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

3 April 2018

**Honorable Mayor Lori A. Sullivan**
**and Members of the Board of Trustees**
**Village Hall**
**1111 Pleasantville Road**
**Briarcliff Manor, NY 10510**

**Reference: 2018-2019 Village of Briarcliff Manor (VBM) Tentative Budget.**

**Dear Mayor Sullivan and Members of the Board of Trustees (BOT):**

This letter confirms that in my capacity as Village Manager and Chief Budget Officer, the 2018-2019 Tentative Budget was filed with the Village Clerk on Tuesday, 20 March 2018.

We are pleased to report that this is our 10th budgetary cycle and for each year we have stayed within the NYS mandated Tax Revenue Cap (T-Cap) or this Board's expectation. During these last ten fiscal years, the budgetary challenge of a slow, ongoing recessionary economy has affected our planning. False recovery starts aside; we believe that VBM is witnessing an economic turnaround driven by actions we have taken. This was accomplished by focusing on alternative funding sources and the necessity of strict budgetary/expense controls, these are: limiting ourselves to prudent borrowing for long term capital needs; and, funded short term needs by the judicious use of cash surplus. This match funding of L/T to L/T and S/T to S/T was possible due to the planned long term debt (General and Water Fund) runoff for the last 3+plus years. The result is a net runoff of approximately $9 million of debt and net of last year's new capital. In real numbers, approximately $42 million of total VBM debt down has dropped to approximately $33 million of total consolidated debt. However, the true measure of this financial efforts is measured by our ability to maintain consistently high municipal service levels throughout this prolonged recession.

This year's adjusted VBM T-Cap was calculated at 2.02%: we are calling for the use of 1.67% contained in this proposed budget. The difference of 0.35% is to be "reserved" for next year. We are confident that the long, hard work of budgetary controls and judicious cash use will be borne out this time next year. A strong, reliable indicator is the "soft landing" of our General Fund (fiscal year end) fund balance of 12.3% at 2016, 18.00% at 2017 and an anticipated 17.3% by 2018: growth … adjusted for sound regulatory and financial market needs. Like other local government, VBM has better means to control expenses than to enhance revenue sources. Our record of expense control is immediate and based on real-world conditions. Our 4, 6 and 8 month reports to you pinpoint expense and revenue changes giving us the time and ability to make changes in line with established budgetary policy. When we budget for sales and mortgage tax we have learned to estimate conservatively and prudently. Our fee schedules are reviewed even mid-year. We have a solid 37.35% of total revenue derived from non-tax sources. The higher the percentage of this variable an important factor in lessening the tax burden to all while layering variable costs to the actual end users.

This year's proposed General Fund calls for total expenditures of $17,586,288.00 and compares to last year's budget of $16,914,480.00, an increase of $671,808.00. This translates to a proposed 2018-2019 tax levy increase of 1.67%. While we will review the competing effects of having 2 assessment rolls and equalization effect, for the VBM taxpayer, a decrease of 0.72% will occur in the TOS side of our Village and a decrease of 0.27% within the TMP side of VBM.

**Assessment Roll and Equalization Rates:** The story remains the same: VBM operates in a very unique financial world of two separate assessment rolls: a TOS assessment roll maintained at a 100% resulting from last year's revaluation; and, the TMP's long out-of-date assessment roll pegged at 1.43% equalization rate. It goes without saying that TMP's circa 1930's assessment roll causes wide disparity in values between the TOS and TMP sides of our village. The split between both village is 91%/9%, respectively. One positive aspect to the assessment aftereffects is that our running tally of SCARS and Tax Certioraris continue to wane and are fully covered by the special reserve we established specifically earmarked to address these court ordered refunds.

