Mount Vernon Comptroller, Darren Morton, released the city's budget vs actuals for 2023.

https://www.cmvny.com/DocumentCenter/View/8904/Comptroller-Fy23-Twelve-Month-Report---Public2

If time permits, I will do a more thorough review of the 2023 actuals, including a side-by-side analysis with the 2022 actuals. Here are a few initial thoughts.

From Page 1

- As of December 31, 2023, there was a **$6,072,366 budget-to-actual deficit** (Unadjusted/Unaudited). Contributing factors were 17 revenue lines budgeted at $100,000 or more had not met 80% of the projected revenue.

- Similarly, the budget-to-actuals **expenditures were also overrun by $2,673,970**. Contributing factors were health benefits, contracted services, settlements and retro payments to CSEA, and overtime costs, particularly in Public Works and Fire, Departments.

- On the other hand, there were 4 revenue lines budgeted at the same level which yielded more than 20% of the projected revenue; in addition to more than 6 unbudgeted revenue sources received. These revenue levels, with the addition of the supplementary $5 million dollars in ARPA funding helped to minimize the budget-to actual revenue shortfall.

- As of December 31, 2023, the City collected $140,721,228 in revenue, including $66,073,637 for property taxes and $9,097,574 ARPA funding. Resulting in a **$4,178,789 negative variance to the revised projected revenue of $144,900,017**. **The negative variance includes $2,299,799 of uncollected real estate property taxes** as of December 31, 2023. The final revenue figures are anticipated to improve once all revenue is collected and reported, i.e. outstanding property tax, departmental income, and other outstanding revenue.

McDonough Comment
Obviously, the above negative variances are not good and need to be reduced. But there is a little good news on the sales tax front. I pulled sales tax data from 2022 and put it alongside 2023. See the table below. Actual sales tax grew by almost 15% 2022 to 2023 ($26.5m vs. $30.4m). This is great.

City of Mount Vernon Sales Tax
(source: https://www.cmvny.com/195/Comptrollers-Office)

Sales Tax	Budgeted	Actual	$ Variance	% Variance
2022	$25,500,000	$26,542,053	$1,042,053	4.09%
2023	$27,000,000	$30,473,640	$3,473,640	12.87%
2024	$28,200,000	??	??	??

One concern: large positive budget vs. actual variances in sales tax revenue. For sure, even small negative variances in sales tax revenue are to be avoided. However, <u>large positive</u>

variances are not good either, because it can lead an administration to levy more property taxes on residents than needed. For example, if the 2023 budgeted sales tax revenue had a positive variance of only 3% ($800k), instead of almost 13% ($3.47M), the city could have reduced the 2023 property tax levy by $2.66m, or roughly 4%. ($65.7m vs $68.37m). That's not nothing.

So why such large variances? I think it is the way in which the city estimates sales tax revenue. Notice that the 2024 budget estimate is $2.2m LESS than the 2023 actuals ($28.2m vs $30.4m). I would argue that this is way too low. I would argue that the 2024 budget estimate for sales tax should be a percentage above the 2023 estimated actuals. I say 'estimated actuals" because when the budget is set, the 4th quarter actuals from the prior year are not known. The way to handle that is to base the sales tax off the first 3 quarters of actual data from the prior year and a "run rate" for the fourth quarter. If an approach like that was used, the 2024 budget estimate for sales tax would have been over $3m higher, reducing the need to levy property taxes by that amount. Even if 2024 sales tax revenue was budgeted for a 0% increase over 2023 actuals (again using a run rate for Q4 2023), the 2024 property tax levy would be roughly $2.2m less than it was.

But maybe that's the point? A more accurate estimate of sales tax revenue would make it harder for the city to justify relatively high property tax hikes.

From Page 3
The total expenditures for FY23, as of December 31, 2023, were $146,793,594,

- $9,097,574 of ARPA expenses.
- Salaries and wages (excluding overtime and differential pay) were $67,316,582.
- Health and Dental Insurance, $26,018,170;
- NYS Retirement, 13,178,071;
- Social Security, $5,296,958;
- Overtime Pay, $4,938,693;
- Contracted Outside Services, $3,399,870;
- Part-time Salaries, $2,245,851;
- Tax Refunds, $1,682,178;
- Insurance Premiums, $1,496,693;
- Judgements and Settlements, $1,466,679;
- ARPA Equipment. $1,465,962;
- Equipment, $1,401,899;
- Electricity Expense, $1,373,176;
- Workers Comp Charges, $1,270,908;
- Dumping Costs, $1,261,703;
- ARP Other Expense; $1,039,108; and
- DPW Overtime, $1,030,787

McDonough Comment
The items highlighted in red are full-time salaries and costs associated with those salaries, also called "fringe benefits". The total cost of full-time salaries and fringe benefits is $114,577,382.

The cost of fringe benefits adds 70% to the cost of full-time salaries. In other words, if the city hires a full-time employee with an annual salary of $100k, the city will also pay benefits of $70k on top of that salary, meaning the real cost is $170k. It is important to note that reducing the cost of fringe benefits as a percentage of salaries is very difficult to do, particularly in municipal government (as opposed to the private sector). This is why it is critical that hiring decisions are made with extreme care, and efforts to improve operational efficiency are made consistently and with scientific rigor. Based on my observations (which are rooted in consistent effort applied to the information put out by the city), neither of these things appear to be happening: hiring decisions appear to be made too lightly and efforts to improve operational efficiency do not appear to be undertaken consistently and with enough scientific rigor.