Philip E. Zegarelli
Village Manager
pzegarelli@briarcliffmanor.org

1111 Pleasantville Road
Briarcliff Manor, NY 10510
Village of Briarcliff Manor
www.briarcliffmanor.org
Telephone: (914) 944-2782
Facsimile: (914) 941-4837

20 March 2015

Honorable Mayor William J. Vescio
and Members of the Board of Trustees
Village Hall
1111 Pleasantville Road
Briarcliff Manor, NY 10510

P2

Reference: 2015-2016 Village of Briarcliff Manor (VBM) Tentative Budget.

Dear Mayor Vescio and Members of the Board of Trustees:

As VBM Village Manager and Chief Budget Officer, I wish to confirm that I file the tentative Budget for the fiscal year 2015-2016 with the Village Clerk on Tuesday, 17 March 2015. You acknowledged receipt of your 2015-2016 Budget Document on Wednesday, 18 March 2015, at our last BOT Session. This letter encapsulates the budget document providing you with an overview of the financial and fiscal issues we have been and will be addressing.

Continued, difficult economic times remain even now as we address our 7th budgetary cycle. It is my firm belief that every effort has been made to keep tax driven spending increases on average below 2%, overall. To that end we have stayed within the NYS tax revenue cap while maintaining present levels of municipal services that VBM taxpayers expect. Although the Town of Ossining (TOS) has initiated a town-wide reassessment (Re-Val), for this coming budget year and next, the resultant full Re-Val of the TOS will not be enforced to our 2017-2018 assessment year. In the meantime, VBM will endure two wide ranging and differing, out-of-date assessment rolls and equalization rates. TMP will remain out-of-date with an assessment roll dating to the mid-1930's.

Nationally and regionally, the economy still lags. We have filed the 2015-2016 Budget with the acknowledgement that no real, economic bump will occur this year in the non-tax revenue sources such as sales and mortgage tax revenue. Last year we streamlined our building permit levels in anticipation of a planned residential development: not yet materialized. We have seen a modest adjustment in revenue as this change impacted other building applications. The remaining revenue source remains a tax increase. Last year and again this year we have used and reserved portions of the tax cap carry forward. Our statutory "tax revenue cap" was pegged to an increase of 1.48%. However with assessment growth and tax cap carry forwards it rose to 2.62%. This year the statutory increase is all of 1.68% but grows to 2.06% with modest growth in assessments and a sliver of tax cap reserve carry forward. This equates in dollars to an increase of tax revenue of only $214,000. Please recall that the tax revenue cap is the lessor of 2.00% or the CPI. Since the permitted tax revenue cap has been significantly below the 2.00% level since the insertion of this legislation, it is obvious that the economy is basically flat lined.

To adopt this budget as presented would require you to override the "tax cap" prior to adoption. The additional Albany mandate, called the "Tax Freeze", makes for more problems. For VBM, the Tax Freeze provisions kick in during our 2016-2017 budget year and mandate no tax cap overrides. Perverse is the option of overriding the tax cap this year to build a reserve for when the Tax Freeze comes in to effect. In the face of proposed NYS legislation to set/recalibrate the tax cap base line for next year (with potential penalties) we may need to backstop our budget this year for the future tax revenue constraints on next year.

Statewide and regionally, local government budgets have been hammered as the laggard economy moves into its 6^{th} full year. In our case, the proposed 2015-2016 General Fund budget calls for total expenditures of $16,095,583 and compares to last year's budget of $15,368,253: an increase of $727,330.This translates to a proposed 2015-2016 tax rate increase of 3.32% and due to having two separate assessment rolls and equalization rates: an increase of 4.170% in the TOS and a decrease of 5.365% within the TMP, respectively. On a VBM-wide basis, the 2015-2016 tax levy is $10,782,665 vs. $10,436,061 for 2014-2015. This is a budget-to-budget increase of $346,604. Other 2015-2016 revenue sources are $5,312,918 compared to $4,932,192, last year: an increase of $380,726.

Assessment Roll and Equalization Rates: Our two existing and different assessment rolls and equalization rates again see-saw back and forth again this year. The effects of moribund assessment roll growth (up in TMP while down in TOS); SCARS and Certioraris primarily in TOS; and to a lagging Mortgage/Real Estate market have a cost spreading the burden to the remaining taxpayers. We are 2 years away from the implementation of the TOS's Re-Val effort: the TMP side will be even more significantly behind making the swings more pronounced.

