

Citizens Budget Advisory Committee
County Board of Legislators
800 Michaelian Office Building
148 Martine Avenue
White Plains NY 10601
Thursday, December 1, 2016

The Honorable Sheila Marcotte
Chair, Budget and Appropriations Committee
Westchester Board of Legislators
800 Michaelian Office Building
White Plains, NY

Subject: **CBAC Report on the Westchester County 2017 Operating and Capital Budgets**

Dear Chairwoman Marcotte,

We thank you for the opportunity to present our observations and concerns on the 2017 Operating Budget and Capital Budget.

Key Principles and General Comments on 2017 Budget and Trends

The priorities of the CBAC, regarding the operating budget are:

- Adopt a sustainable budget, with estimated revenues based on reasonable assumptions;
- Pay current operating expenses from current revenues;
- Limit borrowing to capital needs for long term assets;
- Preserve and enhance reserves;
- Maintain low debt ratio;
- Maintain access to capital markets at lowest interest rates; and
- Address the need for continued focus on Government Efficiency Initiatives.

Summary of CBAC's Key Findings on the 2017 Operating Budget

The CBAC shares many of the same priorities set forth at the presentation of the budget by the County Executive; however, the CBAC has several concerns with the 2017 Operating Budget as proposed.

- Several of the key assumptions used to construct the budget are not realistic, therefore the 2017 Budget is not balanced. Current operating expenses are not fully funded by operating revenue; the proposed new sources are one-shots and may not be available for this fiscal year. This leaves the budget with a structural shortfall. The CBAC suggests the Proposed Budget should be resubmitted with either an increase in the tax levy or a decrease in expenses rather than relying upon the revenues from a not yet certain Airport transaction. It appears too early to ascertain when these funds will be available.
- As in the 2016 proposed Budget, debt is used to fund parts of the current operating budget in 2017. Debt is proposed for expenses that are generally considered operating expenses and not true capital requirements – this includes bonding for real estate tax certiorari and borrowing to fund the required contribution to the Pension Fund.
- The proposed budget includes “one-shot” revenues, most notably the proposed airport lease; reliance on this strategy is not a sound budget practice. Also, this may not protect the current credit rating enjoyed by Westchester County. CBAC is concerned that this approach is one step closer to using general fund reserve balance to close shortfalls 2016 and 2017 and beyond.
- As highlighted in our comments on the 2016 Budget, in 2017 revenues forecasted from sales tax again appear overstated.
- No funds appear to be available to cover the increased expenses of any new labor agreement reached between the County and the various unions. As in 2016, CBAC comments that the potential expense of increased wages due to a settlement could soon be offset by potentially significant savings from concessions that could be agreed upon- a more beneficial sharing of health insurance expenses or other reductions in the cost of benefits currently covered by the County.
- CBAC believes in the importance of a multi-year budget approach. The multi-year approach contrasts strongly with the current budget’s reliance upon end of year use of fund balance and one-shots to improve revenues. A less short-term view of the budget process could include assessing potential changes in both revenues and expenses.

Some more detail on CBAC's key concerns:

- Airport Lease: The current business model for Westchester County's airport provides a breakeven operation while employing a minimum number of employees. It also has absorbed some County operating expenses, included staff expenses. CBAC recognizes that a County-owned and operated airport is unusual, and this enterprise can be considered out of the scope of county government. Monetizing the operation is a realistic proposal for the County to investigate.
- CBAC has several concerns about the current proposal. The current offer from a private firm provides immediate revenue. However, the revenue is front-end loaded, and the agreement pledges the County to provide continuing security services- a significant recurring expense that over time will greatly exceed the potential revenues. Financially, this proposal does not provide substantial benefits for the County in the long term.
- The Airport is a valuable asset of the County. Since a forty-year agreement will bind the County for a generation and a half, we recommend the county continue to negotiate a better deal. This includes issuing an RFP to investigate other, more balanced proposals that could provide greater benefits for the taxpayers of Westchester County.
- The proposed airport transaction is also dependent upon regulatory approvals. There are no approvals in place and there is no historical evidence to suggest that these approvals will be in place in less than 12 months. Based on this, the projection that these revenues will impact the 2017 budget seems unrealistic.
- Once again, sales tax revenue seems to be overstated. The CBAC recommends a 2017 Sales Tax of \$510M, a 1.5% increase over 2016 projected. The Actual and Projected for sales tax over the past two years have been flat. Until there is an actual growth the CBAC recommends a slow growth in this revenue source; we note this is an item the County policies do not directly effect.
- The table below compares Westchester's Sales Tax projections to those used by other New York Metro Area Counties.

