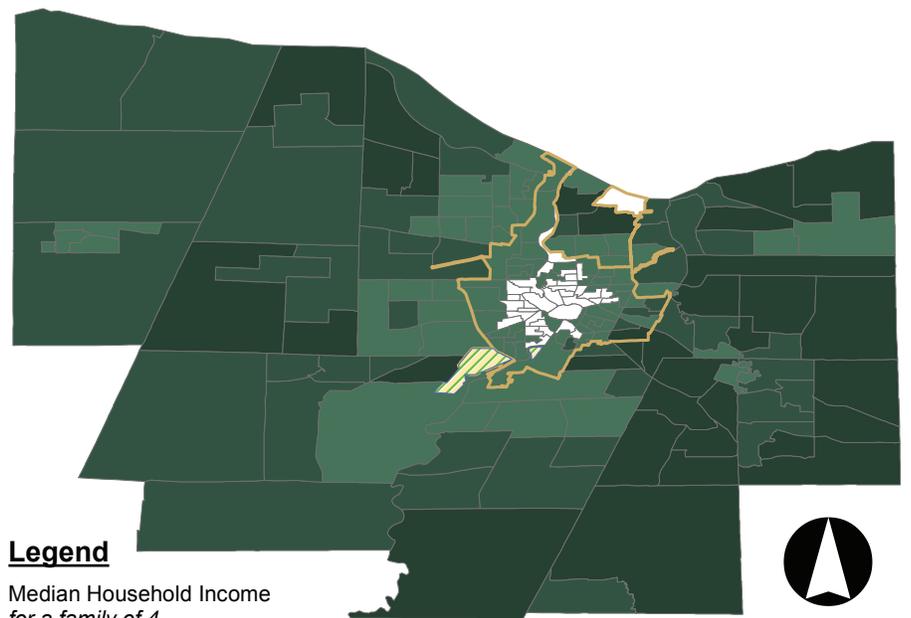


# state of new york cities

CASE STUDY 1 - MARCH 2014

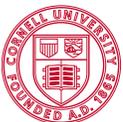
## CITY OF ROCHESTER

From an Industrial City to a Knowledge-Based Economy



Created by: Clint McManus  
Date: 6 March 2014  
Data Source: U.S. Census Bureau, American Community Survey  
Projection: NAD 1983

Monroe County Median Household Income  
by Census Tract, 2012



Cornell University





# state of new york cities

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CASE STUDY 1 - MARCH 2014

## CITY OF ROCHESTER

From an Industrial City to a Knowledge-Based Economy

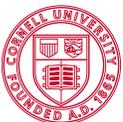
**By:**

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## Table of Contents

<b>Acknowledgments</b> .....	IV
<b>Executive Summary</b> .....	1
<b>1. Overview</b> .....	2
Methods .....	3
<b>2. Financial Analysis</b> .....	4
A. Revenue and Expenditure Trends .....	4
I. Revenue .....	4
II. Expenditures .....	6
B. Obligations to the Rochester City School District .....	6
<b>3. Fiscal Conservatism, Flexibility, and New Initiatives Stabilize Finances</b> .....	8
A. Financial Management Practices in Rochester: Reducing Expenses Through Innovation and Flexibility .....	9
I. Hiring Freeze = Big Savings .....	9
II. Innovative Health Coverage Agreement with Unions .....	10
III. User Fees Shift Costs to Service Beneficiaries .....	10
IV. Staying Ahead of Pension Obligations .....	10
B. Knowledge-Based Economy: Technology-Based Projects .....	10
C. Commercial Investments .....	11
D. Promotion of Small Business .....	12
E. City and Schools Share Services .....	13
<b>4. Conclusion</b> .....	14
<b>References</b> .....	15



## Executive Summary

This paper summarizes Rochester's multipronged response to its fiscal challenges, and suggests why City leaders' combination of fiscal conservatism with innovative approaches appears to be moving the City in a positive direction.

The downturn of 2008 found Rochester already the poorest of any city in the State of New York, its core industries bankrupt or decamping, its affluent fleeing to suburbs, its school district performing worse than any, its property tax receipts dropping. But today, the credit rating industries give Rochester the highest marks, applauding the city for a fiscal conservatism that has built solid reserves in fiscally trying times.

Rochester's responses to fiscal stress rejected the conventional wisdom, which led many other cities to privatize services and slash workforces, employee pensions, and benefits. Rochester, instead, re-thought its civic identity, reworked its operations, managed its expenditures and debt, and maximized current and potential revenues, to preserve city services and to minimize impact on its workforce.

With the highest incidence of poverty of any city in New York State—almost twice the statewide median—Rochester's property owners are unable to pay a level of property taxes that will sustain needed City services plus fund the fiscally dependent school district. So it has imposed some user fees and increased others (e.g., water, street sweeping and snow-plowing), but principally has turned to flexibility and efficiency in service delivery (e.g., semi-automated one-person garbage trucks that can double as snowplows; reassigning sanitation workers no longer needed on

garbage collection routes to recycling operations; sharing use of some facilities and equipment with the Rochester City School District).

The City has also managed expenditures by reducing risk where possible—for example, imposing a hiring freeze, and reducing employee health care costs by negotiating with City unions to cap the City's annual increase, to establish a trust fund to cover excess claims, and to commit unions to share in managing City health care costs.

Closer to its borrowing limit than other NY cities, Rochester has enacted a self-imposed debt limit, taken advantage of the State's pension amortization program, and incurred very low-interest near-term debt to fund needed public works projects that also generate significant local payroll (including \$325 million in building projects to renovate RCSD schools, which will not count against the City's debt limit).

Finally, Rochester's regional importance inspires its philanthropists to invest in higher education to spur economic progress in the region (for example, the Golisano Institute for Sustainability at RIT). Those efforts dovetail with City partnerships to undertake major commercial developments and incentives for technology-based projects, such as renewable energy, health, and clean technology, benefiting both the City's tax base and the region's economy. Downtown revitalization, reinvestment in downtown neighborhoods, and support for small businesses through incubators and loan programs, further reinforce the transition to a knowledge-based economy.

# 1

## Overview

Over the past 40 years, the City of Rochester has lost a third of its population, and seen its most important industries either depart the city or declare bankruptcy. With the dramatic downsizing or loss of its industrial giants—Eastman Kodak, Bausch + Lomb, and Xerox—Rochester lost very substantial property tax remittances, tens of thousands of local jobs, and corporate civic support for local universities, hospitals and other community institutions (Rockefeller Institute, video 2012).

