



Progress Review

North Castle Budget & Finance
Advisory Task Force
September 27, 2010

Tonight's Agenda

- Overview and Conclusions
- Historical financial performance
- Town capital and reserves
- Five year outlook
- Peer review and potential for change
- Potential for change
- Initiatives Underway and Task Force Recommendations
- Questions & Answers

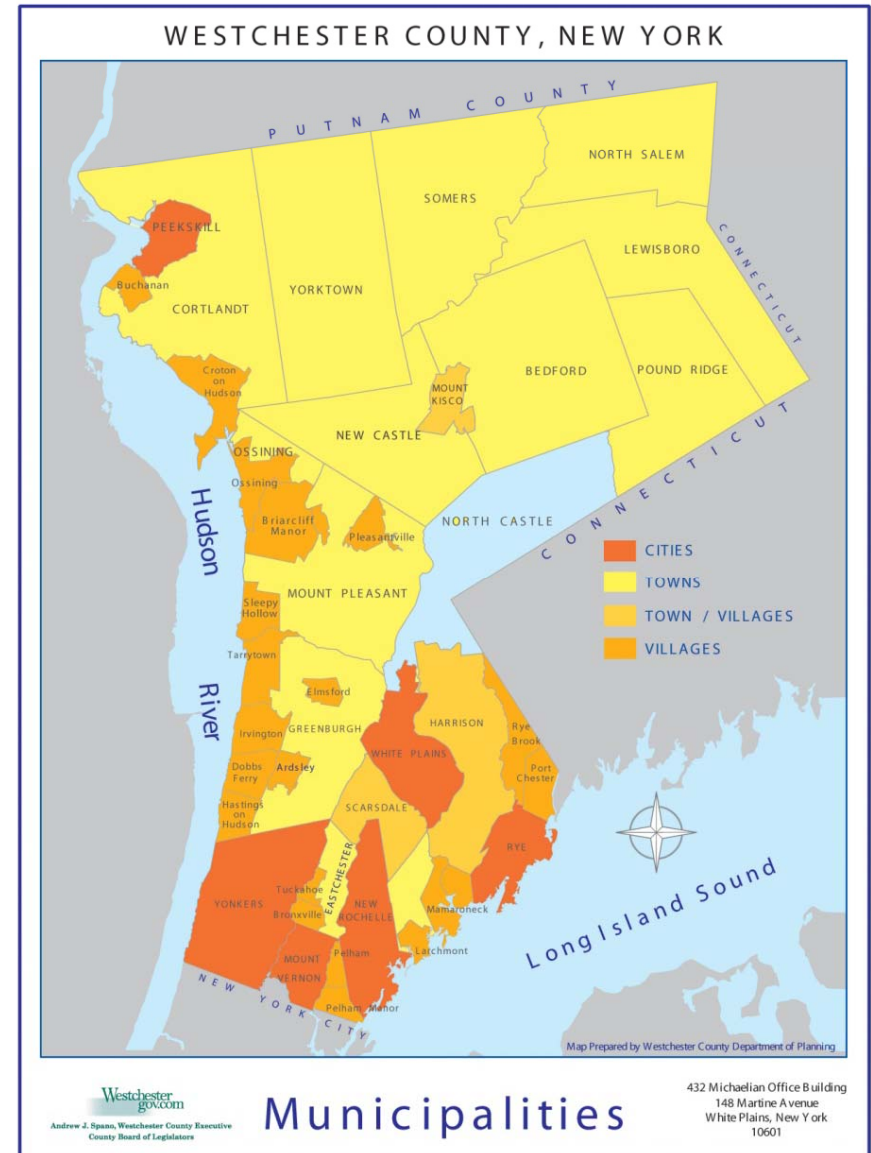
Questions and Answer session – Please use
question cards to be distributed

Overview and Conclusions

Alex Greene

The Town of North Castle

- Armonk, Banksville & North White Plains
- 24 square miles and 98 miles of streets
- 12,162 population (2009 estimate)
- Covers 5 school districts
- 4,200 Households



To begin...

- We are your neighbors
- We are independent
- Our interests and yours are aligned

This is an information session. We ask that it not become a political forum.

Task Force Members

| Name | Background |
|-------------------------------------|--|
| William Potvin – <i>Chairman</i> | Management Consultant / Former CEO |
| David Grove | Globally Recognized Economist |
| Alex Greene | Corporate Finance / Restructuring Professional |
| Larry Ruisi | Corporate Board Member; Former CEO/CFO |
| Jim Stone | Retired Banking Executive |
| Dennis Vanson | CPA |
| Janet Morley | Municipal Finance Expert |
| Chris Tuzzo | Investment Professional |

Why the Task Force?