Expense Reduction: You have determined and we have maintained a base line of expense/cost reduction for several years. The goal was to squeeze out costs, become more efficient at what we do while while maintaining a full level of services. I contend that from a materials and equipment base we have done well. When we purchase new equipment we also orient the purchase as to how can we gain greater efficiencies. When we budget for other necessities such as fuel, oil etc., we find that the market place enabled us to save where the costs have been increasingly higher. The parallax to this is that NYS sales tax has been flat or down since fuel costs to consumers (not municipalities) are and important component of the equation. Nevertheless, we view ourselves really as a "service organization" and the costs of providing services is stacked against us heavily weighted in contractual salary and benefits: people costs. The PBA contract for 1 June 2009-31 May 2011 went to binding arbitration and mandatory awards were provided. The after effects of NYS retirement and pension costs hit us this last year. We are back in binding arbitration with the PBA for 1 June 2011 – 31 May 2013 again. Yet today is 20 March 2015. The CSEA contract settlement was for 6 years: 1 June 2009 to 31 May 2015. It was highlighted by modest costs and benefits give-backs to the VBM. We are currently in preliminary discussions going forward. In large measure, the non-union (administrative) VBM employees have been awarded the same "package" as the CSEA. We have a total of 68 full time employees: 16 in the PBA, 28 in the CSEA and 26 as non-union. Please note, however, we have hired a new police officer not in last year's budget and this does not include 2 judges who are considered part time. While every effort is to minimize salary costs, whenever any increase occurs there is the delayed "kicker" where retirement, pension and health costs etc. claw back in our next fiscal year. This is not new but it is also impossible to calculate as a prospective number for budgetary purposes. The VBM government "household" is actually more constrained in making ends meet than our resident taxpayers. Once the budget is approved, there is very little ability to increase revenues: the thrust of our effort is to monitor and control expenses.

Matching Revenues to Costs: What is there to do? Analyze and match the costs and pricing to our actual revenue expectations and vice versa in all funds and through-out all of our departments. Adjusting rate structures to match not only the obvious costs of service but the hidden ones of administration and the cost to finance are necessary and fair. Unbundling services where we can to make them more financially stand alone. This has proven financially viable: previously we have increased fee based/user demands in our water rates, Scarborough Station permits; and, Recreation and other fees are necessary. Our consistent goal is to link the costs to the end user and not have those costs subsidized by the taxpayer. However, there is a limit and this budget does not include new increases for 2015-2016. We are proposing to "give it a rest" since we believe the pressures on our residents have been consistently high and it is for the Village to manage our efforts and cost containment this year more than ever.

Water Fund and Water Rates: Since I first became your Village Manager in February of 2009, I have requested and you have agreed to the whole scale reorganization of the financial underpinnings of the Water Department and the Water Fund. Coming from an operational deficit in 2009 whose negative cash flows were funded by general fund tax revenues, we instituted water rate increases in June 2009 and 2013. We developed and maintain a unique cascade water rate system that reversed the embedded negative cash flows VBM residents had been absorbing for several years. This rate structure coupled with significant physical improvements to our water distribution system has used the market system to "encourage" conservation while the VBM has reduced its water loss (unallocated water) by literally tightening up its water mains by eliminating costly loss of water. We had an unallocated water loss of 31.5% in 2009 and are at 16.0% today: well below the American Water Works Association (AWWA) standards. Next we spread the role, responsibility and the costing of the Water Department (supported by the Water Fund) by allocating costs not only for water delivery but drainage, sanitary and other water associated responsibilities from the General Fund to the Water Fund. This is fair and equitable and has eased the burden from the taxpayer to the user of our service: whether not-for-profit / exempt or otherwise.

The 2015-2016 Water Fund Budget is pegged at $ 5,655,047: a budgetary increase of $549,771 from the 2014-2015's $5,105,276. Water Fund debt service drives this increase reflected in the Public Purpose bonding floated this year as well as other related Capital Projects. Some of the debt cost is partially offset by a tightened water transmission system, close monitoring of billings and collections. The FWSP Reserve stands at $825,903 after application of approximately $350,000 specifically utilized for non-NYS/EFC close-out expenses. Recall that VBM closed out the FWSP projects. We financed the Non-Guaranteed ARRA portion with very favorable rates over the 20 year tenor. This budget will utilize a transfer of $325,000 to the General Fund to cover unallocated General Fund costs. This also included a $200,000 transfer to Capital to fund Tri-Village Capital work projects (in keeping with the Tri-Village Agreement) which funds will be reimbursed in ratio by VTT and VSH .

Other Funds and Reserves:

1. In the 2015-2016 VBM Budget, the Library Board of Trustees approved and submitted a budget to me of $613,297. Last year's BOT approved number being $612,392: an increase of 1/10th of a percent. Of the total budget approximately 95% of every dollar remains General Fund sourced: there is no real other income to offset the heavy draw of tax revenue from VBM's General Fund. The increased costs reflect insurance, energy and securing of modestly expanded collections.

