The City of Poughkeepsie
New York

John C. Tkazyik
Mayor

March 1, 2010

CITY OF POUGHKEEPSIE
CITY CLERK'S OFFICE
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Hon. Lee David Klein, Chairman
Members of the Common Council
City Hall
62 Civic Center Plaza
Poughkeepsie, New York 12601

Re: March 1, 2010 Financial Report

Dear Chairman Klein and Members of the Common Council:

Pursuant to Article III, Section 3.01(h) of the Charter of the City of Poughkeepsie, I hereby submit to you my report on the financial condition of the City. My report consists of both this narrative, which highlights significant issues, as well as the customary detailed reports and graphs.

Overview

The fiscal year 2009 was the most challenging financial period for the City of Poughkeepsie in many decades. The sales tax revenue was down 7% from 2008. The mortgage tax collection declined by 36%. Although the property tax collection was slightly higher by over $20,000, this was the result of a higher number of foreclosures and property tax lien sales. The City's expenses outpaced the revenue receipts.

The overall financial condition of the City is best measured by consolidating its three major funds: General, Water, and Sewer funds. The General Fund's revenues recorded an approximate $494,818 shortfall in relation to the budget. The decrease in sales tax collection and diminished mortgage tax receipts were the primary reasons for this shortfall. Our 2009 expenditures improved compared to the 2008 actual results with expenses coming in at $217,320 less. Despite the pressures of the revenue shortage in the General Fund, the total fund balance currently stands at $597,065. The consolidated total fund balance (General, Water & Sewer) for our City decreased from $2,010,519 to $542,421 or $940,732 including the Parking Fund balance. (Please refer to Exhibit A).

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The General Fund total fund balance is at $597,065. The Water Fund total fund balance stands at ($376,162). Although the Water Fund is at a negative fund balance, it is positively improving from the negative ($470,355) in 2007. The City had made strides in reviewing past audits to make the necessary adjustments for the losses. In 2009, we saw the Sewer Fund balance decrease by $227,923 due to repairs. The fund balance has a 2009 projected surplus of $407,892 and has been at surplus position since 2007. Our strategy is to build a reasonable bottom line to help address the sewer infrastructure needs of the City. This fund had been in the negative territory through the year 2006. Exhibit B tracks the total fund balance by fund from 2000 to 2009.

General Fund

The 2007 total fund balance was audited at $4,556,180. The audited financials for 2008 reflected a fund balance of $1,534,506. The City appropriated $960,000 of the 2008 fund balance for the 2009 budget to reduce our residents' tax burden. The City had the goal of protecting the total fund balance that it had appropriated for the 2009 budget. In 2010, the City's budget reflected the moving of the Parking Fund into the General Fund. Most surrounding municipalities account for the Parking Fund within their General Fund. This move will help to reinforce both the revenues and fund balance. Moving the Parking Fund into the General Fund would start the City with a total fund balance of $909,002.

Sales tax revenues in 2009 decreased by over 7% compared to the 2008 year's actual and also declined 8% compared to the 2008 budget as we continued to feel the effects of Dutchess County's decision to continue the sales tax reduction on clothing & shoes under $110; as well as the continued deterioration of the economy. The Dutchess County legislature recently repealed the clothing tax exemption and is effective in March 2010. Our 2009 sales tax receipts were down compared to 2008 actual by over $848,340 and short to our 2009 budget by $825,890. Sales tax revenues remain a major source of our City's revenues at 27% of total and accurate forecasting of these revenues is vital. It also remains essential to ensure that the base from which these revenues are derived does not continue to erode with future exemptions and continuing erosion of consumer confidence (Exhibit C). Had the negative impact that transpired not occurred, our sales tax revenues would have approached the threshold of $11,500,000 in the year 2009.

Our New York State Aid remained steady at $4.6 million. The supplemental Cities Aid received in 2007 and earmarked to stabilize the 2008 tax levy was combined with vital State Mandated Multi-year Plan (AIM), producing the revenues to help offset any budget shortfall. The end of 2009 saw the Governor withhold $464,000 of the aid to help the state's cash flow problems. Although this was released for payment in late January, the Governor's current budget proposes a cut of over $242,000, which is included in the 2010 budget and subject to a dramatic increase should New York City not give up their share of the state aid.

We are now in our fourth year after completing and implementing a Full Market Value assessment. The July 1, 2009 assessment roll (used for our 2010 rate) reflected a 5% decrease in value of $2,224,256,860 from $2,340,693,315 (please refer to Exhibit D). The

revaluation led to the following corresponding tax rates $7.07 per $1,000 of FMV for Homestead and $8.96 per $1,000 of FMV non-Homestead.

The General Fund budget appropriation had increased annually for the prior 14 years (year 1996 - year 2009). The growth had averaged 4.76% (please refer to Exhibits E & F). The 2009 and 2010 budgets saw the first decreases in appropriations of $1.5 million and $1 million respectively. Our adopted 2010 tax levy increase reflects a 0.44% increase, demonstrating a continued strong commitment to providing low taxes to our property taxpayers.

The role of the fund balance is to mitigate the size of our tax increases when other revenues decrease, typically during cyclical downturns in the economy. I cannot emphasize enough the fiscal value of maintaining a proper fund balance for the future of our City. In preparing for the 2010 budget we were able to direct the prudent use of $1,111,346 of fund balance as revenue. Failure to do so would have unduly burdened already besieged taxpaying residents.

Water Fund

The City of Poughkeepsie had an audited negative fund balance of ($470,355) in 2007. Although 2008 projected a continuing loss in fund balance, the research work with the auditors and the increased diligence in operations saw the 2008 fund balance reduced to a negative ($198,202). This is a decrease of over $272,153. The 2009 fund balance is projected to be at ($376,162) which increased by over $177,960. This ongoing concern of negative fund balances in the last several years forced the City to raise the 2010 water rate to $2.59 per 100cf of water usage. This is the first raise since 2005. The water rate increase of 17 cents can produce revenue of around $200,000 to help reduce the fund balance.