- develop a fact based financial planning process for the Town of North Castle...
- with a focus on sustainable short and longer term spending plans and budgets which are affordable for its residents...
- which balances the town's service priorities in a comprehensive manner

*Adapted from the mission statement adopted by the North Castle
Town Board in February 10, 2010*

Our process

➤ Four phases

- Understand the town; get behind the numbers
- Become a part of and help guide the budget process
- Provide recommendations based on a review of town functions and observations in the budget process
- Monitor, verify and report the results

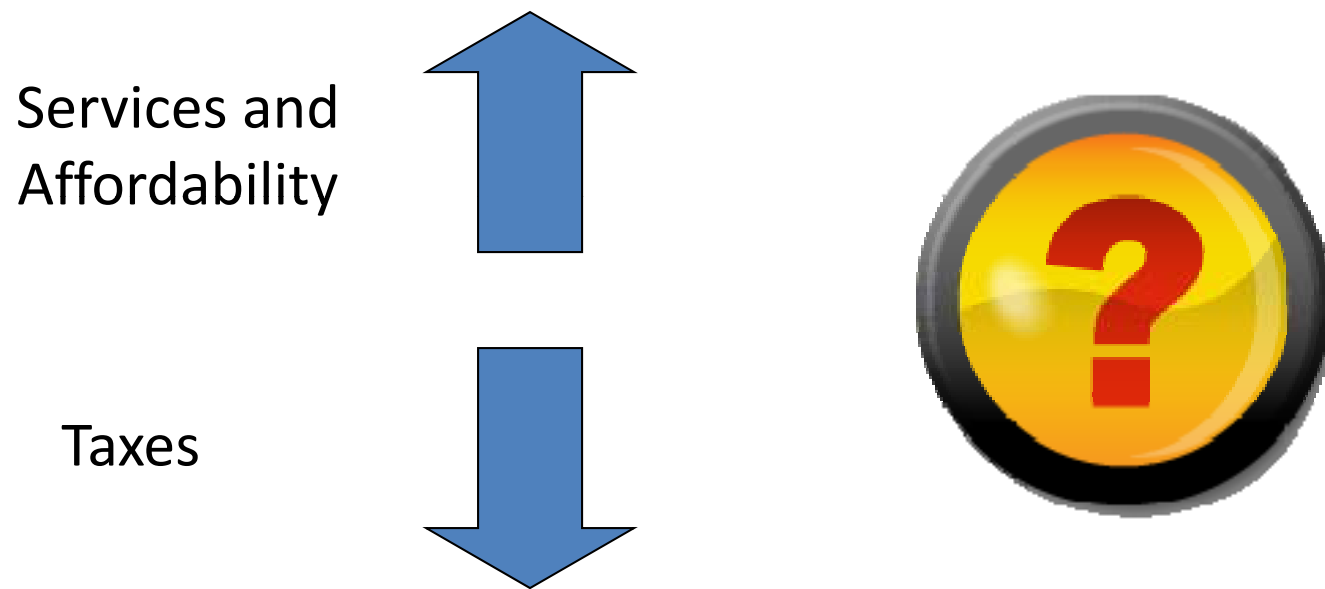
➤ Where are we today?

- We're behind the numbers (phase 1) and engaged in the budget process

Key takeaways

- Operating cost structure that is unsustainable
- Legacy obligations that are substantial and must be addressed
- Infrastructure underinvested and in need of attention
- Economic environment that requires change and a community that is demanding the same
- Financially strong town with the capacity, today, to support change

Establishing priorities



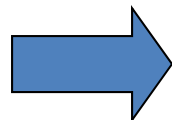
Efficient, productive and accountable government

Our “what if” scenario

Can the Town affordably deliver desired services without change?

| Five Year Outlook - Assumptions | |
|---------------------------------|---------------------|
| Economy | Choppy and sluggish |
| Assessables | Decline 1% p.a. |
| Town structure | Status quo |
| Labor contracts | Status quo |
| Reserve Funds | Rebuild Reserves |
| Capital Spending | Resumed as needed |

No



44% cumulative increase in
Town tax rate over 5 years

What “is” vs. what “if”

The Town of North Castle has begun taking steps to implement change and avert the “what if” scenario

Town Initiatives

- Departmental consolidation
- Restructured labor contracts
- Early retirement incentives
- Shared services
- Selective outsourcing
- Replenishing reserves



Are the proposed changes logical, timely, can they be executed and are they enough

