

April 13, 2018

This Report Has Been Prepared Under The Expedious Treatment Procedure Of Scarsdale Forum Inc. By The Committee Whose Members' Names Appear Below. It Has Been Approved By The Board of Directors Of The Forum And Authorized For Release To The Public, But It Has Not Yet Been Submitted To The Forum Members For Their Approval.

SCARSDALE FORUM INC.

**Report of the Fiscal Affairs Scarsdale Committee
On
The Village of Scarsdale 2018-2019 Budget**

The Committee proposes the following resolution for adoption by the Forum:

RESOLVED, that the Report of the Fiscal Affairs Scarsdale Committee on the Village of Scarsdale 2018-2019 Budget be approved.

Preliminary Statement

The Committee supports adoption of the 2018-19 Tentative Budget. The tentative budget was filed with the Village Clerk on March 20, 2018.¹ A hearing on the tentative budget was held on April 10, 2018 to consider public comments and suggestions. The Village staff, Mayor Hochvert, the Board of Trustees (the "Board") and its Finance Committee have prepared a budget that allows the community to continue to enjoy a high level of municipal services at a very modest tax increase substantially under the state-calculated property tax cap despite a multitude of continuing challenges. The proposed budget reflects sound and prudent assumptions and financial management practices, and appropriately takes the current and anticipated needs of the Village into consideration. We commend the Board for its months' long collaboration with the staff in refining the budget and for making that process open to the public.

Discussion

The Tentative Budget. The overall operating goal of the tentative budget was to continue to provide the current levels of service and address the Village's capital needs as much as possible.²

Budgeted expenditures are \$56,574,713, increasing 0.25% from the current year adopted budget. Estimated real property tax revenue increases 1.92% to \$40,052,403; non-property tax revenue decreases by 2.66% to \$15,499,310. The tentative budget applies \$1,023,000 of fund

¹ Village of Scarsdale Tentative Budget Fiscal Year 2018-2019, March 20, 2018, at <https://www.scarsdale.com/ArchiveCenter/ViewFile/Item/121> ("Tentative Budget").

² Tentative Budget, Staff Letter to the Board, p. 29.

balance to cover budgeted expenditures and reduce the increase in the levy. The proposed property tax levy is \$754,921, an increase of 1.921%, over the current fiscal year budget. The tax rate in the tentative budget increases to 4.518545 per thousand dollars of assessed valuation, a 2.31% increase over the current fiscal year. It means a tax increase in Village taxes of approximately \$128 for a homeowner with the average assessed property value of \$1,499,000.³ For the current fiscal year, Village taxes account for 18.19% of the total property tax levy. School taxes account for 62.85% and county taxes account for 18.97%.⁴

The Village budget is largely driven by the expense of salaries, health care, pensions and other employee benefits that amount to approximately 71% of budgeted expenditures.⁵ The Village government has little ability to manage these costs because of unfunded mandates imposed by New York State relative to pension costs, and collective bargaining laws regulating the Village's negotiated, binding contracts with the labor unions representing Village employees, which particularly impacts the increase in health insurance costs. These costs have increased dramatically in the last decade. Indeed, health insurance costs alone accounts for more than the total increase in budget expenditures.⁶ The number of full-time employees (FTEs) is 232.7 and has not changed since 2006.⁷

At the same time, the Village's opportunities to raise non-property tax revenue are limited under state law. Additionally, state aid payments have sharply declined, with the Aid and Incentives for Municipality funding declining from an apex of over \$1,000,000 to only \$203,110 for 2018-2019. The Village increasingly depends on property tax revenues to fund operations, but the State's tax cap limits its ability to increase those property taxes.

