

**APPROVED MINUTES** of the Special Meeting of the City Council of the City of Rye held in City Hall on June 14, 2010, at 7:30 P.M.

PRESENT:

DOUGLAS FRENCH Mayor  
RICHARD FILIPPI  
PAULA J. GAMACHE  
PETER JOVANOVICH  
SUZANNA KEITH  
CATHERINE F. PARKER  
JOSEPH A. SACK  
Councilmembers

ABSENT: None

1. Pledge of Allegiance

Mayor French called the meeting to order and invited the Council to join in the Pledge of Allegiance.

2. Roll Call

Mayor French asked the City Clerk to call the roll; a quorum was present to conduct official city business.

Mayor French said that the subject of this meeting is to look at 2011 finances. Three months ago the Comptroller and City Manager were asked to take an early look at next year's budget. It is the start of a process of shared sacrifice between taxes and levels of service. Levels of service cannot be maintained with a 0% tax increase. The City also has many obligations it is trying to fund, but does not have a surplus to spend on capital projects as in the past.

3. Report from the Auditing firm of O'Connor Davies Munns & Dobbins on the 2009 Audit

Scott Oling of the firm of O'Connor Davies Munns & Dobbins presented the results of the audit of the City's fiscal year that ended December 31, 2009. The auditors' opinion was an unqualified opinion, which is the highest form of assurance that an auditor provides their client. It says that they believe that the financial statements fairly present the results of operations for the City for the fiscal year 2009. The primary focus of the presentation was the General Fund, which is the primary operating fund of the City. Even though the City budgets conservatively for revenues, 2009 revenues came in \$425,000 less than the budgeted amount of \$28.8 million. The economically sensitive revenues (sales tax and hotel tax) came in short and were significantly down from 2008. Interest earnings fell by about \$300,000 and it is not expected that 2010 interest earnings will be much better. Building permits dropped off by \$158,000. The

major drop in revenue was in mortgage tax receipts, which dropped by over \$700,000 due to the drop in home prices and less activity in home sales. The total of these figures represents a drop of about \$1.4 million in revenue from 2008 or over 5% of the budget. The City achieved savings in expenses, which offset the drop in revenues, by reducing seasonal salaries by \$100,000; tax certiorari settlements were \$230,000 less than in 2008 but this will probably not repeat in 2010; retirement contributions for the City were down \$80,000 but will go up substantially for the foreseeable future; health insurance dropped by about \$750,000 as a result of a switch in insurance companies but it is expected that insurance premiums will increase this year by 25%. The City's expenses exceeded revenues for 2009 by about \$1.1 million in the General Fund. The City had anticipated this when adopting the 2009 budget and used Fund Balance to make up the difference. Fund Balance is the difference between assets and liabilities. In two years the Fund Balance has declined from \$13.3 to \$9.8 million or by 25%. The \$9.8 million is divided as follows: \$257,000 for encumbrances; \$413,000 for pre-paid expenditures; \$1.2 million for compensated absences; \$413,000 for long-term receivables; \$834,000 for workers compensation obligations; and the remainder of \$6.7 million is unreserved Fund Balance which is broken down into various projects and improvements approved by Council action. In adopting the 2010 budget \$1.3 million of the unreserved Fund Balance was used to reduce the tax rate. Another \$2 million is set aside for tax certiorari obligations. The free and clear Fund Balance is the amount left after all the reductions, and totals \$2.7 million or 9% of the General Fund budget. He concluded by saying the City is still in a decently strong Fund Balance position and the question is how much of the balance will be depleted as the City works through difficult economic times.

Mr. Oling also said that each year they are required to issue a "Management Comment Letter" on areas that they found could be improved. They did not deem any deficiencies found to be significant. The main focus this year was on the Golf Club Fund. They made recommendations regarding tightening the bidding process and suggested that they could have a better handle on inventory items. He also noted that the City has issues related to cash flow from awaited reimbursements, and said that if money the City fronted for the purchase of the Bird House was not received it will have an impact on the General Fund, which would require restricting the Fund Balance.

Questions and comments from the Council and Finance Committee included:

- How does the City compare with other municipalities in Westchester regarding cash flow issues? (Cash flow issues are unique to each municipality. The City had several events this year that required that cash be advanced. This is the first time the auditors have seen the City of Rye have the type of cash flow issues it is facing.)
- How will the Golf Club enact the practice changes suggested by the auditors report? (The Finance Department is working on revising the City's purchasing policy which has not been revised in years. Changing inventory procedures comes down to resources and having the manpower to do it every month.)
- Will tighter controls have to be put into place due to reduced staffing? (It is a concern and is being considered. There comes a point when internal controls cannot be maintained if staff is further reduced.)
- Is 9% in Fund Balance similar to other municipalities? (It varies depending on the needs of the community.)