Sales Tax Revenues

Westchester County

Actual 2015	Budget 2016	Projected 2016	Budget 2017	CBAC Proposed 2017
\$500.6 -0.5%	\$525.8 5.0%	\$502.5 0.4%	\$517.6 3.0%	\$509.9 1.5%

Nassau County

\$1,103.8 1.2%	\$1,117.7 1.3%	\$1,125.6 2.0%	\$1,141.5 1.4%
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Suffolk County

\$1,300.0 0.8%	NA	\$1,300.0 0.8%	\$1,400.0 2.3%
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- A “one-shot” is being proposed to balance the budget for 2016, closing the gap based on revenues projections that were not met. This is the proposed refinancing of the tobacco bonds. This is another instance of reliance upon debt to support operating expenses, and a one-shot solution rather than a long-term strategy.
- Using a program offered by New York State, the County has continued to use Debt to finance pensions, CBAC is concerned about the long-term impact of this choice.
- The 2017 budget shows the addition of full time employees, 9 staff are to be added in Social Services. Most of these expenses will be covered by State or Federal sources.
- The budget also shows the continued trend of deletions of full time staff. CBAC notes that 3 positions in planning have been cut, limiting the support for economic development projects. The County needs to grow the local economy and diversify the non-residential tax base. Staff cuts in Planning seems to prioritize short-term savings over long-term growth. Lack of adequate housing options, transportation and parking are all concerns that keep new companies from Westchester,

delaying work on these items could lead to the loss of economic development opportunities over time.

Special Districts

There is good news and bad news in the Special District's budget request. The good news is the total tax levy for the fifteen (15) special districts has not materially increased since at least 2013. The bad news is the tax levy in four of the special districts is increasing significantly- Mamaroneck Valley 6.1%, Ossining 11.9%, Port Chester 13.0%, and Water District #1 8.0%. There is no description in the Special District budget proposal about why these districts require these increases.

Also, the budget for each district, except New Rochelle and County Water Districts No. 2 and 4, includes an appropriation from its fund balance. There is no explanation regarding how the fund balance appropriation amount was determined. The appropriation of fund balance has occurred for at least the last few years, at this pace the fund balances will eventually be exhausted. This strategy is essentially a series of one-shots. There is no stated plan in the budget document for what the minimum fund balance should be or how to replenish these revenues when the available fund balances are depleted.

The BOL should request the Department of Environmental Facilities (DEF) explain the rationale for the increases in the four districts mentioned above. It should also request the DEF explanation for the fund balance appropriations and require that DEF develop a plan for using fund balance appropriations in the future.

Expense Analysis – Tax Levy, Federal and State Aid

The table below shows net expenditures after Federal and NYS aid by the six major expense categories on pages B-7 and B-8:

Westchester County 2017 Operating Budget (\$000's)						
	Federal and New York State Funds			Dept Rev	Net Expense	%
	2017 Budget	Fed Aid	NYS Aid			
General Government and Support	\$49,937	\$0	\$172	\$18,192	\$31,572	3%
Home and Communtiy Services	\$613,695	\$167,523	\$100,305	\$16,411	\$329,456	27%
HealthServices	\$149,933	\$936	\$67,744	\$10,667	\$70,586	6%
Pub Safety, Correct & Courts	\$223,024	\$1,996	\$11,946	\$23,766	\$185,316	15%
Roads, Transportation & Parks	\$218,150	\$13,348	\$60,589	\$82,369	\$61,844	5%
Misc. & Fixed Expenditures	\$526,166	\$0	\$8,802	\$0	\$517,365	42%
Education	\$29,833	\$0	\$0	\$0	\$29,833	2%
Total	\$1,810,739	\$183,804	\$249,385	\$151,405	\$1,226,145	100%

After all sources of aid and department revenue the net operating expense for Home and Community Services (Social Services, County Clerk and Consumer Protection) before Miscellaneous and Fixed Expenditures is 47%. This is the single largest category.

The share of the total budget contributed from Federal and New York State assistance has declined since 2010. Between 2012 and 2016 these revenues dropped by \$117 MM, and since 2014 Federal and New York State assistance has dropped \$32M. There is a table in the addendum to the document that reflects this analysis. As these additional revenues decline, the reliance upon the tax levy increases.

The CBAC sees this as a structural problem- the objectives to keep the tax levy flat and to maintain the current level of services cannot both be met.

Reduction in Operating Expenses

CBAC continues to recommend studying how reduction in operating expenses, emphasizing savings that can be achieved through process improvement, consolidation of similar services and other organizational changes. Included in the Addendum a process the county could utilize to determine expense savings.

Fund Balances and Reserves

Generally, the comments regarding the Fund Balance are that further pressure on Fund Balance will deplete the remaining cushion. If less reliance is placed on debt, and the tax levy remains flat, the only resource remaining is use of unrestricted fund balance.

It is expected that government will rely upon these reserves in years of great economic stress, such as the County experienced in 2009 through 2012. However, during a period of economic growth, Fund Balances are generally expected to recover. Continued reliance upon these reserves leaves no excess when another economic downturn impacts County revenue.