**Financial Sources and Operational Uses:** The ability to deliver municipal services is based on timing and the understanding of financial sources for operational uses. The budgetary process pulls together various segments of budget calculations determined at one moment but frozen for a full year once you adopt the budget. Therefore, the budget locks in the revenue number even though we are fully aware that that much can change during the upcoming year. As was said previously, uses (operational expenses /spending) are the offset. Uses are akin to a household held to a fix source and amount of income, paid largely in 2 blocks in cash (equating to the two tax payments annually) where the family must manage all known and unforeseen expenses. Our goal is to match the costs and pricing to our actual revenue expectations (and vice versa). 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. We also look to "unbundling services" where we can cause those costs to be more financially stand alone. Touched on before, one parameter is to link the costs to the end user and not have those costs subsidized by the entire taxpayer base. This is done within our robust recreation programs, the Scarborough Railroad Station parking permit pricing and the tiered pricing for our water consumers.

It goes without saying that targeted revenue sources may just not materialize. We do believe that our constant reviews have made for more accurate sales and mortgage tax revenue levels exceeding our estimates. At this point in this new budgetary cycle, sales taxes are estimated at $1,233,827.00 and mortgage tax prospects at $280,000.00 of our total 2018-2019 budget. For this coming budget year, some 37.3% of the total budget will be derived from non-tax revenue. This is very important because the higher this percentage becomes; the lesser dependency we place on our taxpayers to fund Village operations.

Helping us to be more accurate in our financial analysis and planning is that fact that this year our ability to fix actual employee costs are more defined. With the success of achieving multi-year labor union contracts in place, we have been able to "plug-in" known costs for the CSEA and PBA member employees. The salary adjustments for the non-union employees should be determined prior to budget adoption. VBM is a "service organization" and the costs of providing our residents services has become more accurate. Depending how you wish to estimate, fully 80% plus of our budget is mandated or fixed, contractual costs. Being able to be more precise in this area is a positive for budgetary accuracy. A few offsetting situations: from a materials and equipment base we continue to do well. We replace/purchase new equipment from the perspective of how can we gain greater efficiencies. We budget for snow removal: salt, manpower, fuel and equipment use are just some of the variables. But like last year, more salt is used during drawn out wet snow storms of lower accumulations (like this year's 14 snow events/nor'easters) than higher levels of "drier", colder snow storms. It would be nice if snow storms only hit us during the regular weekday hours to avoid O/T or weekend pay, certainly not the case this year with 3-4 nor'easters during this March alone.

When we budget for other necessities such as fuel, oil etc., we find that the market place enabled us to save versus previous higher years. Lastly, we still do run on a lean organization: overall, with the rebuilding of our Police Department, there are 71 full time employees: that is 27 in the CSEA, 19 in the PBA, and 25 non-union. We utilize part time employees as judiciously as possible and groom these employees as future full timers as vacancies occur.

**Water Fund and Water Rates:** Since early 2009, we have undertaken and continue to totally reorganize the operational and financial underpinnings of the Water and Sewer Department through its separate fund. All previous deficits have been fully reversed: in addition, all operations are fully funded by water department revenues; we have funded and upgraded the physical structure and operations of our entire water system; and previous General Fund loans utilized in the initial FWSP work have been disgorged back to the General Fund. Success in this area was accomplished by our cascade water rate system linked with significant physical improvements throughout our water distribution system. We have used the market system to "encourage" our consumers to conserve water use while the VBM has reduced its water loss (unallocated water) by strategic projects tightening up water mains and eliminating cost of lost water (leaks). In the last 7-8 years, reversed a 31.5% unallocated water loss to less than 10% today. This is well below the American Water Works Association (AWWA) standards. We have not increased our water rates since June of 2013 and anticipate holding the rates this next fiscal year. This is after robust NYC increases in water rates at least once every year. 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 and personnel costs from the General Fund to the Water Fund. This is only fair and equitable and has eased the burden from the taxpayer to the heavier user of our water service: whether not-for-profit / exempt or otherwise. Lastly, we have reduced Water Fund debt and are to utilize water surplus to fund necessary water department capital projects without the need to borrow funds. This is true repatriation of surplus water funds directly for the benefit of all water consumers within and without our village boundaries.

