



CITY OF NEWBURGH

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December 22, 2010

To: Honorable Thomas P. Napoli, State Comptroller
Honorable Carl Kruger, Chair Senate Finance Committee
Honorable Herman D. Farrell, Jr., Chair Assembly Ways and Means Committee
Robert L. Megna, Director, State Division of Budget

RE: City Of Newburgh Multiyear Financial Plan
Per Chapter 223 of the Laws of 2010

Dear Sirs:

Enclosed is the City's multiyear Financial Plan covering the fiscal years 2011 through 2013. The three year forecast is predicated on the projected results for fiscal year 2010 and the adopted budget for 2011.

Fiscal Year 2010

The City projects it will end fiscal year 2010 with an accumulated undesignated fund balance deficit of \$14.1 million. Under the provisions of Chapter 223 of the Laws of 2010, the City in November 2010 issued \$12 million of Bond Anticipation Notes (BANs) to finance the negative cash flow impact to date of this deficit.

Fiscal Year 2011

The City has adopted a balanced budget for its General Fund for 2011 with revenues equaling expenditures. With no available fund balance, achieving a balanced budget required a seventy percent (70%) increase in the property tax levy. This followed a twenty-four percent (24%) increase in the property tax levy in 2010.

To achieve a balanced budget in 2011, the City through early retirements, other incentives and layoffs reduced its workforce from 260 employees to 205 full time equivalents. City services have been reduced to basic Police, Fire, and Public Works. All non-essential services have been eliminated, e.g.: recreation. The City 2011 budget of \$39.3 million is saddled with \$10.4 million in employee benefits including \$3.0 million for retiree health insurance and \$5.0 million for debt service payments. These two items alone account for 39.2% of the total budget.

All four union contracts will have expired as of December 31, 2010. While this for the moment has negated any funding requirement for salary increases, the continuation of step increases, longevity and GML 207-a funding requirements are unable to be controlled by the City.

Fiscal Years 2012-2013

The projected budgets for 2012 and 2013 are based on the assumption the City will be able to limit growth in all expenditure categories except employee benefits that are projected to increase ten percent each year due to higher health insurance and NYS retirement systems rates, and debt service which will increase as BANs currently outstanding will require the introduction of principal payments whether or not renewed or converted to bonds.

In addition the City is experiencing an ongoing reduction in the taxable assessed value of properties. Full taxable assessed valuation is expected to drop 40% from a high of \$1,602 million in 2008 to \$958 million in 2012, with no end to the decrease predicted for the foreseeable future.

The above changes alone will call for a twenty-eight percent (28%) and an eleven percent (11%) increase in the property tax levy in 2012 and 2013, respectively. The cumulative result could be a three-hundred and one percent (301%) increase in the City's property tax levy over the four years from 2010 to 2013.

The City lacks the authority or ability to significantly increase any revenue source, other than property taxes, that could be a major offset to the projected increase in the property tax levy. The risk is that revenue from State Aid to Municipalities will be cut in the next two years or that the 301% increase in the tax levy will result in a significant drop in citizens' ability to pay taxes, or any other revenues. As of this date the City has approximately 300 properties scheduled for in-rem proceedings in 2011. The potential exists that the number of such properties will increase during the next several years.

Management Practices

I have served as Acting City Manager since Sept. 1, 2009. Since my arrival, my priority has remained unchanged- to improve the financial stability of the City. When I took office, the City was a week away from having no money in the bank for its daily operations, including payroll. With the cooperation of government officials at the state and federal level, the City has overcome one crisis after another towards restoring the City's credibility in the financial markets.

The City continues to face many financial challenges, and will do so for years to come because of the recent economic downturn coupled with imprudent budget decisions over much of the last decade. The effects of long-term unsupported revenue projections and uncontrolled spending practices have brought the City to where it is today.

The goal has been to not only weather this financial storm, but to set the course for a stable future for the City of Newburgh. With a complete new management team, every department

head and every staff member is focused on this goal, committed to cutting costs and raising revenues. A great deal of progress to date is as follows:

- Downsized the workforce through early retirement incentives and layoffs.
- Began process of consolidating City departments and services to minimize operational costs and generate revenues from municipal buildings which will be vacated.
- Awarded a Local Government Efficiency Grant in conjunction with Pattern for Progress to review the City Charter and explore the potential for consolidation of City services and inter-municipal agreements.
- Enlisted the support of PACE Land Use Law Center and the Center for Community Progress to address issues of vacant and abandoned buildings, including the potential for creation of a land bank.
- With the support of the US Attorney's Office, the FBI, and State and County Police Agencies, the Newburgh Police Department rounded up 78 suspected gang members in an attempt to lower the severe crime level in the City. This is part of an ongoing effort to address quality of life issues which plague City residents and discourage potential real estate investors.
- Continuous recruitment of well-qualified and experienced individuals to fill department head vacancies including a new City Comptroller.

