

**Citizens Budget Advisory Committee  
Westchester County Board of Legislators  
800 Michaelian Office Building  
148 Martine Avenue  
White Plains NY 10601**

Friday November 30, 2018

The Honorable Catherine Borgia  
Chair, Budget and Appropriations Committee  
Westchester County Board of Legislators  
800 Michaelian Office Building  
White Plains, NY 10601

**Subject: CBAC Report on the Westchester County 2019 Operating, Capital and Special Districts Budgets**

Dear Chairwoman Borgia,

Thank you for the opportunity to present our observations and concerns on the 2019 Operating Budget, Capital Budget and Special District Budget.

Key Principles and General Comments on 2019 Budget and Trends

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

- Adopt a sustainable budget, with 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;
- No borrowing or one shot revenues to pay current operating expenses
- 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 2019 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 2019 Operating Budget as proposed.

The CBAC recognizes that the 2019 County Operating Budget is a document and plan for a transitional period toward improved financial results and stability. The CBAC further recognizes that the County fund balance has been depleted . It should be noted that this budget has all County union employees under current contracts. This has not been the case since 2011. All County employees are now contributing towards the cost of their healthcare. The County has begun to expense new vehicles with a service life of three years or less as well as new equipment costing less than \$30,000,

The CBAC has several concerns with the 2019 Operating Budget as proposed.

- Make progress during 2019 towards achieving a rate of spending and revenue collection sufficient to reduce borrowing and “one timers” in future budgets.

- Sales Tax

The 2019 budgeted sales tax of \$578.7 million, which is a 5.1% increase over the projected 2018 amount, may be at risk due to the current softening in gasoline prices and inclusion of revenues that have not yet been enacted into law by the NY State Legislature (expanded taxes on Internet sales). The 2019 Budget projects a base growth of 3.8%, and an additional 1.3% (expanded Internet sales tax) for part of 2019. The value of the Internet sales tax for 2019 is estimated to be \$7.4 million. The CBAC recommends that this \$7.4 million be eliminated from the Budget, since there is no assurance that legislation needed to collect taxes on expanded Internet sales will be enacted, and cannot take place immediately if enacted.

- One Shot Revenue

These non-recurring revenues (“one shots”) leave a hole in budgets following the year they are first used and do not create a sustainable financial model. The one shots in the 2019 Budget total over \$30 million and include the sale of the County Center Parking lot, for \$22 million, and the drawdown of approximately \$8 million from the Health Fund. While we acknowledge that this is a transitional period, the CBAC would like to see an end to the use of non-recurring revenues. As an alternative, the CBAC recommends the County seek additional recurring revenues, as well as a reduction in recurring expenses, as a means to address structural budgetary issues facing the County.

- Continued use of Borrowing to Fund Required Retirement Contributions

The CBAC has discussed this topic in the past. Paying current expenses, including current NYS Retirement Plan(s) contributions with debt is not a long term financial solution for the County to fund its required employee pension contributions. While the amount borrowed from the NYS Pension Stabilization Fund is less than in some prior years the Committee would like see this form of off-balance-sheet borrowing stopped. The County is budgeting to borrow \$5.7 million from the NYS Pension Stabilization Fund and in this case the County will have amortized \$124 million and incurred interest of \$23.9 million since beginning to borrow from the Stabilization Fund in the 2012 budget year.

- Fund Balance Stabilization

The CBAC recommends that the County initiate a General Fund Stabilization Plan to rebuild the Unrestricted Fund Balance to an adequate level. CBAC recommends an amount of \$10 million to \$15 million be included as a budgeted line starting no later than the 2020 Budget and continue for at least six years or until the level of the County's Unrestricted Fund Balance is in the range of 8 to 10 percent of annual General Fund expenditures.

The objective of this plan is to maintain an adequate balance and return to a Triple-A bond rating that Westchester has achieved in the past. While rating agencies consider numerous factors before assigning ratings, including the economy, tax base, debt levels and management, financial factors are weighted heavily. The level of the fund balance and its trend are major components within this factor.

The establishment of the Stabilization Plan will send a message to taxpayers and the financial community that Westchester Government has a process to address the reduction in General Fund Balance in a challenging budget environment.

- Head Count Planning and Workflow Optimization

There is an anticipated higher level of retirements in the County employees than prior years. This presents the County with an opportunity to reconfigure departmental organizations, consolidate functions and introduce technology while continuing to provide quality service delivery. It also allows the County to right-size headcount, identifying vacancies critical to service delivery but also potential opportunities for streamlining and attrition over time.