The Tax Cap. Beginning with the 2012-2013 Fiscal Year Budget, Scarsdale was required to comply with the State's Tax Cap Law that limits increases in property taxes. The cap for each year is computed by taking the previous year's tax levy, multiplying it by a potential growth factor provided by the State and then multiplying that number by *the lesser of 2% or the CPI*.⁸ For the 2017-2018 budget, the Village was faced with a cap on its tax levy increase of only \$516,436, or 1.37%. This year, the NY State tax cap allowance is 3.78%. The Village could have increased the property tax levy by \$1,486,881 without exceeding the cap.⁹

³ Tentative Budget, Appendix A7. This tax rate is based on the March 20, 2018 total assessed valuation of \$8,864,004,464, which represents a decrease in total assessed value of \$34,135,986 or .38% over the prior period. It is subject to change pending resolution of pending certiorari claims. Tentative Budget, Staff Letter to the Board, p. 14-15. The Committee notes that issues arising from the 2016 Village-wide revaluation are still under consideration. Village staff have discussed their efforts to implement the 2014 and 2016 revaluations and the consultant's study of the Assessor's office presented to the Board on February 27, 2018. Tentative Budget, Staff Letter to the Board, p. 14-16. Issues pertaining to these topics are not within the scope of this report which is solely focused on the proposed budget for the next fiscal year.

⁴ Tentative Budget, Staff Letter to the Board, p. 2.

⁵ Tentative Budget, Staff Letter to the Board, p. 5.

⁶ Tentative Budget, Staff Letter to the Board, p. 4.

⁷ See Tentative Budget, Appendix A12.

⁸ See generally New York State Dept. of Taxation and Finance, The Property Tax Cap, Guidelines for Implementation, at <https://www.tax.ny.gov/pdf/publications/orpts/capguidelines.pdf>.

⁹ Tentative Budget, Staff Letter to the Board, p. 1.

The tax cap can be overridden if 60% of the Village's Trustees vote in favor of a local law that allows the tax levy limit to be exceeded. Because we have six Trustees and a Mayor, a vote of at least 5 of the 7 Trustees is required to override. The Trustees chose not to enact a local law to override the cap for the fiscal year 2018-19 because the budgeted increase in spending of \$754,921 was substantially below the cap.

Limit on State and Local Tax Deductions. In December 2017, federal tax law was amended to limit the amount of state and local taxes (SALT) that can be deducted in computing federal income tax liability to \$10,000 beginning in calendar year 2018. While generally anticipated to adversely affect communities in our area, the impact of this change on Village taxpayers and on the Village's financial condition is not yet known and nearly impossible to predict. At least some Scarsdale homeowners will be paying significantly higher federal taxes, but it is difficult to know how many. Some Scarsdale taxpayers likely fell under the alternative minimum tax scheme, and therefore were not fully benefitting from SALT deductions under pre-amendment law. Others may pay less federal income tax under the new tax law, notwithstanding the cap on SALT deductions.

Steps have been taken at the local and state level to ameliorate the effects of this cap in the SALT deduction. The Village took steps at the end of 2017 that allowed taxpayers to pay certain Village taxes in 2017 so those payments could be claimed as a deduction in that year. The recently-passed New York State Budget contains two provisions that may positively impact some Scarsdale taxpayers. Language in the state budget "decouples" federal tax laws regarding deductions from state tax laws, allowing a taxpayer to take a standard deduction at a federal level without losing the ability to utilize itemized deduction at the state level.¹⁰ In addition, the state budget gives municipalities the option to create charitable funds to support the public purposes of Village government and share in some of the costs.¹¹ Taxpayers would make contributions to the funds equal to the amount of their property tax liability and receive a tax credit for 95% of the contributions. Whether these contributions would qualify as charitable deductions in computing federal income tax liabilities is unknown.¹²

The Village staff and the Board took the reduction in the SALT deduction into consideration in preparing the tentative budget. They projected somewhat lower revenues from

¹⁰ "New York Closes in on Workaround to Trump's New Tax Law," Politico, March 30, 2018, at <https://www.politico.com/states/new-york/albany/story/2018/03/30/new-york-closes-in-on-workaround-to-trumps-new-tax-law-340295>.

¹¹ "Gov. Cuomo Tries Shielding New Yorkers from GOP Tax Law, in Possible Model for Democratic-Controlled States", Washington Post Wonkblog, April 2, 2018 at <https://www.washingtonpost.com/news/wonk/wp/2018/04/02/gov-cuomo-tries-shielding-new-yorkers-from-gop-tax-law-in-possible-model-for-democratic-controlled-states/>.

