Overview

The City of Rochester in Monroe County is the third largest city in the State with a population of 210,505 in 2010. Like most other upstate cities, Rochester has experienced challenges stemming from long-term population loss (37 percent from 1950 to 2010) and decline of key industry.

Eastman Kodak, once a major local provider of relatively high paying jobs, declared bankruptcy in January 2012. The company’s decision to locate its headquarters in the City, once helped stabilize the local tax base. However, the company has been selling off some of its local properties to new spin-off firms in the high-tech area, potentially limiting the effect of Kodak-related job losses.

Like Buffalo, Syracuse and Yonkers, Rochester has a dependent city school district. Because the City must raise property taxes and issue debt on behalf of the school district, the City has exhausted 74.9 percent and 60.8 percent of its constitutional tax and debt limits, respectively, limiting its flexibility to raise revenue from these sources.

The City projects large and growing budget gaps in its 2013-14 through 2017-18 fiscal years. Absent significant spending cuts or increasing revenues, the gaps could cause the City to exhaust its available fund balance within the next two fiscal years.

- The City’s unemployment rate was 9.8 percent in November 2012 (compared to the statewide rate of 7.9 percent) and has been persistently in the range from 9.4 to 11.9 percent since the beginning of 2009.

- Rochester has exhausted 74.9 percent and 60.8 percent of its constitutional tax and debt limits, respectively, limiting its flexibility to raise revenue from these sources.

- Property values increased at a modest 1.9 percent average annual pace from 2001 to 2011.

- Revenues grew at an average annual rate of 3.6 percent from 2001 to 2011, compared to an average growth rate of 3.4 percent for all cities in the State.

- From 2001 to 2011 State aid doubled, growing at an average annual rate of 7.2 percent. In 2011, it accounted for 23 percent of total City revenues—second only to the sales tax, which comprised 26 percent.
Population and Economic Factors

Rochester's population declined by 37 percent from 1950 to 2010. However, the City is the center of a metropolitan area of over one million people, which has seen slow but steady population growth over the last few decades.

Rochester has the highest percentage of families living in poverty of any city in the State, at 25.8 percent, much higher than the State average of 10.8 percent.¹

The City’s unemployment rate was 9.8 percent in November 2012, and has been persistently in the range of 9.4 to 11.9 percent since early 2009. This is significantly higher than the statewide rate of 7.9 percent and 8.1 percent for Monroe County, which includes the City and all of its major suburbs.

Tax Base

Rochester did not benefit from the acceleration in housing values before the latest recession, nor did the City suffer from the collapse in home prices afterwards. Full value assessment in the City has increased at a modest 1.9 percent average annual pace from 2001 to 2011. The City is at 74.9 percent of its Constitutional Tax Limit, a level that can be indicative of future fiscal stress particularly because the City must continue to direct a relatively large portion of its levy to the school district. Only 29.5 percent of property in the City is tax exempt, lower than 32 percent for the median city.²

Rochester lost one of the most stable parts of its tax base when Eastman Kodak began to reduce its City operations. Some of the Eastman Kodak properties have been demolished. However, some of its former Eastman Kodak properties have been acquired by spin-off or start-up firms. This has not only reduced the impact on the property tax base, but also helped the overall local economy. The City government has been actively involved in developing and redeveloping properties such as sports stadiums and the former Midtown Mall. While some of these projects have experienced set-backs and incurred unexpected costs, there have been some positive effects on the local economy and City tax base.

¹ American Community Survey, 5-year estimates, 2006-2010.
² Throughout this report, references to all cities or median city exclude New York City.
Revenues and Expenditures

The City's revenues grew at an average annual rate of 3.6 percent from 2001 to 2011, compared to an average growth rate of 3.4 percent for all cities in the State.³

The City has a heavy reliance on the frequently volatile sales tax, which accounts for 26 percent of its revenues, compared to only 19 percent for all cities in the State and 21 percent for the “Big Four” cities (cities that have dependent school districts – not including New York City, namely Buffalo, Rochester, Syracuse and Yonkers). The City receives a share of Monroe County’s four percent sales tax in accordance with a complex sharing formula established by special act.⁴ Currently the City receives about 31.6 percent of the County’s sales tax collections.

