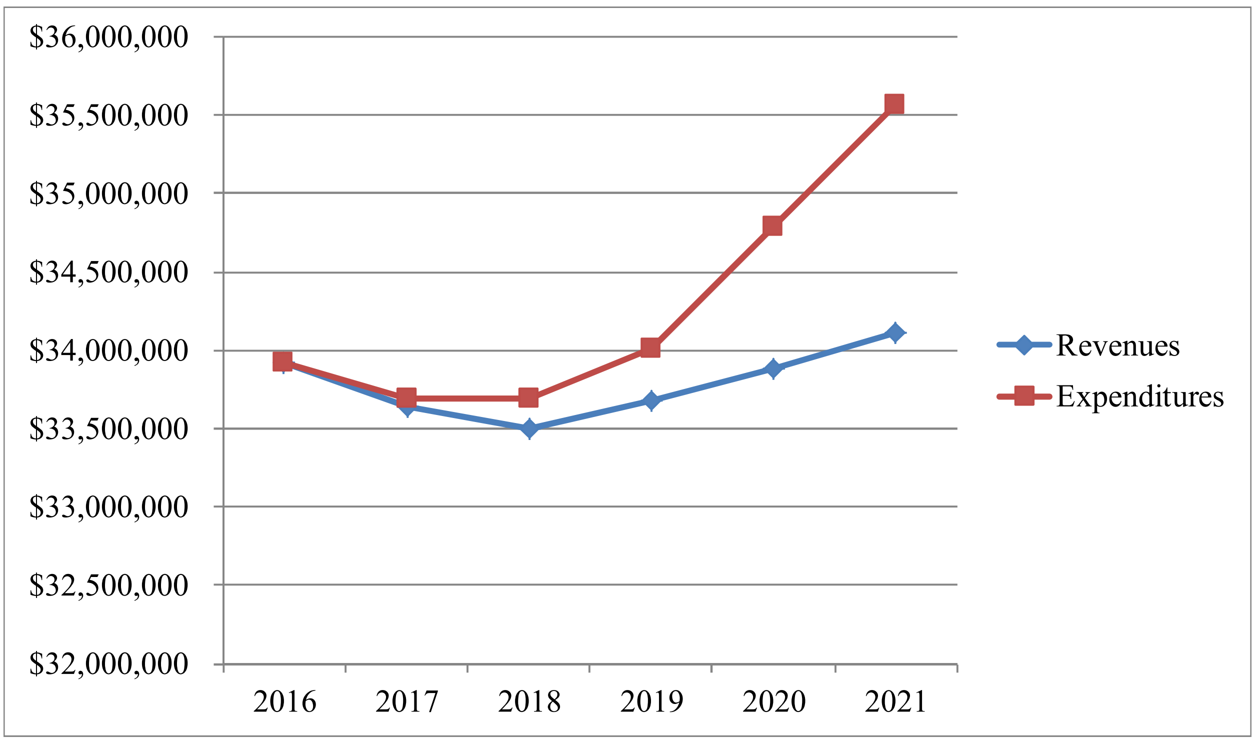
The plan also demonstrates the year to year deficit or surplus for the City by comparing revenues and expenditures for each year. These are reflected in changes in the fund balance. Maintaining an adequate fund balance is essential to buffer against short term financial pressures and to demonstrate long term financial stability to bond rating agencies.

Finally, the plan includes several options to address the projections of deficits that potentially occur based on the projections. These options are not without negative impacts and may not be desirable, but they serve to illustrate the magnitude of action that may be required to achieve long term financial stability.

Financial Model

The base model yields a projected General fund budget gap for the fiscal years ending June 30, 2017-2021 ranging from approximately $44,000 to approximately $1.4 million.