An internal approach would involve the Budget Director, Chief Operating Officer, County commissioners and department employees to evaluate departments using an approach similar

to that found in Addendum A of this report. An external approach would involve allocating funding for management audits of County departments by an outside consulting firm with deep operational knowledge of the County's functions. This would involve extensive interviews of departmental employees and stake holders as well as relevant benchmarking against best practices and development of a road map to improve service delivery processes tailored to Westchester County in the most efficient and effective manner possible. This type of information is critical for policy makers as they weigh benefits versus costs during the budgetary process and ensure the most prudent use of tax dollars.

- Bonding for Commercial Certiorari Proceedings

The CBAC has also discussed this topic in the past. Borrowing money to pay for taxes previously collected is poor financial practice, especially since this type of expenditure occurs nearly every year. The CBAC recommends that this practice be stopped.

- Special Districts

The Special Districts operating budget requests a 2.9% tax levy increase, which is in excess of the CE's stated intent to limit tax increases to 2%. The total 2019 Special Districts budget request is 9.9% higher than the amount expended in 2017, which is a large increase for a two-year period.

The combined Special District Fund Balance for 2017 was \$108 million. The operating expense for the Special Districts for 2017 was \$208 million. That is a coverage ratio of 52% and is much higher than the CBAC recommendation for a reasonable ratio (8% to 10%).

The CBAC recommends that the Budget and Appropriations Committee, and the full Board of Legislators, perform a detailed review to determine:

- Why there is such a large increase between the 2017 actual amounts expended (the last year with full-year audited actuals), and the 2019 budget;
- Why do the Special Districts have such a large fund balance and how can it be best used for the benefit of the County and its residents;
- How services can be improved using fewer staff and labor time (i.e. productivity improvements), by focusing on service indicators elaborated in the annual Districts Budgets

	2017 Y.E.Fund Balance	2017 Operating Expense	Coverage Ratio
Sewer Districts	\$53.6M	\$121.1M	44%
Water Districts	\$8.2M	\$19.9M	41%
Refuse District	\$46.0M	\$66.8M	69%

- The Airport Special Reserve Fund

The airport will have to use \$4.5 million, or 23%, of its fund balance (reserve fund) to cover a hole in its operating budget.

CBAC recommends that the County increase Airport fees to close this structural deficit.

- Multi Year Planning

CBAC recommended a multiple-year planning process to provide an analysis of the effects of current operations over time. This would give everyone the ability to better understand the impact of changes in policies and practices on government services. Such work is especially important in this period of transition to achieve a structurally balanced financial model for the County.

### The Proposed Capital Budget

Compared to prior Capital Budgets the 2019 document is modest and focused on current needs of the County and expenditure are distributed as follows:

Sewer and Water	38%
Transportation	22%
Buildings, Land & Misc.	15%
Parkways, Roads & Bridges	8%
Refuse	8%
Recreation	7%
Airport	2%

This Capital Budget will provide the County with a manageable plan to execute. An insufficient number of full-time engineers employed by the County has inhibited the completion of Capital projects in the past. The County approach to tracking Capital projects must be evaluated and revised. Additionally, priorities need to be set and decisions regarding personal to plan and manage the projects needs to be revamped. CBAC produced a report for the B&A in (approximately) 2014 that recommended the creation of a database to help keep track of capital projects already underway.

**Supporting Information**

Some more detail on CBAC's key Operating Budget concerns:

**Sales Tax Comparison to other Metro NYC Countries**

The 2019 sales tax budget has been explained as a growth rate of 3.8% and additional 1.3% from an as-yet not legislated tax on Internet sales in the State. The growth assumption of 3.8% is in line with the other Counties in the example table below. The idea will be addressed in the 2019 NYS Legislative Session. The CBAC recommends the 1.3% should not be included and the assumed amount should be reduced by \$7,425 to \$571,290 M. One of the factors that increased sales tax revenues this year were the increases in fuel prices that began in the fourth quarter of 2017. With the current glut in gas inventory the outlook for supplies is clouded as gas prices have been in a decline. These lower prices could result in lower sales tax revenues for 2019.

