

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

Friday, December 1, 2017

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 2018 Operating and Capital Budget

Dear Chairwoman Marcotte,

We thank you for the opportunity to present our observations and concerns on the 2018 Operating Budget and Capital Budget.

This year our report is divided into two parts: the first part contains a summary of our points on the 2018 Budgets and the second part provides some detail on our analysis and thoughts on the strategic issues Westchester County is facing.

Key Principles and General Comments on 2018 Budget and Trends

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

- The BOL should adopt a sustainable budget, with estimated revenues based on reasonable assumptions;
- Budget should align current operating expenses with 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 cost; and,
- Focus on government efficiency.

Part 1: Summary of CBAC's Key Findings and Concerns on the 2018 Operating Budget

Budget Not Balanced

Proposed 2018 operating expenses are not fully funded by operating revenue. Therefore, the budget is not balanced. The business case for the proposed long-term airport lease has not been released for evaluation by the BOL. Without the revenues from this transaction the 2018 budget has a structural shortfall.

Reliance on the airport transaction, especially when it lacks approval by the BOL and the FAA is not a sound budget practice. Further, including the revenue in the 2018 operating budget from the airport deal may negatively impact the high credit rating enjoyed by the County. We believe that rating agency concerns regarding this approach to the operating budget have led to the County being placed on negative watch by Standard & Poors.

The CBAC notes that the 2017 proposed budget was also dependent upon revenue from a deal for a long-term lease of the airport, which has not occurred thus far. The County will likely need to draw from the general fund balance reserves to close a 2017 revenue shortfall. In 2018 the estimated revenue from the airport transaction is approximately \$29 MM, if this revenue is not received the County may have few options besides continuing to deplete reserves. The CBAC suggests the Proposed Budget be resubmitted with either increased revenues from reliable sources (which may mean the tax levy) or decreased expenses, in the form of program reductions, lower service levels, reduced headcount, etc., rather than relying upon the revenue from a not-yet-certain transaction. The Impact of further drawdowns on general fund balance and unrestricted reserves should be evaluated by the BOL.

Debt

Debt is used to fund parts of the operating budget for 2018. Debt is proposed for expenses generally considered operating expenses and not true capital requirements – this includes borrowing to fund part of the contribution to the NYS Pension Fund.

Sales Tax

In 2018 the revenues forecasted from sales tax appear overstated at \$545M. The revenue source is outside the direct influence of the County. While sales tax revenue increased in the second part of 2017, this appears to be primarily due to the rising cost of fuel. As in 2017, the CBAC believes that prudent planning calls for reducing the proposed growth in this revenue line from 4% to 3%, or \$5M, for the year.

New Contracts

No funds appear to be available to cover the increased expenses of new labor agreements between the County and its unions. This strategy puts further pressure to maintain adequate reserve balances for the County. CBAC believes that the potential expense of increased wages due to a settlement could be partially offset by savings from union concessions. However, the funds required for retroactive pay from these negotiations might be in the tens of millions of dollars. As there are no additional revenues to cover this increased expense, a union settlement could negatively affect the County's reserves.

Staffing

The 2018 budget shows the addition of many full-time employees, including 20 staff to be added to the Board of Elections and 15 staff added to the Probation Department. The need for the 20 additions in the Board of Elections is questionable.

The 15 additions in the Probation Department result from the change in the NYS law regarding juvenile offenders. The juveniles were previously part of the adult population and now are a separate class. No detail was available but state aid is to be provided to cover the additional cost to comply with the new law.

The proposed budget also proposes deletions of full time staff:

- 9 positions were cut from the Office of the County Executive, which we believe may impact the ability of the Office to function as previously;
- 12 engineers and architects will be cut from the DPW staff. The elimination of 12 positions follows upon previous reductions in DPW staff. As the CBAC has commented in prior years, reductions in DPW professional staff has resulted in a drop in completed infrastructure projects. The cumulative impact of these cuts very likely means that the current backlog regarding projects in DPW will continue and will continue to delay projects required to maintain the County infrastructure.

Sound Infrastructure is vitally important for County residents, and economic development in the County as well. Repairs generally become costlier if maintenance is deferred and projects do not proceed in a timely manner. The short-term savings in reduction of the department's headcount will be offset by the growth in maintenance expenses over the longer term (which will not be that long). The correct number of headcount should be determined based on the Capital Plan and needs of the County.