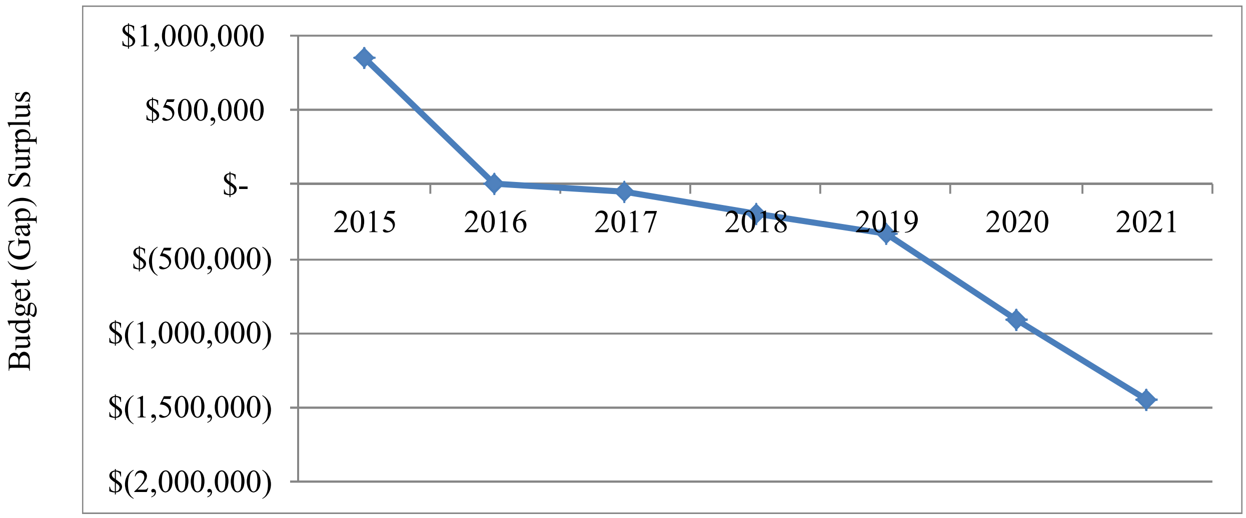
The below graph shows the difference between the projected fiscal 2016-2021 revenues and expenditures in the General fund under this base model:



The (decrease) increase in expenditures and revenues are expected to be:

	2017	2018	2019	2020	2021
Revenues	-0.8%	-0.4%	0.6%	0.6%	0.7%
Expenditures	-0.7%	0.0%	0.9%	2.3%	2.2%

The difference between the projected revenues and projected expenditures is the budget gap (expenditures exceed revenues) or surplus (revenues exceed expenditures). This is depicted below for the fiscal years 2015-2021:



Uncertainties and Unknowns

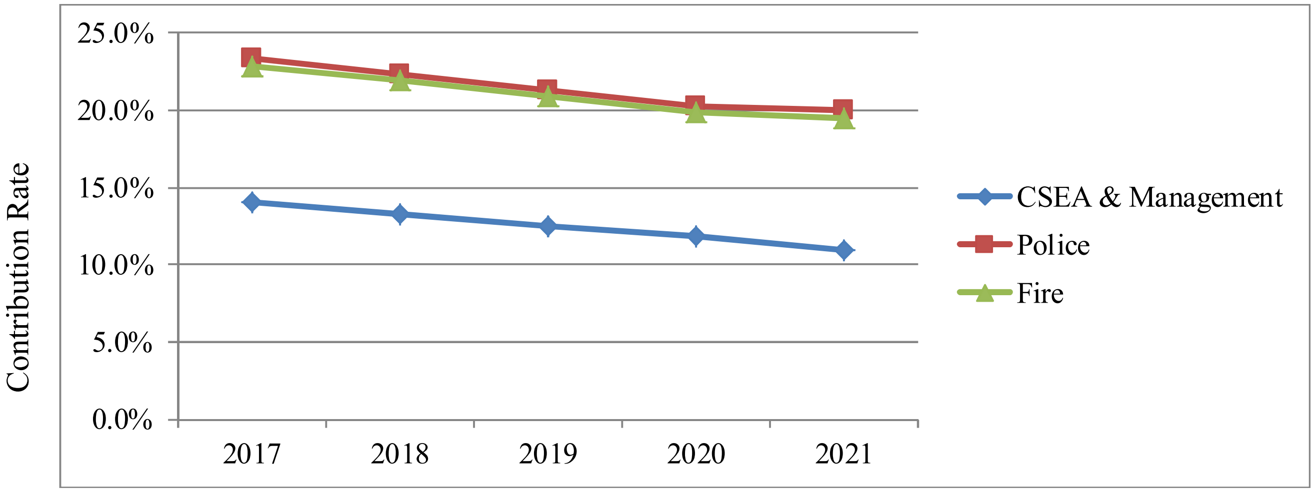
There are many uncertainties about the state and local economy, stock and bond markets, shifts in demographics, future labor contracts, future health care costs, future state and federal aid, future costs for gas, electric and motor vehicle fuel, future federal or state mandates and future federal or state regulations that could significantly impact the model.