The early retirement of the Assistant Civil Engineer (Water Fund) helps reduce the salaries and benefits by around $45,000 for the rest of 2010 and $90,000 in 2011.The water usage rate continues to remain favorable compared to our surrounding municipalities. The New York State Office of the State Comptroller has designated the cost of water in Poughkeepsie to be one the lowest in the state.

I will continue to monitor our water situation very carefully as our ability to sell water to third parties continues to reinforce our City's potential. Sales to other municipalities are critical to the long-term health of our residents' stabilized water rates. In a successful joint operation with the Town of Poughkeepsie, we completed a system-wide distribution maintenance program (pipes were flushed for the first time, in some cases, over one-hundred years). This undertaking began in 2006 and continued through 2009.

Our goal remains the same: to produce good quality water for our City's users at the lowest possible cost.

Sewer Fund

The fund balance has a projected surplus of $407,893 and has been at a surplus position since 2007. We have maintained the rate of $2.59 from the end of 2007 to the present. In 2009, we expensed some of the fund balance to make necessary sanitary repairs and improvements without having to borrow money for these projects. I believe that our current fund balance position places us in a strong position to invest in the maintenance and upgrade of our sanitary sewer system and treatment plant.

This past week, the City Engineer discovered a major sanitary sewer line in need of urgent repair that resulted in having to exercise my emergency authority to prevent the collapse of sections of the line. This would have cost the City around $250,000. Instead, we will be using $36,000 of the sewer surplus funds to mitigate what could have been a serious safety issue to residents and quite costly for the City. I will continue to maintain the proper use of our reserves to address much needed repairs.

Parking Fund

The total fund balance stands in a healthy surplus position of $311,938. In 2009, the City used some of its fund balance to make major repairs to the Financial Plaza parking deck elevator. A new automated ticket machine had also been installed and freed-up staff to provide more customer service to the patrons of the City's highest revenue-producing parking deck. All parking decks are continually being assessed for infrastructure maintenance. The City's parking facilities continue to provide a needed service to our residents and visitors; as such I will continue to find ways to improve these assets appropriately.

Transit Fund

Our 2009 ridership revenue reflected a slight increase of $1,701 compared to 2008 actual, an increase of $20,002 over budget. The City introduced a new rate of $1.50 for the regular full-fare riding public, while maintaining the discounted rates for seniors and students. This was the first increase since 2005 and is targeting a reduction in the annual subsidy from the City's General Fund. The 50 cent increase can potentially raise transit revenues by $100,000 to $150,000.

Four new Gillig Hybrid Electric buses were delivered in fall 2008. Acquisition of these vehicles will help the City to utilize alternative fueling sources. In 2009, the gasoline expenses were down over 50% or $84,215 under 2008 actual and 40% or $42,308 under budget. The introduction of these buses has also contributed to the City's cleaner environment. The stimulus grant will deliver two additional hybrid buses to the City and will further reduce our operating expenses. I will continue to work with our traveling public in regard to route efficiencies.

Risk Retention

The City maintains a risk retention reserve fund of at least $1,500,000. In 2009, there was a need to transfer $500,000 to help in the settlement of the Keenan case. I am happy to report that our investments earned almost $300,000 and aided in replenishing the fund. The City's reserve fund increased by its proportionate amount of investment income

earned in 2009. The total value of all risk retention reserve funds as of December 31, 2009 equates to $2,749,157 (please refer to Exhibit G).

Summary

The year 2009 was one of the most challenging years the City has experienced in managing its finances. We endured a decline in sales tax of over 7% or $848,000. The mortgage tax collection decreased by 36% or $244,000. New York State's financial conditions have threatened the City's municipal aid. The second half of 2008 saw the deterioration of the economy with the softening of the housing market as well as the erosion of consumer confidence. This economic struggle persisted throughout 2009, when we saw the seemingly uncontrollable rise of unemployment and home foreclosures.

In July 2008, we had to implement drastic actions to protect the financial stability of the City. We put in place a hiring freeze, limited the use of City vehicles, monitored purchases, and cut overtime. There were a total of 24 retirements in 2009 with cumulative time-off pay of over $510,000. The retirement incentive was used to help reduce the number of employees from 403 to 388. These steps should provide some relief to the growing financial challenges in 2010 and beyond. The reduction in total workforce could save the City around $800,000 in salaries and benefits in 2010 alone.

However, I see a 2010 that will even be more challenging than 2009. The Governor's proposed budget will cost the City at least $242,000 in state aid funds. Unless the retirement fund makes a drastic recovery, the City is facing an estimated $850,000 additional retirement payment, which will be the biggest retirement bill in the City's history. The sales tax and mortgage tax revenues will continue to struggle.

We have tightened our grip on expenses and placed more stringent controls on spending such as the elimination of non essential (job retention / certification) travel expenses, the reduction of cellular / smart phones, and discretionary purchases, while introducing the purchasing card. It is essential that all discretionary spending be scrutinized and justified.

The cooperation of the Staff, Unions, and Common Council provided us the opportunity to weather the most challenging economic conditions in decades. This continued support will help us overcome a more challenging 2010.

Very truly yours,

John C. Tkazyik
Mayor

Exhibit A

City of Poughkeepsie
Finance Dept
Estimated Amounts 12/31/2009

Total Fund Balance

	2008	2009
General Fund	1,534,506	597,064
(Parking Fund)		398,311
Total		909,002
Water Fund	(159,802)	(376,162)
Sewer Fund	635,815	407,892
Total	2,010,519	940,732