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M E M O R A N D U M

To: Council Members
Mayor Mark Drnek

From: Virginia Lee, Director of Finance

Date: November 29, 2023

Re: 2024 Tentative Budget

The following provides a history highlighting financial aspects from 2020 forward, and provides information for future considerations regarding budgeting vs. services provided.

1. 2020 was a challenging year due to the pandemic. The City was successful with continuous attention given to the seriousness of the financial effects of the pandemic, and with the dedication and diligence to proactive management of expenditures, the City's department heads, supporting staff and elected officials continually analyzed which expenditures could be deferred while maintaining essential services to the community. These actions enable the City to endure the 2020 revenues losses and greatly reduce the anticipated use of fund balance. In 2020 the General fund realized loss revenues totaling $968,600 while deferring over $2.5 million in expenditures.

2. In adopting the 2021 budget, the possible unknown continuing effects of the pandemic were taken into consideration with conservative budgeting of revenue sources, but including some of the 2020 deferred expenditures. In 2021, the City was awarded $1,426,354 from the American Rescue Plan Act (ARPA) paid in two installments, 50% in 2021 and 50% in 2022. The City decided to use the first half of these funds towards the Parks Master Plan to benefit the largest population. The second half is being used towards water/sewer infrastructure which saves every citizen the costs of bonding for such investment.

3. 2021 resulted in a surplus primarily due to receiving more than anticipated sales tax, code enforcement, and ambulance revenues, and from expenditure savings due to personnel vacancies. As a result, the 2021 Appropriated Fund Balance was not needed.

4. A similar scenario repeated itself in 2022 and 2023 – more than anticipated revenues, such as sales tax, ambulance, and interest earnings, and expenditure savings due to personnel vacancies. 2022 resulted in a total $1.7m surplus, and 2023 is projected to realize a $1.1m surplus for the unrestricted fund balance while committing $900,000 of

the restricted reserves. Again, both years resulted in not needing the adopted Appropriated Fund Balances.

5. However, the City's budgets include fully staffing every department which leads to the next point.

6. During the 2023 budget process, it was determined that all the services provided by the City were to be continued and the level of services were to be maintained or increased.

7. Historically, every department within the City has worked with minimal staffing or is actually understaffed. In recent years, it has been proven a number of times that the City is not competitive in recruitment and retention for the talented and skilled staff the City needs to deliver the expected services. The City has lost a number of very talented employees and currently has a number of vacancies.

8. To assist in determining how to approach the staffing challenges, the City conducted a salary study and it was determined that City staff was paid 75% to 89% of the Market Median. As such, City staff discussed with Council the need to adjust all city employees' salaries to become more competitive, and to in doing so, try to retain and recruit the personnel needed to provide the expected services. Three of the four union contracts, which include the increased salary grids, have been settled and approved by Council, and as such, all city employees' salary adjustments are included in the 2024 Tentative budget.

9. In discussing the adjusted salaries, City Staff informed the Council that the 2024 tentative budget would include increased revenue sources, but not enough to fund the 2023 budgeted deficit and the increased salaries.

10. The 2024 budget increased revenue sources by $919,737 (staying at the tax cap) which almost funded the 2023 budget deficit of $1,121,346.
    a. The 2024 budget included an increase in appropriations of $1,633,927, which $1,236,015 is within the Salaries and Fringe benefits categories.
        1. $1,084,875 is salaries
        2. $82,190 is FICA taxes
        3. $434,300 is NYS Retirement
        4. And a savings of $365,350 due to changing the health insurance structure to the consortium

11. Had the salaries increased at the same amount from 2022 to 2023, and the retirement rates not increased to the magnitude they did, the 2024 net budget for salaries and fringe benefits would have increased by a very small amount with factoring in the health insurance savings due to switching to the consortium.

12. The recommendation to go over the tax cap was designed to adjust the tax levy to the recalculated aggregate amount if the tax cap amount was levied since 2012 – the goal was to "right the ship's path"
    a. The State's tax cap formula institutes guidance for what the state thinks is fair to the taxpayer, and assists the elected officials with the eased ability to increase the tax levy within the tax cap formula, but also allows the ability to exceed the tax cap if deemed appropriate.

13. Increasing the tax cap by the additional $373,146, or $138 per year, or $11.50 per month for the average assessment, would have raised almost $2m in the next five years.

14. In the future, this $2m+ will still be needed and may require a tax levy increase higher than 10%, depending on what the future brings. While the City will continue to explore other additional viable revenue sources, it is not anticipated that such revenues will eliminate the need for a significant tax levy increase in order to maintain or improve the current levels of services.