Expenditure Assumptions

Personnel: The model keeps staffing consistent at the fiscal 2016 levels. The City expects future collective bargaining agreements to be renegotiated with terms similar to the current terms for purposes of this model. Increases after the expiration of the current contracts were set at 1.5% per year. Expected turnover is estimated at one non-public safety personnel, one police and one fire personnel per year. Retirements generate budgetary savings for two main reasons, the new employees' starting salaries are typically significantly lower than the incumbent and the newer pension tiers cost the City significantly less. Over the life of the model the salary increases (including salaries, FICA/Medicare and worker's compensation) amount to approximately $1.3 million.

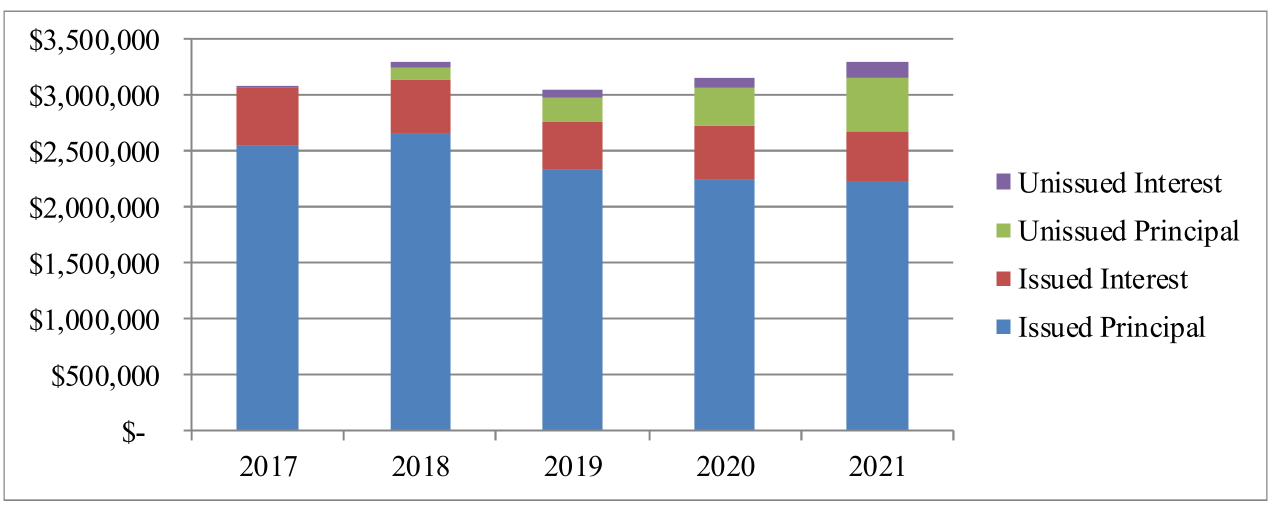
Employee Benefits: The City will work with our Health Benefits committee to keep health care costs under control; this will require increasing rates as the costs increase. Over the life of the model the cost of health, dental and vision benefits increase by approximately $1.1 million. The City expects rates for pensions to continue to decrease as projected by the NYS and Local Retirement System. Pension contributions will also decrease as turnover occurs. The estimated decrease in cost of the retirement benefits from 2017 to 2021 is approximately $320,000.

The following chart shows expected retirement contribution rates:



Operating Expenditures: Operating costs are at a minimum now, they will remain at a minimum and only increase with increasing costs. While the City expects commodities such as fuel, natural gas and electricity to increase minimally with inflation, the City will continue to look for ways to save money in other areas to keep operating budgets as flat as possible. Operating expenditures have increased in the model at the same percentage as the increase in the tax levy.