Sales Tax Revenues (\$ Billions)

<u>Fiscal Year</u>	<u>Sales Tax</u>	<u>Incr/Decr</u>	<u>% Change</u>	<u>Sales Tax</u>	<u>% Change</u>	<u>Sales Tax</u>	<u>% Change</u>
2017	\$1.150	+0.026	\$1393		\$0.525		
2018	\$1.199	\$0.049	+4.2%	E \$1.462	+5.0%	E \$0.551	+5.0%
2019	\$1.243	\$0.044	+3.7%	E \$1.513	+3.5%	E \$0.579	+5.1%

**General Fund Balance**

Unrestricted fund balance communicates valuable information about both the past and the future to the County's residents and the financial community. The existing balance shows the cumulative effects of a local government's financial history. It also identifies the liquid resources available to fund unforeseen contingencies as well as likely future liabilities. It is expected that government will rely upon these reserves in years of 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.

Adequate unrestricted fund balance prevents the disruption of services to residents due to unexpected temporary revenue shortfalls or unpredicted one-time expenditures. It cushions the need for future large increases in the property taxes. In short, the fund balance provides stability and flexibility to respond to unexpected adversity and/or opportunities.

The chart on page 12 from the First Quarter Update to Fiscal Year 2018 brought the importance of the Committee's discussions to reality. Below is a current view from the third quarter of that summary:

	<b>2017 Audit</b>	<b>2018 Projected*</b>
Unrestricted General Fund Balance as of Jan 1	\$140.0 M	\$108.2 M
Unrestricted General Fund Balance as of Dec 31	\$108.2 M	\$69.2 M

The CBAC recommends that the County initiate a General Fund Stabilization Plan to rebuild the Unrestricted Fund Balance to a sustainable level. The committee recommends an amount of \$10 M to \$15 M be included as a budgeted line no later than the 2020 Budget and continue for a total of six years or until the level of the County's General Unrestricted Fund is in the range of 8 to 10 percent of the County's General Fund Expenditures.

The objective of this plan is to maintain an adequate balance and return to a Triple A bond rating that Westchester has achieved in the past. While rating agencies consider numerous factors before assigning ratings, including the economy, tax base, debt levels and management; financial factors are weighted heavily fund balance and its trend as major components within this factor.

The establishment of the Stabilization Plan will send a message to taxpayers and the financial community that Westchester Government has a process to address the reduction in General Fund Balance in a challenging budget environment.

The County will need to investigate and lower County operating expenses to minimize the impact of the Stabilization Fund on the tax levy.

**Special Districts**

The 2019 operating expense proposal for the Special Districts needs a careful review by the B&A Committee and the BOL. It includes a 2.9% tax levy increase versus 2018 with only a 1.4% increase in expenses. In addition, the 2.9% tax levy increase appears to vie in conflict with the County Executive's commitment to a maximum of a 2% increase in taxes.

Also, the 2019 budget request is 9.9% higher than the 2017 actuals. 2017 is the last full year with audited financials. The increase in the two year period varies by district including: 15.6% in Blind Brook, 2.2% in Mamaroneck, 1% in New Rochelle, 19.2% in Ossining, 15.9% in Peekskill, 15.1% in Port Chester and 38.8% in Water District No. 3. There is no discussion of the rationale

for these increases in the budget book. This seems to be a large increase for a two year period and suggests the 2019 request and the 2018 projected total may be overstated.

The staff levels and seven of the nine water and sewer service indicators have not changed in the three period covered in the 2019 budget book. The B&A and the BoL may want to ask the management of the Special Districts to address productivity improvements in the plans for 2019. This might include reduced staffing and improved water and sewer service indicators. Three of the five refuse service indicators have double-digit increases in the two-year period. The other two are in the low single digits. The B&A and the BoL may want to compliment the Special District management on these changes while asking them to investigate additional productivity improvements.

The combined Special Balance Fund Balance for 2017 was \$108M. The operating expense for the Special Districts for 2017 was \$208M. This is a coverage of 52%.

Below is the detail by sub fund:

	2017 Y.E.Fund Balance	2017 Operating Expense	Coverage Ratio
Sewer Districts	\$53.6M	\$121.1M	44%
Water Districts	\$8.2M	\$19.9M	41%
Refuse District	\$46.0M	\$66.8M	69%

There may be an opportunity in the fund balances of the Special Districts. Using the 8% to 10% of the operating budget range recommended previously, the Special Districts fund balances are significantly overfunded. As mentioned above, at year-end 2017, the total of the Special Districts fund balances was about 52% of the operating expenses for the year. With one anomaly, this percentage ranged from 13% to 181% for each of the districts. 2017 is the last year for which there are audited year-end fund balance numbers.