Our collective water systems knowledge has been recognized with VBM heading up the Tri-Village Water Works, a consortium with Tarrytown and Sleepy Hollow. The NYCDEP looks to VBM for leadership in this era of consolidation, sharing of distribution facilities and expansion of water sources and transmission mains. The VBM Manager continues to be "President" of the Tri-Village Water Works as we seek to consolidate pumping, chemical water treatment and general water operations to our respective communities. To that point, we have initiated the defined studies contained in the shared NYS grant of up to $600,000.00 per village to study and undertake additional work to be more efficient in our collective water distribution system within the Tri-Village Water Works group.

The 2018-2019 Water Fund Budget is pegged at $7,567,117.00: a budgetary increase of $1,706,734.00 from 2017-2018's $5,860.383.00. We note that net of the $1,750,000.00 fund balance to the 2018 Water Fund Capital Projects line, the change in the Water Fund Budget would have declined by approximately $44,000.00. This cash transfer obviates the need to borrow for several, sizable future Water Department capital needs. Lastly, offsetting some of the fund's costs, are the economic benefits of a tightened water transmission system together with close monitoring of billings and collections. The VBM's FWSP has yielded a state-of-the-art water facility.

## Other Funds and Reserves:

1. In the 2018-2019 VBM Budget, the Library Board of Trustees approved and submitted its budget for $688,811.00. Last year's BOT approved number being $661,609.00: an increase of 4.1 %. Of the total budget, approximately 97% 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 – Fund Balance** stands at $3,042,948.00 / 18.00% of the $16,914,480.00 in revenues as of 31 May 2017. Last year's $949,329.00 increase was limited due to the cash aftereffects of union settlements and expenses due to a harsh Winter. As we reported, we are pleased to note that we sought a Standard & Poor's ratings review to challenge Moody's November 2015 Aa2 bond rating. Our efforts are reflected in the Aa+ rating from S&P which equates to Moody's Aa1. Recall that it was S&P's enhanced rating that was instrumental in our combined $18 million new and "refunded" (refinanced) of municipal debt at low interest rates. We will continue to enhance our efforts to reflect a still stronger VBM credit rating minimizing any computer "stress test" analysis. Based on our concerted efforts, we look forward to "telling our story' to both rating agencies.
3. Distinct from General Fund, the Debt Service Fund stands at $681,111.00 after utilizing $1,019,376.00 in the 2017-2018 Budget. Recall that the Debt Service Fund is the sum of all excess (unused $$$) 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. Since it is taxpayer funds and should be used for other associated capital needs that may arise.

**Commentary:** We continue to stretch resources and personnel to keep service levels high with less and less dollars. Retirement costs, pension allocations, medical and health benefits far outstrip revenue growth with little relief in sight: 2018-2019 NYSHIP family health benefits will witness a $2,800 (10.9%) premium increase over last year's 10%. The 2018 premium for family health care will now stand at $28,765.00.

Through all this, we note that the VBM taxpayer is a dedicated person … devoted to keeping the VBM strong and well serviced. Net of property owners whose unpaid water rates converted to the tax roll, VBM tax collection rate today is 99.96% (only $4,338.00 outstanding of $10,846,000.00 in last year's total tax revenues): remarkable by any standard in Westchester, let alone in NYS.

Our Tentative Budget is a forecast: only a snap-shot of the current economic climate when you approve it in final form. Our task has always been to project for a full year based on our best, educated knowledge of economic trends (sources and uses) for the next 12 months. Once set, our budget is basically cast in concrete. Although many of us have appealed to the NYS government and legislature to adjust the revenue restrictions to take into account the 8 years of recessionary impacts, our theme was ignored and the tax revenue cap extended for another 3 years. The proverbial bottom line is that NYS villages in general are under enormous pressure with little regard to the detailed services we provide our residents.

Lastly, thanks and gratitude go to our Department Heads and support staff for their advice and consideration during this important process. Most importantly, my personal and professional thanks go to Ed Ritter, Village Treasurer, and his dedicated staff for their in depth knowledge and considered judgment. Ed's steadfastness as our Treasurer has enabled the VBM to refine and extend financial expertise in all aspect of sound fiscal management.

Respectfully submitted,

**P. E. Zegarelli**