Village of Briarcliff Manor
www.briarcliffmanor.org

1111 Pleasantville Road
Briarcliff Manor, NY 10510

Telephone: (914) 944-2782
Facsimile: (914) 941-4837

March 19, 2013

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

Reference: 2013-2014 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 2013-2014 with the Deputy Village Clerk on Monday, March 18, 2013. This is my 5th budget as your Village Manager and very difficult economic times continue to prevail.

During our 4 previous budgetary cycles, tax driven spending increases averaged below 2%: with or without a 2% tax revenue cap. This year's budget is focused on keeping the present level, variety, and manner of municipal services that taxpayers expect and depend on. Our orientation is to hold the line in the face of a 2% tax revenue cap that has turned out to be fiscal phony bologna. VBM is faced with two differing, out-of-date assessment rolls and equalization rates; outside revenues remain flat, at best in real dollar growth; and a State Government continues to pass on near double digit increases in benefit costs. There is no real recovery in sight. Our 2013-2014 Budget holds the line below the **adjusted** NYS mandated 2% tax warrant cap. This year's NYS authorized allowable spending increase is $398,072 and our proposed spending increase is $335,864 (3.41%). This equates to using 84.374% of our allowable tax revenue cap.

Everyone has sacrificed to assure the taxpayers that they are getting the very best in service oriented value for their tax dollars. This has been accomplished by doing more with less and no salary adjustments. Little appreciated is that fact that we can point to having achieved an Aa2 bond rating, harder still, we have maintained it while regional economic indicators head in reverse or are flat at best. This will be more fully documented when you set the annual 2013-2014 Budget Hearing this April.

Statewide, last year was one of most difficult budget years on record. This year is even worse with our ability to be flexible largely voided by a flat economy and time lag of previously filed tax certioraris and SCARS only now moving to settlement or award. The proposed 2013-2014 General Fund budget calls for total expenditures of $14,812,580 and compares to last year's budget of $14,198,049: an increase of $614,531. This translates to proposed 2013-2014 increased Tax Rates of 4.00% in the TOS and an increase of 8.451% within the TMP, respectively. On a VBM-wide basis, the 2013-2014 tax levy is $10,173,168 vs. $9,837,804. for 2012-2013. This is a budget-to-budget increase of $335,867 (+3.41%) in new tax revenues. Other 2013-2014 revenue sources were $4,639,412. compared to $4,212,893., last year: an increase of $426,519 (+19.4%). To foot this properly, this is after the effects of last year's ERS reserve of @ $147K.

Obviously we are looking to ease taxpayer burden by differentially seeking out other (non-tax) revenue sources. The tax overlay (to cover uncollected taxes) remains the same (.15%). This year I anticipate that the "pool" will be totally used in refunding or offsetting SCARs and/or Certiorari's.

Assessment Roll and Equalization Rates: Having two different assessment rolls and equalization rates dogs us. In previous years, the TMP and TOS tended to run opposite: assessed values of TOS to TMP up/down or down/up. This year large certioraris and numerous smaller SCARs to date have skued the relationship: both the TOS and the TMP assessment rolls are down triggering in automatic tax increases if spending remained the same (and it hasn't): that is, the same or more expenses being funded by declining Assessment Rolls. It is now a matter of "by how much": no one is happy. For 2013-2014, the TMP Equalization Rate (TMPER) remained at 1.53%. The equivalent (TOSER) rose from 5.85% to 6.10% (+4.1%). With declines in the assessment rolls (primarily in TOS) and new equalization rates applied, only a minor shift is seen: TOS to TMP values being 90.574% to 9.426%, respectfully.

Expense Reduction: Last year you asked and we responded: expense reduction continued. This is now a flattened situation of diminishing returns: there just are not many areas to "save" on without now having to cut back on personnel and therefore cutting the current level of services. Union contracts remain unsettled since May 31, 2009; and, PBA compulsory interest arbitration is in its last stage. Regardless, virtually everyone has been frozen in salary for 3+ years. Yes, our taxpayers have been hit by the same financial variables.