There are indications the salary line in some departments may be underfunded for a full twelve months of service. Also, there is at least one department where salaries appear overstated because staff is substantially more highly compensated in 2018. An audit of the math in the salary lines in the budget may be required to address these concerns. The audit should also address the Taxi & Limousine budget where there is a wide swing in salary expenses, including a proposed salary line which is more than \$60,000 over the department's request.

Economic Vitality

The County needs to grow the local economy and grow the tax base. The lack of adequate housing options, high transportation expenses and limited parking options are all concerns that keep new companies from Westchester. Delaying work on these items can lead to the loss of economic development opportunities. Replacing some of the Planning Department staff eliminated in previous budgets can help with this effort.

Special Districts

CBAC undertook a project researching the Special Districts in 2017, and we have several comments and recommendations for the Special Districts proposed budget. Please see the section on this topic in Part 2 for more detail. The summary of the CBAC's concerns are:

- The Special District tax levy has not increased since at least 2013, however, the tax levy differs significantly district by district. For example, one district, Port Chester, has a 13.2% increase and two districts, South Yonkers and Central Yonkers, have decreases of 5.0% and 4.6% respectively. The Proposed Budget does not directly address the reason for these differences.
- The overall Special District tax levy is kept flat with the use of each District's fund balance or reserves. The use varies by district. For example, the budget uses 40% of one district's fund balance and 35% of six districts' fund balances. Obviously, this use of fund balance is not sustainable. In an emergency, such as Super Storm Sandy, there will be limited or no reserve funds to address required repairs. The budget does not explain how the use of fund balance was calculated, how the fund balance will be replenished or what an optimal level of reserves should be. Most important, the residents of many of

the districts, assuming expenses remain at current levels, will face significant tax increases in the future if nothing is done.

- Capital and operational expenses are apportioned to the districts differently. Capital is tracked by District but operational expenses of all Districts are totaled and apportioned by assessed value between the Districts. This makes it difficult to explain differences in sewer taxes to property owners.
- The budget should rectify the financial impact of the administrative error which placed 740 properties in the Town of Mamaroneck in the wrong sewer district for about 40 years.

Based on the previous concerns regarding the 2018 proposed operating budget, CBAC recommends the tax levies be addressed to:

- Reflect a realistic revenue forecast;
- Stop the use of debt for Operating Expenses;
- Reinstate engineering, architecture, planning and County Executive Office positions;
- Delete the increase in Board of Election staff;
- Plan for long term projects such as the restructuring of the County's 24 departments into a more efficient organization, a comprehensive shared services strategy, and overall economic development; and
- Address the Special Districts' Budget issues.

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 your suggestions for areas to research in the coming year.

Also, the CBAC was intended to be a committee of 9 or 11 members, but currently only 8 members are appointed to serve. We ask that legislators seek volunteers to join the CBAC that have skills and experience that would enhance the CBAC.

Sincerely,

John McGarr – Co Chair

Lawrence Fasnacht

L. William Kay III

Beverley Sved

Julie Stern – Co Chair

Carolyn B. Stevens

Rodman K. Reef

Judith Stern Rosen

Part 2: Strategic Issues Westchester County Faces

A. Fund Balances and Reserves

In 2017 the CBAC reviewed the Special Districts and identified several unique issues pertaining to the financial planning and administration for these Districts. This was raised as an area of concern because residents in the Districts are experiencing additional costs to upgrade and maintain water and sewer facilities yet there is little transparency in the Budget allowing those impacted to understand the process.

There are four recommendations for the Special Districts Proposed Budget.