Initiatives to Improve Financial Management

Following are some of the things the City has accomplished over the last 15 months:

- Enactment of the Newburgh Fiscal Recovery Act by Governor Paterson with support of state and federal officials. This establishes procedures for State oversight of City finances for the next 15 years.
- Improved the City's ability to successfully sell Bond and Tax Anticipation Notes by updating financial statements and disclosure reports, retaining an experienced governmental financial consultant and engaging new Bond Counsel.
- Completed the audit of the Annual Financial Statements for 2008 and 2009 with written and oral presentations to the Council to explain the severe financial stress the City will face for the next several years.
- Implemented increase Water, Sewer and Sanitation rates.
- Implemented bi-weekly payrolls vs. weekly as a cost-saving measure.

- Negotiated new agreement with Newburgh Enlarged City School District to recover full cost of providing Police Community Resource Officers.
- Holding discussions with HUD officials to resolve prior years' open audit issues and review appropriate use of available CDBG, KNEC, and Section 108 funds.
- Participated in Orange County Water Supply Feasibility Study with the goal of selling surplus City water to the Towns of Newburgh and New Windsor.
- Finalizing contracts for reimbursement and funding of the Combined Sewer Overflow Study with the Dormitory Authority of the State of New York (DASNY) and the Department of State (DOS).
- Issued BANS to fund the City share of Consolidated Iron site and Central Hudson Coal Tar remediation site and monitored the cleanup thereof.
- Worked with the Environmental Facilities Corporation (EFC) to tap market rate financing at EFC bond rates to provide around \$3 million in long-term financing for current water/sewer projects.
- Contracted with risk management company to analyze city's potential liability in all departments and make recommendations. Conducted monthly meetings with newly established inter-departmental Safety and Loss Control Committee to reduce accident exposure and improve risk management techniques.
- Issued an RFP for review of City's insurance policies resulting in reduction to the City's self-insurance limits.
- Began City-wide NYSERDA energy audits for potential cost savings.
- Initiated City participation in the Municipal Electric and Gas Alliance for potential cost savings.
- Analyzed all City user fees and instituted revision of fee ordinance to provide additional service revenues and/or charges to recover expenses for City services.
- Began phasing out outdated data processing systems, including an outdated AS-400 computer, and are implementing new software for tax collection (BAS) and parking violations (Complus), and payroll services (ADP).
- Implemented an ongoing relationship and discussion with IBM to provide updated "Cloud" system to integrate all the City's software systems.
- Initiated efforts to obtain a new Code Compliance data processing system to streamline inspections and support the City's vacant building initiatives.

Although there is no doubt that the City's finances have been greatly impacted by the current national and global recession, we must not lose sight of the fact that past City budget practices have only compounded the City's financial difficulties. The use of general fund balances, compounded by annual budgets with over-estimated revenues and under-estimated expenditures, all accumulated towards the financial deficit the City has incurred at the end of 2010.

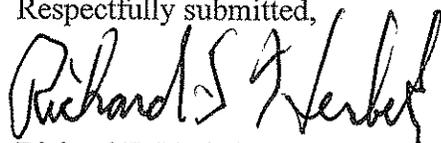
Potential Future Actions

The City has held numerous discussions with County and surrounding Town officials concerning opportunities for shared or shifting of municipal services to reduce the City's operating costs. All have been met with strong resistance. A major example was the City's request to the County to make a minor change in the allocation formula that would benefit all local governments in Orange County and add approximately \$1 million to the City's revenues. This request was totally rejected even though it would have had minor impact on the financial strong County.

The City needs a major new revenue source. Without such the City's ability to contain ever-increasing expenditures, the largest of which are beyond the City's control, within current available revenue sources is impossible.

The City's major increases in its tax levy over several years can only contribute to an ongoing downward spiral in its community and financial stability from which the City may never be able to recover. While the Newburgh Fiscal Recovery Act helps eliminate the City's current financial deficit, it will not protect the City from its potential recurrence without ever substantial increases in the annual property tax levy.