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Questions and Answer session to follow
(question cards to be distributed)

Town Financial Outlook

Larry Ruisi / Jim Stone / Dennis Vanson

2005-2010

HISTORICAL FINANCIAL PERFORMANCE

Composition of Taxes

REAL ESTATE TAXES



= 66%

SCHOOL



= 18%

COUNTY



= 16%

TOWN

SPECIAL DISTRICT TAXES



FIRE



AMBULANCE



WATER



SEWER



STREET LIGHTS

Makeup of Town Spending



GENERAL GOV'T
22%



PUBLIC SAFETY
30%



HIGHWAY
20%



LIBRARY
7%



BUILDING/PLANNING
5%



PARKS & RECREATION
12%



TRASH
4%



CAPITAL PROJECTS

Based on 2010 Budget

Fundamentals of Real Estate Taxes



(\$ IN MILLIONS)



EXPENSES **-** **REVENUE** **&** **CASH** **=** **REAL PROPERTY TAXES**

2005 ACTUAL

\$20.8

\$7.9

0

\$12.8

2010 BUDGET

\$23.4

\$5.5

\$.4

\$17.5

INCREASE (DECREASE)

12.5%

(30%)

-

36.7%

Calculation of Real Property Tax Rates

(\$ in Millions except tax rate)



REAL PROPERTY TAXES



TOTAL ASSESSED VALUATION



REAL PROPERTY TAX RATE

2005 ACTUAL

\$12.8

\$113.6

\$114.41 (per \$1000)

2010 BUDGET

\$17.5

\$118.7

\$147.43 (per \$1000)

INCREASE

36.7%

4.5%

28.8%

What Changed - 2005 vs. 2010 Budget



| | | \$ in Millions | Tax Rate / \$1,000 |
|----------------------------------|-------|----------------|--------------------|
| 2005 Real Property Taxes | | \$12.8 | \$114.41 |
| Decrease in Town Revenues | | | |
| Mortgage Taxes | \$1.9 | | |
| License & Permits | 0.2 | | |
| Sales Taxes | 0.2 | | |
| Other | 0.1 | \$2.4 | \$21.12 |
| Increase in Expense | | | |
| Salaries & Benefits | \$2.5 | | |
| Other Expenses | 0.1 | \$2.6 | \$22.88 |
| Use of Cash Holdings | | \$(0.4) | \$(3.52) |
| Increase in Assessed Value | | | <u>\$(7.52)</u> |
| 2010 Budget Real Property Tax | | \$17.5 | \$147.37 |

Key Metrics*: 2005 - 2010

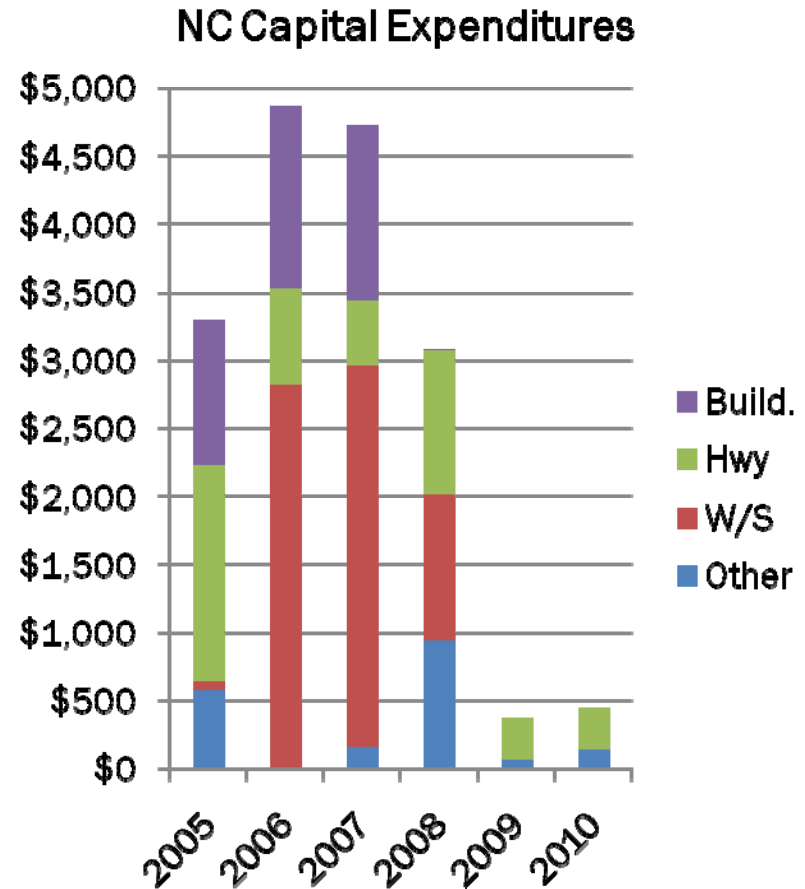
| <i>\$MM, except tax rate</i> | 2005 | 2010 B | Increase/ (Decrease) | % |
|---|----------|---------|-------------------------|-------|
| Town Revenues | \$7.9 | \$5.5 | (\$2.4) | (30%) |
| Salary & Benefits | \$14.3 | \$16.8 | \$2.5 | 17.5% |
| Total Town Expenses | \$20.8 | \$23.4 | \$2.6 | 12.5% |
| Real Property Taxes | \$12.8 | \$17.5 | \$4.7 | 36.7% |
| Assessed Value | \$113.60 | \$118.7 | \$5.1 | 4.5% |
| Tax Rate | \$114.41 | 147.37 | \$32.96 | 28.8% |
| General Fund Balance | \$2.1 | \$1.0 | (\$1.1) | (52%) |
| Full Time Employees ** | 142 | 113 | (29) | (20%) |
| Total Comp / Full Time Employee | \$96k | \$124 k | \$28 k | 29% |
| * General / Highway & Library Funds | | | | |
| ** Excludes Special Districts and Part Time | | | | |