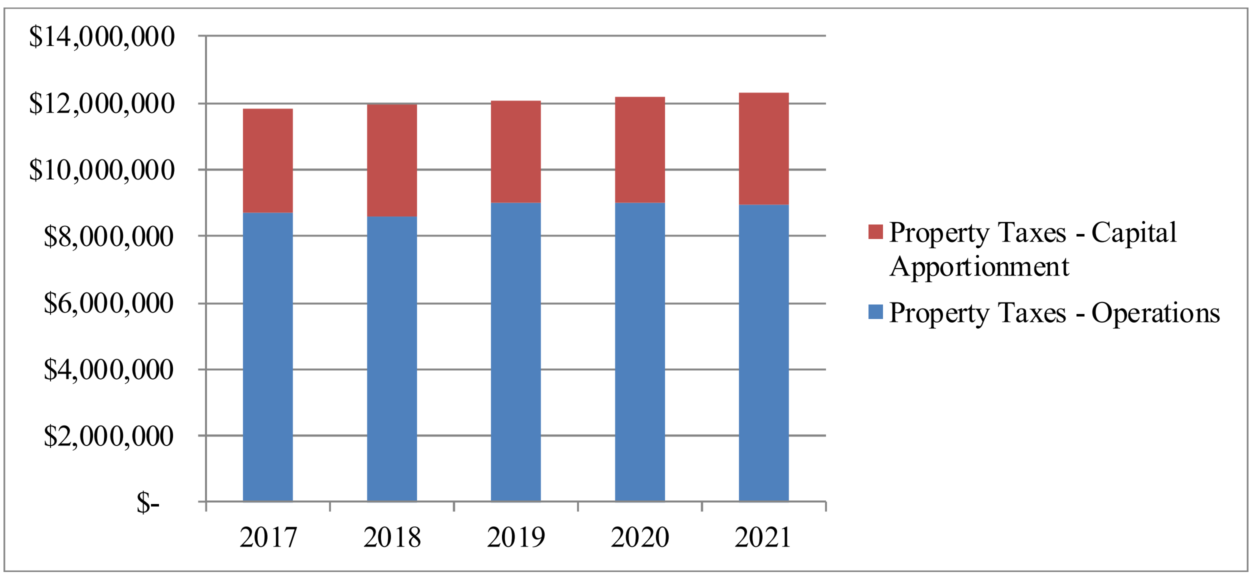
Debt: New debt will be capped at approximately $2.0 million dollars per year to maintain a manageable debt service level. The following graph shows the City's issued and future unissued debt service. The City will maximize grants and low interest loans or alternative financing to keep financing costs as low as possible. The City will also continue to evaluate refinancing annually to keep our interest expenditures as low as possible.



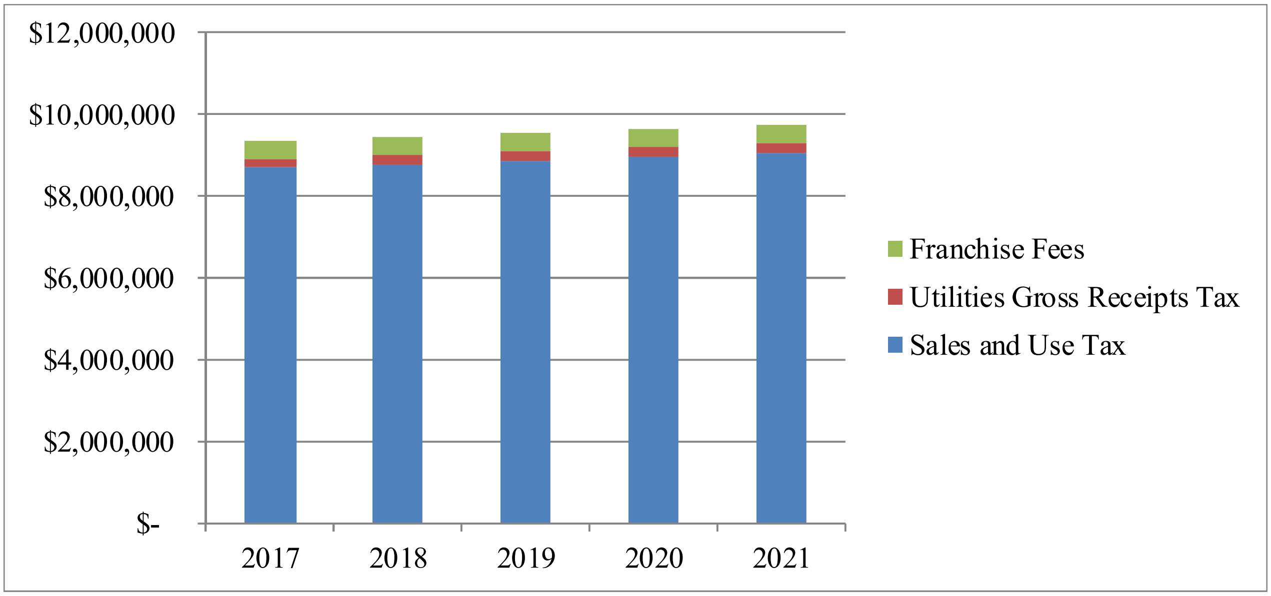
Public Safety Building: The City is currently in negotiations to build a new public safety building. This expenditure has **not** been included this model as the City has not currently entered into an agreement to build. Expenditures are expected to be at least $750,000 per year and close to double this amount if significant grant funding is not secured.

