

City of Rye Finance Committee

June 2018 Recommendations to City Council

Since February the Finance Committee (the “Committee”) has been working to review the finances of the City of Rye (the “City”) with the goal of recommending changes that would improve the city’s financial operations, take account of varied needs of numerous constituencies and provide the greatest possible transparency to the citizens of Rye. The following recommendations are organized based upon the Committee’s three standing sub-committees: Capital Projects, Revenues, and Budgeting and Reporting. Although the Committee has been meeting twice monthly there continues to be ongoing work. We expect to have additional recommendations throughout the year.

Background and Assumptions:

1. The Committee (or designated members) have met with and reviewed the finances of Rye Golf Club, the Boat Basin, the Department of Public Works, the Department of Safety, Rye Recreation and Rye TV. In the coming weeks, we will be meeting and reviewing other City departments and related entities.
2. Because the timing and cost of the remediation that may be required by the Save the Sound lawsuit are currently unknown, they are not specifically accounted for in the recommendations made below. However, we believe this cost is potentially the single largest financial issue facing the City. As more information becomes available we will take account of it in our recommendations. Based on what we know, the City should be prepared for a bond referendum to pay for costs related to the suit.
3. The contract negotiations related to the three employee unions will figure heavily in the 2019 budget. Because of the nature of the negotiations and likely binding arbitration we have not reviewed or made recommendations related to employee benefits. However, health care cost should be addressed as soon as possible.
4. Public Safety is awaiting the results of an independent study related to the fire department, equipment, staffing etc. Once that is available we will be reviewing the results with the City Manager and Commissioner Corcoran.
5. The Committee is waiting on reliable cost estimates for the dredging of Rye Harbor. Such costs may lead to a broader decision about how to move forward with normal operations of the Boat Basin. Until the costs are finalized and addressed the Committee is not able to comment on the Boat Basin’s finances.
6. The Committee has not fully vetted the list of critical capital projects provided by the City Manager and City Department heads and expresses no opinion whether these projects should be prioritized over others included in the City’s five-year Capital Improvement Plan.
7. The Committee has reviewed many non-property tax revenues and is awaiting detailed information on revenues generated by the Downtown Business District parking, street opening permits, and building permits, and other fines and fees. Recommendations will be made once that information is received and reviewed.

Capital Projects

Deferred maintenance and capital spending by the City since the recession have resulted in a number of urgent infrastructure spending needs and left the City in a very untenable situation. Further, the bond rating agencies are now highlighting deferred capital investment in evaluating municipal credits. We must now choose between critical priorities and possibly scale back on items deemed to be non-essential. In addition, the looming results of the Sanitary Sewer Evaluation Survey (SSES) and the cost of expected required improvements to the City's sewer collection system will likely have a significant financial impact on the City.

In order to effectively evaluate and prioritize requests from various City constituencies, the Council should first identify those needs deemed to be critical to the City's infrastructure or otherwise mandated by legal or other regulatory requirements. The pressing question is how to best address the critical infrastructure needs and the impending sewer costs. The following priorities were provided by the City Manager:

Critical Infrastructure Spending:

Sanitation Vehicles	\$1,600,000
Court Improvements	2,400,000-3,000,000
City Hall HVAC	1,000,000
Central Avenue Sewer	1,000,000
DPW:	
Salt Shed	650,000
Building 5 Replacement	2,750,000
Fuel Station Replacement	250,000
Building 7 Repairs	250,000
Total Known Critical Infrastructure Needs:	\$9,900,000-10,500,000
2012 Referendum Projects	\$1,380,000
Critical projects, but not yet cost-quantified (i.e., Sewers)	TBD
Total	\$11,280,000-\$11,880,000

Currently, the Council is authorized to approve up to an additional \$11,510,000 of debt without voter approval, excluding the cost of projects that were approved by voters in a 2012 (the "2012 Referendum"). The \$1,380,000 that was approved and spent in accordance with the 2012 Referendum was "borrowed" from the City's General Fund and should be included in the City's next borrowing. It has been approved by voters and will be incremental to \$11,510,000 that can be authorized by Council.

Finance Committee Recommendations (Capital Projects)

The Finance Committee recommends that the City prepare to borrow before year-end for critical infrastructure needs plus the amount borrowed from the General Fund via the 2012 Referendum. Based upon the Council's authorized limit, and assuming the above items are financed at their estimated costs, there remains up to \$1,010,000-\$1,610,000 of bonding capacity. The Finance Committee recommends that borrowing for known but not yet quantified obligations, such as the Save the Sound suit, be prioritized over borrowing for all other projects.

It is important to note that these stated amounts do not take into account the amounts currently in the Capital Projects Reserve, or any additional surplus amounts received in 2018.

Revenues

To finance the capital needs noted above, the City would be borrowing between \$11,280,000 and \$12,890,000 in the tax-exempt bond market. In doing so, the City will incur an estimated \$800,000 of annual debt service cost to repay the debt. In order to identify ways to minimize the impact to the City budget (and resulting property tax levy), the Committee reviewed the City's non-property tax revenues. In some cases the Committee found fees, permits, fines, etc., that had not been reviewed/updated in many years. In addition, the Committee sought to identify situations where there could be a more equitable bearing of expenses (fees versus property taxes).

Finance Committee Recommendations (Revenues)

In order to mitigate the annual debt service cost, the Finance Committee has identified the following ways to raise additional revenues, as well as more equitably share expenses.