¹² The Committee recommends that the Village study this option, but advises caution. There will be an open question as to whether the IRS would recognize such a charitable fund for its intended purpose. It is also not possible to predict whether Federal legislative or regulatory changes could be put in place that might be aimed at such structures.

mortgage taxes and building permits.¹³ Their approach was to maintain services, avoid eliminating FTEs, and maintain Village property, but not include any “extras” in the budget as a way to double down on their efforts to limit controllable expenses. We agree with this conservative, wait-and-see approach to the SALT deduction cap. Municipal bond rating agencies are currently studying the issue.¹⁴ Payments for 2018 federal taxes will not be due until April 2019, shortly before the end of the period covered by the tentative budget. The Board should carefully monitor the effect of the cap on SALT deductions on the Village’s fiscal affairs and its residents as it may have implications for the Village budgets in the future.

The tentative budget avoids service reductions. The tentative budget allows the Village to continue to provide a “level of services that residents have been accustomed to.”¹⁵ We agree with this approach and believe it generally reflects the views of Village taxpayers. The community appears to be resistant to perceived service cuts at this time. For example, the Conservation Advisory Council’s Sanitation Study proposal to move the pickup of commingled recyclables to the curb was rejected by the Board following numerous community objections. As a result, the Board agreed to start a pilot curbside food scrap pickup program but continue back door pickup of recyclables.¹⁶ There are also instances of resident groups requesting more services. In two recent reports, the Scarsdale Forum’s Municipal Services Committee recommended additional code enforcement to promote quality of life,¹⁷ and also additional signage, sidewalks and police enforcement to calm traffic (though most of those surveyed in the latter study indicated they would not favor an increase in taxes to cover those additional efforts).¹⁸ However, no surveys, or studies, or other data regarding opinions of taxpayers concerning the quantity and quality of services they desire and their willingness to pay for them were considered during the budget process. The Committee encourages a more data-based assessment of taxpayer sentiment in the budget process.

The principal cost of delivering services to residents is employee compensation. The Village has little or no ability to reduce those costs other than by cutting FTEs. This Committee recognizes that while many private sector jobs have not seen much growth in wages over the past several years, most of the Village employees work under union contracts that require not only wage increases (by artificial COLAs as well as step increases) but also minimum health care and retirement standards that are mandated by the state. Reducing FTEs, however, would mean a reduction in the amount and quality of municipal services.

¹³ On the plus side, estimated interest income increased from \$60,000 to \$220,000. Tentative Budget, Staff Letter to the Board, p. 13-14.

¹⁴ The Village Treasurer’s communications with rating agencies, reported to the Finance Committee at the January 18, 2018 “first pass” budget meeting.

¹⁵ Tentative Budget, Staff Letter to the Board, p. 1.

¹⁶ Minutes of March 13, 2018 Board of Trustees Meeting, p. 97-100, at <https://www.scarsdale.com/AgendaCenter/ViewFile/Minutes/03132018-483>.

¹⁷ Scarsdale Forum, Initial Report of the Municipal Services Committee on Quality of Life Village Code Violations, September 19, 2017.

¹⁸ Scarsdale Forum, Report of the Municipal Services Committee on The Scarsdale Forum Traffic Survey, January 18, 2018.

Thus, we do not advocate service cuts in the 2018-19 budget (e.g. eliminating leaf pickup,¹⁹ reducing trash pickups, or moving pickups to curbside). We do, however, recognize that all of these possible cost reduction measures and others might need to be reexamined by the community in the coming years. The Committee urges residents and the Board to heed staff's warnings that bigger year-to-year tax increases are inevitable in the future if the goal is to continue to provide existing levels of service.²⁰ In addition to the potential negative effect of the federal SALT deduction limitation, severe weather events, and the need for additional police protection of our schools, are examples of other foreseeable needs that may adversely affect this and future budgets.

