

City of Middletown
Mayor Sebastian N. Giuliano
Budget Address
April 1, 2010

We oftentimes take for granted the services that are provided on a daily basis by City personnel; many times we don't even notice them. Perhaps during a boisterous storm or tragic event, we may give them a fleeting thought; yet our public servants stand ready at all times to ensure the safety of all our residents. This could not have been any clearer to me than on that early Sunday morning when the tragedy of the Kleen Energy Plant explosion struck Middletown. Emergency personnel and other municipal employees came – ready, eager and willing to assist in the crisis. This same municipal workforce has been organizing a fundraiser to benefit the families of the victims of that tragedy. These are the type of people that make up the City's workforce—people who are public servants, care deeply about others, and love their community. I was therefore not surprised when each department head submitted a budget request that was fair and included only minimal funding increases to maintain current-day operations.

With sharply reduced resources at their disposal, City staff has innovated and collaborated to maintain public service levels at as high a level as possible. We have been pragmatic in terms of using these limited resources to meet mandates and critical needs before wants – even when those wants are immensely popular. For example, residents have been vocal about why leaf pick-up is not quicker or why the bulky waste program now costs \$75 per pickup. The funding cuts are made by City leaders, but it is the Directors who must answer to upset citizens who feel that they have lost a service. Unfortunately, there are many other programs or services that should be evaluated for their viability rather than their popularity. If we are truly to

maintain taxes as low as possible, we will have to look at all programs to ensure they are economically justifiable.

WHAT'S NEW IN THE 2010-11 BUDGET

Board of Education – It is often said that the definition of “insanity” is doing the same things, over and over again, while expecting a different result. When presented with recurrent challenges, one is forced to look at different ways of approaching them. It was because we looked at things differently that my budget team and I discovered a discrepancy with the Board of Education allocation. The City Charter is clear that all positions that are not State Department of Education certified are City hires, made by the Mayor and subject to the City's Personnel Rules¹. The City Attorney has advised that the previous practice of allowing such employees to be paid out of the BOE budget is in violation of the Charter, and we should correct that problem immediately. As a result, the Mayor's Proposed Budget includes a reallocation of funds to pay for Board of Education custodial, maintenance and clerical staffs, nurses and cafeteria workers from City of Middletown payroll lines. By no means are dollars being removed from the Board of Education budget that will impact teachers, classes or programs. Since we do not have the financial history for this employee group, we have used the best information available. We hope the Board of Education will work cooperatively with the City to finally correct this long-standing error.

¹ Chapter X, § 1 of the Charter defines the classified services as “. . . both full time and regular part-time employees of the City, including . . . personnel employed by the Board of Education not requiring certification by the State Board of Education . . . except the . . . Director of Facilities and . . . Paraprofessionals . . .”. Chapter X, § 2 provides that “All temporary employees shall be hired by the Mayor . . .”.

Revaluation Study - The budget includes \$300,000 as the first of three payments required to fund the state-mandated revaluation study. The *Dictionary of Real Estate Appraisal* states “the objective of a mass appraisal process is to estimate the fair market value of all real estate as of a common date. The assessment remains unchanged until the next revaluation, when the property’s fair market value is to be determined again.” I do not believe that we should conduct such a study now, given the state of the housing market and the \$1 million total cost, during a time when we can ill afford it, however I cannot legally waive this requirement in State law. I will be meeting with our State legislators to stress my concerns to determine if there is any way to avoid this (unfunded) mandate.

CNR – Although it is a big ticket item - \$800,000 – we cannot prolong funding the Capital Non-Recurring Fund² any longer. For the last two fiscal years, the fund has been shortchanged, and the City’s fleet, including police cruisers, is starting to suffer. Repairs are becoming more and more costly, and it is becoming increasingly difficult to keep the vehicles on the road. Some have suggested bonding for these types of purchases; however, I disagree. It is more fiscally prudent to pay upfront rather than pay interest on borrowed money.

Police – The Mayor’s proposed budget includes the addition of two patrol officers effective April 2011. It is my goal, as well as that of the Public Safety Committee, to methodically increase staffing levels within the Police Department to ensure that the safety needs of our community are always met. The positions have been funded in the second half of the fiscal year due to the expected availability of seats at the Police Academy.