Rochester’s prospects, however, are surprisingly promising. The eclipse of Eastman Kodak, Bausch + Lomb, and Xerox—which had been “relatively high tech and attracted people with transferable skills” (City of Rochester, 2013 State of the City)—left a significant residue of knowledge workers who have opened small businesses serving other industries in the area and the state (Young, Francis, Young, 1999). Moreover, the most recent census data (2007) indicates this trend is matched by a generally strong and growing small-business sector, in which women and African Americans own approximately 34 percent and

20 percent of the firms in the City of Rochester respectively.<sup>1</sup> The area continues to enjoy the legacy of robust knowledge-focused local institutions—universities, hospitals, museums—left by its large industries; new entrepreneurial philanthropists have arisen to begin to fill the role left vacant by earlier, industrial, benefactors.<sup>2</sup>

However, Rochester’s deficits remain daunting:

- almost a third of Rochester’s residents live in poverty—giving it the highest incidence of poverty (25.8 percent) of any city in the State of New York<sup>3</sup>, and almost twice that of the statewide median city (13.7 percent);
- Rochester’s median household income is just over \$30,000, compared to \$57,683 for the State;
- Rochester’s poorly-performing school district has driven its more affluent residents to suburbs, from which commutes remain short and convenient;

<sup>1</sup> The City supports this trend, through its “Minority and Women-owned Business Enterprises” (MWBE) initiative. In comparison, the 2007 census report for the State of New York shows women owning 30%, and African Americans owning 10%, of firms statewide.

<sup>2</sup> A prominent example is Thomas Golisano, founder and CEO of Paychex, whose Golisano Foundation supports programs for people with intellectual disabilities. See, <http://golisanoofoundation.org/about2.html>. Mr. Golisano’s \$10 million grant to Rochester Institute of Technology spurred its creation of the Golisano Institute for Sustainability. See, <http://www.rit.edu/gis/about/>.

<sup>3</sup> NB: The Office of the Comptroller excludes New York City in calculating “median city.” Rochester Fiscal Profile 2013, p. 2, fn. 2.

- Rochester's loss of industry has meant loss of critical property tax revenue; and
- by 2014, the City of Rochester's obligations to its school district and its pensioners will completely exhaust the property tax revenue it currently collects.

Rochester is a majority-minority city, approximately 42 percent Black, 16 percent Latino, 38 percent White, and 4 percent other. Fewer than 41 percent of its residents are homeowners; the median value of owner-occupied homes is only \$74,000; 51 percent live in multifamily structures. Its unemployment rate has persisted at relatively high rates since early 2009; as of the end of 2012, it was still 9.8 percent (compared to 7.9 percent statewide).

Rochester receives less state aid for its school district, but must make a greater state-mandated annual contribution, than other upstate New York cities<sup>4</sup>. Although between 2006 and 2011, Rochester's taxable property value increased 13 percent, and projections anticipated an 8 percent increase in valuation in the 2012 reassessment, the resulting revenue increment is "dwarfed by other obligations" (City of Rochester, joint legislative public hearings 2011; Rockefeller Institute, video 2012).

At Rochester's level of property values and homeowners' incomes, property tax revenues are not nearly sufficient to support necessary municipal services. Former Mayor Thomas S. Richards's assessment, shared by his Budget Director Chris Wagner, was that the City must both be efficient and creative with the resources in hand, and that Rochester must identify and deploy new revenue structures not dependent on property taxes: Mayor Richards argued for consolidation to permit municipalities to expand to recapture their suburbs, so that those enjoying Rochester's urban amenities would also contribute to them (Rockefeller Institute, video 2012).

## Methods

This paper's analysis and conclusions are based on historical, fiscal and demographic research; interviews; and media reviews. Initial research included City of Rochester, Monroe County, and Rochester City School District (RCSD) demographic, budget, and financial records; public statements by City of Rochester, Monroe County, and RCSD officials; reports from New York State agencies, including the Office of the Comptroller, the Education Department, and NY Works Task Force; regional economic data; reports from civic and interest group organizations (e.g., Fiscal Policy Institute, Rockefeller Institute, Empire Center); and United States Census reports.

Interviews of local officials and residents knowledgeable about Rochester's challenges, strategies, and successes filled in essential context and detail missing from the data. Interviewees included William Ansbrow, Rochester City School District Chief Financial Officer; Bret Garwood, City of Rochester Business and Housing Development Director; and Chris Wagner, City of Rochester Budget Director. We were conducting research and interviews immediately following the November 2013 election of a new mayor, Lovely Warren; as she had not yet taken office, she was not among our interviewees.

Section 1 provides a brief overview of Rochester's characteristics as they relate to its fiscal situation. Section 2's financial analysis summarizes revenue and expenditure trends, and provides some insight into the City's financial obligations to the RCSD. Section 3 is the heart of the matter, setting out Rochester's multiple internal and external strategies, partnerships and initiatives to improve and strengthen its fiscal situation.

<sup>4</sup> At the time the State of New York imposed its Maintenance of Effort (MOE) requirement, mandating that cities with fiscally dependent school districts maintain their then-current levels of support, Rochester's annual contribution was higher than other cities'. The enactment of the MOE froze Rochester's contribution so that it was unable to readjust to align its own MOE payments with those of similarly situated cities (Buffalo, Syracuse, and Yonkers). Ansbrow interview.

# 2

## Financial Analysis

Rochester has a strong record of fiscal conservatism, including a self-imposed debt limit precluding borrowing more than the City can repay in any given year (Wagner 2013, 2014). The tax cap is relatively new; with a poverty rate exceeding a quarter of its population, and dwindling of the taxable assessments formerly held by Kodak and other big local industries<sup>5</sup>, the City has not increased its tax levy in either year, so its property tax levies do not approach the State-mandated tax cap (Wagner 2013, 2014). As detailed below, in response to this difficult fiscal environment the City has exercised creativity and flexibility, and has collaborated fruitfully with its own labor force and with other local entities to grapple with its economic challenges. As a result, the Office of the New York State Comptroller does not (and is not expected to) list the City of Rochester as a “Municipality in Stress” in the most recent report of its Fiscal Stress Monitoring System<sup>6</sup> (NYS Comptroller, Fiscal Stress Monitoring System 2012).

Rochester’s economic setbacks have affected its financial position, reducing the City’s ability to collect local taxes, and increasing its dependence on state aid, which in turn is

declining (in both constant and current dollars) (Rochester Fiscal Profile 2013). In response to this situation, the City has taken a number of actions to try to regain a relatively healthy financial position.