- First quarter sales tax figures are up and real estate sales seem to be trending upwards.
- Are cities required to budget for a balanced budget? (Fund balance can be used to balance the budget.)

4. Preliminary 2011 Budget Overview

City Comptroller Jean Gribbins began her presentation with an update on the City's financial position through May 31<sup>st</sup>. The City continues to enjoy a high tax collection rate, with only 1% of City taxes uncollected as of June 1<sup>st</sup>. Sales tax and mortgage tax revenues and hotel occupancy and utilities gross receipts tax collections are on line to come in as budgeted, with mortgage tax receipts possibly \$10,000 over.

In connection with the 2011 budget she said that the new reality is that although the City has been conservative in estimating budgeted revenues, they have fallen short and over the past few years City expenses have been trimmed to bare bones levels. In order to further reduce expenses, service levels will have to be reduced. The 2010 budget reduced expenditures over \$700,000 from the 2009 budget, but there are inherent increases in 2011 from 2010. They include:

- Health insurance premiums are expected to increase at a rate of about 25% per year over the next three years in reaction to the recent legislation. For 2011 the increased rates will increase the City's costs by \$948,000, which is equivalent to a 5% increase in the tax rate.
- An increase of 25% is estimated for the New York State Retirement System. This would increase the City's contribution by \$417,000, which equals a 2.2% increase in the tax rate.
- As of June 2<sup>nd</sup> the City's assessed valuation has decreased over \$443,000 from the amount used to prepare the 2010 budget. Many grievances have been filed and the Assessor will not have a final assessed valuation until all grievances have been ruled on in September.
- Salary increases of 2% are factored into the 2011 budget which would add 1.29% to the tax rate.
- In the 2010 budget the City used \$99,750 of Debt Service Fund Balance to keep the tax rate low. There is only \$21,144 of this balance left to use for 2011 debt and then there is no balance available for use in 2012 and beyond. A 1.11% tax increase is needed to cover 2011 debt service.
- The total increase in expenses would equal a 10.1% increase in the tax rate.

Ms. Gribbins then presented options that could offset the tax increase:

- Require the Recreation Department to generate an additional \$380,000 in revenues and cost savings. This would increase Recreation cost recovery to 50% and offset the tax increase by 2%. This option would involve restructuring the Department and would result in fewer programs being offered in 2011 and higher fees for participants in all programs.

- Reduce the funding to the Rye Free Reading Room by \$190,000, which would generate a savings of 1%.
- Doubling the fees for all parking permits and parking meters could generate enough revenue to reduce the tax rate up to 3%.
- Reprogram the existing refuse collection schedule by changing the times and days of collection, which could result in a savings of 1.5%.
- Ask the Golf Club to contribute an additional \$95,000 to the General Fund. This would reduce the tax rate by .5%, but would probably require an increase in member dues.
- If the debt on the 1037 Boston Post Road building is paid by December 31<sup>st</sup>, it will save the City \$192,000 of interest expense for 2011.
- If the City can reorganize uniformed services it could save \$150,000 in the 2011 budget and allow for the hiring of two additional police officers.

If all of the reductions in services and personnel presented are implemented it could help the City achieve a target of a zero to five percent tax increase. Ms. Gribbins said it was important to evaluate the sustainability of each option because they may work for a short period of time but may not be sustainable long-term. The Council should also begin considering long-term options such as consolidating police services and fire services with other municipalities and moving toward a single membership dues model for the Golf Club when it is looking at the economic sustainability of the City for the future. She also advised the Council that it was imperative that the Council reach a decision on the proposed options by the June 28<sup>th</sup> meeting in order to provide direction to City staff for preparing the 2011 budget.

