

September 24, 2008

Budget And Tax Thoughts For Dobbs Ferry By Fred Broda, Village Trustee

Tough economic times will require a local budget response.

By mid August of this year financial firms globally have posted \$493 billion in write downs and credit losses according to Bloomberg News. The World Bank reports this figure may rise to one trillion dollars. New York State is especially vulnerable to the financial service sector; "20 % of state's revenue is Wall Street derived" Comptroller Thomas DiNapoli has said.

David Paterson, New York's Governor, has called the legislature into emergency session to address revenue shortfalls and the state's growing deficit. NYS may have a \$26 billion deficit in the next three years. Lower capital gains and bonus taxes lead the way in the revenue shortfall.

Governor Paterson has called for the state to reduce spending, including a cut in its support for state municipalities of 6%. The Village's exposures to Wall Street's problems are viewed to be no less acute than New York State's. This is the economic back drop the Village faces. Rather than propose unacceptable tax hikes for fiscal year 2009-2010 the Village needs to focus as best it can on conserving resources and becoming as efficient as possible this year.

A brief review of important Budget and Tax questions follows.

Q. Is the Village solely responsible for a resident's property tax?

Dobbs Ferry residents receive four separate tax bills on their property. Besides the Village, two other issuing entities, the School District and the County/Town send bills. Two bills are sent from the School district, one due in September and one due in January. The School District's bills are 64% of an average taxpayer's annual total. One bill is sent from the County/Town and is due in April. This bill accounts for 14% of the annual total currently. The Village bill, due in June, represents 22% of the annual total. While each billing entity is responsible for its own budget and tax charge, it is possible that these entities may have interests that overlap. As entities look to provide the most efficient services to the community, it is possible to see examples of service sharing like, the Village offering its fields to the school district or the school district opening its buildings to the community for various events. These overlapping interests are negotiated directly between the entities. The tax bill for the Village component of the total property tax will cost the typical resident taxpayer (\$2,012.40), assuming a 10,000 assessed valuation at a tax rate of 201.24.

Q. What categories are included in the Village Budget? How much is spent in these categories?

The Village Administrator is the budget officer for the Village of Dobbs Ferry. The Administrator is supported by the Treasurer. The Treasurer's function is central. Revenue and expenses are monitored by the Treasurer. Using data from past experience and reasonable projections, the budget is formulated for the coming fiscal year. This process culminates in late April and is voted on by the Board of Trustees in early May. The Board of Trustees looks carefully at both income and expenses. They review individual lines, categories and the totals. If adjustments are required the Board will act accordingly.

It is a requirement of the New York State Comptroller's Office that the Village of Dobbs Ferry submit an annual report. The Village files the Comprehensive Annual Financial Report "CARF" and has elected to have it audited. Dobbs Ferry regularly receives the Government Finance Officers Association ("GFOA") Certificate of Excellence. The award is for excellence in financial reporting.

Below are the Categories and Percentage Weightings that make up the 2008-2009 Budget. Some key statistics include: The total adopted Budget for 2008-2009 is \$15,786,837 vs. \$14,758,108 the prior year, a 6.97% increase. Real Property Tax revenues account for 63.04% of total income. Public Safety is 26.10% of total expenditures, closely followed by Employee Benefits at 22.19%. The Appropriated Fund Balance is 8.55% of total income or the adopted budget.

Village of Dobbs Ferry 2008/2009 Budget	Final Budget 2008/2009	Percent Of Total	Village of Dobbs Ferry 2008/2009 Budget	Final Budget 2008/2009	Percent Of Total
Summary of Revenues And Other Sources			Summary of Expenditures And Transfers		
General Fund			General Fund		
Real Property Tax	9,952,573	63.04%	General Govt. Support	2,299,118	14.56%
Other Property Tax Items	18,300	0.12%	Public Safety	4,120,453	26.10%
Non Property Tax Items	1,570,000	9.94%	Health	8,120	0.05%
Departmental Income	854,300	5.41%	Transportation	1,110,796	7.04%
Intergovernmental Charges	7,500	0.05%	Economic Assitance	24,000	0.15%
Use of Money and Property	156,500	0.99%	Culture and Recreation	1,066,297	6.75%
Sale of Licenses and Permits	550,300	3.49%	Home and Community Svcs.	1,060,392	6.72%
Fines and Forfeitures	175,000	1.11%	Employee Benefits	3,503,700	22.19%
Compensation for Losses	16,000	0.10%	Debt Service	350,000	2.22%
Miscellaneous	5,000	0.03%	Sub-Total Expenditures	13,542,876	85.79%
State Aid	360,000	2.28%	Interfund Transfers		
Federal Aid	0	0.00%	Debt Service Fund	1,472,598	9.33%
Total Revenues	13,665,473	86.56%	Capital Fund	0	0.00%
Appropriated Fund Balance	1,350,000	8.55%	Library Fund	0	0.00%
Total General Fund Revenue and Other Sources	15,015,473	95.11%	Total Transfers	1,472,598	9.33%
Library Fund			Library Fund Operations	657,014	4.16%
Real Property Tax	739,664	4.69%	Employee Benefits	114,350	0.72%
Other Income	11,700	0.07%	Total Library Fund	771,364	4.89%
Library Fund Revenue	751,364	4.76%	Total Expenses All Sources	15,786,838	100.00%
Interfund Transfers	0	0.00%			
Appropriated Fund Balance	20,000	0.13%			
Total Library Fund Revenue & Other Sources	771,364	4.89%			
Total Funding From All Sources	15,786,837	100.00%			

Q. What is the fund balance? How big is it? How big should it be?

Dobbs Ferry maintains several funds. They include the General Fund, the Library Fund, the Special Purpose Fund, the Debt Fund and the Capital Projects Fund. Each is important but the General fund is primary. The General Fund and the Library Fund are the two funds that are adopted by Board of Trustees annually. Simply viewed, the General fund can be compared to a person's checking account. Tax receipts and fees accumulate in the General Fund, then as Village expense are paid out, the fund decreases.

