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To: Rob Rolison, Mayor
City of Poughkeepsie Common Council

From: James Nytko

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In April of 2016 Capital Markets Advisors, LLC (“CMA”) completed and formally presented a Strategic Fiscal Improvement Plan (the “Plan”) to the City Council. The intention of the Plan was to assist the City in developing both short and long-term fiscal goals, while concurrently identifying key objectives that would establish an initial foundation for meeting these goals. Given the complexities of the City’s current fiscal position, a multi-year approach will undoubtedly be necessary. Detailing the first few critical steps and setting the pace for future years, the 2017 operating budget is extremely important.

Although CMA did not assist with the construction of the City’s 2017 Preliminary Budget or with the assumptions utilized by the City in its crafting, we have been provided with a copy of the document along with the Mayors Budget Message. While we cannot comment on the intricacies of the document or on exact line items of the budget, we can highlight some of the key items.

Foremost, the budget reduced the majority of revenue assumptions as compared to 2016. Several revenue items in the General Fund have been reduced for 2017. We noted this as a key factor since CMA recently received a copy of the City’s 2015 Audited Financial Statements which include a budget to actual comparison for General Fund results (see page 83 of the 2015 Audited Financial Statements). As it relates to revenue items, the audit showed an *unfavorable* variance for all but 3 categories when compared to the original budget for the year. In particular, there was an unfavorable variance of approximately \$1.4 million for departmental income, which was the largest variance. The 2017 Preliminary Budget includes a 12.4% reduction for this category compared to the 2016 Adopted Budget. Monitoring revenues will be an important aspect to the fiscal recovery of the City.

In terms of monitoring, the Mayor’s Budget Message, dated October 14, 2016, it indicated that the City Administration has initiated a quarterly financial reporting mechanism. The message further states that over the course of fiscal 2017 the Administration will aim to provide monthly status reports. Such reports will assist in the Administration and Council’s ability to identify and address underperforming budgetary line items and to make adjustments as necessary. Enhancing transparency to aid in adherence to the operating budget was a recommendation of the Plan.

The State-imposed property tax cap and County imposed sales tax cap provide obstacles to key revenue sources of the City. The 2017 Preliminary Budget exceeds the real property tax cap with a tax levy increase of 16.5%. Although we cannot comment specifically on the amount or percentage of the proposed property tax increase, we do see that most expenditures are anticipated to increase for 2017. With real property taxes accounting for 26.3% of the total proposed budget (and 45.1% of the General Fund budget), an increase to the tax levy would seem necessary if the current level of services is to be maintained. In fact, property taxes would have needed to increase by an average of 12%, inclusive of transfers from other funds, over each of the last five completed fiscal years for the City to have incurred no deficits in the General Fund. However, without transfers the percentage increase to the tax levy would likely have been much greater than the 12% noted.

Although not included as a line item in the 2017 Preliminary Budget, the Mayor’s message indicated a number of anticipated grants. Several of the grants could provide funding for technology upgrades, equipment upgrades, and for training purposes. This could provide additional relief though added efficiencies and for cash flow purposes. By not including these items in the proposed budget, the City appropriately limits its downside exposure if they do not materialize.

In addition to the aforementioned potential grants, the City continues to work with the New York State Financial Restructuring Board (the “FRB”). In July of 2016 the City’s application for a comprehensive review by the FRB was formally approved. At their discretion, the FRB may provide grant funding to offset costs associated recommendations included in their report. The 2017 Preliminary Budget includes no expectation of FRB funding, again limiting its negative exposure if such revenues fail to materialize.

As noted, the 2017 Budget will be critical to the City’s fiscal recovery. As a planning tool, the budget defines an agenda for annual expenditures and then matches those outflows to projected revenues. As a method of control, strict adherence to the budget is critical to ensuring that expenditures will not exceed revenues. A realistic budget coupled with careful monitoring and disciplined spending will result in an improved fiscal position for the City of Poughkeepsie.