City of Hudson Common Council Finance Committee
Minutes of Regular Meeting
April 21, 2020

In attendance: Common Council President Tom DePietro, Chairman; Alderwoman Eileen Halloran; Alderman John Rosenthal; Alderwoman Rebecca Wolff; City Treasurer Heather Campbell

Chairman DePietro called the meeting to order at 5:30 p.m. It was conducted via Zoom videoconferencing and live-streamed over local radio station WGXC.

Treasurer's Report

Ms. Campbell said she began to compile her report a few weeks ago so she could talk about the potential impacts from the Coronavirus. "I don't think much of it will surprise you, but I think it's important that we all make sure we're on the same page."

Ms. Campbell said 10 sources account for almost 90 percent of the city's projected revenues and just three account for 70 percent—property taxes, sales tax and state revenue sharing. She anticipated that pretty much all of them would be negatively impacted to one extent or another.

On the issue of property tax, she said that although it is recognized when tax bills are issued, it becomes a receivable, which means the city doesn't actually receive the cash until the bills are paid. It is pretty much fixed as opposed to an income tax or a sales tax that can vary more significantly, she said. "So from a revenue standpoint, that's helpful, but it's a decent chunk of our income."

Ms. Campbell said it was likely that some property owners would have to defer their tax payments due to lack of income, which would affect the city's cash flow. She said property tax accounted for 50 percent of city revenues.

When tax bills are sent at the beginning of the year, the city recognized that as revenue. "Just because we've identified the revenue doesn't mean that people have paid those bills yet. So it becomes what's called a receivable. So that's considered an asset on the balance sheet."

Ms. Campbell said it was safe to assume that sales tax contributions—about $1.5 million—would decline. It's highly likely that sales tax statewide would decline and the city's share of that would decline as well. It was also likely that payments would be delayed because the state extended the deadline for filing, which will affect cash flow. "We had a pretty aggressive estimate for 2020, so that's another area where I can anticipate seeing some impact. I also think it's safe to say that that particular issue is going to continue on to 2021."

About $1.5 million was anticipated from state revenue sharing. Even if the state didn't cut this funding, it is not received until December, so it won't help in the interim.

Alderman Jane Trombley asked for a breakdown of the 70 percent. Ms. Campbell said 50 percent came from property tax and 10 percent each from sales tax and state revenue sharing.

The remaining revenues that make up 90 percent of the city's revenues were parking related—tickets, meter fees, parking permits, all negatively impacted by travel bans and stay at home orders—lodging and mortgage taxes, building permits and use of the fund balance. Ms. Campbell said it was likely that the city would breach its fund balance policy.

She then told committee members to look at the other side of the equation—expenditures. "Unfortunately, there's not a lot of great news on this front because most of the expenditures are fixed obligations, so there's not a whole lot to cut."

The top six expenditures are directly related to personnel and combined, account for more than 50 percent of the city's expenses (police payroll, medical insurance, state retirement contributions, street maintenance payroll, youth payroll and Social Security contributions). Citywide, payroll, retirement, hospitalization, Social Security and worker's compensation accounted for almost 70 percent of the total budget. Ms. Campbell said most other expenses were not discretionary, such as debt service, library funding and basic materials and supplies needed to keep the city operating.

There are funds budgeted for a number of capital projects, but some, if not most of them, may need to be delayed, especially ones that require significant matches. Even those that are fully or mostly reimbursable might be delayed to keep cash flow available for immediate expenses.

"Like I said, there's really not a whole lot to cut except for personnel," she said.

Mr. DePietro said that the Youth Department's summer program probably wouldn't happen and asked how much that might mean to the budget overall. Ms. Campbell said that depended on what the city decided to do. "Right now the city is paying all employees, regardless of whether they're showing up to work or not," she said.

Ms. Wolff said she hadn't yet heard anything about the entire summer program being cut, but imagined that there would be some kind of remote programs offered. Plus, she said, there might be a relaxation of social distancing by that time.

Mr. DePietro said the main program at the beach of Oakdale wouldn't account for much, but Ms. Campbell replied: "No, it's actually a pretty significant chunk of money."

Another potential impact that was hard to get a handle on was the amount of funds budgeted for capital projects, because most of them would require borrowing. "That can get tricky for a couple of reasons," Ms. Campbell said. Municipalities are going through the same issues of potential revenue shortfalls which no one knows the extent of and the market for borrowing might be higher than anticipated. "The second issue with it is we still need to make sure that if we're taking on more debt service that we have the revenues and the corresponding cash flows to cover that debt. It's a challenging issue to try and figure out now."

Mr. Rosenthal asked if there was any idea yet when some firmer decisions would have to be made. Ms. Campbell said she couldn't answer that yet. She has been spending the majority of this time working on the annual update document, a required file due on May 1. Her next step would be to look at some projections and try and make some estimates based on best, moderate and worst case scenarios, and anticipating declines in revenues to come up with a forecast. She said she would have a better idea in the next few months.