The term "Fund Balance" refers to the account balance of General Fund at the close of the fiscal year. The Unreserved and Undesignated Fund Balance as well as the Total Fund Balance of the General Fund can be use as a measure of the General Fund's liquidity when compared to the Total Budget. For instance:

Fiscal Year	Unreserved/ Undesignated %	Total %	vs. The Total Budget
2008	N/A	N/A	
2007	22%	33%	
2006	14%	24%	

Unreserved/ Undesignated fund balance should range between a maximum of 25% and a minimum 5% of the total budget. The 2008/09 budget calls for a fund appropriation of 8.55%. Fund Appropriation is the use of fund assets as a revenue source. This year's withdrawal of (\$1,350,000) to supplement the revenue shortfall is essentially taking money from the checking account to make the budget. This rate of draw on the General fund may subject the previously mentioned liquidity ratios to pressure. This is a real concern. 8.55% is a large percentage of the budget to be funded with Village savings. A weak economy may further expose the other funding shortfalls. Relying on saving and unanticipated revenues to balance the budget is not in the long term interest of Dobbs Ferry. This practice should be scaled down in fiscal year 2009 -2010. Unanticipated revenues should be used for short term debt reduction, should they occur and the budget allowing.

Q. What is the village debt? What are the borrowings used for? How much do we pay in principal and interest?

Total debt outstanding as of May 31, 2008 was \$15,270,000. This amount is comprised of \$13,130,000 of Serial Bonds and \$2,140,000 of Bond Anticipation Notes. The bonds and Notes help fund items like the Library, the DPW Garage & Equipment, Police & Fire Equipment, the Waterfront Field, and Street Repaving and Reconstruction. Dobbs Ferry's Debt rating is "Aa3" by Moody's Investor Services. The budgeted Debt service cost for principal and interest in 2008-2009 is \$1,472,598. Dobbs Ferry's five year Capital Indebtedness shows growth from \$8,366,000 at May of 2004 to \$15,270,000 at May of 2008. The increase reflects large capital projects like the new DPW building.

Q. Can you explain the annual budget process?

The fiscal year starts June 1 and ends May 31 the following year. During the fiscal year the Treasurer and the Village Administrator are the front line in maintaining fiscal discipline and identifying any issues of concern financially. Individual trustees monitor areas of involvement where they hold special interest. This year revenue that will be available from mortgage recording taxes may not perform as budgeted. The Village has been informed of potential short falls in this area (-31.7%). A 31.7% decline in mortgage recording tax to the Village might cost it 1.62% of total budgeted revenue.

Making a budget is a process that evolves throughout the year. Budget forecast accuracy increases as spending and revenue data accrue. As April arrives data is becoming sufficient to guide the Treasurer, Administrator and Board in developing the Budget for the coming fiscal year. Dobbs Ferry does not have many expense categories that are easily reduced. Union contracts and standard escalation clauses cover much of the budget. Reductions in discretionary spending or areas of public safety usually and predictably have political ramifications. All and all it is difficult to slow the budget's growth.

When economic pressure builds to a point that cuts must be made attrition is a logical place to start. Building efficiency into the budget is always important but critical in tight economic times. Generating real cost reductions stemming from the village's investment in the new DPW facility are a priority.

Above all else being disciplined in spending is the key. It has been said "If you can't measure it, you can't manage it." This quote was made for budgeting. Maintaining key metrics and staying the course on longer term trend lines is essential.

Q. What can Dobbs Ferry do to slow spending and tax increases?

This year the tax rate was increased to \$201.24 from \$192.06 or an increase of 4.78%. The General Fund and the Library Fund combined showed a year over year increase of 6.97% (\$14,758,108 vs. \$15,786,837). Obviously, the property tax rate increase of 4.78% is not sufficient to cover a budget increase of 6.97%. This differential of 2.19% plus the Fund appropriation of 8.55% equals 10.74%. Barring the receipt of any significant unanticipated income or future budget cuts, the Village is likely to see a double digit tax increase as it responds to the revenue shortfall.

Residents do not want to see double digit increases. Tax increases can be slowed if we look seriously at the following points that will promote efficiency and increase discipline in the budgeting process.

Review ways to increase individual and departmental efficiency.

Utilize metrics that are specifically targeted to control spending.

Cap Year-over-Year percentage rate increases for the budget.

Village tax rates must better align with budget increases.

Avoid Fund Appropriations as a source of funding.

Consider caps on Fund Appropriations.

Use unanticipated revenue to pay down debt.

Monitor the variance of Village tax rates vs. CPI to protect seniors.

Promote service sharing wherever possible.

Consider budget cuts for non-essential services.

Consider attrition as a means to reduce under funded budgets.

Data:

Village Bond Rating "Aa3" Moody's Investor Services CAFR 2007

Population 10,622 (2000 Census) CAFR 2007

	Mean Income =====	Median Income =====	CAFR 2007
Per Capita	\$ 35,090	\$ N/A	
Household	\$ 97,727	\$ 70,333	
Family	\$ 144,581	\$ 93,127	

References:

Village of Dobbs Ferry, New York
Comprehensive Annual Financial Report
Fiscal year Ended May 31, 2007
The Office of the Treasurer, Sara A. DiGiacomo

Village of Dobbs Ferry, New York
Independent Auditors' Report on Communication of Internal Control Matters
Identified in the Audit
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