## A: Revenue and Expenditure Trends<sup>7</sup>

### I: Revenue

Over the past decade and more, Rochester’s three largest revenue sources—in both current and constant dollars—have been sales and use taxes, State aid, and charges for service (Charts 1 and 2). Between 2000 and 2012, the sales and use tax revenue increased in current dollars from \$79.8 million to \$141.8 million, an increase of almost 78 percent. However, when measured in constant dollars, the increase is far more modest: not quite 39 percent (Chart 2), from \$96.6 million to \$134 million. The City continues to work to increase economic development, in order in turn to increase the City’s sales and use tax revenues.

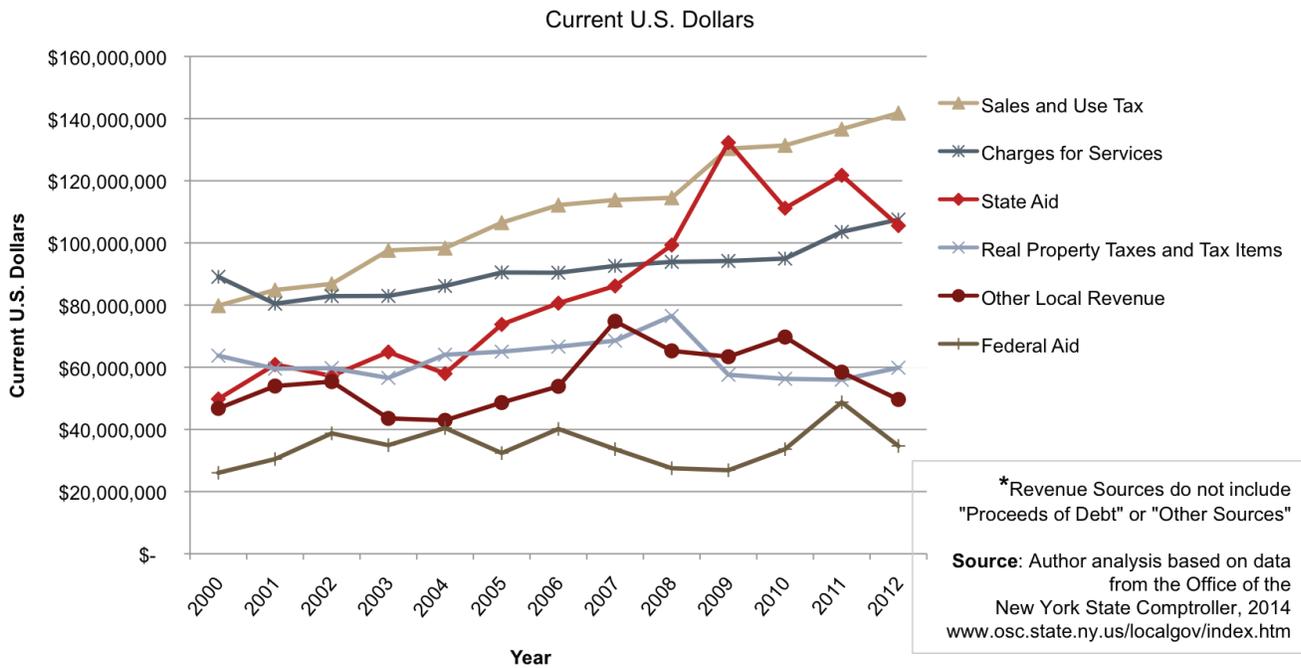
For the period 2000 through 2012 State aid represented an important, but relatively volatile, source of revenue,

<sup>5</sup> The City’s experience with Kodak is an example of the magnitude of this loss: were Kodak’s taxable assessment in 2013 equal to what it was in the mid-1980s, it would yield \$13 million more annually in tax revenue (Wagner 2013, 2014).

<sup>6</sup> The New York State Comptroller defines “fiscal stress” as “inability of a local government or school district to maintain solvency in one or more of the following: cash solvency, budgetary solvency, long-term solvency or service-level solvency” (NYS Comptroller, Financial Condition Analysis, p. 29).

<sup>7</sup> Data used for the financial analysis comes from the Office of the New York State Comptroller, principally its reports titled “Rochester Fiscal Profile 2013” and “Rochester Financial Condition Analysis.”

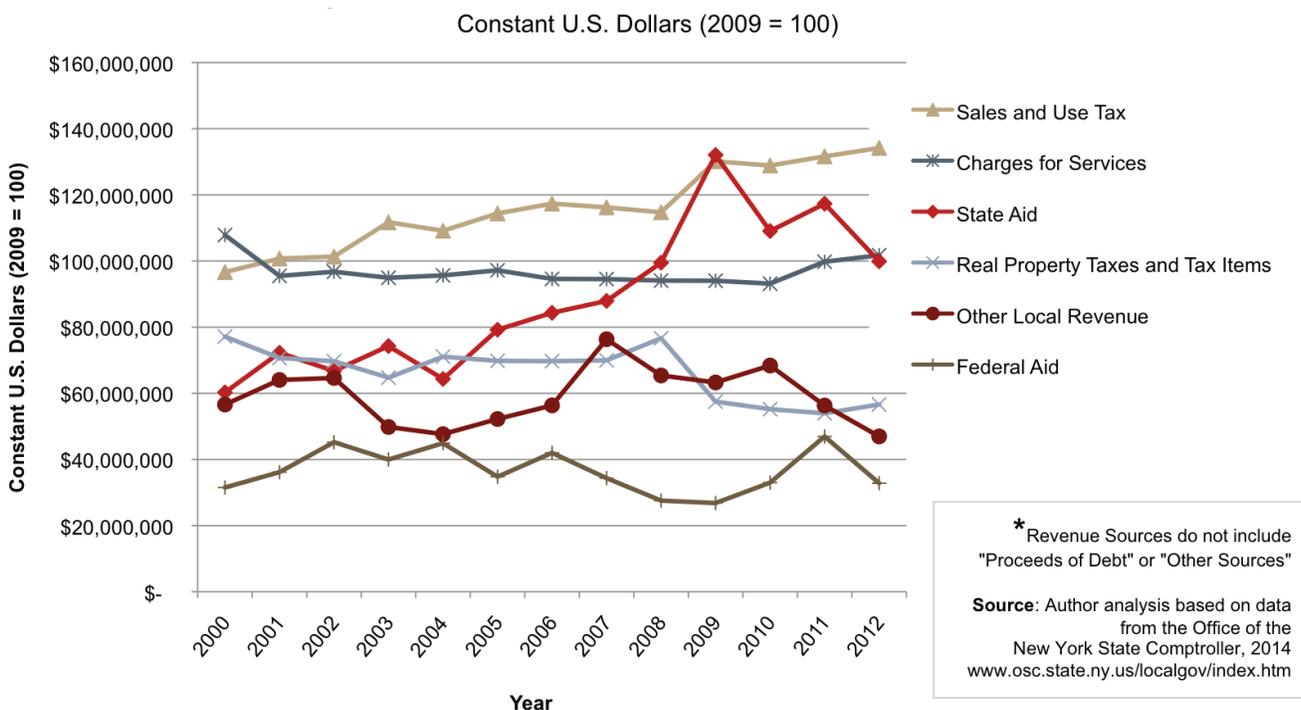
**CHART 1: City of Rochester Revenue Sources\* 2000-2012**