State aid represents the second largest revenue source (23 percent) but is largely beyond the City’s control. However, from 2001 to 2011 State aid doubled, growing at an average annual rate of 7.2 percent. Aid and Incentives for Municipalities (AIM) payments (which represent the majority of State aid for cities) have been in decline for a number of years. Between State fiscal years 2008-09 and 2012-13, AIM funding for cities has decreased by $43.7 million. Rochester alone lost $6.5 million in AIM during the period.

Real property tax related revenues accounted for only 11 percent of the City’s revenue, compared to 26 percent for all cities in the State and 16 percent for the Big Four cities.

The Rochester City School District is a dependent school district. Its revenues totaled $682 million in 2011, over 30 percent more than the City’s non-school revenues. Currently the City transfers a fixed amount of the property tax levy, $119.1 million, to the school district.⁵ This accounts for about two-thirds of the total City levy. Combined, City and school district property taxes make up only 14.5 percent of total revenues, still significantly less than the 26 percent average for all cities in the State.

The City’s expenditures grew at an average annual rate of 3.7 percent between 2001 and 2011, compared to 3.4 percent for all cities. Like most cities, Rochester’s expenditures are dominated by a combination of general government (operations and administration, etc.), public safety (police and fire, etc.), and employee benefits costs (health insurance and pension contributions, etc.), which together comprise more than 70 percent of expenditures, although general government expenditures comprise a greater share of total expenditures (23.6 percent) compared to the average for all cities (14.1 percent).

³ Preliminary 2012 financial data is available for Rochester. However, for comparative purposes this report will use data from 2001 to 2011.
⁴ Tax Law sections 1262 and 1262-g.
⁵ The City is generally required to provide at least this much of its property tax levy to the school district, i.e. “maintenance of effort,” Education Law, section 2576 (5-b).
The City School District’s expenditures increased at an annual rate of 4.0 percent, on average, between the 1999-2000 and 2009-10 school years. However, the rate of spending actually declined between the 2009-10 and 2010-11 school years by $6.4 million, or 0.9 percent, largely driven by reductions in operations, judgements, social services and debt service costs.

Employee benefits are the fastest growing segment of the City’s and the School District’s expenditures, growing at an average annual rate of 9.7 and 8.1 percent, respectively over the decade. The rate of growth for employee benefits for all cities was 9.0 percent.

From 2001 to 2011, City expenditures for general government increased by 5.3 percent and by 3.7 percent for public safety, compared to 2.9 percent and 2.9 percent, respectively for all cities.

### Current and Projected Budget Situation

Rochester’s initial estimates for fiscal year 2012-13 showed a $40.2 million gap between revenues and expenditures in All Funds, due to increases in pension and health insurance costs, capital expenditures, and a planned one percent increase in wages for all employees. The City received a one-time “spin-up” of State aid that closed $15.4 million of this gap. According to the City’s plan, the remainder was closed by reduced retirement costs due to a prior year retirement incentive, a reduction in capital spending, an increase in expected sales tax revenues due to stronger growth, fee increases, use of reserves and other spending cuts.

The City has issued general revenue and expenditure projections through fiscal year 2017-18 that show growing budget gaps in the General Fund and in All Funds. Recent updates to the City’s projections, reflecting various management actions and decisions, are expected to reduce the size of estimated gaps. The projected budget gaps are counterbalanced in part by fund balances. The balance in the City’s General Fund was $65.8 million in 2012, equal to 15 percent of general fund revenues. Absent any other spending actions, increased revenues and use of reserve funds, it is possible that Rochester could deplete its General Fund balance by fiscal year 2014-15, depending on the accuracy of the projections.

The City receives $419 in AIM on a per capita, basis, while the other three Big Four cities, on average, receive $566 per capita. If Rochester’s share of AIM were equal to that average, this would have amounted to an additional $31 million annually, which would go a long way towards closing the recent budget gaps the City has been projecting.