Revenue Assumptions

Tax Levy and PILOT Revenue: This model assumes the City will comply with the Governor's tax freeze plan. The levy will be raised to the tax cap (the lesser of 2% or inflation) for each of the fiscal years noted in this model. The cap is conservatively estimated at .12% for 2017 and 1% thereafter. At .12%, the property tax revenue will only increase by approximately $15,000. Compliance with this plan will mean those taxpayers who are eligible for a STAR rebate will receive a refund of any tax levy increase by the City. The City will continue to support economic development and projects that will sustain our tax base. PILOT revenue is estimated at the current agreements. The graph below shows the tax levy after allowing for uncollectible taxes. The graph also shows the increasing portion of the taxes levied that are allocated to pay debt service on capital projects.



Sales Tax and Other Non-property Taxes: Sales tax is projected to increase at the same rate as the property tax levy which is expected inflation. This is after a drop in the 2016 verses 2015 year to date revenues. The City will continue to support tourism and economic development to maintain and hopefully increase our current sales tax level.

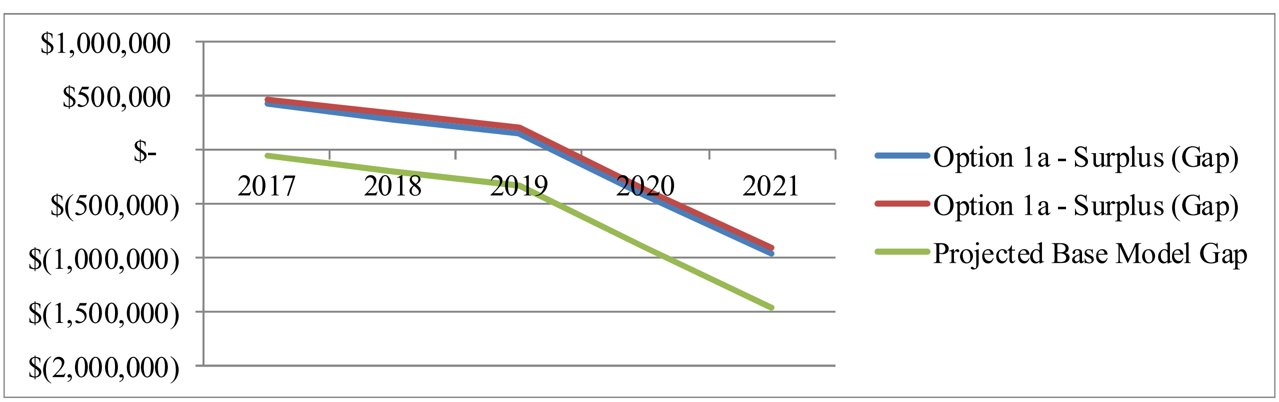


Fees, State and Federal Aid: Fees remain constant throughout this model. State and federal aid is expected to remain constant throughout the period. There is no indication from NYS that we will receive more funding or that funding will be cut.