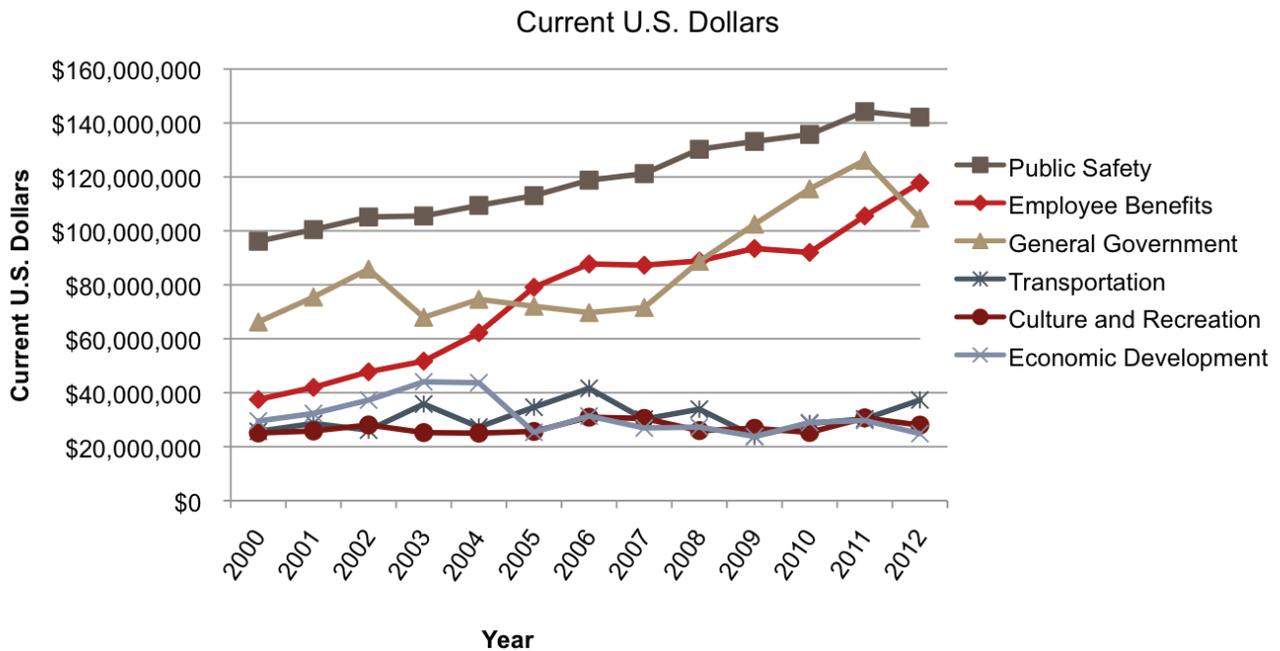


increasing in current dollars from \$49.8 million in 2000 to \$105.6 million, an increase of 112 percent. In constant dollars, the increase was far less dramatic, rising from \$60.3 million to \$99.9 million, a rise of 66 percent. As both Chart

1 and Chart 2 show, State aid spiked steeply in 2009, and has been in decline since then, due to the fact that generally the State's Aid and Incentives for Municipalities (AIM) payments have been decreasing statewide since 2008-09.

**CHART 2: City of Rochester Revenue Sources\* 2000-2012**



**CHART 3: City of Rochester Key Expenditures 2000-2012**

Source: Author analysis based on data from  
the Office of the New York State Comptroller, 2014  
[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

For the period 2000 through 2012, Rochester's charges for services income has increased from \$89 million in 2000 to \$107.5 million in 2012 (current dollars). In constant dollars, however, this source of revenue has been essentially level, from a high of \$107.8 million in 2000, to \$101.7 million in 2012.

Property tax as a source of revenue has not determined the financial position of the City of Rochester. One of the reasons it does not play an important role in Rochester's budget is because a considerable part of it (almost two-thirds) goes directly to the school district: under the State's Maintenance of Effort law, the City transfers a minimum of \$119.1 million to the School district annually (NY State Comptroller, Rochester Fiscal Profile 2013).

### III: Expenditures

The City's largest expense categories are public safety, general government (e.g., operations and administration), and employee benefits. Between 2000 and 2012, the City's expenditures devoted to public safety have increased in