Alex Greene / Janet Morley

TOWN CAPITAL AND RESERVES

Capital spending

- Largely deferred in recent years other than water/sewer
- Reduced to less than 1% of expenses in 2010 budget
- Pre-recession (2008) spending for towns in NYS at 16% of spending
- Expected annual range for North Castle of ~\$1.5 – 4.0MM
- Capital Improvement Program (CIP) initiated for 2011 budget



Capital Expenditures

- “What if” scenario includes \$15MM five-year estimate
- Financed through BANs and 5 to 20 year financing
- Parking district and recreational facilities are potential revenue generators
- CIP modeled on other Westchester communities
- CIP evaluation and scoring process offers opportunity for discipline and long term planning and execution

Principal Expenditures

- DPW facility
- Road repair
- ADA mandated modifications
- Repairs and improvements to town facilities and infrastructure

Debt Capacity

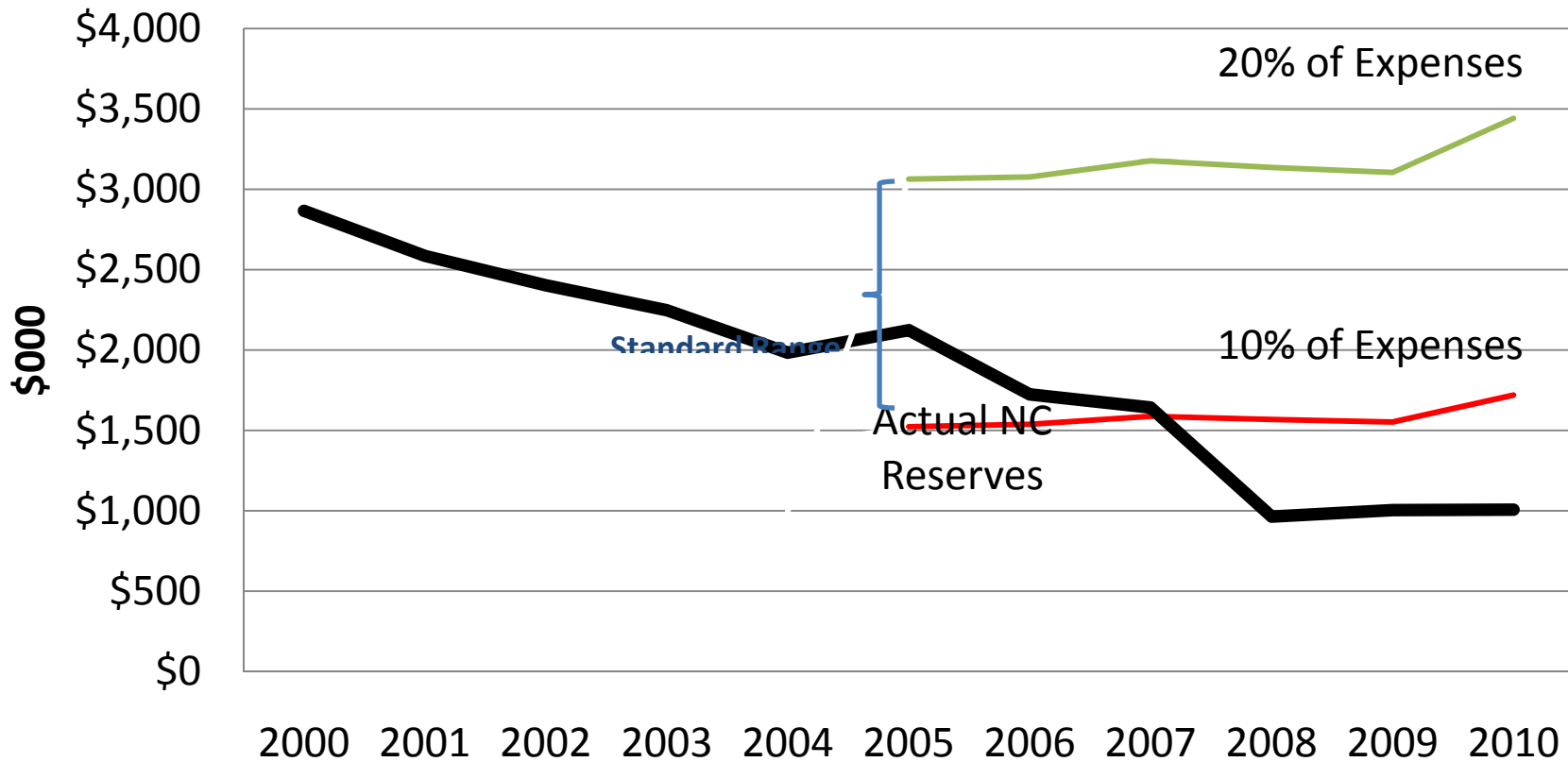
- Credit Rating
- Cumulative tax burden with school and county taxes
- Annual debt service obligation
- Plan to replenish fund reserves