1. **Increase the cost of train station parking permits for both residents and non-residents (estimated to generate \$150,000 additional revenue per annum).** Permit prices have not been raised in five years. In addition, there is no price difference between resident and non-resident permits. The MTA (owner of the main lot) permits a 40% difference between resident and non-resident prices. For 2019 we recommend increasing prices to \$1,000 for residents and \$1,400 for non-residents (from \$760).
2. **Transfer of excess net Cable TV revenues into the General Fund per annum.** The Cable TV Fund is funded solely from the surplus revenues of Rye TV. Rye TV revenue is sourced from PEG Grants and franchise fees from Cablevision and Verizon. PEG Grants received by Rye TV are restricted for the sole purpose of offsetting capital equipment costs. The franchise fees are tax revenues derived from citizens of Rye City that should be included in the General Fund revenues. **Until our review of the operations of Rye TV is completed, we recommend that the Council suspend any additional hirings, consulting studies, and capital spending included in the 2018 budget.**
3. **Credit enhancement for any Enterprise Fund borrowing.** Certain Enterprise Funds of the City have historically borrowed money for capital projects and have largely been self supporting in the repayment of the debt. However, it is important to note that any enterprise that borrows money does so solely based upon the City's GO credit and backstop, thereby accessing its borrowings at much lower interest rates. If for any reason any such enterprise were to have financial difficulty, the City (and property tax payers) would be responsible for the debt repayment. The Committee believes that it is appropriate to charge the enterprise, for using the City's credit for the benefit of its members, an annual charge equal to 1.5% of the outstanding amount of relevant debt.
4. **Increase Rye Recreation's self-supporting expense target by 5% over the next two years (estimated to generate \$150,000 additional revenue per annum when fully implemented).** Rye Recreation provides a variety of programs, services and activities to the entire community. Many of these programs, notably the Summer Camp, carry charges for the

user, and the City policy has been for the Department to cover 40% of its expenses. There has been a lack of clarity about whether the 40% coverage requirement applies to all expenses or only to some. In recent years, Rye Recreation has fallen short of 40% coverage of all expenses. The Finance Committee believes that the Department can begin supporting a higher percentage of its annual expenses by increasing fees, field charges and programming so that revenues equal 45% of all its expenses by 2020. In addition, we believe there is an opportunity to establish a Friends of Rye Recreation, or other supporting organizations, to meet some of the Department's capital needs (similar to the "friends of" support for the Rye Library and Rye Nature Center).

It is important to note that information is not yet available regarding revenues from parking in downtown business district, as well as from various fines, fees and permits City-wide. We expect in the coming weeks to have additional recommendations regarding these items. Further, we expect to review City financial items related to Rye Library, Rye Nature Center, Rye Arts Center, etc.

Capital Project Reserve Fund Policy

As noted above, the single most pressing financial issue is the funding of mounting capital needs. Although the City has historically managed its budget and resulting surpluses in a manner to fund some projects, the Committee believes there should be a formal policy. **Committee recommendations:**

1. Upon the conclusion of the prior year's audit (timing at discretion of City Manager and Comptroller), any excess revenues from the prior year will be automatically transferred into a Capital Projects Reserve. The determination of what accounts for excess revenues will take into account the Council's established policy for the General Fund Reserve.
2. At any point during the year, one-time extraordinary, non-reoccurring revenues accumulated in excess of \$25,000 should be automatically transferred into the Capital Projects Reserve.
3. The existing Rye TV reserve should be transferred into the Capital Projects Reserve. Annual revenues (other than PEG Grants) should be included in general fund revenues each year. Rye TV reserves totaled \$1,047,036 as of December 31, 2017, before approved expenditures for 2018.
4. The City Manager's Annual Budget submission should note the Capital Projects Reserve and its intended use for the next year to 18 months.

Budget Process and Financial Transparency

Given the complexities of municipal finance GASB reporting, the significant capital needs of the City and the limited financial resources necessary to fund the annual budget, the Finance Committee believes the City should modify the timing, format and regularity of communicating with the citizens about financial matters. **The following are specific steps that the Committee recommends the Council adopting:**

1. Beginning in May of each year the City Comptroller should report to City Council year-to-date financial results versus prior year's comparable period and budget, noting any positive/negative changes. The report should be provided monthly. A recommended form for

the report is attached. Once approved by City Council, the Comptroller's report should be posted on the City website.

2. The Capital Projects portion of the annual budget should be developed and completed prior to September 1 each year, with the City Manager making recommendations for projects to be funded for the next 12-18 months (including recommended sources of funding).
3. A Citizens Budget Report should be completed in time to accompany the City Manager's proposed budget. It should be prepared by the Finance Committee and be provided to the local press and included on the City's website. Although there has been a report in the past the Committee believes a new approach, combined with regular updates is warranted.
4. In conjunction with Rye TV, the City Manger, Comptroller and Mayor (with the assistance of the Finance Committee) should produce a series of short informational videos on the City's finances, budget, capital needs, etc. A link to these videos should be emailed to the City's email distribution list, provided to local press and included on the City's website.
5. All Departments with pension-eligible employees should report overtime quarterly to the Mayor and City Council, including relevant details as to cause, whether the time is being reimbursed (i.e., Con Edison or others) and comparatives to prior years.
6. Once a capital project has been added to the City Manager's priority list (12-18 month spend) or upon a project being proposed during the year that is not already on the priority list, the Finance Committee should review the project and its financial viability using the Capital Project template. A recommended form for the template is attached.