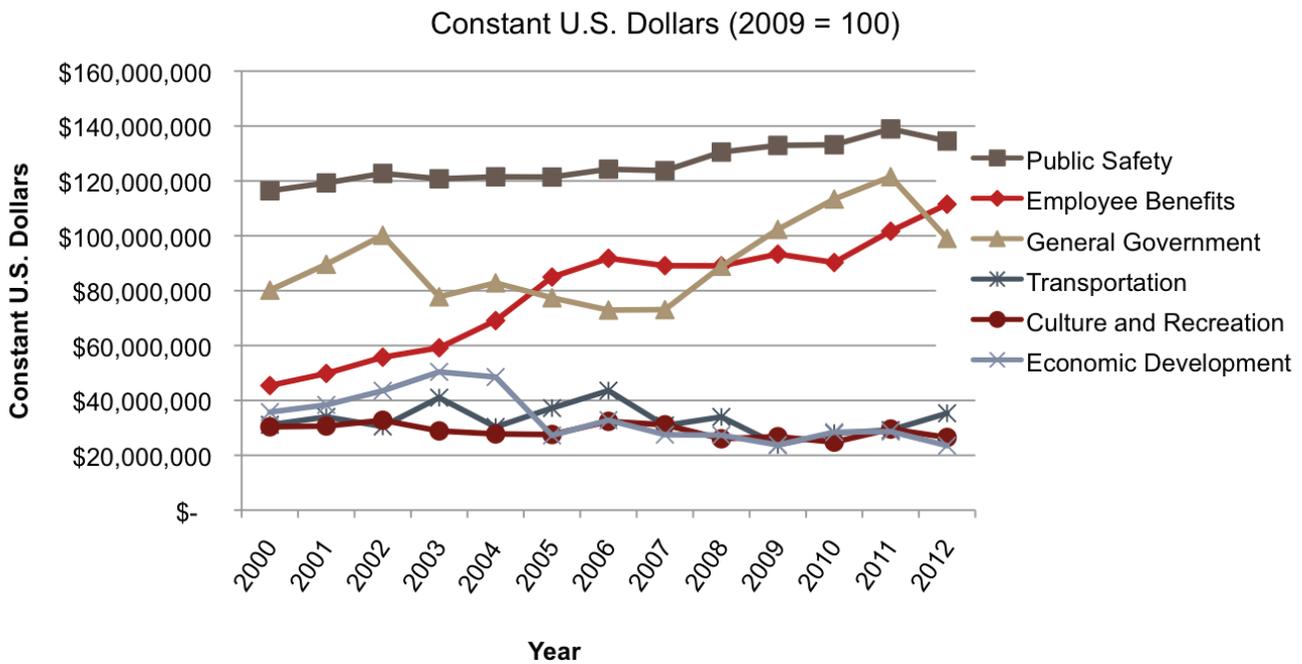
current dollars from \$96.1 million to \$142.1 million, almost 48 percent (Chart 3); in constant dollars, however, the rate of increase has been almost flat: 16 percent over the 12 years in question, from \$116.4 to \$134.5 million (Chart 4).

Over the period 2000 through 2012, Rochester's costs of general government grew (in current dollars) from \$66.2 to \$104.6 million, or 58 percent. In constant dollars, again however, the increase is far less steep: from \$80.2 to \$99 million, translating to a 23 percent increase.

Employment benefits have also seen an increase: in 2000 this category accounted for \$37.5 million in expenditures (current dollars), growing to \$117.8 million in 2012. In constant dollars, the expenditure figures are \$45.4 million in 2000, increasing 146 percent to \$111.5 million in 2012.

### B: Obligations to the Rochester City School District

Like Buffalo, Syracuse and Yonkers, Rochester has a dependent city school district, requiring the City to collect property taxes and issue debt on behalf of the school

**CHART 4: City of Rochester Key Expenditures 2000-2012**

Source: Author analysis based on data from the Office of the New York State Comptroller, 2014  
[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

district. New York State's Maintenance of Effort (MOE) statute imposes fiscal responsibility on the City of Rochester for its school district<sup>8</sup>; the others of the Big Four New York cities are likewise bound to MOE payments to their school districts. However, since Rochester had historically been more generous with its schools than other upstate cities had been with theirs, the MOE mandate locked in place for Rochester a much higher minimum annual contribution—\$119.1 million<sup>9</sup>—which now consumes over two-thirds of the city's property tax revenues.

The City's contribution represents just less than 17 percent of the Rochester City School District's (RCSD) budget.<sup>10</sup> The District serves 32,000 children, speaking 72 different languages; it has the highest poverty rate among New York State's Big Four districts: 22 percent of schools are at 90 percent poverty or higher, and overall, 88 percent of the District's students are eligible for free school lunches.

Notwithstanding Rochester's relatively high sales tax receipts, which have helped to stabilize city finances historically, the City's inability to raise sufficient property taxes to fund its own core services means the City cannot increase its allocation to the school district. As a result, RCSD's frozen revenue stream creates a gap every year between rising costs and available funds. The only mitigating factor in this situation is that—although the total allocation to RCSD has been constant—RCSD's enrollment levels have been dropping (from 34,526 students in 2003 to 30,169 students in 2012), resulting in a slightly higher level of resources per pupil.

<sup>8</sup> The boundaries of the Rochester City School District are essentially coterminous with the City's.

<sup>9</sup> In 2009-10, while Rochester contributed \$119 million to its schools, Syracuse's MOE contribution was \$64 million, and Buffalo contributed \$70 million. MOE payments are not calculated on a per-student basis (NYS Education Department, "Maintenance of Effort Results, 2008-09 and 2009-10").

<sup>10</sup> The RCSD's 2013-2014 budget shows anticipated total revenues of \$734 million, including \$476 million in State aid, Special Aid Fund revenues of \$98 million, School Food Service Fund revenues of \$19 million, and approximately \$20 million in other revenues (Rochester City School District, "Finance").

# 3

## Fiscal Conservatism, Flexibility, and New Initiatives Stabilize Finances

As the New York State Comptroller’s Office points out, Rochester is in a worse position than Buffalo, Syracuse, and Yonkers in that it has a higher poverty rate, and has exhausted more of its debt and tax limits than the other “Big Four” cities.<sup>11</sup> Nevertheless, rating agencies give the City high marks: Moody’s Investors Service gave the City an Aa3 rating on its long-term general obligation debt; Standard & Poor’s upgraded Rochester from A to A+, and Fitch Rating awarded an A+ (City of Rochester, News Release – Bond Ratings 2012). At first glance this seems a paradox, but Rochester’s high credit rating actually reflects the City’s strong effort to overcome structural economic problems through a combination of conservative fiscal policies, innovative initiatives, joint action with important stakeholders, and the adoption of measures to reduce expenses.

The City has embarked on strategic efforts to develop in the future as a technical center rather than an industrial city, having learned the hard way that heavy reliance on big industrial firms is no guarantee against economic upheaval.

In fact, Rochester’s story may be a cautionary tale for other cities now being encouraged toward a cluster development strategy that urges regional specialization. Though Rochester had several resident industries—large, diverse, and generative of “clusters” of spinoff subcontractor firms—even this did not ensure resilience in the face of rapidly changing technology trends (Young, Francis, Young, 1999). The credit rating services have taken note of the City’s role as the region’s commercial center, its conservative financial management practices, and its shift from industrial to knowledge-based economy, stressing the City’s role as an economic, higher education, and healthcare center for the Finger Lakes region (Wall Street Journal 2013).

The factors that impressed the credit rating agencies are key to Rochester’s approach to the current fiscal crisis as compared to other cities in upstate New York. First, although Rochester was certainly affected by the current crisis, the City’s finances, even before 2008, were already in a delicate situation, due to the significantly reduced presence of Kodak, Xerox, and Bausch + Lomb; population and assessed property values had begun to decline 30 years ago (Garwood 2013). As a result, well before 2008

<sup>11</sup>According to the Office of the New York State Comptroller, while Rochester had exhausted 60.8% of its constitutional debt limit in 2011, Buffalo, Syracuse and Yonkers have exhausted 57.3%, 52.9% and 18.4%, respectively. While Rochester has exhausted 74.9% of its constitutional tax limit in 2012, Buffalo, Syracuse, and Yonkers have exhausted 71.2%, 68.6% and 68.2%, respectively (NY State Comptroller, Rochester Fiscal Profile 2013).