Capital Budget

Total cost of proposed Projects for County is \$4.4 Billion for 519 projects. About 50% of IT Capital Budget is for e911 and Radio Replacement.

One Project that began in 1988 and completed in 2007 continues to be listed in the document.

CBAC recommendations include many of our comments from other years including:

- Remove short-lived assets such as cars, computers, etc. from the capital budget and fund them from the operating budget, where they would not incur interest charges;
- Create a secure database of capital project information and keep it current- including project costs, descriptions and status;
- \$200,000 for the study and design of the database was added to the 2016 Capital Budget, the results of this have not been discussed by CBAC. Was the project completed?
- Update the information in the Capital Budget and in quarterly reports to the B&A.

Government Efficiency Plans

In 2015, the CBAC recommended steps to be taken to continue the success of the Government Efficiency Plan. The CBAC recommended an investment in IT, allowing this department to assist other entities in achieving additional savings, and increasing government efficiencies to benefit taxpayers over the next years. This investment can result in significant savings to cities, towns, villages, school districts and other special districts. This program could produce revenue for the County as fees could be collected for these services. The aggregate tax levy for all IT expenses could be lower.

Sincerely,

John McGarr
Julie Stern
Lawrence Fasnacht
L. William Kay III
Carolyn B. Stevens
Judith Stern Rosen
Beverly Sved
Rodman K. Reef

Addendum

A. Federal and New York State Aid

The table below shows Federal and New York State Aid 2011- Proposed 2017 in dollars and as a percent of revenue. Since 2011 Federal and NYS Assistance has declined as a percent of revenue, with the exception of 2012. The outlook is for aid to continue to decline. The trend may require that tax levies increase, unless other sources of revenue grow.

Westchester County (\$000's)							
	Budget 2017	Budget 2016	Budget 2015	Budget 2014	Budget 2013	Budget 2012	Budget 2011
Fed	\$183,804.2	\$182,725.9	\$199,632.4	\$215,565.6	\$203,160.3	\$303,252.0	
NYS	\$249,617.6	\$241,177.9	\$248,174.4	\$249,738.1	\$249,399.2	\$247,244.7	
Fed & NYS	\$433,421.8	\$423,903.8	\$447,806.8	\$465,303.7	\$452,559.5	\$550,496.7	\$460,007.0
Rev	\$1,810,739.1	\$1,803,048.9	\$1,749,060.7	\$1,738,677.9	\$1,724,266.7	\$1,697,886.4	\$1,795,490.8
Aid as %	23.9%	23.5%	25.6%	26.8%	26.2%	32.4%	25.6%

B. Expense Cuts:

Below is a process the county could utilize to determine expense savings. Note this builds upon the framework CBAC has presented regarding increasing efficiency and reducing expense in each of the last reports presented.

I Categorize Activities Related to the Mission of Individual Departments

Activities could be prioritized by the following criteria:

1. Federally mandated services what is mandated? Where & how, including method of delivery
2. State mandated services- what is mandated? Where & how are these services to be delivered?
3. Westchester County mandated services: What is mandated and what is method of delivery?
4. Non-mandated services driven by Westchester County's citizens need and desires. These activities can be categorized as "nice to do". What are they? What is method of delivery?
5. All other services: what are they and how are they delivered?

#II Establish a priority listing of the activities from # I

- A – Top priority
- B – High priority
- C – Low priority
- D – Discretionary

Determine the Headcount, Expenses & Capital versus Revenues for Activities #1 - #V within priorities A to D Identify all activities which are duplicative throughout the Departments reviewed for example administrative activities:

Develop work flow chart for selected activities from #I; including potential use of technology, new practices or processes for these items.

Evaluate the impact of new technology, new processes or outsourcing of work on each activity from #III, #IV and #V.

For example:

Decrease in expense- impact either positive or negative on service levels and quality.

Impediments to implementation – labor issues, potential lost revenue, potential funding loss from grants.

Space and Support Requirements before and after consolidation. How will the space and support required before consolidation be utilized after consolidation? Include space, support, equipment etc. that may not be needed after consolidation.

Develop new estimate of headcount, two year operating expenses and capital for each activity assuming the optimum application of technology from #VI.

Aggregate headcount, two year operating expense and capital from #VII to create two year pro forma Operating Budgets for Departments in the scope of the review.

Management System

- Identify the new mission statement based on consolidation.
- Define the management system to provide adequate County oversight for tasks or activities to be outsourced.
- Map the skills required in the new organization to current skills in place.
- Develop the key management objectives and metrics in the new organization.
- Capital Projects-Evaluate analyze and assess the impact of consolidation on
- Capital projects in the planning phases, engineering phases and construction phases.
- Consider completed projects, the outstanding debt on them and how will the projects they funded be utilized in consolidation.