Questions and comments from the Council included:

- Will there be any capital investment in 2011? (No)
- The Finance Committee should review the City's debt policy.
- By talking about expenses and not revenues we are not looking at a complete picture and that makes it difficult for the Council to make a decision.
- What happens to the capital projects that were budgeted for 2010 and were put on hold? (A presentation will be made on July 26<sup>th</sup> about capital projects, but many projects may remain on hold.)
- Does restructuring of departments mean loss of jobs? (Yes, possibly six more people from the current number of positions.)
- How did the City get into a "cash crunch" and why does it mean there is no money for capital projects in 2011? (The budget is designed to cover expenses with the money it collects but as fund balance is spent and money is laid out, the City is starting with less than \$0. When there is a revenue surplus it funds the next year's capital projects but when there is no surplus there is no money left to pay for capital projects. For the last few years Fund Balance has been used to pay for capital projects.)
- Could reimbursement money for the Elm Place Wall or Bird Homestead be used for capital projects instead of paying off 1037 Boston Post Road? (Not paying the balloon payment on 1037 Boston Post Road would probably increase next year's tax rate by 2 %.)
- Is the projected increase in health insurance costs based on current labor contracts, or can it be changed through the renegotiation process? (It would have to go through the contract process in order to make any modifications.)

- Are there more options available than those presented that the Council could also consider? (Many things were looked at but these were considered the best options. The City is already operating at 7.5% less staffing than two years ago and more reductions could cause internal control issues as raised by the auditors. In the current environment a 0% tax increase is probably too big a reach. The biggest option left off the table was the 414 option for funding the library, which would require a referendum.)
- The Council must look at restructuring and long-term options.
- What impact would curb-side garbage pick-up have? (It might reduce another three jobs and double the savings but in order to do it correctly, the equipment should be replaced.)
- If the City were able to obtain grant money for capital projects would we be allowed to advance the money if we had the cash? (The Charter makes it difficult to easily raise money through bonding and sources of grant money are drying up.)
- If certain projects were not done could it become a legal issue? (Defective infrastructure can become a liability. Certain capital projects like street resurfacing should be done every year.)
- Would it make sense to bring back the Financial Trends Report? (It was only used to look backward. It would be more useful to discover a way of forecasting going forward but the City does not have the resources to do it now.)

Questions and comments by members of the Finance Committee included:

- What is the difference between a permissive and mandatory referendum? (In a permissive referendum the City Council can take action but if a petition is submitted by a certain number of residents within a limited timeframe, it must go to an election. A mandatory referendum must be on the ballot.)
- The Golf Club has a lot of cash, have we considered borrowing from them? (It is anticipated that the fifth payment on 1037 Boston Post Road will be made that way, but the General Fund is required by law to pay market rate interest to the Golf Club for any money it borrows.)
- Since tax delinquency rates are no higher this year than last year, is there any reason to believe the public would object to an increase in taxes to pay for services.
- How is the rate paid to the Golf Club for borrowing money determined: (It is based on what they would have earned on the money in their account.)
- Could the 2% salary increases be deferred for another year? (There were no allowances for raises in the 2010 budget but that has not been agreed to by the bargaining units. The 2% figure would allow for 2% increases across the board assuming there were no increases in 2010. Some employees have already received a cut in pay due to the increase in health care premiums.)
- Can the assumption that union agreements will keep expenses flat be discussed in more detail? (The 2010 budget does not provide for any salary increases. If there are increases that were not anticipated, it will have to be accommodated within the personnel lines.)
- Are there any revenue assumptions other than State aid, FEMA reimbursement and flat elastic revenues? (It is anticipated that everything will hold flat. If the reimbursement for the Bird Homestead does not come in, it is cash that the City does not have and will become an expense.)

- Is there an opportunity for cost savings by a more restrictive overtime policy? (Overtime depends largely on things that are out of the City's control, like weather.)
- Is the 25% pension increase for 2011 expected to continue in 2012? (It is expected that it will go up, but it is not known by how much. The performance of the retirement fund is dependent on the stock market.)
- The City changed from an administrative services health plan to a premium plan and the premiums are not projected to double in three years. Has there been any consideration of going back to an administrative services contract? (There is concern that the consortium that provides the administrative services plan will not be viable going forward.)

At the end of the presentation Anne Stillman of the Committee to Save the Bird Homestead said she wanted to provide an update on the outstanding grants for the property. She said everything is moving forward. The City has received draft contracts for the \$200,000 grant from Westchester County and the \$350,000 grant from the NYS Office of Parks Recreation and Historic Preservation. The NYS Office of Budget has approved going to contract for a \$200,000 grant from the Long Island Sound Stewardship Fund that will be administered by the Department of Environmental Conservation. The final grant is for \$250,000 that was obtained through Assemblyman Latimer and will be administered by the Dormitory Authority and the paperwork has been processed to prepare the contract.

5. Adjournment

There being no further business to discuss, Mayor French adjourned the meeting at 9:27 p.m.

Respectfully submitted,

Dawn F. Nodarse  
City Clerk