The fund balance use as presented in previous budgets has been overstated for at least several years. Fund balance usage in the 2019 budget looks similarly overstated. In the 2019 budget, the proposal is to use, in many cases, 25% to 33% of the fund balance. In 2017, as an example, the proposed budget estimated the Districts would use about 26% of the fund balance. Only 8% was used. This occurred in prior years too. If the balance was used at the rate stated in the 2017 proposed budget, the fund balance would last less than four years. If it continues to be used as it was used in 2017 (and similarly in prior years) it can last almost thirteen years. The 2019 proposal will likely have a similar result.

The projection of the 2018 fund balance use in the proposed 2019 budget does not seem to be accurate. The projection uses the budgeted fund balance number instead an updated number from two-thirds to three-quarters of a year operating experience. The operating expense projection, however, is updated from the year-to-date operating experience.

These inaccuracies and inconsistencies color the data in the proposed budget and limit the decisions available to the B&A Committee and the BOL. This is especially important given the limited time available to the B&A Committee and the BOL to review and approve the budget.

Recently the CBAC recommended a legal review of the Special Districts. The BOL's Director of Fiscal Affairs, Gregory Casciato, requested the review and the County's Attorney assembled a team for the project.

The requested review includes for each of the Sewer Districts, the Water Districts and the Refuse Disposal District:

1. The date of its establishment
2. The legal description of the scope its operations
3. The description of funding and the source of that funding (method of taxation and/or fees, should those be sources)
4. The legal description of the governance of each District
5. The allowed use of its Fund Balance

Accurate, up-to-date information is important for the B & A Committee's and the BOL's deliberations and decisions. With accurate and timely information, they could consider, for example, using some of the fund balance to reduce Special District taxes, using some of the fund balance - assuming the laws and regulations allow it- to reduce the General Fund taxes, or using the fund balance to reduce bond requirements for capital projects.

At a minimum, the B&A Committee and the BOL should carefully review the Special Districts operating expenses and the size of the Special District's fund balance. The B&A and the BOL should require the numbers in the proposed budget be closer to reality and more accurate. The Special Districts management should be encouraged to explain, in the budget book, variances between actuals and estimates of more than three percent.

### **Multi Year Fiscal Pan**

CBAC recommended a multi-year planning process to provide an analysis of the effects of current operations over time. This would give everyone the ability to better understand the impact of changes in policies and practices on government services. Such work is important in this period of transition to a structural balance financial model for the County.

Time spent on multi-year budgeting could create an environment of participation and discussion concerning the policies, practices and strategies that should be considered. Additional benefits could allow for better project and program ranking, better affordability measures, and resolve problems that occur repeatedly in the budget and budgeting process.

The timing of the Multi-Year plan is also important. Scheduling work for the first quarter of the year and the follow-up discussions by the B&A Committee by mid-year could improve the annual process

The CBAC thanks the BOL for the opportunity to work on the financial issues facing the County. Every year the Committee undertakes a special study in addition to reviewing the budget. We look forward to suggestions for areas to research in the coming year.

The CBAC is at the disposal of the Budget and Appropriations Committee as well as the Board of Legislators to provide support for our recommendations and answer any questions we can.

Sincerely,

John McGarr – Co-Chair

Julie Stern – Co-Chair

Lawrence Fasnacht

Al Gatta

L. William Kay III

Mark Lewis

Beth Smayda

Carolyn B. Stevens

Judith Stern Rosen

Rodman K. Reef

Edward D. Van Dolsen

ADDENDUM

**A. Workflow Optimization:**

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.