² It is time that the CNR plan be reviewed. Although CNR stands for Capital Non-Recurring, many of the items it covers are very recurring. Although something may be defined as a capital asset, if assets in the general category are perennially replaced, it would be more proper to make that part of the annual budget rather than the CNR plan.

Grants Writer Position – The City may have overlooked significant dollars because we do not have a Grants Writer on staff. I believe an experienced, aggressive individual who can work full-time on seeking grants on behalf of all departments within the City is long overdue, and therefore, I have included a salary line item for ½ year for a new position of Grants Writer. This position will be funded for ½ year in the 2010-11 fiscal year with the understanding that the Grants Writer will work toward completely paying his/her salary through the grants within one year's time.

Parking Department – The budget includes new funding for a revenue control system for the municipally-owned parking lots. The system will equip City lots with a gate, card reader and full service station that will accept bills, coin or credit cards. This will allow us to more efficiently operate the parking areas while increasing revenue that will help us make visual improvements to City lots to make them more user-friendly.

EXPENSES/REVENUE

The deepening recession has made it impossible to close the emerging budget shortfall solely by reducing expenditures. To close the budget gap only with expenditure reductions would require over \$6 million, which would decimate core services.

The problem lies with the revenue side of the budget. Revenues are down over \$5.23 million. With negligible Grand List growth and large revenue losses, it is impossible to balance the budget without a tax increase.

This is when I can actually say to the Democrat-controlled Council, “I told you so.” In order to deliver a \$0 tax increase, the Council used one-time revenue sources and the City’s savings account (fund balance). This delivered the “no tax increase” they were after, but at a great cost to future budgets. My two previous proposed budgets both reflected more modest tax increases. Had they been adopted³, the City would have been in a much better position to deal with the revenue shortfall that we are now facing.

For the last two fiscal years, the Common Council invaded the Fund balance by \$1.5 million for the 2008-09 fiscal year (I had recommended \$750,000) and \$1.75 million for the 2009-10 fiscal year (I had recommended \$670,000). The Fund Balance has now dipped below 10% of the budget, which is the recommended industry standard, thereby placing our credit rating in jeopardy. The majority caucus adopted a budget that again used a one-shot infusion of cash, i.e., they included \$1.5 million from the anticipated sale of the Cucua Park property to the United States Army. This is another large hole in the 2010-11 budget that cannot be made up⁴.

MILL RATE IMPACT

The proposed budget expenses for 2010-11 are \$130,410,036. Although this may look like an increase from the 09-10 fiscal year, the figure includes \$956,508 placed in the budget for Board of Education Cafeteria Workers. This service has typically been handled as a separate

³ Had either of them been adopted, the situation would be much more favorable. Had the proposed fiscal 2008 budget been adopted, the fiscal 2009 budget would have had a significantly lower tax increase proposed than what had been proposed. *See also* Note 4, *infra*.

⁴ Recall that the fiscal 2009 budget included \$1 million from the proceeds of the anticipated sale of the City-owned Remington Rand property. At the time of the budget adoption, the City had not even entered into a contract to sell the property and, due to unsatisfied conditions of sale, the transaction never occurred, leaving a \$1 million deficit in the budget.

fund where revenue from school cafeteria sales has been used to offset expenses. It was never included in the Board of Education allocation or the City's. Rather than create a new fund, we are including the expense with the City side of the budget; the actual expenditure will again be offset with revenue from school cafeteria sales, as has traditionally been the case. Excluding the Cafeteria Workers operation, the new total General Fund budget is down \$197,399 from \$129,650,927 to \$129,453,528.

The budget breaks out as follows:

Board of Education - As I mentioned previously, the City has budgeted the Classified Staff salaries, insurance and other contractual obligations. \$12,075,547 has been shifted to the City side of the budget for these employees. Since the Board will be responsible for supervising these employees and addressing hours of work demands, we have left overtime costs to the Board to monitor and oversee. It is not our intention to micro-manage the Classified Staff, only to correct a wrong according to the Charter of the City of Middletown. Under this budget proposal, the net Board of Education allocation will be \$55,019,601.

The Board requested \$68,033,807 which represented an increase of 1.28%, or \$859,520.

Of the money requested:

- \$610,790 was for Health Insurance for the Classified Staff, which we have now assumed
- \$10,502 was anticipated for salary increases for this same group of employees
- \$94,527 increase requested will not be needed according to records provided by the Worker's Compensation carrier.