Respectfully submitted,



Richard F. Herbek
Acting City Manager

RFH/ee

CCs w/enclosures:

Honorable William J. Larkin, Jr.
Honorable Frank K. Skartados
Mayor Nicholas Valentine
Councilwoman Regina Angelo
Councilwoman Marge Bell
Councilwoman Christine Bello
Councilman Curlie Dillard
Cheryl Gross, City Comptroller

CITY OF NEWBURGH
MULTIYEAR FINANCIAL PLAN
FOR FISCAL YEARS
2011 THROUGH 2013
DATED
DECEMBER 20, 2010

CITY OF NEWBURGH FISCAL RECOVERY ACT

MULTIYEAR FINANCIAL PLANS §11.

“During the effective period of this act, the city manager shall prepare, along with the proposed budget for the next succeeding fiscal year, a three-year financial plan covering the next succeeding fiscal year and the two fiscal years thereafter.

The financial plan shall, at a minimum, contain:

- Projected employment levels;
- Projected annual expenditures for personal service, fringe benefits, non-personal services and debt service;
- Appropriate reserve fund amounts;
- Estimated annual revenues including projection of property tax rates, the value of the taxable real property and resulting tax levy, annual growth in sales tax and non-property tax revenues; and
- The proposed use of one-time revenue sources.

The financial plan shall also identify actions necessary to achieve and maintain long-term fiscal stability, including, but not limited to:

- Improved management practices,
- Initiatives to minimize or reduce operating expenses, and Potential shared services agreement with other municipalities.”

MULTIYEAR FINANCIAL PLAN

1. See Schedule "A" attached for projected annual revenues and expenditures for personal services fringe benefits, non-personal services and debt service.
2. See Schedule "B" attached for projected tax rates.
3. See Schedule "C" attached for value of taxable property valuation and debt and tax limits.
4. Projected employment levels for 2012 and 2013 are expected to remain the same as the 205 FTE included in the 2011 adopted budget. No future cuts in personnel are expected. As the result of the major reduction in personnel during 2010 the City is staffed to provide only minimum essential services. Employees that leave in 2011 or the future will most likely be replaced with new employees at lower starting salaries which could generate some short-time savings.
5. For purposes of projecting revenues for 2012 and 2013, zero growth is projected in sales tax, non-property or departmental revenues. As best minimum growth may be generated but most likely will be offset by decrease usage by citizens.
6. The City has no appropriated reserve fund accounts.
7. The City does not anticipate any one-time revenues for the General Fund. Any grants received are accounted for in a separate Grants Fund.
8. Major risk to the 2011, 2012 and 2013 budget projections include:
 - a. Reduction in State Aid to Municipalities.
 - b. Failure of the City and its Unions to negotiate agreements with zero financial impact on the City resulting in resolution of Union contract negotiations through arbitration that increase salaries and/or benefits for union members.
 - c. Increase in interest rates for BANs or TANs.
 - d. Unanticipated emergencies, such as snow storms.
 - e. Unanticipated claims or judgments.
 - f. New Federal, State and/or County unfunded mandates.
 - g. Reduction to property tax revenues as a result of the 70% property tax increase in 2011 resulting with increase in-rem properties that cannot be sold for sufficient prices to recover the outstanding taxes thereon. The revenue loss to the City could be magnified by the requirement that the City guarantees the County and School District their property tax collections.
 - h. Further reduction in the City's current below market grade credit rating.

