

ISSUER COMMENT

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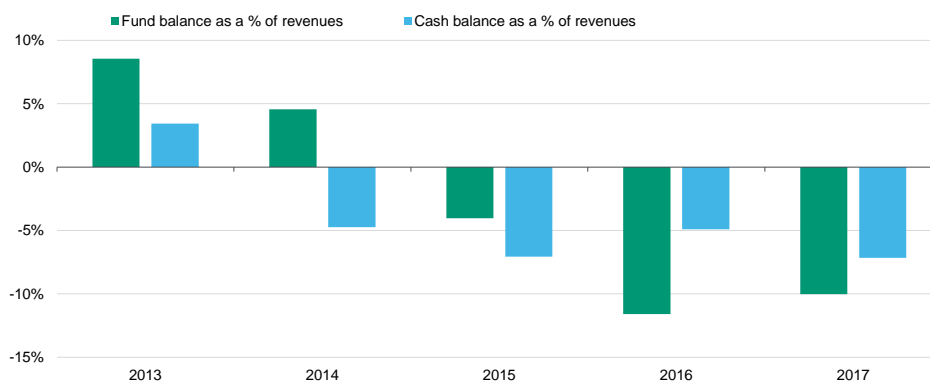
Elmira (City of) NY

City-county committee proposals are positive but fall short of a complete solution to Elmira's financial woes

On August 6, a special joint committee of the [City of Elmira](#) (Ba3 stable) and [Chemung County](#) (A1) published a series of recommendations designed to improve Elmira's weak finances. The plan proposes both revenue enhancements and expenditure reduction measures, both potentially credit positive. However, although there is detailed analysis on several specific points, most notably on various sales tax options, the plan does not present a complete solution to the city's unbalanced financial operations, which have led to negative cash and available fund balances. In addition, the committee has no actual authority to enact any of its suggestions; the city and county may take all, none or only some of the suggestions at their own discretion.

Elmira's parlous financial position has been caused by economic deterioration and historically overoptimistic revenue budgeting. As seen in Exhibit 1, the city's fund balance and net cash are both negative.

Exhibit 1
Elmira's finances remain in a parlous state



Cash is net of cash flow notes.

Source: Elmira audited financial statements

The report proposes a multipronged approach with 10 specific recommendations. The most notable is a reallocation of the county sales tax to increase the proportion shared with Elmira. This recommendation actually has three different alternatives with slightly different outcomes. The first two options include increases to the tax rate while the third only changes the distribution. The committee estimates that the first and second scenarios (which involve raising the sales tax rate) would yield incremental revenue to the city of \$915,553 or \$1.4 million respectively. The third scenario has no tax increase but redistributes the money

currently collected to give the city an extra \$1.2 million in the first year and smaller amounts in subsequent years. The plan also recommends that this money be dedicated to repayment of the city's short-term debt consisting of \$5 million in Tax Anticipation Notes and \$3.5 million in Bond Anticipation Notes.

Regardless of the specific scenario, the proposal has potential benefits for the city. For other municipalities, however, the third scenario could have negative consequences. Although the plan assumes some sales tax increase, the bulk of the money Elmira gains will come at the expense of other municipalities in the county. Of greater concern to Elmira, the plan also requires that during the term of the agreement, city budgets must show an annual surplus without including the additional sales tax revenue, requiring that "the city exercise strict adherence to the budgets." The city's financial history suggests this is a difficult objective. Furthermore, it will be even more difficult to accomplish this in light of another committee recommendation that the city reduce its debt burden.

Other recommendations would have lesser, but still material impacts. For example, the committee recommended transferring responsibility for several bridges to the county. While this would have no immediate impact, it would lead to savings when the bridges next need maintenance. The plan also calls for switching the single-price sanitation fee to a per-bag fee, which would increase fairness relative to the flat fee currently used. The financial impact of such a move is uncertain. In addition, the reports calls for exploring privatization of the system.

More substantively, the report calls for increasing the hotel room tax to 5% from 4% and coming to terms with Airbnb, two steps which would lead to \$186,000 in increased revenue for the county, a portion of which would be used to pay for various activities currently covered by the city, such as providing operating assistance to the Woodlawn Cemetery.

Several recommendations fall into the generic category of "shared services." While the city and county have shared various services in the past, the report proposes exploring additional opportunities, including in the areas of financial services and public safety. Such recommendations, while potentially sound, are still at an aspirational phase of planning and development.

The City of Elmira is located in Chemung County in the Southern Tier region of New York State, adjacent to [Pennsylvania](#) (Aa3 stable). Until the 1970s the region was home to a significant number of manufacturing plants that provided secure sources of employment and stability to the tax base. In the early 1980s and 1990s, however, many of those businesses left the area leading to a marked decline in population and resident wealth and incomes.

In recent years, the city benefited from hydrofracking in the Marcellus Shale across the border in Pennsylvania, which led to increased commerce and economic activity in Elmira's downtown corridor. Extraction efforts have declined resulting in reduced business activity throughout the region. The city is currently working with the state on a number of economic development projects that they hope will revitalize the city and increase economic vitality going forward. Fracking is currently banned in [New York](#) (Aa1 stable).

Favorably, the city can request a cash advance against future property taxes. Although the city must repay the advances, the county allows great flexibility in repayment and would pay the city for any uncollected taxes in exchange for liens on the relevant properties. The city has not requested such an advance in 2019.

The committee's plan, by laying out potential areas for city and county cooperation, serves as an early step in solving Elmira's long-term issues. As with all such documents, however, the devil is in the details and implementation is key. Given the city's financial straits, time is not unlimited.

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