Reserves

- Over the last 10 years, North Castle has drawn down its general fund reserve to fund operations
- Rating Agencies expect reserves of 10% - 20% for investment grade credits. 2009 median = 17% for Aa towns under 50K population.
- North Castle Reserves = \$3.1MM or 29% in 2000 vs. \$1.2MM or 7.8% in 2009
- Town Board has adopted a new policy to rebuild reserves to 10 – 15% of spending
- Our “What If” scenario assumes reserves at 15% of spending

Actual Reserves vs. Standard

General, Highway, Library Fund Reserves



OPEB

- Contractual obligation to 67 retired and 140 active employees (2008)
- Medical, Dental, Drugs & Vision
- Non-uniform eligible: Currently 10 yrs * service/age 55
- Uniform eligible: 10 Years Service
- Town contributes from 60% to 100% of total cost

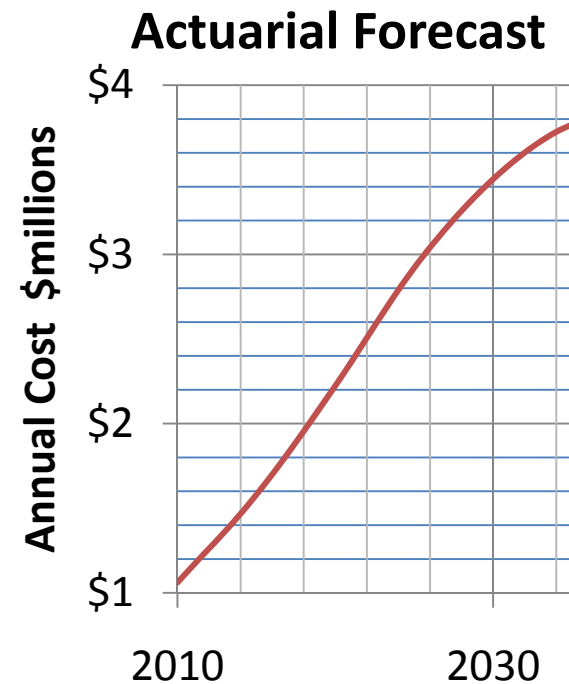
What is it?