CITY OF NEWBURGH

SCHEDULE A

MULTIYEAR FINANCIAL PLAN

GENERAL FUND

	ADJUSTED BUDGET 2010	As of 12-15 PROJECTED 2010	ADOPTED 2011	PROJECTED 2012	PROJECTED 2013
ESTIMATED REVENUES:					
Real Property Taxes	\$13,203,274	\$ 12,027,974	\$18,807,484	\$ 20,455,000	\$ 21,585,000
Real Property Tax Items	1,295,918	984,112	1,126,999	1,127,000	1,127,000
Non-Property Tax Items	9,681,877	7,717,097	9,938,000	9,938,000	9,938,000
Department Income	836,833	702,547	867,000	867,000	867,000
Intergovernmental Charges	357,664	357,914	268,000	268,000	268,000
Use of Money & Property	51,100	69,941	77,359	77,000	77,000
Licenses and Permits	289,050	278,412	262,750	263,000	263,000
Fines and Forfeitures	495,000	334,582	580,000	580,000	580,000
Sale of Property	5,000	6,653	3,000	3,000	3,000
State and Federal Aid	6,656,873	5,598,954	5,517,711	5,518,000	5,518,000
Interfund Revenues	1,161,467	1,654,604	1,715,158	1,715,000	1,715,000
Miscellaneous	374,050	293,754	167,750	168,000	168,000
	-	-	-	-	-
Total Estimated Revenues	<u>34,408,106</u>	<u>30,026,544</u>	<u>39,331,211</u>	<u>40,979,000</u>	<u>42,109,000</u>
APPROPRIATIONS:					
Operations:					
Personnel Services	19,469,967	18,344,234	16,097,433	16,097,000	16,097,000
Employee Benefits	10,311,767	9,556,430	10,442,467	11,487,000	12,636,000
Equipment & Capital	301,322	32,330	266,160	266,000	266,000
Contractual Expenses	5,693,824	6,455,993	5,120,826	5,121,000	5,121,000
Interfund Contributions	524,567	37,215	2,409,100	2,409,000	2,409,000
Debt Service	3,458,042	3,459,582	4,995,225	5,599,000	5,580,000
	-	-	-	-	-
Total Appropriations	<u>39,759,489</u>	<u>37,885,784</u>	<u>39,331,211</u>	<u>40,979,000</u>	<u>42,109,000</u>
Revenues over (under)	-	-	-	-	-
Appropriations	(5,351,383)	(7,859,240)	-	-	-
Deficit Financing Proceeds			14,116,323		
FUND BALANCE:					
Beginning of Year	1,621,750	(3,729,633)	(11,116,323)	3,000,000	3,000,000
End of Year	<u>\$ (3,729,633)</u>	<u>\$ (11,116,323)</u>	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
FUND BALANCE - END OF YEAR:					
Less Reserves	(3,006,744)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Equals Undesignated Fund Balance	<u>\$ (6,736,377)</u>	<u>\$ (14,116,323)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF NEWBURGH - TAX LEVY AND TAX CALCULATIONS

SCHEDULE "B"

	2010 Tax Year	2011 Tax Year	2012 Tax Year	2013 Tax Year
		Adopted		
		Revised	Projected	Projected
Tax Levy	\$13,203,274	\$ 18,807,484	\$ 20,455,000	\$ 21,585,000
Homestead TAV	\$860,167,464	\$ 746,998,150	\$ 634,948,428	\$ 603,201,006
Non-Homestead TAV	\$476,211,247	\$ 440,303,011	\$ 374,257,559	\$ 355,544,681
Total TAV	\$1,336,378,711	\$ 1,187,301,161	\$ 1,009,205,987	\$ 958,745,687
	<u>Final</u>	<u>Final</u>	<u>Projected</u>	<u>Projected</u>
Homestead %	53.85220	55.96560	55.96560	55.96560
Increase Decrease %	-1.78997	2.11340	0.00000	0.00000
Non-Homestead %	46.14780	44.03400	44.03400	44.03400
Increase Decrease %	1.78997	-2.11380	0.00000	0.00000
Tax Levy	<u>Final</u>	<u>Final</u>	<u>Projected</u>	<u>Projected</u>
Homestead	\$8.2661	\$14.0907	\$18.0294	\$20.0268
Dollar Increase	\$1.6226	\$5.8246	\$3.9387	\$1.9973
% Increase - 2010 vs 2009	24%			
% Increase - 2011 vs 2010		70%		
% Increase - 2012 vs 2011			28%	
% Increase - 2013 vs 2012				11%
Cummulative - 2012 vs 2009				301%
Non-Homestead	\$12.7948	\$18.8091	\$24.0667	\$26.7329
Dollar Increase	\$3.1513	\$6.0143	\$5.2577	\$2.6662
% Increase - 2010 vs 2009	33%			
% Increase - 2011 vs 2010		47%		
% Increase - 2012 vs 2011			28%	
% Increase - 2013 vs 2012				11%
Cummulative - 2012 vs 2009				277%
<u>Flat Tax Scenario</u>				
Homestead TAV	\$860,167,464	\$ 746,998,150	\$ 634,948,428	\$ 603,201,006
Share	64.37%	62.92%	62.92%	62.92%
Non-Homestead TAV	\$476,211,247	\$ 440,303,011	\$ 374,257,559	\$ 355,544,681
Share	35.63%	37.08%	37.08%	37.08%
Flat tax	\$9.87989	\$15.84053	\$20.26841	\$22.51379