Matching Revenues to Costs: One methodology to address these conditions is to continue our effort of analyzing real costs to actual revenues and vice versa: we did last year in the Water Fund. We will focus on adjusting rate structures to match not only the obvious costs of service but the hidden ones of administration and the cost to finance. We will review unbundling services to make them more stand alone in nature: fee based/user demand; look at increasing cost of water rates (see below); and, Scarborough Station permits, recreation and other fees are necessities. Lastly, I will review and rationalize what level of VBM employees are required ... albeit, somewhat of a limited option when all the financial overhang is calculated when executing employee RIFs.

Water Fund and Water Rates: In June 2009, you instituted the cascade water rate system and reversed the embedded negative cash flows VBM residents had been absorbing for several years. Because of this action, we have been able to absorb numerous NYSDEP/WB increases (since June 2009, a base rate increase of 34.8% and an excess consumption rate increase of 40.9%); financed the FWSP debt payments; updated water operations and enabled VBM to re-allocate personnel expenses to those jobs/cost areas actually performed. The cascade rate structure needs to be retained to ensure adequate fund balances and reserves. Overall the 2013-2014 Water Fund Budget is pegged at $5,302,310.00: a budgetary increase of $774,506. (17.1%) from the 2012-2013's $4,527,804.00. This increase is a result of a new cost structure of our water system, repairs to the system, and increasing operational costs. Water rates need to be increased as we address this year's budget. It is not just the cost of water, but the chemicals, electrical costs and especially on-going (not new) personnel expenses that have to be considered. The FWSP Reserve stands at $1,339,979, and is to be used to offset debt payments not covered by the NYS/EFC. We closed out the FWSP projects and financed the Non-Guaranteed ARRA portion with very favorable rates over the 20 year tenor. This budget will again utilize a transfer of $300,000.00 to the General Fund.

Other Funds and Reserves:

1. The 2013-2014 the Library Board of Trustees endorsed a budget of $599,501.00 ... last year's BOT approved number being $590,966.00. All amounts are 95% tax 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 retirement/pension expenses and no much else.

2. The General Fund Reserve (unrestricted) stands at $2,245,742.00 or 15.8% on May 31st 2012 (vs. 14.18% at 31 May 2011 and 12.51% at 31 May 2010) of total expenditures of $14,211,198.) as defined by NYS Audit and Control Policies. This is highly significant given the current economy and an important indicator of VBM's financial standing. Higher reserves are better and we continue to grow the reserve during these lingering, tough economic times all the while protecting our vitally important AA2 bond rating. But the effects of tax assessment challenges/claims and future wage settlements will erode our reserves.

3. Distinct from General Fund Reserve, the Debt Service Fund continues at $55,671.00 (N/C). The Debt Service Fund is the sum of all excess capital fund borrowings, accrued interest and premiums un-utilized. Previously we transfers these to re-capture taxpayer monies not previously used: an appropriate budgetary use. The 2013-2014 budget year maintained this remaining nominal balance as is: a minor cushion still available unless offset by permitted bonding programs.

Commentary: The economy remains in recession: municipalities have very little relief in sight. Not detailed are the continuing secondary and tertiary effects of a flat economy entering its 6th year. NYS has projected retirement costs (all funds) for 2013-2014 at $1,449,176.00 compared to actual costs of $1,326,995.00 last year: an increase of $122,181.00 (+8.43%). Debt service expense increased $590,293.00 in 2013-2014 due to the close-out/financing of the FWSP. 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. There are no quick fixes.

Any budget is just 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, the budget essentially is fixed. Current, traditional non-tax rate derived revenues such as sales tax receipts (at March 15, 2013 are on target); mortgage tax sharing (seasonally still below projections) lag and only building permit fees have begun to rebound on a selective basis. Together, we have approximately 30 days to review this proposal, but also to revisit potential changes in both the revenue streams and expense draws that could still have impacts on our calculations. We will need to review all numbers and closely monitor the current budget now about to close. We have initiated a "corporate turn-around" budget monitoring process with budgetary reviews at the 4th month, 6th month and 8th month levels so that "mid-course corrections" and remedial action be taken, as necessary.

Lastly, and on a personal level, I wish to renew my comments of last year: the 2% NYS Mandatory Tax Revenue Spending Cap (the "Cap") has essentially turned the normal budgetary process upside down. Normally the budgetary process is a bottom up event. 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 (with other revenue sources) is the "eye of the needle" used to measure acceptable levels of expenditures.

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

Philip E. Zegarelli, Village Manager

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