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6 A “spin-up” is an accelerated payment of State aid that was scheduled to be paid in a later year.

**Bond Ratings and Debt**

Moody’s has given Rochester a municipal bond rating of Aa3 – indicating high quality and very low credit risk – citing its “satisfactory financial position despite persistent economic challenges and an above average debt burden.” Moody’s notes the City and School District’s conservative financial management and rapid debt repayment policy while finding the City’s relatively high unemployment rate troubling. The City frequently issued debt and has a history of good market access.

Standard & Poor’s (S&P) gave the City an A+ rating in January 2013 – indicating a strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. S&P’s analysts cited the City’s stable financial operations, conservative management, role as a regional center, and (in contrast to Moody’s) its manageable debt burden. However, they also noted concerns over the City’s low wealth and income, the State-imposed levy limit and its high unemployment rate.

Despite Moody’s concern over Rochester’s debt burden, debt service costs for the City are only 4.6 percent of revenues, significantly lower than the 8.2 percent average for all cities in the State and the 7.5 average for the Big Four cities. Debt issued for School District purposes, however, represents a significant burden. The City and School District have recently set up a Joint School Construction Board, currently authorized to undertake $325 million in building projects to renovate schools.

Rochester had outstanding debt of $367 million at the end of 2011, and had exhausted 60.8 percent of its Constitutional Debt Limit by 2011. This is a higher level of debt limit exhausted than the average city in the State, and highest of the Big Four cities. The borrowing for projects of the Joint School Construction Board does not count against the Constitutional Debt Limit, as it will be issued by the Monroe County Industrial Development Agency.
### Rochester vs. All Cities and New York State

**Population 2010: 210,565**

<table>
<thead>
<tr>
<th>Demographic Indicators</th>
<th>City of Rochester</th>
<th>All Cities (excluding NYC)</th>
<th>New York State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent Change in Population 1950-2010</td>
<td>-37%</td>
<td>-20%</td>
<td>-25%</td>
</tr>
<tr>
<td>Median Household Income, 2010</td>
<td>$30,138</td>
<td>$37,607</td>
<td>N/A</td>
</tr>
<tr>
<td>Percentage of Families in Poverty 2010</td>
<td>25.8%</td>
<td>13.7%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Unemployment Rate November 2012</td>
<td>9.8%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Property Value Indicators</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Home Value 2010</td>
<td>$73,600</td>
<td>$96,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Percent Change in Full Value 2007-2011</td>
<td>12.5%</td>
<td>11.6%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Owner-Occupied Housing Units 2010</td>
<td>37.7%</td>
<td>49.5%</td>
<td>45.4%</td>
</tr>
<tr>
<td>Property Vacancy Rate 2010</td>
<td>10.4%</td>
<td>9.2%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Percentage of Property Value That is Tax Exempt 2010</td>
<td>29.5%</td>
<td>32.0%</td>
<td>34.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue and Tax Indicators</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State Revenue Sharing Aid (AIM) per Capita SFY 2012-13</td>
<td>$419.04</td>
<td>$146.80</td>
<td>$289.50</td>
</tr>
<tr>
<td>Tax Limit Exhausted 2012</td>
<td>75%</td>
<td>44%</td>
<td>N/A</td>
</tr>
<tr>
<td>GF Unreserved Fund Balance as a % of Revenue 2007</td>
<td>2.8%</td>
<td>13.1%</td>
<td>15.7%</td>
</tr>
<tr>
<td>GF Unreserved Fund Balance as a % of Revenue 2011</td>
<td>6.6%</td>
<td>10.1%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, American Community Survey, 5-year estimates, 2006-2010 and 2010 Census; Department of Taxation and Finance; New York State Labor Department; Office of the State Comptroller.
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Andrew A. SanFilippo, Executive Deputy Comptroller

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Mailing Address for all of the above:
Office of the State Comptroller,
110 State St., Albany, New York 12236
email: localgov@osc.state.ny.us
Andrew A. SanFilippo, Executive Deputy Comptroller

Steven J. Hancox, Deputy Comptroller (518) 474-4037

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