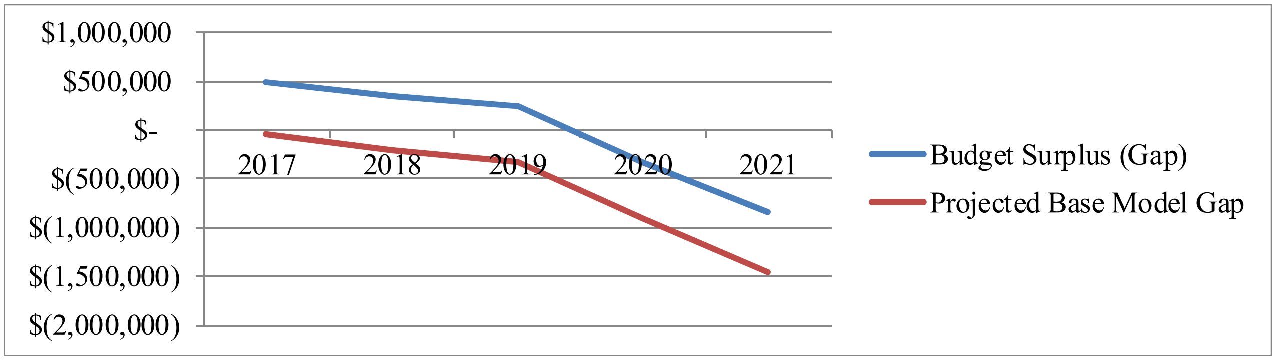
Closing the Gap

Option 1a: Casey Park ice arena and pool could be closed or leased to a contract operator. The estimated net savings will range from $470,000 to $513,000. The present arrangement of leasing the ice rink to the Auburn Hockey Boosters is projected to save the City up to $60,000 during the current budget year.

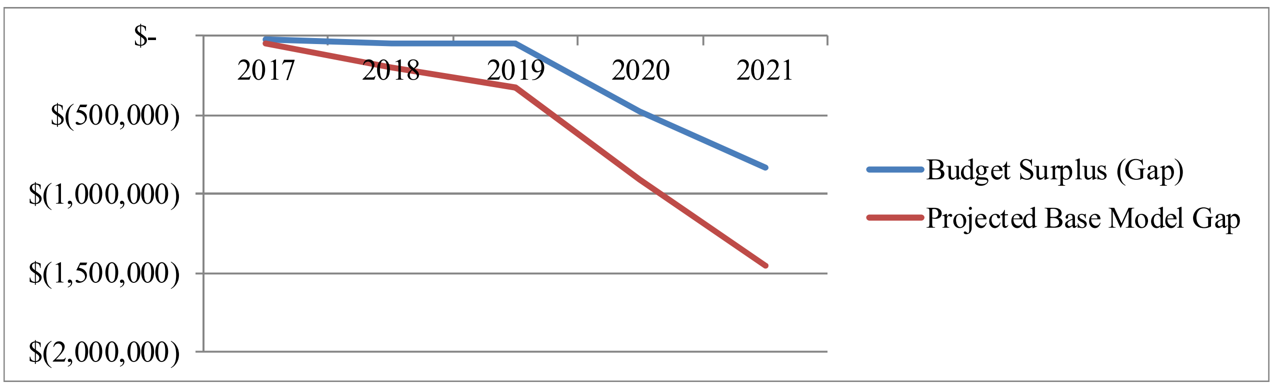
Option 1b: There is also the option to turf and heat the ice arena and rent space to sports teams. Other indoor turf arenas in the area charge upwards of $150 per hour and must turn away teams due to a full schedule. This additional option could provide an income stream to the City in the future of up to $50,000 per year were the City able to find teams to rent space. Were this option to be desirable further investigation would need to be done to solidify estimates.



Option 2: Refuse collection would be removed from the General fund and the tax levy will be reduced by about 35% of the cost of the service or around $290,000 (net of uncollectible receivables). The City can remove this service all together or implement a pay by bag approach. Net savings under this approach range from approximately $530,000 to $600,000 per year.