Rochester had begun to look for other revenue streams, and to implement conservative financial management practices, earlier than other Upstate cities. Indeed, as Rochester's senior management team has repeatedly stated, property tax cannot be Rochester's future (Garwood 2013; Wagner 2013; Rockefeller Institute, video 2012).

Second, Rochester is the most important city of the Finger Lakes region, responsible for the majority of the commercial activities in the region. The presence of the aforementioned industries—even if much reduced in 2013—has contributed to the development of technological institutes and the opening of small businesses by knowledge workers, allowing the current transition to a knowledge-based economy. As Katz and Bradley have pointed out (2013), after Kodak collapsed, new companies in Rochester flourished in the areas of web design, digital x-rays, military optic technology, and blood analyzers. The New York Works Task Force<sup>12</sup> has been working with the City on projects to develop commercial areas. In short, Rochester is the economic driver of the region, so its development is essential for the general recovery of its region as well.

Thirdly, the City adopted creative and effective approaches to its expenditures and increased revenues. On the expenditure side, the City adopted more efficient and flexible mechanisms for providing services, including (Wagner 2013):

- semi-automated one-person garbage trucks that can double as snowplows;
- reassigning sanitation workers no longer needed on garbage collection routes to recycling operations;
- implementing user fees (notably water, street sweeping and snow-plowing); and
- reducing employee health care costs (by Memorandum of Agreement with City unions that caps the City's annual increase, establishes a trust fund to cover excess claims, and involves unions in managing City health care costs).

With regard to revenues, the City has undertaken new initiatives, with the support of important stakeholders, including Monroe County, the University of Rochester, the

city's unions, the Office of the New York State Comptroller, philanthropists, the New York Works Task Force, the Rochester City School District, and the community affected, including:

- incentives for technology-based projects, such as renewable energy, health, and clean technology;
- investments in big commercial centers in order to increase the City's tax base; and
- promotion of small business in the region through incubators, loan programs and recovery of neighborhoods.

## **A: Financial Management Practices in Rochester: Reducing Expenses Through Innovation and Flexibility**

According to Rochester's Budget Director, even before the 2008 downturn the City had been applying conservative fiscal management, which continues to include:

- a self-imposed debt limit<sup>13</sup>;
- accumulation of reserves;
- a hiring freeze that permits filling any job opening only after authorization by a hiring freeze committee;
- agreements with unions to reduce health care expenses;
- user fees for provision of certain services; and
- pension amortization.

On June 18, 2013 the Council approved a municipal debt limit for 2013-2014 of \$16,113,000. This self-imposed debt limit is based on the amount of principal to be repaid in 2013-2014. The city has separate authorization, based on anticipated enterprise revenues (water and parking fees), to borrow up to \$7,417,000.

## **I: Hiring Freeze = Big Savings**

Credit rating agencies indicate that Rochester maintains a satisfactory level of reserves, which combined with available liquidity in other governmental funds, provide useful flexibility to the city budget. The city's general fund consistently generated operating surpluses from fiscal 2007 through fiscal 2011, raising the general fund balance to a solid level. As a budget efficiency practice, the city's hiring

<sup>12</sup>The New York Works Task Force is responsible for coordinating infrastructure planning for the State of New York, bringing together "leading finance, labor, planning, and transportation professionals to coordinate a statewide infrastructure plan that will more effectively and strategically allocate New York's capital investment funding," with the added goal of creating jobs in the State (NY Works Task Force).

<sup>13</sup>In 2012, with interest rates at historic lows, the Rochester City Council enacted an exception to its self-imposed debt limit, approving a capital project acceleration initiative authorizing borrowing of \$29 million to jump start necessary public works projects such as sidewalks and streets, anticipating benefits in increased economic activity and employment as well as completion of essential projects at a significantly reduced cost to the City.

freeze allows elimination of some vacant positions, resulting in a reduction of \$680,900 in the city's 2011-2012 budget (City of Rochester, Budget Documents, accessed November 2013).

## II: Innovative Health Coverage Agreement with Unions

The City also has been working with unions to reduce health care expenses. In 2012 the City of Rochester, the Locust Club Police Officer's Union, the Firefighters Union, the International Union of Operating Engineers (IUOE), and the American Federation of State, County and Municipal Employees (AFSCME) established a self-funded health insurance pool that could save the city between \$8.5 and \$13.4 million over three years.

The three-year Memorandum of Agreement (MOA) envisions an active role for employees in finding ways to reduce the costs of health care, and a Joint Labor/Management Health Care Committee that comprises four members of the City Administration and leaders from each of the City's four labor unions. The MOA caps increases in the City's contribution to health care at 3.75 percent per year, which represents half of the 7.5 percent anticipated annual growth of Rochester's health care premiums. The Joint Labor/Management Health Care Committee will have to decide how to deal with the other 3.75 percent cost increase per year not funded by the City, either by drawing down on the trust fund, or by increased employee contributions. Through the MOA, the unions and the City thus preserve and protect employee medical benefits as well as the City's general fund, avoiding the increased premiums and cuts in benefits that often plague public employers and their workers.

## III: User Fees Shift Costs to Service Beneficiaries

The City of Rochester charges user fees for certain services, such as water, local works (e.g., sidewalk and street snow plowing, salting, other snow and ice control measures, and street cleaning), and residential refuse. These fees, which capture revenue from those who benefit from services and who otherwise would not pay taxes, increased approximately 2 percent in the 2013-2014 Budget, estimated to have an

annual impact on the typical Rochester homeowner of \$18.52. Parking fees will also increase to offset investment and build fund balance for future capital needs. The idea was to spread the cost over Rochester's citizens, given the impossibility of increasing the property tax in the City with its high proportion of low-income residents. The City of Rochester took the decision not to privatize such services. Instead, the City tries to implement efficient and flexible practices when delivering these public services, including for example a hybrid model for street and sidewalk plowing<sup>14</sup> (Wagner 2013).

