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31 March 2017

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

Reference: 2017-2018 Village of Briarcliff Manor (VBM) Tentative Budget.

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

By copy of this letter, this confirms that in my capacity as Village Manager and Chief Budget Officer, the 2017-2018 Tentative Budget was filed with the Village Clerk on Monday, 20 March 2017.

As an overview, I wish to note that this is my 9th budgetary cycle and for each year we have stayed within the NYS mandated "Tax Revenue Cap" or BOT expectation. For years we have been challenged by an ongoing recessionary economy which, after many false starts, only now exhibits characteristics of a turnaround. Lessons learned include the everyday focus on alternative funding sources and necessity of strict budgetary/expense controls. After much labor and planning, we believe that the longer term projects long stalled due to the economy can now be viewed as potential contributors to our future stability. Lastly, we note that our ultimate success should be measured by your ability to maintain consistently high municipal service levels in this constrained economy.

The effects of an early series of indicators of a rising economy enabled us to limit our 2017-2018 Budget increase at 1% under our 1.5% NYS mandated Tax Revenue Cap. This is in keeping with our 8 year trend and we intend to "reserve" ½% for the following year. Our ability to achieve this is a conservative approach regarding non-tax revenue sources such as sales and mortgage tax revenue last year and only now on the upswing. Examples are: there is no doubt that our building permit fee increases rounding out our current tax year reflect increased building (new and remodeling) within the Village. Long anticipated construction projects are just now beginning. These are unique projects with enhanced fees. Other projects and developments are in the wings but our approach is to stretch out the revenue flow to balance out ... smooth out ... the variations to our financial cycle.

This year's proposed General Fund calls for total expenditures of **$16,914,480.00** and compares to last year's budget of **$16,991,007.04**: a **decrease** of **$93,811.97**. This translates to a proposed 2017-2018 tax levy increase of **1%**. While we will review the competing effects of having 2 assessment rolls and equalization effect, for the VBM taxpayer, a **decrease** of **2.00%** will occur in the TOS side of our Village and a **decrease** of **4.58%** within the TMP side of VBM.

Assessment Roll and Equalization Rates: We are faced with a very unique situation with our consolidated Village Assessment Roll. This year witnesses the effects of the TOS driven Assessment Roll Revaluation (Re-Val). Because of its implementation, the TOS equalization rate for this year is at 100% and will be subject to equalization rate change in the future. The TMP out-of-date assessment roll is subject to this year's **1.52%** equalization rate. The last TMP-wide Re-Val dates back to the mid-1930's. Notwithstanding all this change, this year's consolidated assessments yields a near equilibrium when applied to both towns of our village. As experienced in prior years and even with the TOS Re-Val, the running average 90/10% split between the TOS and the TMP assessments remains essentially the same: this year at 91/9%. 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.

Sources and Uses: When we pull together the varied segments for our annual budget calculations, we face determining a fixed figure reflecting all known and variable **revenue sources**. We then lock-in that revenue number as of one date: budget adoption. Everyone knows that much can change during the year. The Village has very few alternative financial instruments to adjust if revenue estimates do not materialize. **Uses** 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 where the family must manage all known and unforeseen expenses. Your staff's 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 to make them more financially stand alone.

One parameter is to link the costs to the end user and not have those costs subsidized by the entire taxpayer base. It goes without saying that targeted revenue sources may just not materialize: certainly the case during the current recession where sales and mortgage tax estimates failed to materialize with the associated lag in the housing market. This also occurs in such areas as the pool, summer camp and other variable revenue areas where family priorities, plans, weather and other situations are the determining factors. A detailed analysis of our budget year end reflects the effect of **Expense Reduction.**

Even after meeting mandated contractual expenses, your staff maintains a base line of expense/cost reduction. VBM is a "service organization" and the cost of providing services is stacked against us: contractual salaries and benefits are people costs which are current and do not lag. Yet, we fully understand your mandate: Our goal remains to squeeze out costs, become more efficient at what we do all the while maintaining our current service level. A few offsetting situations: from a materials and equipment base we have done 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. More salt is used during drawn out wet snow storms of lower accumulations 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. 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. The parallax to falling fuel costs hits our NYS sales tax (a fixed percent of fuel pricing) revenue segment. Lastly, we do run on a lean organization: overall, there are 69 full time employees and we utilize part time employees as judiciously as possible.

Water Fund and Water Rates: Since my appointment in early 2009, we have undertaken a total reorganization of the financial underpinnings of the Water and Sewer Department through its separate Fund. Previous deficits have been reversed, all operations are fully funded by water department revenues and we have funded and upgraded the physical structure and operations of our entire water system. 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 end users to conserve while the VBM has reduced its water loss (unallocated water) by literally tightening up its water mains eliminating cost of lost water (leaks). In the last 7-8 years, we had an unallocated water loss of 31.5% and are at 10% today: well below the American Water Works Association (AWWA) standards. We have not increase our water rates since June of 2013 and anticipate holding the rates this next fiscal year: NYC has increased their 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.

The **2017-2018** Water Fund Budget is pegged at **$5,860,383.00**: a budgetary **increase of $141,659 from 2016-2017's $5,718,724.00.** 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 FWSP Reserve (originally funded by taxpayer funds/loans over 10 years ago) was disgorged back to the General Fund. VBM now enjoys a state-of-the-art water facility and the FWSP file has been officially closed. Your Manager heads up and is "President" of the Tri-Village (VBM, VTT and VSH) Water Works as the three villages seek to consolidate pumping and chemical water treatment operations prior to transmission to our respective communities. To that point, recently we were awarded a shared NYS grant of up to $600,000.00 lead by the VBM to study and undertake additional work to be more efficient in our collective water distribution system within the Tri-Village Water Works group

Other Funds and Reserves:

1. In the 2017-2018 VBM Budget, the Library Board of Trustees approved and submitted its budget for $661,609.00. Last year's BOT approved number being $618,517.00: an increase of 6.8%. Of the total budget, approximately 96% 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 **$2,280,562.00 / 13.48%** of $16,914,480.00 in revenues as of 31 May 2016. Last year's $402,061.00 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 a **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" (refi'd) of municipal debt at low interest rates. We will continue to enhance our efforts to reflect a stronger VBM credit rating including actions to minimize any NYS Comptroller's "stress test" computer generated analysis.
3. Distinct from General Fund Reserve, the Debt Service Fund stands at $215,900.00 after utilizing $50,000 in the 2016-2017 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: 2017-2018 NYSHIP family health benefits will witness a $2K (10%) premium increase. Through all this, we 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 99.93% (only $4.0K outstanding of $10,739K in 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 7 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 praise 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 depth of knowledge and considered judgment. Ed just finished his first year as our Treasurer and has been a valuable member of our fiscal team.

Respectfully,

P. E. Zegarelli

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