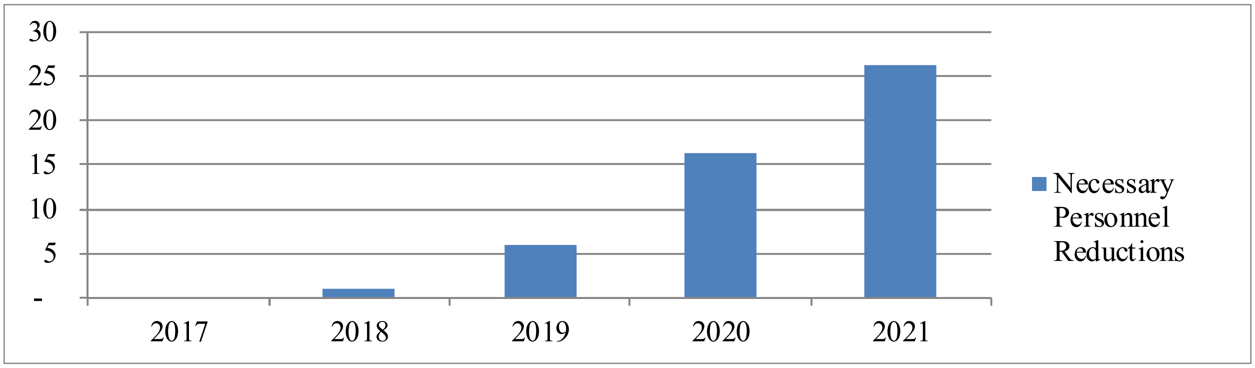


Option 3: The City has the option of not issuing any new debt. While this option is beneficial in the long run with a savings of approximately $615,000 by fiscal 2021, the option would not support the City's obligation to maintain our roadways, sidewalks and other important infrastructure.

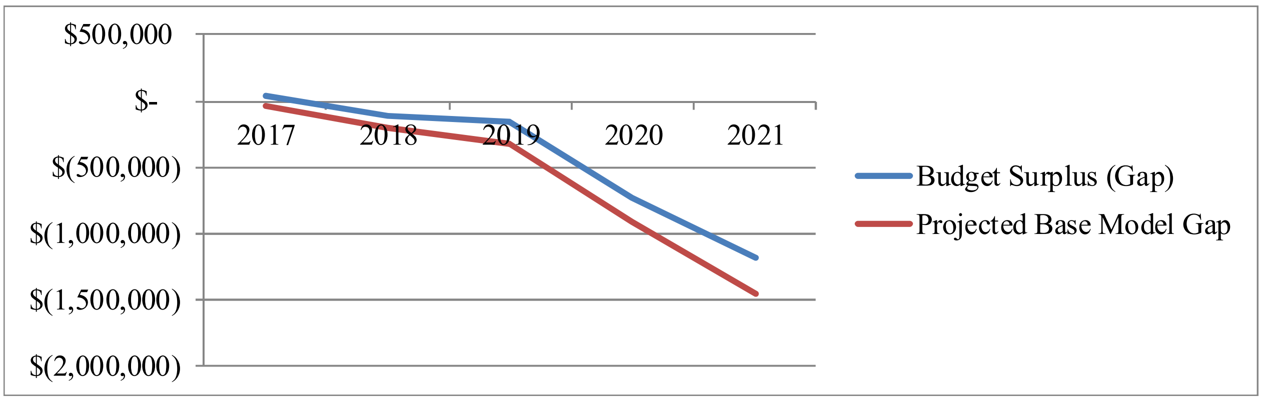


Option 4: The City has the option to override the tax cap and balance the budget through raising taxes. In this case the tax levy would be raised to a level where there would be no gap or surplus. The increase would range up to a 10% tax levy increase in fiscal 2021.

Option 5: The City has the option of reducing the City work force. As reductions would be made by seniority the lowest paid employees would be let go first and therefore the number of employees needed to cover the gap would be significant. A reduction of this magnitude would affect service levels to City residents and is not recommended.

