

**CITY OF NEW ROCHELLE
NEW YORK
INTER OFFICE COMMUNICATION**

TO: Honorable Mayor and City Council

THROUGH: Charles B. Strome, City Manager

FROM: Howard Rattner, Finance Commissioner

SUBJ: FY 2009 First Half Budget Report

DATE: July 10, 2009

Attached are the budget reports for the General Fund for the first half of the 2009 fiscal year. The reports are summarized as follows.

REVENUES

Revenues for the first six months of the fiscal year totaled about \$42 million, or 40% of the budget estimate (excluding appropriated fund balances). This total is about \$1.2 million (3%) less than the amount realized for the same period in 2008. Major variances from adopted budget figures among revenue categories can be seen as follows:

<u>REVENUE ITEM</u>	<u>ADOPTED BUDGET</u>	<u>REVENUE TO DATE</u>	<u>REVISED ESTIMATE</u>	<u>INCR/ (DECR)</u>
Sales Taxes	\$25,700	\$ 7,994	\$23,500	\$(2,200)
Investment Income	900	169	500	(400)
Mortgage Tax	2,400	708	2,100	(300)
Property Taxes	45,971	22,605	45,700	(271)
Transfers from Other Funds	148	273	443	295

(\$,000 omitted)

Sales taxes continue on a downward spiral. Distributions received from the New York State Department of Taxation and Finance are approximately 11% less than those received for the first six months of 2008 and are about 7% less than our year-to-date budget estimates for 2009. Based on trends to date, it appears that year-end sales tax revenues will fall short of our original budget estimate by \$2.2 million.

The Fed Reserve has reduced interest rates on several occasions since the formulation of the 2009 budget. As a result, investment income is expected to fall short of our original budget estimate by about \$400,000.

The nationwide home mortgage crisis and downturn in the housing market has tightened bank lending policies and consequently produced a significant negative impact on mortgage tax receipts. These revenues to date are about \$1.2 million (57%) less than the same period last year and almost 80% less than the same period during the height of the home refinancing era in 2005. At the present rate of revenue generation, year-end totals are expected to be about \$300,000 less than the budget.

The housing downturn also produced a doubling of residential property tax grievances filed in 2008 as compared to 2007. Combined with continued assessment reductions for commercial properties due to our falling equalization rate, it is estimated that tax refunds will result in a \$271,000 shortfall in current year property taxes. This issue will be exacerbated for the 2010 budget as the number of grievances doubled again in 2009 and will substantially reduce our taxable assessed valuation.

The City's General Fund will realize almost \$300,000 in unanticipated revenue this year: a \$150,000 transfer from the Affordable Housing Trust Fund as reimbursement pursuant to legislation adopted in 2007 and an expected \$145,000 from unexpended capital project balances.

Our current projections indicate that actual revenues will fall short of the budget estimate by approximately \$3 million, or 3%, barring no other major economic, social or political changes.

EXPENDITURES

General Fund expenditures for the first six months of 2009 totaled about \$51 million, or 46% of the revised budget. This figure is about \$1.9 million, or 4%, less than what was expended for the same period in 2008. Major variances among expenditure categories can be seen as follows:

<u>EXPENSE ITEM</u>	<u>ADOPTED BUDGET</u>	<u>EXPENSES TO DATE</u>	<u>REVISED ESTIMATE</u>	<u>INCR/ (DECR)</u>
Full and PartTime Salaries	\$ 46,510	\$ 21,453	\$ 45,685	\$ (825)
Health Insurance	12,845	6,565	12,250	(595)
Retirement and Soc Sec	10,335	5,021	10,072	(263)
PASNY	2,274	642	2,100	(174)
Snow Removal	653	916	1,100	447
MTA Tax	0	53	133	133
Tax Certioraris	400	201	525	125
		(\$,000 omitted)		

The hiring freeze first imposed last summer has produced almost \$400,000 in salary savings thus far this year, in addition to the unfunded vacant positions reflected in the adopted 2009 budget. By year end, it is anticipated that salary savings will exceed \$800,000. The vacant positions also produce the estimated \$263,000 in retirement and social security costs shown above and, when combined with slightly lower than anticipated premium rates, are also projected to generate a savings of almost \$600,000 in health insurance costs for the year.

The New York State Power Authority revised its previous projection of a 30% increase for 2009 to about 19%, which should generate a budgetary savings of about \$174,000, assuming similar energy consumption patterns for the remainder of the year.

Due to the rather harsh winter season, snow removal costs have already exceeded the annual budget. Mandatory sand and salt purchases in the latter months of 2009 will result in an overall budget shortfall for the year of between \$400,000 and \$500,000.

The recently adopted New York State budget imposed a Metropolitan Commuter Transportation Mobility tax on employers in New York City and surrounding counties. The tax, designed to assist in funding the MTA, became effective on March 1, 2009 and was not anticipated in our adopted budget.

The absence of some form of reassessment has caused continued reductions to our equalization rate which in turn generate increased tax certiorari filings by commercial property owners. Combined with the downturn in the real estate market, it is currently estimated that certiorari payments for 2009 will exceed our original budget by about \$125,000.

By imposing proper budget controls, our current projections indicate that year-end expenses will be between \$1 million and \$2 million, or 1%, less than authorized appropriations. These savings will be more than offset by the shortfall in revenue as described above, thereby necessitating the utilization of additional fund balance. With virtually no growth in any revenue category (in fact, negative growth), a rapidly declining assessment base, continued near term cost increases for negotiated union contracts and pension fund obligations, and no public tolerance for large property tax increases, it becomes evident that we will need to deliver our services with far fewer resources than in the past. As we prepare for the 2010 budget, we need to be cognizant of the challenges we face and concentrate our efforts in delivering our core services in the most cost effective manner.

We will continue to keep the City Council apprised of changes in the City's financial position. In the interim, if any member of the City Council desires additional information, please let me know.