2. The General Fund Reserve stands at $1,847,685 or 12.15% of $14,569,897 in revenues as of 31 May 2014. Last year's $55,000 increase was limited due to the aftereffects of union settlements and direct certiorari payouts. In the face of these trying and extended economic conditions, the VBM's vitally important Aa2 bond rating was reconfirmed by Moody's in February 2014 and again this past November. This year we are looking to take advantage of the continuing lower rate of interest for bonded debt and "refund" existing debt instruments to achieve a reduction of interest costs for the remaining (and not extended) terms of some $8 million of eligible existing debt. We may solicit a re-confirmation of our existing Aa2 Moody's debt and seek a rating from Standard and Poor's. Please note that savings in the proposed debt refunding are NOT reflected in this budget.

3. Distinct from General Fund Reserve, the Debt Service Fund stands at $87,695 after utilizing $50,000 in the 2014-2015 Budget. Recall that the Debt Service Fund is the sum of all excess capital fund borrowings, accrued interest and project premiums not fully utilized. Previously we transferred these to re-capture taxpayer monies not previously used: an appropriate budgetary use.

Commentary: It's been an agonizing 7 year long recession. Municipalities have been able to utilize a limited level of actions to keep abreast of mandatory tax caps while expenses rise. This is especially so of those mandated or controlled by NYS, such as binding arbitration, retirement, pension and medical benefits. So here we are stretching resources and personnel to keep service levels high with less and less dollars with very little relief in sight. To highlight some of the culprits... for VBM ... NYS has projected retirement costs (all funds) for 2015-2016 at $1,499,500 compared to actual costs of $1,497,279 last year ... essentially flat but Debt and Bond service expense will increase by $232,153 in 2015-2016 as we begin paying for the public purpose financing bonding used on Village infrastructure needs. These are additional costs on an already strained budget. Compare this figure to the other increases in spending and you can see that the economic tide is still running strongly against the taxpayer. Through all this, I note that the VBM taxpayer is a dedicated person ... devoted to keeping the VBM strong and well serviced. Net of a single property whose unpaid water rates converted to the tax roll, VBM tax collection rate today is 99.993% only $68.4K outstanding of $10,162K in total tax revenues): remarkable by any standard in Westchester, let alone in NYS.

A budget forecast is only a snap-shot of the current economic climate at the time of its adoption. Our task is to project for a full year based on our best, educated knowledge of economic trends for the next 12 months. Once set, our budget is basically cast in concrete. Current, traditional non-tax rate derived revenues such as sales tax receipts (at March 15, 2015 we are below target); mortgage tax sharing (slightly below budget) remain a problem. Due to timing issues and the harsh winter, building permit receipts are down even after the fee adjustments by approximately $100K . We are monitoring all of these variables and will be reviewing all trends and economic information during the next 30 days. We will also revisit potential changes in both the revenue streams and expense draws that could still have impacts on our calculations. Our reviews are thorough and we share our analysis with you and the public at our sessions.

Lastly, and on a personal level, I wish to renew my comments of last year: the NYS Mandatory Tax Revenue Spending Cap (the "Cap") today at 1.68% has essentially turned the normal budgetary process upside down and on its ear. The components of the once 2% cap confirm the "dead-in-the water" economic situation we are facing. We are fully aware that traditional budget making is a bottom up process. When all proposed expenditures are totaled and applied against the assessment roll, a tax rate is derived. The final adopted spending level and accompanying tax rates are then revised to an acceptable tax dollar level by the M/BOT. But once again this year, the adjusted tax revenue cap and now the added burden of addressing the Tax Freeze legislation have all created a top down process. The pool of available tax driven dollars (even with other revenue sources, limited as they may) is the critical "eye of the needle" used by NYS to supposedly measure acceptable levels of expenditures. This push down effect makes for a weak financial foundation stretched to the limit these several years to address important governmental needs no matter who pulls the pieces of the budgetary puzzle together. To that point and by 1 June 2015, we are now legislatively obliged to formulate a plan to save at least 1% of the new 2015-2016 budgeted tax revenue by the sharing/distribution of services amongst other governments or governmental agencies.

I wish to thank all department heads for their advice, thoughts and consideration during this important process and ongoing economic climate. You know that they have been tasked and tested to do more with less. My sincere thanks especially go to Village Treasurer, Robin Rizzo, for the long hours, analysis and considered judgment in assisting me in being able to present this budget document to you.

Respectfully,

PZ

P. E. Zegarelli