2019 Special District Expense Budget and Fund Balance Comparisons

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
District	Expenses Expended 2017	Expenses Projected 2018	Expenses Allowed 2019	Expenses Allowed 2019 M/(L)	Expenses Projected 2018 M/(L)	Expenses Allowed 2019 M/(L)	Expenses Allowed 2019 Percent M/(L)	2017 Budget Percent Fund Balance Used	2017 Actual Percent Fund Balance Used	2017 Actual percent Used M/(L)	2017 Budget Available Years	2017 Actual Available Years	2019 Budget Percent of Fund Balance Used	2019 Budget Available Years
<b>Sewer Districts</b>														
Blind Brook	8,954,983	10,308,296	10,353,085	44,789	0.4%	1,398,102	15.6%	19.9%	-22.6%	-42.5%	5.0	2	26.1%	3.8
Bronx Valley	23,010,235	24,731,947	25,222,572	490,625	2.0%	2,212,337	9.6%	31.8%	13.6%	-18.2%	3.1	7.4	33.3%	3.0
Central Yonkers	1,402,601	1,392,058	1,583,129	191,071	13.7%	180,528	12.9%	9.3%	3.3%	-6.0%	10.8	30.3	30.0%	3.3
Hutchinson Valley	6,282,410	6,785,667	7,029,345	243,678	3.6%	746,935	11.9%	19.7%	5.7%	-14.0%	5.1	17.5	30.0%	3.3
Mamaroneck Valley	18,889,011	19,476,926	19,317,450	(159,476)	-0.8%	428,439	2.3%	33.3%	18.3%	-15.0%	3.0	5.5	33.3%	3.0
New Rochelle	21,496,718	21,532,303	21,386,344	(145,959)	-0.7%	(110,374)	-0.5%	0.0%	-8.4%	-8.4%	1	2	20.0%	5.0
North Yonkers	4,773,642	5,234,991	5,379,786	144,795	2.8%	606,144	12.7%	31.5%	10.4%	-21.1%	3.2	9.6	33.3%	3.0
Saw Mill Valley	14,934,237	15,813,535	16,289,451	475,916	3.0%	1,355,214	9.1%	32.4%	17.1%	-15.3%	3.1	5.8	33.3%	3.0
South Yonkers	1,625,154	1,661,136	1,795,139	134,003	8.1%	169,985	10.5%	10.5%	-2.7%	-13.2%	9.5	2	26.5%	3.8
Upper Bronx	1,398,769	1,493,766	1,535,202	41,436	2.8%	136,433	9.8%	22.6%	-8.4%	-31.0%	4.4	2	20.0%	5.0
Ossining	4,324,796	4,886,864	5,155,619	268,755	5.5%	830,823	19.2%	33.3%	-49.2%	-82.5%	3.0	2	30.0%	3.3
Peekskill	4,869,764	5,072,577	5,645,091	572,514	11.3%	775,327	15.9%	33.3%	4.7%	-28.6%	3.0	21.3	40.0%	2.5
Port Chester	3,175,245	3,576,347	3,657,683	81,336	2.3%	482,438	15.2%	33.3%	21.5%	-11.8%	3.0	4.7	33.3%	3.0
<b>Total</b>	<b>115,137,565</b>	<b>121,966,413</b>	<b>124,349,896</b>	<b>2,383,483</b>	<b>2.0%</b>	<b>9,212,331</b>	<b>8.0%</b>	<b>28.2%</b>	<b>9.0%</b>	<b>-19.2%</b>	<b>3.5</b>	<b>11.1</b>	<b>30.9%</b>	<b>3.2</b>
<b>Water Districts</b>														
County Water #1	17,402,408	20,316,791	20,127,538	(189,253)	-0.93%	2,725,130	15.66%	33.4%	18.2%	-15.2%	3.0	5.5	41.9%	2.4
County Water #2	69,517	10,000	10,000	0	0.00%	-59,517	-85.62%	0.0%	-0.8%	-0.8%	-	2	0.0%	3
County Water #3	2,419,205	3,042,685	3,358,208	315,523	10.37%	939,003	38.81%	23.6%	13.9%	-9.7%	4.2	7.2	33.3%	3.0
County Water #4	0	1,000	1,000	0	0.00%	1,000	-	0.0%	-0.6%	-0.6%	-	-	0.0%	2
<b>Total</b>	<b>19,891,130</b>	<b>23,370,476</b>	<b>23,496,746</b>	<b>126,270</b>	<b>0.54%</b>	<b>3,605,616</b>	<b>18.13%</b>	<b>26.5%</b>	<b>16.1%</b>	<b>-10.4%</b>	<b>3.8</b>	<b>6.2</b>	<b>34.7%</b>	<b>2.9</b>
<b>Refuse District</b>														
Refuse	66,775,487	73,391,555	73,941,576	550,021	0.75%	7,166,089	10.73%	23.0%	7.1%	-15.9%	4.3	14.1	34.7%	2.9
<b>Total</b>	<b>66,775,487</b>	<b>73,391,555</b>	<b>73,941,576</b>	<b>550,021</b>	<b>0.75%</b>	<b>7,166,089</b>	<b>10.73%</b>	<b>23.0%</b>	<b>7.1%</b>	<b>-15.9%</b>	<b>4.3</b>	<b>14.1</b>	<b>34.7%</b>	<b>2.9</b>
<b>Special Districts</b>														
<b>Total</b>	<b>201,804,182</b>	<b>218,728,444</b>	<b>221,788,218</b>	<b>3,059,774</b>	<b>1.40%</b>	<b>19,984,036</b>	<b>9.90%</b>	<b>25.7%</b>	<b>8.0%</b>	<b>-17.7%</b>	<b>3.9</b>	<b>12.5</b>	<b>32.9%</b>	<b>3.0</b>