Other Post Employment
Benefits (OPEB)

Basically, medical benefits provided to employees and their spouses throughout retirement

OPEB

- Unfunded, off-balance sheet liability
- \$51MM present value in 2008 \$
- \$150MM total obligation; \$87MM forecast to be paid through 2040
- 2010 budget expense of \$1MM; \$2.2MM in 2020...and growing
- New employees increase total cost



How to pay legacy OPEB obligations is a national issue;
determining what benefits to provide employees is a local issue

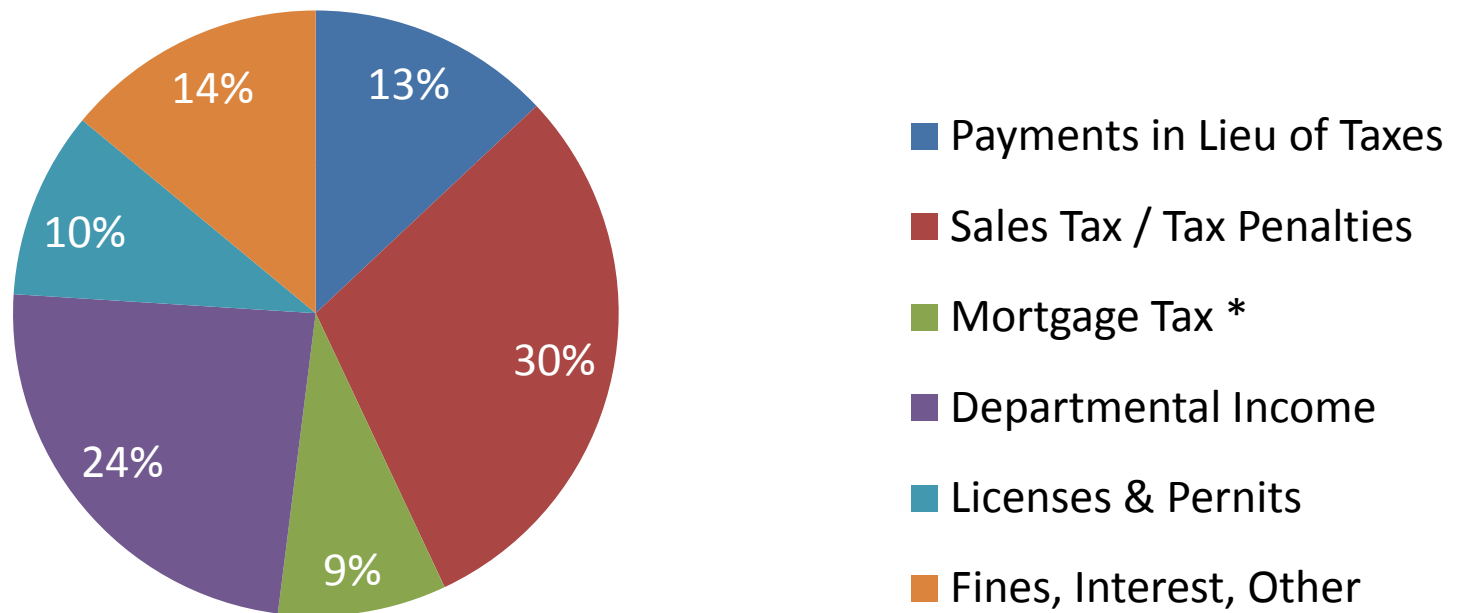
Larry Ruisi / Jim Stone / Dennis Vanson

FIVE YEAR OUTLOOK

5 Year Outlook – Assuming Current Practices and Policies

- Baseline to assess potential changes – not a business plan or forecast
- Operational assumptions
 - Town revenues have modest but steady increase
 - Salaries and benefits increase at current contract rates
 - OPEB cash costs based on 2008 actuarial report
 - Other expenses based on adjusted three year averages
 - Each year contains \$500,000 contingency
- Capital spending and financing assumptions
 - Based on 2011 Budget CIP forms and interviews with department heads
 - Estimated Capital Expenditures ~ \$15 million over 5 years
 - DPW Facility, road repair and other facilities improvement programs included
 - Major items financed with 5, 10 and 20 year maturities at earliest opportunity
- Other assumptions
 - General fund restored to 15% of spending per Town policy
 - Assessed value decreases 1% per annum