## IV: Staying Ahead of Pension Obligations

The City has availed itself of the New York State Comptroller's 10-year pension amortization program, which loans funds to offset a portion of a city's annual pension contribution over time at an interest rate comparable to taxable fixed income investments; the interest rate for 2013 was 3.00 percent (Comptroller, Retirement System: Contribution Stabilization Program, accessed November 2013). In Mayor Richards's 2013-2014 Budget transmittal message to the City Council, he stressed: "Amortizing our pension payment is not my first choice. But it is the only viable choice we have. State mandated pension costs have doubled since 2010, going from \$20.2 million to \$44.1 million (before amortization) next year and are expected to peak at over \$50 million in 2015. [...] The pension amortization will defer about \$10.9 million in this budget." Finally, the city was able to close a gap of \$42.7 million with several measures, including a state pension billing mechanism for an early retirement program, and modest pay increases in contract renewals with Rochester's unions.<sup>15</sup>

## B: Knowledge-Based Economy: Technology-Based Projects

The City is seeking to shift away from reliance on large industry, and toward a knowledge-based economy through the expansion of research institutes, universities and health

<sup>14</sup>City employees and equipment plow arterial streets; contractors plow residential streets and sidewalks (Wagner 2014).

<sup>15</sup>The City closed the \$42.7 million gap by: (1) \$17.3 million reduction in planned capital expenses and use of Enterprise Fund Balances; (2) \$10.95 million in pension amortization; (3) \$7.5 million savings and credit on estimated pension bill; (4) \$2.75 million savings in planned healthcare expenses; (5) \$1.7 million enterprise fund fee increase; (6) \$1.4 million increased revenue from Excellus lease buyout to provide tax relief; (7) \$0.9 million transfer from Property Tax Overpayment Fund; (8) \$0.2 million net of other changes. (City of Rochester, Budget Address 2013.)

centers in the City (City of Rochester, State of the City). Considering the importance of Rochester for Monroe County and the entire Finger Lakes region, most of the projects in the regional strategy promoted by the New York Works Task Force focus on advancing Rochester's technological institutes.

Higher education provides important anchor institutions that serve as economic drivers for Rochester, supplying a significant amount of employment, as well as research and innovation. For instance, the University of Rochester and the Rochester Institute of Technology (RIT) have more than 20,000 and 3,200 employees, respectively. Important philanthropists, such as the Golisano Foundation, the Greater Rochester Health Foundation, and Wegman's Family Charitable Foundation, are contributing significantly to the development of higher education in the region.

There are several projects to expand these institutions, such as the Golisano Institute for Sustainability (GIS) at RIT, the University of Rochester Health Sciences Center for Computational Innovation (HSCCI), and the Innovation Hot Spot Initiative. Together with the New York Works Task Force, the City aims to expand the Golisano Institute for Sustainability at the RIT. The idea of this project is to make RIT an international leader in programs related to sustainable design, life-cycling engineering, remanufacturing, and pollution prevention, creating 1,075 direct jobs. RIT intends to become the first technological university to provide a career program focused on the principles of sustainability in product development (Finger Lakes Regional Economic Development Council 2011).

The HSCCI involves a partnership between IBM and the University of Rochester to develop a high performance computing health research center. This computer health system is expected to be the most important in health research, providing IBM a significant R&D presence in the region. This initiative has already enabled University scientists to attract more than \$200 million in research funding, and is expected to create 800 direct and indirect jobs (Finger Lakes Regional Economic Development Council 2011).

Moreover, the Innovation Hot Spot Consortium aims to foster the creation and growth of start-up companies

and promote greater academic-industry partnerships. This initiative consists of a partnership between the University of Rochester's High Tech Rochester (HTR), RIT's Venture Creations and Center for Urban Entrepreneurship, the Upstate MedTech Centre in Batavia, the Cornell Agriculture and Food Technology Park in Geneva, and the Rochester Bioventure Center. In short, this initiative unites incubators and business support organizations into a coordinated infrastructure that accelerates technology transfer and fosters the creation and growth of early stage companies (Finger Lakes Regional Economic Development Council 2011).

## C: Commercial Investments

According to the State Comptroller, Thomas P. DiNapoli, "Rochester has taken a number of positive steps to put itself on stronger fiscal footing but faces ongoing challenges" (Office of the Comptroller, DiNapoli: Rochester Faces Challenges 2013). Among those positive steps, the City government has been involved in developing commercial areas, such as Midtown Mall, Eastman Business Park, College Town Project, and Port of Rochester ("Marina Project"). Most recently, the City has partnered with Monroe County to build a Costco in the City of Rochester; the \$30 million project is expected to create 200 new jobs in the next three years (Monroe County, CityGate announcement, accessed February 2014).

Although the reduced presence of Kodak, Xerox, and Bausch + Lomb in Rochester resulted in significant lost property tax revenue over the decades, the City did avoid both the housing prices bubble and its bursting; in fact, between 2004 and 2012, assessed property values actually increased in Rochester (NYS Comptroller, Rochester Fiscal Profile 2013). But since the median household income (2007-2011) in Rochester is significantly lower (\$30,367) than the New York State median (\$57,683), there are inherent limitations on property taxes as a revenue stream. The City has therefore turned to investing in big commercial projects in order to increase its sales tax base, which at this time is the City's more important source of revenue.

Although some of these projects have experienced setbacks, there have been some positive effects on the local

economy and tax base. Spin-off or start-up firms have acquired some vacant properties of Eastman Kodak, helping the overall local economy. Moody's predicted that growth for Rochester would continue as a result of development and redevelopment, including the College Town Project, the \$200 million in Center City investment, Eastman Business Park activities, Windstream moving to the Midtown Plaza site, and the Port of Rochester project.

Downtown revitalization efforts were a highlight of the 2013 State of the City Address:

*Midtown Rising will see the completion of infrastructure improvements and a return to a street grid with green space and places for people to congregate and parcels for development. Windstream employees will be moving into their new headquarters in the next few months. Work will begin on Midtown Tower, where people and families can live and businesses can set up shop. Elsewhere Downtown you will see action at the RIT Center for Urban Entrepreneurship, the Cox Building and the new Hilton Garden hotel.*

–City of Rochester, 2013 State of the City Address.

The Midtown Rising project itself will rehabilitate nearly 9 acres of the former Midtown Plaza into a mixed-use area designed to attract residents and businesses. The demolition of Midtown Plaza is complete, and reconstruction of the street grid is underway. Another important project is Eastman Business Park, which used to be the main manufacturing location for Eastman Kodak. Similar to Midtown Rising, this project aims to maintain an important economic driver attracting important investments, and also to improve the quality of life of the neighborhood. The College Town project involves the redevelopment of a 14-acre site, including the demolition of all existing structures and construction of a new, mixed-use development. Major businesses will include a new Barnes & Noble, which will serve as the University of Rochester's official campus bookstore, and a Hilton Garden Inn (City of Rochester, College Town Project, accessed November 2013). With the Port of Rochester Marina, the City aims to turn the area into an exciting residential and commercial place.