- The budget should contain a means to rectify the financial impact of the administrative error which placed 740 properties in the Town of Mamaroneck in the wrong sewer district for about 40 years. The 740 properties were assessed as part of the Mamaroneck Valley District when they actually used the New Rochelle District facilities. The New Rochelle District, therefore, had fewer assessed properties than it serviced and the Mamaroneck District had more properties than it serviced. One option might be to recalculate the sewer tax levy for the two districts for the last seven or ten years (or for whatever period records are available) and move the difference between the fund balances of the two districts. There may be other options too.
- Capital and operational expenses are apportioned between the districts in different ways. The operational expenses for all the districts are totaled and apportioned across the districts by the ratio of each district's assessed value to the total assessed value of all of the districts. Capital and certiorari expenses are kept within the district that incurred the expense. This makes it difficult to explain differences in sewer taxes to property owners. The BOL may want to address this and apportion the capital and certiorari expenses in the same fashion as operating expenses.
- The Special District tax levy has not increased since at least 2013. However, this is not evident district by district. For example, in the 2018 Proposed Budget Port Chester will see a 13.2% increase, North Yonkers will see a 4.9% increase and Water District #1 will see a 3.1% increase. However, Ossining will see a 2.8% decrease and two small districts, South Yonkers and Central Yonkers will see 5.0% and 4.6% decreases respectively. The Proposed Budget does not directly address the reason for these differences. Incidentally, the direction and size of these changes vary from year-to-year. There is no pattern or reason mentioned for the year-over-year variations.
- The overall Special District tax levy is kept flat with the use of each District's fund balance or reserves. In the 2018 Proposed Budget, 40% of the Central Water District #1's fund balance will be used for this purpose. Similarly, 35% of six districts' fund balances will be used for the same purpose. Four districts will use between 21% and 27% of their fund balance. Five districts will use 10% of their fund and two districts will not use any of their fund balance. One of the 0% districts (Central Water district #4) has almost \$320,000 in its fund balance and has no property taxes assessed. Obviously, the use of fund balance to keep the tax levy flat cannot continue at these levels for very long. The residents of many of these districts, assuming expenses stay at current levels, will face significant tax increases in the future, if nothing is done.

Incidentally, the budget document does not explain how the use of fund balance for each district was derived or how the fund balance will be replenished in the future.

The BOL may want to address the four Special District concerns mentioned: the use of fund balance; the variation, by district, in the tax levy; apportioning operating and capital expenses in the same way; and rectifying the administrative error impacting 740 properties.

B. 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. The budget appears to have a structural imbalance- annual revenue stream do not cover expenses, and the budget has been balanced on one-time sources of revenue. Concerns regarding this approach to the operating budget have led to the County being placed on negative watch by Standard & Poors.

Normally, reserves are available so that government may rely upon them in years of great economic stress, such as the County experienced in 2009 through 2012. However, during a period of economic growth, the reserves available in the general fund are generally expected to recover. Continued reliance upon these reserves leaves no excess when another economic downturn impacts County revenue. The County is faced with use of the general fund reserve to close the year 2017. The lack of planning for growing the reserve during extended periods of no labor contract settlements puts more pressure on the \$160M in General Fund Balance and a net unassigned Fund Balance of \$57M.

C. Capital Budget

Total cost of proposed 2018 Projects for County is \$268 Billion for projects vs \$317 proposed for 2017. About 16% of the Capital Budget is for Roads, Parkways and Bridges, the same as 2017. 22% of the Capital Budget is for Recreation vs 39% in 2017. 18% of the Capital Budget is for Transportation vs 7% in 2017. With a 15% cut in planned Capital Projects the CBAC is concerned that the 2018 plan will not address the aging Westchester County infrastructure in a sustainable manner

D. 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. The comprehensive strategy could affect long term savings but is a multi-year approach.

As mentioned earlier the CBAC has presented several process changes for the Budgeting cycle. Last year we reviewed a report on reports which reviewed the work needed to complete the projects. Attached is a copy of that report for your attention

E. Streamline County Operations

The CBAC recognizes the need for a strategic review of expenses, and wishes to highlight the recommendation to review the current organization of County government. 24 separate operating departments could be reorganized to gain efficiencies, and reduce the number of people reporting directly to the CE.

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. The focus of this work is to streamline the way the County government is organized, to reduce the direct reporting lines to the CE to four functional areas:

I) Categorize Activities Related to the Mission of Individual Departments

Activities could be prioritized using 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 method of delivery
4. Non-mandated activities driven by Westchester County's citizen need and desires. These activities can be categorized as "nice to do", what where, how method of delivery
5. All other services what, where and how method of delivery.

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 – 5 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 3, 4, and 5.

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 for the department 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.

F. Transformation of County Budget Process- Multiyear Budget Planning

The CBAC has repeatedly recommended that the County provide multi-year budget plans. We studied this topic in 2013, and some of our key findings and recommendations appear below.

Summary of 2013 Report: Multi-Year Budget & Fiscal Plan

A multi-year planning process will provide a view of the effects of current operations over time, giving all the ability to view the impact of changes in policies and practices would have on a baseline of government services.

Time spent on this work would create an environment of participation in the discussions on what policies, practices or strategies should be considered. Some side benefits of the discussions would allow for better project and program ranking, provide a better affordability measure, and resolve the problem of dealing with the same issues repeatedly. A 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.