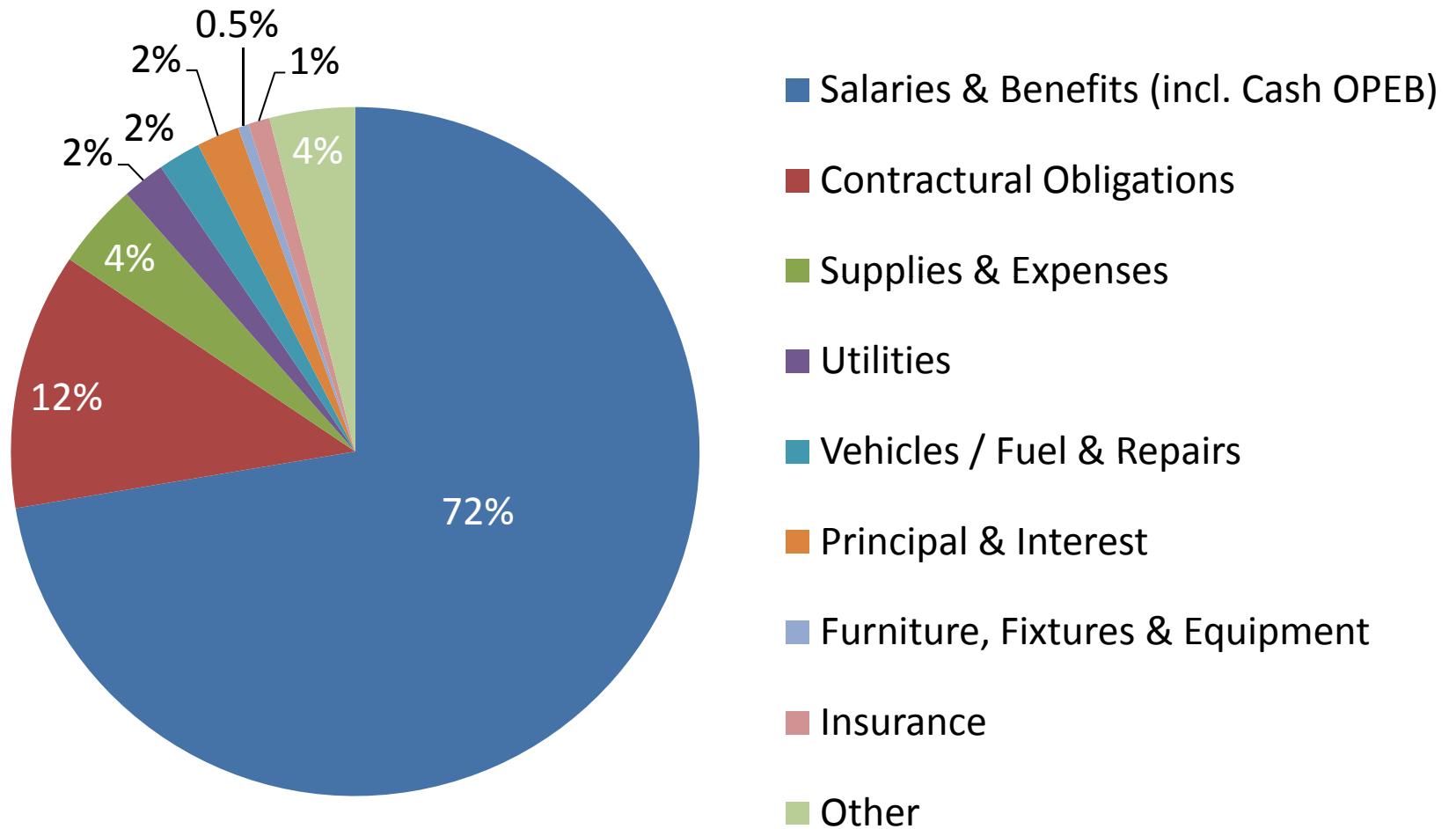
Sources of Non Prop Tax Revenue



2010 Budget

***NOTE - MORTGAGE TAX DECREASED BY 79%
FROM 2005 TO 2010**

Composition of Expenses



2010 Budget

Five Year Outlook

(\$ IN MILLIONS)



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&



=



EXPENSES

REVENUE

CASH

REAL PROPERTY TAXES

2010 BUDGET

\$23.4

\$5.5

\$.4

\$17.5

2015 OUTLOOK

\$30.2

\$6.6

(\$.4)

\$24.0

INCREASE

29%

20%

-

37%

Five Year Outlook: Real Property Tax Rate

(\$ in Millions except tax rate)



REAL PROPERTY TAXES

TOTAL ASSESSED VALUATION

REAL PROPERTY TAX RATE

2010 BUDGET

\$17.5

\$118.7

\$147.37(per\$1000)

2015 OUTLOOK

\$24.0

\$112.9

\$212.72(per\$1000)

INCREASE (DECREASE)

37%

(5%)

44%

What Changed – 2010 Budget vs. 2015 Outlook



| | | \$ in Millions | Tax Rate / \$1,000 |
|-------------------------------|-------|----------------|--------------------|
| 2010 Real Property Taxes | | \$17.5 | \$147.37 |
| Increase in Town Revenues | | \$(1.1) | \$(9.27) |
| Increase in Expense | | | |
| Salaries & Benefits | \$3.8 | | |
| Interest & Principal (Capex) | 1.8 | | |
| Contractual Obligations | 1.1 | \$6.8 | \$57.29 |
| Increase in Reserve Balances | | \$0.8 | \$6.74 |
| 5% Decrease in Assessed Value | | | <u>\$10.59</u> |
| 2010 Budget Real Property Tax | | \$24.0 | \$212.72 |