CITY OF NEWBURGH

SCHEDULE "C"

DEBT LIMIT

Assessment Year	Assessed Valuation	State Equalization Rate	2011	2012	2013
			Full Valuation	Full Valuation	Full Valuation
2006	\$ 307,162,652	24.00%	\$ 1,279,308,329		
2007	287,627,708	20.00%	1,438,138,540	1,438,138,540	
2008	1,602,227,884	100.00%	1,602,227,884	1,602,227,884	1,602,227,884
2009	1,336,378,711	100.00%	1,336,378,711	1,336,378,711	1,336,378,711
2010	1,187,118,211	100.00%	1,187,118,211	1,187,118,211	1,187,118,211
2011	1,009,205,987	100.00%		1,009,205,987	1,009,205,987
2012	958,745,687	100.00%			958,745,687
Total Five Year Valuation			\$ 6,843,171,675	\$ 6,573,069,333	\$ 6,093,676,480
Average Five Year Valuation			\$ 1,368,634,335	\$ 1,314,613,867	\$ 1,218,735,296
Debt Limit - 7% of Average Full Value			\$ 95,804,403	\$ 92,022,971	\$ 85,311,471
Original Indebtedness				Outstanding	Outstanding
Bonds:					
1999A	\$ 7,195,000	\$ 4,665,000		\$ 4,220,000	\$ 3,835,000
1999B	2,650,000	825,000		650,000	485,000
2003A	1,000,000	790,000		745,000	700,000
2008A	9,043,100	8,500,000		7,950,000	7,500,000
2008B	12,210,000	12,005,000	\$ 26,785,000	11,765,000	\$ 25,330,000
Drinking Water:					
2001	4,273,923	3,307,127		3,177,435	3,043,513
2005	5,674,277	4,920,000	8,227,127	4,730,000	7,907,435
BANs:					
2009C	17,092,530	17,092,530		15,579,132	13,961,132
2010A	5,223,868	5,223,868		5,223,868	5,223,868
2010B	12,000,000	12,000,000	34,316,398	15,000,000	35,803,000
Total Indebtedness			\$ 69,328,525	\$ 69,040,435	\$ 65,064,326
Deduct Water Indebtedness:					
1999A		851,236		780,069	709,902
1999B		95,457		76,929	57,401
2008A		3,985,000		3,840,000	3,700,000
DW2001		3,307,127		3,177,435	3,043,513
DW2002		4,920,000		4,730,000	4,540,000
BAN2009		2,276,229	15,436,049	2,160,515	14,764,948
Net Indebtedness			56.3% \$ 53,892,476	59.0% \$ 54,275,487	59.8% \$ 50,981,726
DEBT CONTRACTING MARGIN			43.7% \$ 41,911,927	41.0% \$ 37,747,484	40.2% \$ 34,329,745

CITY OF NEWBURGH

TAX CONTRACTING MARGIN

	2011	2012	2013
Average Five Year Valuation	\$ 1,368,634,335	\$ 1,314,613,867	\$ 1,218,735,296
Maximum Tax Margin - 2% of Average Full Value	\$ 27,372,687	\$ 26,292,277	\$ 24,374,706
Exclusions - Debt Service Payments:			
Issue:	Principal	Interest	
Bonds:			
1999A	385,000	192,803	579,041
1999B	165,000	30,545	177,955
2003A	45,000	34,812	77,788
2008A	555,000	376,169	795,644
2008B	240,000	559,856	795,456
Drinking Water:			
2001	131,657	-	133,622
2005	190,000	-	190,000
BANs:			
2010C	1,394,830	946,089	2,664,925
2010A	-	269,544	406,325
2010B	-	618,000	1,550,227
Total	3,106,487	3,027,818	6,134,305
Maximum Taxing Power	100.0% \$ 33,506,992	100.0% \$ 33,663,260	100.0% \$ 31,526,516
Tax Levy - City Proposed	56.1% \$ 18,807,484	60.8% \$ 20,455,000	68.5% \$ 21,585,000
Constitutional Tax Margin	43.9% \$ 14,699,508	39.2% \$ 13,208,260	31.5% \$ 9,941,516