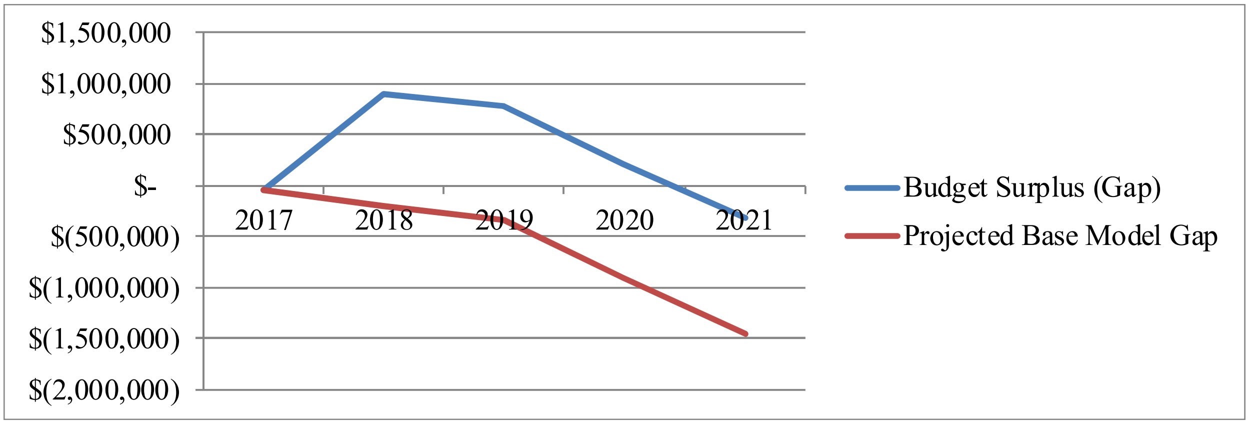


Option 6: Another option is to increase fees by 5% in 2017, 2019 and 2021. This option would create an increase in revenues of $82,000 in 2017 to $272,000 in 2021.



Option 7: Divest the City of uneconomical assets such as the Osborne Street radio tower or a non-controlling interest in the baseball team. While one time revenues should not be used to balance a budget, they can be used to decrease debt issued which will create budgetary savings (see option 3).

Option 8: The City can establish a sales tax rate higher than the current 2% (the City's portion of the 8% county wide rate), an increase in the current rate to 2.25% would create an increase in revenue of $1.09 million in 2018 to $1.13 million in 2021. This would increase revenues without burdening property owners. The current rate in Cayuga County is 8%, while this is the most common rate in NYS there are six other counties in the state which exceed 8%. While possible, the process to increase the rate would require special legislation from NYS and would not be feasible for the 2017 budget year.



Notes:

- In any year that a surplus is projected the course of action recommended would be to decrease debt issuances.
- None of these options by themselves correct the deficit in 2021, a combination of options will need to be utilized to cover the deficits if economic conditions don't cause revenues to increase above projections or the increase of expenditures slows. A combination of options will be especially necessary if the City decides to move forward with the public safety building project which will significantly increase the City's expenditures.

Fund Balance Policy

The City recognizes the importance of a fund balance policy as it has an important responsibility to its citizens to carefully account for public funds. An important indicator of the financial stability of a City is the unassigned fund balance. The City is desirous of maintaining adequate reserves in the form of unassigned fund balance while not maintaining excessive reserves that could otherwise reduce the tax levy or debt burden. Maintaining an appropriate level of reserves is essential to dealing with unforeseen emergencies or changes in conditions.

Fund Balance Types

Nonspendable fund balance – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to maintained intact.

Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers or through enabling legislation.

Committed fund balance – includes amounts that can be used only for the specific purpose determined by a formal action of the City Council.

Assigned fund balance – includes amounts to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance – includes all fund balance that does not fit into another classification.

In instances where expenditures are incurred that can be applied to a category other than unassigned the order of exhaustion will be as follows: 1) Restricted 2) Committed 3) Assigned 4) Unassigned.

Minimum Fund Balance

The City shall strive to maintain an unassigned fund balance of no less than 10% (5.2 weeks or 1.2 months) of expenditures and transfers, exclusive of one time capital financing.

There may be circumstances that require the use of fund balance such as a significant revenue short fall, emergency expenditures, etc. This policy is not designed to disallow the use of fund balance but as a guide to maintain it at an appropriate level. If, due to unexpected circumstances, the fund balance falls below the minimum amount, the City will work to increase the fund balance back to the 10% level over the following three budget years.

Maximum Fund Balance

The City shall also strive to keep the unassigned fund balance below 16.7% (8.5 weeks or two months) of expenditures and transfers, exclusive of one time capital financing. If the fund balance exceeds this amount, the City shall adjust the tax levy or reduce capital financing needs in the next budget year to bring the fund balance back into the range set forth by this policy.

Date of Measurement

The unassigned fund balance shall be measured at the close of each fiscal year after the financial statements have been audited.

Contingency Policy

The City recognizes the need for a contingency fund as budgeting is not an exact science. The City shall establish a contingency fund in all future general fund budgets not to exceed 1% of the City's budget less capital expenditures and at no time shall be funded below $75,000. All transfers out of the contingency budget must be authorized by the City Council.