All these projects have involved wide scale community engagement. These big commercial investments will affect the life of people living nearby, and the City wants to create a better integration between neighborhoods and their businesses (Garwood 2013). In each of these projects, the City has involved community leaders, sharing with them information about the projects, and getting feedback from the community.

## **D: Promotion of Small Business**

As former Mayor Richards stated, “[w]e also help cultivate city business in our neighborhoods, from mom and pop stores to manufacturing facilities. They improve the neighborhood and generate jobs that enhance the community and keep people employed.” (City of Rochester, 2013 State of the City Address.) With its unusually high number of women- and minority-owned businesses, the City actively encourages small business growth. One mechanism is Rochester's “Minority and Women-owned Business Enterprises” (MWBE), through which African American, Hispanic, and women-owned business are awarded a percentage of the total contract amount for each public works project (City of Rochester, MWBE, accessed November 2013).

The Business Accelerator Cooperative (BAC) and Center for Urban Entrepreneurship are joint initiatives of NY Works and the City of Rochester; the BAC will create an interconnected hub-and-node business support infrastructure that will provide needed incubation facilities and extend support services throughout the nine-county Finger Lakes region. New York State awarded \$5 million to the project during the 2011 and 2012 Consolidated Funding Application process. The overall project consists of three main components: the creation of a new hub facility in the City of Rochester that will consolidate the currently fragmented network of support services; the establishment of a region-wide video conferencing system that will better connect the region's entrepreneurs with necessary resources; and the creation of an online entrepreneurial resource center (Finger Lakes Regional Economic Development Council 2011).

Finally, the City is using federal Community Development Block Grant (CDBG) funds to initiate its Focused Investment Strategy (FIS), an innovative project to develop neighborhoods and local businesses, and to improve infrastructure and quality of life. Since 2008, the City has deployed 20 percent of its CDBG allocation, through FIS, with the goal of improving specified neighborhoods in the City within a three- to five-year timeframe. The program is currently targeting four neighborhoods: (1) Marketview Heights (Northeast Quadrant); (2) Dewey Driving Park (Northwest Quadrant); (3) Beechwood (Southeast Quadrant); and (4) Jefferson (Southwest Quadrant). (City of Rochester, Focused Investment Strategy.) The genius of FIS is its comprehensive approach, including all aspects that can make a neighborhood a good place to live. The program focuses not only on infrastructure, but also on the quality of life of individuals and families. In addition, supporting local small business, the FIS offers loan programs, market studies, and the support of local business associations to assist in the development of small businesses (City of Rochester, Focused Investment Strategy, accessed November 2013).

## **E: City and Schools Share Services**

Although both the City and its school district are under significant fiscal stress, they have undertaken to partner wherever possible. Relationships developed during the twenty-seven years RCSD Chief Financial Officer William Ansbrow worked for the City (eleven of them as the City's Budget Director) have facilitated that partnership effort (Ansbrow 2013). These initiatives have included:

- **Facility Modernization Plan**—The City and School District have set up a Joint School Construction Board, authorized to undertake \$325 million in building projects to renovate RCSD schools. Importantly, the debt for these projects will be issued by the Monroe County Industrial Development Agency, and so will not further constrain the City's constitutional debt limit (Comptroller, Rochester Fiscal Profile 2013). This Board can now finance very significant and necessary improvements to RCSD buildings; the state will reimburse 93 to 98 percent of funds expended for improvements to buildings such that the net cost to the District is 2 to 7 cents on the dollar (Ansbrow 2013; Wagner 2013).

- **Fueling stations**—The City's fire department was faced with upgrading its fueling stations at a number of its firehouses, expected to be cost prohibitive in light of federal Environmental Protection Agency standards. The school district and the City agreed that the firehouses would use school bus fueling stations. RCSD charges a small administrative fee for billing, resulting in savings for the city, and no net cost to RCSD.
- **Equipment loans**—During last summer's heat wave, the City provided a number of industrial-sized fans to ventilate not-yet-renovated school buildings in which summer school classes were being held; these were equipment belonging to the City's fire department, but not in use at the time (Ansbrow 2013).
- **City infrastructure accommodations**—Registering their children for school is generally parents' first experience with the school district. Recognizing the importance of that first contact, RCSD moved its placement office to an upgraded building downtown, but without adequate parking for the surge of visitors during registration (mid-August to mid-September). The City cooperated by bagging parking meters on the street, dedicating them to parent parking. RCSD paid the City a small sum (about \$2,000) for lost revenue from the parking meters, while the District could provide better customer service by ensuring parents easy access to a good building everyone could be proud of (Ansbrow 2013).
- **Shared facilities use**—
  - The City now owns a soccer stadium on which the previous owner, a private entity, defaulted. RCSD now holds 20 to 30 soccer games per year at the stadium, paying the City \$500 per use. From the District's perspective, this is a great experience for the young athletes and their families, while providing the City some revenue from the facility (Ansbrow 2013).
  - The City is co-locating neighborhood amenities and school sites wherever possible. For example, the Thomas P. Ryan Center houses a school, a recreation center, a library, and summer breakfast and lunch programs (City of Rochester, Ryan Community Center, accessed November 2013).

# 4

## Conclusion

There is a solid contingent of those who live, work and raise their families in the City of Rochester who have great optimism about their city's future<sup>16</sup>. They appreciate the influx of entrepreneurs, and young families, who have come to recover or plant their roots, to purchase first homes at affordable prices, to raise their children in a diverse and culture-rich city, to start and grow businesses. They take heart from the thriving Public Market and its 40,000 visitors per weekend, and take pride in the City's master-planning investment in it. They see positive results in the neighborhoods targeted by the Focused Investment Strategy, and celebrate the dedication of the new school superintendent's commitment to Rochester's children. They appreciate the City's responsible fiscal conservatism, balanced by careful listening to the residents in the neighborhoods about how to trim and prune City expenses while preserving the amenities that most contribute to residents' quality of life. They see their City revitalizing before their eyes. Now they ask, will the City continue to thread the needle of maintaining City services, practicing fiscal conservatism, and nurturing Rochester's evolution into its next incarnation as the region's most important city?



Rochester's Public Market

<sup>16</sup>Telephone interviews, November 13, 2013.

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