Ms. Halloran asked if was too soon to ask department heads to consider budget cuts, how they would do it and what the impact of those cuts would be. Ms. Campbell said they were valid questions. "I think Heather knows I asked that question weeks ago and it fell on deaf ears," Ms. Halloran said. "We could require the department to just produce an estimate…to reduce the budget by X percent. I would think they would want to do that just to be able to influence how we think."

Ms. Trombley said when she was involved in these types of situations in her public education days, the questions were always the same—what would be done if the budget had to be reduced by 10 or 20 percent. "I think it gives the department heads a sense of a little bit more control. So maybe you could do a two-step process. It might make people feel better and think about what they absolutely need."

Ms. Halloran agreed. "I think it gives the department heads some measure of control and buy-in for whatever may have to come."

Ms. Wolff said it seemed that the Youth Department was already understaffed and carrying a huge burden at this time with organizing and carrying out food delivery services. "I would think that that department would probably not be subject to the same kind of cuts," she said.

"I would think that they should be asked to take a look at the budget because we have to figure out what's essential and what we can't afford," Ms. Halloran said.

Mr. DePietro broached the possibility of unions objecting. Ms. Campbell said that would probably be the case if it came to personnel cuts or money affecting their members, but if it's just about delaying equipment purchases, for example, it might not. She said departments should be asked where they could find savings in their budget except for personnel at this point. "I think if we try that first, maybe we avoid personnel issues," Ms. Halloran said.

Ms. Campbell moved on to a year-to-year budget comparison which was through March. Using parking revenue as an example, she said it was ideal to see revenues at or close to 25 percent at this time, but the city was at about 20 percent. She then looked at the first quarter of 2019 versus the first quarter of 2018 to get a more direct comparison. "What you can see is that we're basically down across the board, which, of course, we would have to expect since we aren't making people pay the meters and aren't issuing parking tickets because of that. People aren't coming in for the most part anyway. So we're down about 20 percent versus a year ago on the parking items."

Building permits and fees were only at 20 percent versus a year ago and 20 percent versus budget.

Ms. Campbell said that going forward she would try to do some simple modeling to see what the expected impact might be. She added that before the meeting, she went back and looked at how much the city collected against property tax for the first three months of 2019—about $1.3 million. This year it was about $1.1 million and the entire drop was in March. "Obviously people are choosing to not pay their property taxes," she said. "I'm sure they have cash flow issues of their own."

"…This is another indicator that we need to keep our eyes on because that's going to directly impact our cash flow. Our cash flow is fine for right now,…but it's something we definitely have to keep an eye on."

Ms. Campbell addressed the city's fund balance. She broke it down into six categories—not in spendable form, capital reserves, other restricted, assigned appropriated, assigned unappropriated and unassigned. She said there was a jump in assigned unappropriated fund balance ($293,409 to $662,072) because the city started recording things that should have been recorded in that budget line.

The unassigned fund balance at the end of 2019 was projected to be $3 million. The adopted budget was $11.7 million. The unassigned fund balance percentage was 25.8 percent, still above the 25 percent minimum set by the Common Council.

She provided a breakdown of the fund balance components. Non-spendable form is basically monies that are set aside to pay the HRA match for employees' hospitalization. Capital reserves is money for the fire truck, other reserves are some legacy things including the firehouse reserve, an old Schroeder loan repayment and other miscellaneous things. About 85 percent is legacy items and the balance is the reserve for the Tourism Board. The appropriated fund balance is what is used to balance the 2020 budget and the assigned unappropriated is all the encumbrances and carryovers from 2019 to 2020. For example, a grant received in 2019 would have been recognized as revenue then and carried over to this year. So in some ways, "you can look at that as…the revenue being inflated versus the actual expenditures."

She referred to the assigned unappropriated fund balance as "encumbrances, but on steroids." Money has been carried over, such as those received from Stewart's, the dog park, a parking study and a ramp for Promenade Hill.

"The whole point of a fund balance is for a crisis very much like the one we're in right now," Mr. DePietro said.

"That's why we have the fund balance policy in place, because if we didn't, we'd be in pretty big trouble right now," Ms. Campbell replied. "But we're in better shape than a lot of other municipalities are now."

Fee Increases

Mr. DePietro reported that he continued to look at various city fees for increases. He had already met with Police Chief Ed Moore and Code Enforcement Officer Craig Haigh. Mr. DePietro said it would hard to increase fees when everyone feels that they're being strapped already, but it might have to be done. He said he hoped to have the fee schedule done within the next month or two.

To end on a positive note, Mr. DePietro said some have predicted that local tourism might have a huge boost in the short term, given the reluctance of people to fly.

The meeting was adjourned at 6:12 p.m.