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Village Manager

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19 March 2014

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

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Reference: 2014-2015 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 filed the tentative Budget for the fiscal year 2014-2015 with the Village Clerk on Wednesday, 19 March 2014. Very difficult economic times continue to prevail.

During our 6 previous budgetary cycles, we have endeavored to keep tax driven spending increases on average below 2%. Last year we availed ourselves of accumulated revenue credits and stayed within the NYS tax revenue cap. We intend to keep the present levels of municipal services that VBM taxpayers rely on. VBM continues to operate under two differing, out-of-date assessment rolls and equalization rates: although re-valuation efforts over the next several years may provide true equality at the Village level.

There is no real recovery in sight. Our 2014-2015 tentative budget is above the adjusted NYS mandated tax warrant cap. To adopt this budget as presented would require an override by the BOT, prior to your adoption. This year's statutory cap is 1.48% and additional credits grow the VBM cap to 2.62%: additional tax revenue of \$267,078. The reasoning for overriding the cap may appear perverse: planned public purpose bonding for necessary infrastructure projects eats up \$232,153 (86.9%) of the total alone. Thus necessary public purpose work virtually consumes the entire cap with no effect to other cost. In addition and in the face of proposed NYS legislation to set/recalibrate the tax cap base line for next year (with potential penalties) we need to backstop our budget this year for the future tax revenue constraints on next year. Not exempting public purpose bonding needs from the tax cap is totally illogical. Municipal projects employ people; our bonds are at record low interest rates; and, the bid process is sharply competitive leading to record low pricing by the lowest responsibility bidder. We have sacrificed and tightened spending to assure the taxpayers that they are getting the very best in service oriented value for their tax dollars. This comes in sharp focus as the economy still lags, outside revenue is flat and tax SCARS/Certioraris continue to be filed. The fact remains that through all this, we have had our Aa2 bond rating reconfirmed as we continue to improve our own infrastructure while regional economic indicators remain flat at best.

Statewide and regionally, local government budgets have been hammered as the laggard economy moves into its 6th full year. In our case, the proposed 2014-2015 General Fund budget calls for total expenditures of \$15,510,432 and compares to last year's budget of \$15,051,474: an increase of \$458,958. This translates to a proposed 2014-2015 tax rate increase of 5.976% in the TOS and an increase of 4.496% within the TMP, respectively. On a VBM-wide basis, the 2014-2015 tax levy is \$10,697,703 vs. \$10,175,688 for 2013-

2014. This is a budget-to-budget increase of \$522,015 (+5.13%) in new tax revenues. Other 2014-2015 revenue sources are \$4,812,789 compared to \$4,875,785, last year: a decrease of \$62,996 (-1.3%).

Assessment Roll and Equalization Rates: Our two different assessment rolls and equalization rates 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 will only see a resolution to this annual problem with by the current re-valuation efforts currently underway.

Expense Reduction: I truly believe that we have reached a base line of expense reduction while maintaining a full level of services. This was also done after union contracts dating back to 2009 were settled (2 years PBA and 6 years CSEA) and salary increases to non-union personnel awarded. Further expense reductions equate to future service cuts and the reduction of full time employees below the current level of 68 actives from the 74 in 2009. Yes, our taxpayers have been hit by the same financial variables and our efforts are in parallel to their concerns but for this year, health and retirement cost remain mostly flat budget to budget so far. These are everyday increases: largely for fuel, materials, repairs, technology upgrades, etc.

Matching Revenues to Costs: We continue our pricing/cost of analyzing real costs to actual revenues and vice versa in all funds and 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 to make them more financially stand alone have taken hold. Increases to fee based/user demands; increasing cost of water rates, Scarborough Station permits; and, recreation and other fees are necessities and should be linked to the user, not subsidized by the taxpayer. The effects of the previous action are positive for the VBM; this budget includes a new fee structure for building permits.

Water Fund and Water Rates: First in June 2009, then in June 2013, you instituted and revised the cascade water rate system reversing the embedded negative cash flows VBM residents had been absorbing for several years. We have been able to absorb numerous NYSDEP/WB increases; financed the FWSP debt payments; continually updated water operations and enabled VBM to re-allocate personnel expenses to those jobs/cost areas actually performed. The effects are stark: in 2009 our water lost (unallocated water) stood at 31.5%: as a result of our water detection work, our unallocated water today is at 15.5% ... below AWWA municipal standards. The 2014-2015 Water Fund Budget is pegged at \$5,107,776: a budgetary decrease of \$194,534 (-3.7%) from the 2013-2014's \$5,302,310. This decrease is due to the savings from a tightened water transmission system, close monitoring of billings and collections even in the face of increased debt service from our capitalized work projects. The FWSP Reserve stands at \$1,175,332 utilized for non-the 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 again utilize a transfer of \$320,000.00 to the General Fund to cover unallocated General Fund costs.

Other Funds and Reserves:

1. The 2013-2014 the Library Board of Trustees approved a budget of \$612,392 ... last year's BOT approved number being \$599,501. All amounts are 95% budget dollar supported: there is no real other income to offset the heavy draw of tax revenue from the village's General Fund. The increased costs reflect insurance, energy and employee increases in 2013-2014: not much else.

2. The General Fund Reserve stands at \$1,792,638 or 12.1% of \$14,812,166 in revenues at 31 May 2013. The decline from last year was due to union settlements and direct certiorari payouts: that is, no borrowings. 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.

3. Distinct from General Fund Reserve, the Debt Service Fund stands at \$104,604 after utilizing \$240,338 scheduled for 2013-2014. The Debt Service Fund is the sum of all excess capital fund borrowings, accrued interest and premiums not utilized. Previously we transfers these to re-capture taxpayer monies not previously used: an appropriate budgetary use.

Commentary: The economy remains stuck ... now in year 6 of a recession: municipalities continue to see very little relief in sight. Not detailed are the continuing secondary and tertiary effects of a flat economy first felt 7 years ago. NYS has projected retirement costs (all funds) for 2014-2015 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 2014-2015 as we expand our public purpose financing 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. The tax collection rate only some 2.5 months since the second half payment period 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 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 fixed. Current, traditional non-tax rate derived revenues such as sales tax receipts (at March 15, 2014 we are slightly below target); mortgage tax sharing (slightly about budget) essentially off setting each other. Last year's building permit receipts were carved back for 2013-2014 but still lag by approximately \$100K due to a slowdown of activity largely winter weather related. 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 1.48% has essentially turned the normal budgetary process upside down. The components of once 2% base 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. This year, again, the adjusted Cap has created a top down process where the pool of available tax driven dollars (even with other revenue sources) is the "eye of the needle" used to measure acceptable levels of expenditures. This push down effect makes for a weaken financial foundation stretched to address important governmental needs.

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,

P. E. Zegarelli

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