Debt service is projected to decrease in fiscal year 2018-2019 by 20.77% (\$484,691 year-to-year) from the current year, a result of the final payment for the one-time costs associated with the 2014 revaluation contract being made in the previous year.²¹ Debt service, however, will increase in subsequent fiscal years due to anticipated issuance of library and water project bonds.²² We support use of fund balance for tax relief in the tentative budget provided that the Village maintains sufficient fund balance – between 10 and 15% of the prior year's budget – to maintain its Aaa credit rating.

Specific Comments and Recommendations

1. **State Law Reform.** We commend the efforts of Trustees and staff (through municipal professional/lobbying organizations) to lobby our representatives in the state legislature to amend laws that negatively impact the Village's finances. We specifically encourage them to continue to lobby to restore previous levels of state revenue sharing Aid and Incentives for Municipalities (AIM payments) to per capita statutory levels aid and increase CHIPS funding for road resurfacing.

2. **Parks, Recreation and Conservation Issues.** The tentative budget includes \$100,000 for consulting fees to develop a Master Plan for PRC facilities and programs.²³ This Committee is not convinced that a Master Plan is necessary, nor is it convinced that the Village should pay a consultant \$100,000 to prepare it. If the Board approves a consulting contract, we recommend that the public be involved in the selection of the consultant and in defining the scope of the consultant's work. In addition, there should be opportunities for the public to provide input to the consultant and to react to preliminary findings and recommendations.

The tentative budget continues the PRC policy of charging user fees for the day camp and other programs that cover only 65% of departmental operating expenses.²⁴ Our community is

¹⁹ Projected costs of leaf collection and disposal are \$688,309, almost the entire tentative levy increase. Tentative Budget, App. A19.

²⁰ Tentative Budget, Staff Letter to the Board, p 3.

²¹ Tentative Budget, Staff Letter to the Board, p. 11.

²² Tentative Budget, Staff Letter to the Board, p. 11.

²³ Tentative Budget, p. 99. An additional \$40,000 is budgeted for consulting services relating to pool improvements and upgrades. Tentative Budget, p. 112.

²⁴ Tentative Budget, Staff Letter to the Board, p. 26. General fund recreation fees projected in the tentative budget are \$1,934,821. Tentative Budget, p. 64.

proud of the recreational programs offered, but should they be subsidized at all, and is 35% the “right” amount? We think the Board should reexamine this subsidy in the future to determine if it is a priority of residents and whether modifying this policy would adversely affect enrollment.

If retained, the consultant should consider pricing of Village recreational programs, including the subsidy. Other issues include evaluation of the declining participation in some programs, including tennis. Has interest in tennis declined or are residents discouraged by the condition of courts or the lack of an online scheduling system? In addition, we recommend that the consultant (along with our legal staff) should evaluate the youth tackle football program due to the nationwide legal actions against many such programs to ensure the Village is not exposed to unnecessary liability.²⁵

The Weinberg Nature Center’s costs exceed its revenues. The Village (or the consultant if retained) should consider additional uses for the property taking into consideration any legal issues, including whether a non-profit organization could be persuaded to take it over or enter into a partnership arrangement with the Village.

3. **Public Safety Compensation.** While we support the decision not to eliminate public safety FTEs, we understand that there is a Board practice of extending service of public safety employees who reach retirement age. Continuing to employ these individuals is expensive. While we appreciate that retaining senior officers with institutional knowledge has its benefits, we believe that each decision on service extensions should also include a complete cost benefit analysis. In addition, the Board and the Village management should continue to monitor and limit Public Safety overtime (other than overtime reimbursed by third parties).

4. **Commuter Parking Permits.** The monthly charge for an annual resident permit is \$1,000 for the Freightway garage. At \$1,500, demand for Christie Place permits substantially exceeded the number of available spaces, prompting complaints from residents who lose out in the lottery the Village conducts to award Christie Place permits. During the budget discussions with staff, the Finance Committee increased the Christie Place garage fee from \$1,500 to \$1,600. This increase will generate an additional \$30,000 in fee income.²⁶ We recommend that the Village consider further increasing the differential to the amount determined by demand for parking in our premium garage.