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

Specifically, a multiyear planning process will help the County by:

- Enabling a government to recognize the short term and long term financial implications of current and planned policies and programs;
- Acknowledging predictable and unpredictable revenues and expenses;
- Fostering the development of strategies to achieve financial goals.
- Moving the debate on policy to the measurable data;
- Providing additional transparency for several options for solutions, potential problems as well as opportunities;
- Providing information leading to the development of a base line, allowing the identification of critical issues; baseline data also allows strategic plans to be developed, implemented, monitored and adjusted over time.

Benefits

- Maintenance and improvements to County operations through planning is sound fiscal management.
- Good infrastructure management and investment are needed to ensure basic health and safety for citizens.
- Carefully planned infrastructure investment in people and facilities can maximize the economic potential and competitive advantage of the County.
- Prudent management of investments in facilities and resources can reduce future operating costs and help avoid higher replacement costs and unexpected crises in the future.
- Provides better information to improve intergovernmental cooperation.
- Enhances the ability to review future workloads and expenses and allows adequate time to obtain state and federal aid for specific projects.
- Provides better information for project ranking and affordability to help prioritize projects.
- Forward-looking budgets will ease the preparation and analytical process for the next annual budget.

The CBAC has consistently recommended the County consider adopting a multi-year operating budget process, and review the changes required to adopt this approach to financial planning. To date no progress has been achieved on this topic, although last year the County's Auditors released a two-year view of the budget. In the past, this has been prepared by the County Administration but not released.

Other government entities prepare budget documents with a forward-looking multi-year plan. Nassau County and New York City both prepare and publish a four-year budget plan.

The CBAC again recommends that the BOL initiate discussions with the County Executive concerning the benefits of a Multi-Year Financial Planning Process for Westchester County.

G. Federal and New York State Aid

The table below shows Federal and New York State Aid 2012- Proposed 2018 in dollars and as a percent of revenue. Since 2012 Federal and NYS Assistance has remained flat or declined as a percent of revenue. For the period of 2012 through the Proposed 2018 budget, these revenues have declined by \$130M. 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 2018	Budget 2017	Budget 2016	Budget 2015	Budget 2014	Budget 2013	Budget 2012
Fed	\$175.8	\$182.7	\$182.7	\$199.6	\$215.6	\$203.2	\$303.3
NYS	\$245.9	\$249.6	\$241.2	\$248.2	\$249.7	\$249.4	\$247.7
Total	\$421.7	\$432.3	\$423.9	\$447.8	\$465.3	\$452.6	\$551.0
Revenue	\$1,838.4	\$1,810.7	\$1,803.1	\$1,749.1	\$1,738.7	\$1,724.3	\$1,697.9
Aid as %	22.9%	23.9%	23.5%	25.6%	26.8%	26.2%	32.4%

(Continued Below)

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-4:

Westchester County 2018 Operating Budget (\$000's)						
Federal and New York State Funds						
	2018 Budget	Fed Aid	NYS Aid	Dept Rev	Net Expense	%
General Govt & Support	\$50,190	\$0	\$180	\$18,354	\$31,657	3%
Home & Community Services	\$608,734	\$161,351	\$96,585	\$16,976	\$333,822	26%
Health Services	\$151,229	\$974	\$68,265	\$10,317	\$71,673	6%
Pub Safety, Correct & Courts	\$227,127	\$1,957	\$12,409	\$24,775	\$187,986	15%
Roads, Transport & Parks	\$223,225	\$11,557	\$61,459	\$81,726	\$68,483	5%
Misc & Fixed Expenditures	\$547,956	\$0	\$6,972	\$0	\$540,985	43%
Education	\$29,900	\$0	\$0	\$0	\$29,900	2%
	\$1,838,363	\$175,839	\$245,870	\$152,148	\$1,264,506	100%
Sales Tax					\$544,506	
Other Rev & transfers					\$171,576	
Tax Levy					\$548,424	

After all sources of aid and department revenue the net operating expense for Home and Community Services (Social Services, County Clerk and Consumer Protection) represents 26% of the total net expense. Miscellaneous and Fixed Expenditures is 43% of the total net expense. These two categories total close to 70% of the total net expense.

The share of the total budget contributed from Federal and New York State assistance has declined since 2010. Between 2012 and 2018 these revenues dropped by \$130 M. 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.