- It is our opinion that the remaining \$143,704 requested by the Board of Education can be absorbed in the operational dollars provided by the City, as well as the \$2.3+ million in Education Stimulus money they will receive directly.

City government – The City side of the budget is now \$75,390,435. Of this amount:

- \$50,051,878 will be for General Government expenses
- \$12,075,547 for the newly reallocated Board of Education Classified salaries and contractual costs
- \$956,508 Cafeteria Services
- \$6,062,755 for City Debt & Interest
- \$6,243,747, for Education Debt & Interest

The decision to propose a tax increase was not made lightly. The budget I propose raises the mill rate from 25.5 to 27.3 — a 1.8 mill increase. This translates to \$297 for the average taxpayer with a home assessed at \$165,000 and a market value of \$235,714. Given the shortfall in revenue that I have before me today, the tax increase cannot be avoided.

SUMMARY

I believe a City's budget is its most important policy action. It represents an annualized financial plan for progress toward the vision we share for our community and quality of life we wish to preserve. I take this responsibility seriously.

I understand that there may be criticism for not being tougher with City employee unions in order to shave down the mill rate. It is, however, an argument intentionally calculated to avoid the real issue. The fact is that programs and services cost what they cost to deliver, and those who deliver them deserve a proper wage and a fair benefits package. The City cannot continue to establish spending at levels that are not supported by sustainable revenue streams. Furthermore, such spending levels cannot be sustained by sources of funds that are beyond the City's control. This is what would be an example of a budget "gimmick" which looks good in the short run – e.g., in an election year – but produces a funding obligation in the future for which there is no alternative but to turn to the taxpayer, who is always "the last line of defense."

In my tenure as Mayor, I have found the unions willing to work collaboratively with the City for the benefit of the taxpayer. The truth of the matter is that employee unions were discouraged by the fact that their concessions were ignored by the Common Council during last year's budget process and they were unwilling to come forward this year. Having a million dollars in concessions tossed back at them, and then watching the Council add \$1.2 million in spending to the proposed budget and, concurrently, cut legitimate revenue by \$3.5 million, has severely strained the relationship they have with the majority on the Council. Three of the four city employee unions have contracts that will expire next fiscal year, and I am hopeful that aggressive anti-union tones displayed by some members of the Common Council will fade in order that both sides may achieve common goals. By not pressing for concessions this year, against bargaining units that still have this "bad taste in their mouths", I believe also that I have not compromised the City's ability to achieve its financial objectives during next year's contract negotiations.

My decisions are based on the most fiscally responsible direction for the City. If an action is the right and responsible thing to do and there is no reasonable alternative, I will propose it, even when it means an increase in taxes. I do not believe in budget gimmicks, I do not believe in one-time revenue streams, and I do not believe in putting money in the budget that “may” come in. I do not like to borrow money to avoid tax increases. If the City cannot afford to purchase the item, or the taxpayers are unwilling to pay its true price, then we shouldn’t. Borrowing money only to pay interest on it, and ultimately paying more, just doesn’t make sense. This is the way most of us run our households, and this is the way I believe you want me to run the City.

Perhaps the Council can revisit the recommendations I made last year (included with this budget document) for increased revenue streams or possible program reductions. After all, it is the Council that has the duty, under the Charter, to adopt a budget and to levy the taxes⁵ that we all must pay.

⁵ Chapter III, § 4, “Authority of the Common Council”.

RECOMMENDATIONS MADE IN THE 2009-10 FISCAL YEAR BUDGET

1. Review the Possibility to Self-Insure for Employee Health Insurance
2. Review user Fees and begin to charge fees commensurate with true costs of programs
3. Evaluate programs to determine if the low enrollment is worth the expense
4. Eliminate 4th of July Fireworks display until the economy improves
5. Eliminate Special Events/associated overtime until the economy improves - including summer concerts
6. Eliminate Grants unless required by State
7. Eliminate Summer Work Program
8. Reduce Landfill hours to twice per month all year round
9. Eliminate Video Services for Council and Planning & Zoning until economy improves
10. Eliminate Kids Health and Safety Day, Teen Life Conference and Senior Health Expo unless receive grants.