5. **Food Scrap Recycling Costs.** The Village Board’s March 13, 2018 resolution approving a one year pilot program for weekly curbside food scrap pickup calls for the

²⁵ See “New York Legislator Renews Effort to Bar Tackle Football for Children,” New York Times, January 24, 2018, at <https://www.nytimes.com/2018/01/24/sports/youth-tackle-football-ban.html>; “Pop Warner Facing a Class-Action Lawsuit Over Concussions,” New York Times, September 2, 2016, at <https://www.nytimes.com/2016/09/02/sports/football/concussions-pop-warner-class-action-lawsuit.html>; “Pop Warner Lawsuit Reveals a Hidden Risk About Youth Football,” Forbes, October 27, 2017, at <https://www.forbes.com/sites/leeigel/2017/10/27/pop-warner-cte-lawsuit-reveals-a-hidden-risk-about-youth-football/#546c0b1f7f1f>.

²⁶ Memorandum to Village Manager, FY 2018-19 Village-Wide Fees & Charges Schedule, updated February 9, 2018, p.6.

Department of Public Works, in collaboration with the CAC, to prepare a report assessing the program “inclusive of appropriate quantitative measures of program performance, including but not limited to, tonnage recycled, participation rates, costs and other relevant program, financial and operational metrics” at the end of the one year pilot.²⁷ We recommend that the Sanitation Division monitor not only the amount of food scraps collected and the costs of curbside collection, but also the effect of food scrap recycling on amounts of trash collected in the regular backdoor collections. If the data show community acceptance of food scrap recycling and a concomitant reduction in the volume of backdoor trash pickup, the Trustees should revisit the need for twice per week backdoor trash pickups and consider moving food scrap pickup to one of the two backdoor trash pickup days and collect trash once per week on the other day. This could be an opportunity to make food scrap recycling easier for residents and at the same time eliminate the additional costs of the added curbside food scrap pickup.

6. **Water Rates.** Water rates are increasing by 12%. We understand that the increase is unavoidable and that any monies collected by our Water Enterprise Fund that is in addition to what is owed to NYC for our water goes directly to necessary water infrastructure improvements and to restore the water fund balance. The Village decided to revert to an excess rate of three times the base rate, passing on New York City’s reduction in the cost of excess water.²⁸ Scarsdale water rates remain low relative to neighboring municipalities.²⁹ New York City has identified Scarsdale as a top 10% user of NYC water. The Committee generally supports water conservation and, in particular, pricing that charges the highest rates to the heaviest users.³⁰

7. **Shared Services.** Sharing of services between the Village and the School District is generally a plus for the community. While the total amount of residents’ property tax bills is not affected, underpricing of services to the School District could make it harder for the Village to stay below its tax cap. We recommend that the Village avoid long-term contracts and that it ensure that the School District is reimbursing the Village for fully-loaded costs reflecting all the costs of labor of Village employees including benefits and supervision.

8. **Comfort Station.** The Middle School comfort station was discussed again this year. It was approved for \$15,000 in addition to \$15,000 of in kind labor as well as a \$30,000 contribution from the School Board. Discussions are still under way, but it is not anticipated that the School Board will include this money in their budget due to state education complications about using their land for such a purpose. There have been calls for the School to sell the land to the Village for a nominal amount in order for the Village to take the lead and allow the project to proceed. This committee supports this project and hopes the School Board will continue these discussions in good faith.

²⁷ Minutes of March 13, 2018 Board of Trustees Meeting, p. 100, at https://www.scarsdale.com/AgendaCenter/ViewFile/Minutes/_03132018-483.

²⁸ Village of Scarsdale website, <https://www.scarsdale.com/178/Water>; and <http://www.scarsdale.com/DocumentCenter/View/2775>.

²⁹ Village of Scarsdale website, at <https://www.scarsdale.com/179/Water-Rates>.

³⁰ Scarsdale water is a complex topic that deserves a separate report focusing in more detail on water pricing, water conservation and infrastructure needs.

Conclusion

The Committee hereby concludes that the recommendations set forth in this report be adopted.

Respectfully submitted by the following members of the Fiscal Affairs Scarsdale Committee:

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