5 YEAR OUTLOOK*

* Excludes Special Districts

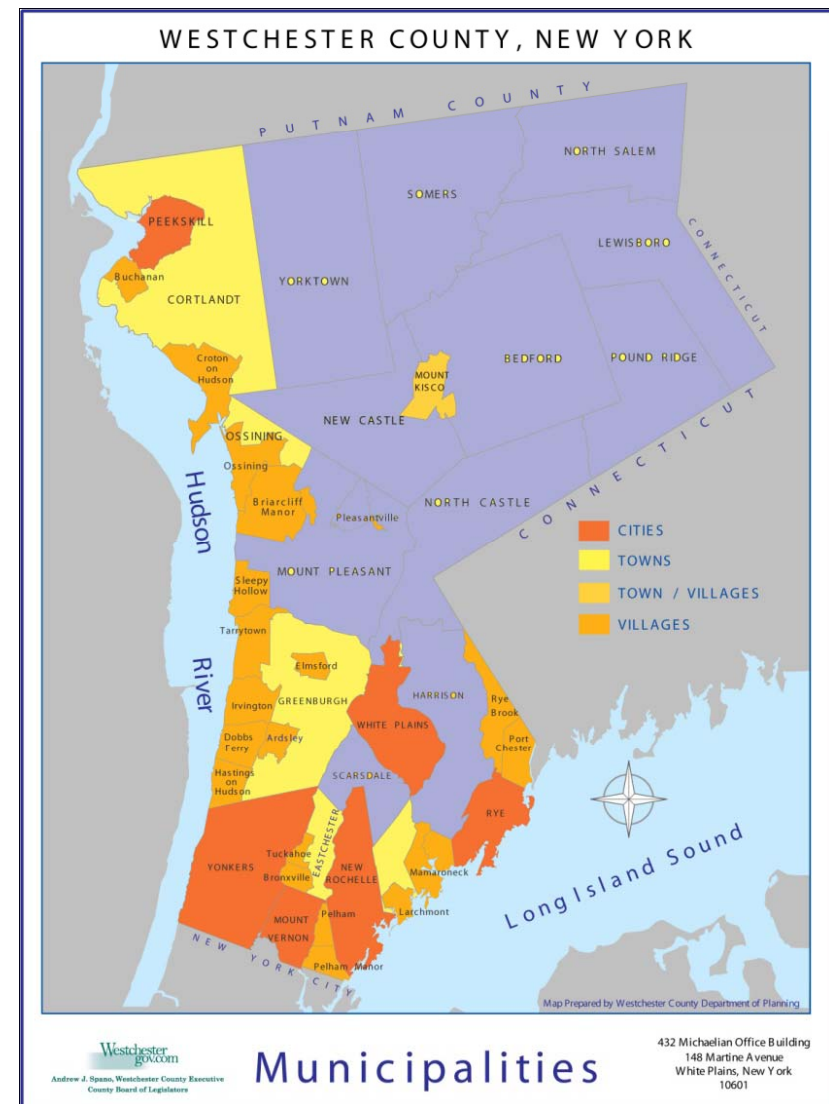
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating Expenses (GHL) | \$23.4 | \$24.4 | \$25.4 | \$26.4 | \$27.4 | \$28.4 |
| CAPEX – Principal & Interest | | 0.4 | 0.8 | 1.3 | 1.5 | 1.8 |
| Increase in General Fund | (0.4) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Town Revenues | <u>(5.4)</u> | <u>(6.0)</u> | <u>(6.2)</u> | <u>(6.3)</u> | <u>(6.4)</u> | <u>(6.6)</u> |
| Total Property Tax | <u>\$17.5</u> | <u>\$19.1</u> | <u>\$20.4</u> | <u>\$21.8</u> | <u>\$22.8</u> | <u>\$24.0</u> |
| Assessed Values | 118.7 | 117.5 | 116.4 | 115.2 | 114.1 | 112.9 |
| Tax Rate | 147.37 | 162.52 | 175.31 | 189.23 | 200.00 | 212.72 |
| % Rate Increase | - | 10% | 8% | 8% | 6% | 6% |
| Cumulative % Rate Increase | - | 10% | 19% | 28% | 36% | 44% |

Potential for Change / Peer Review

William Potvin / Chris Tuzzo

Peer Review - Methodology

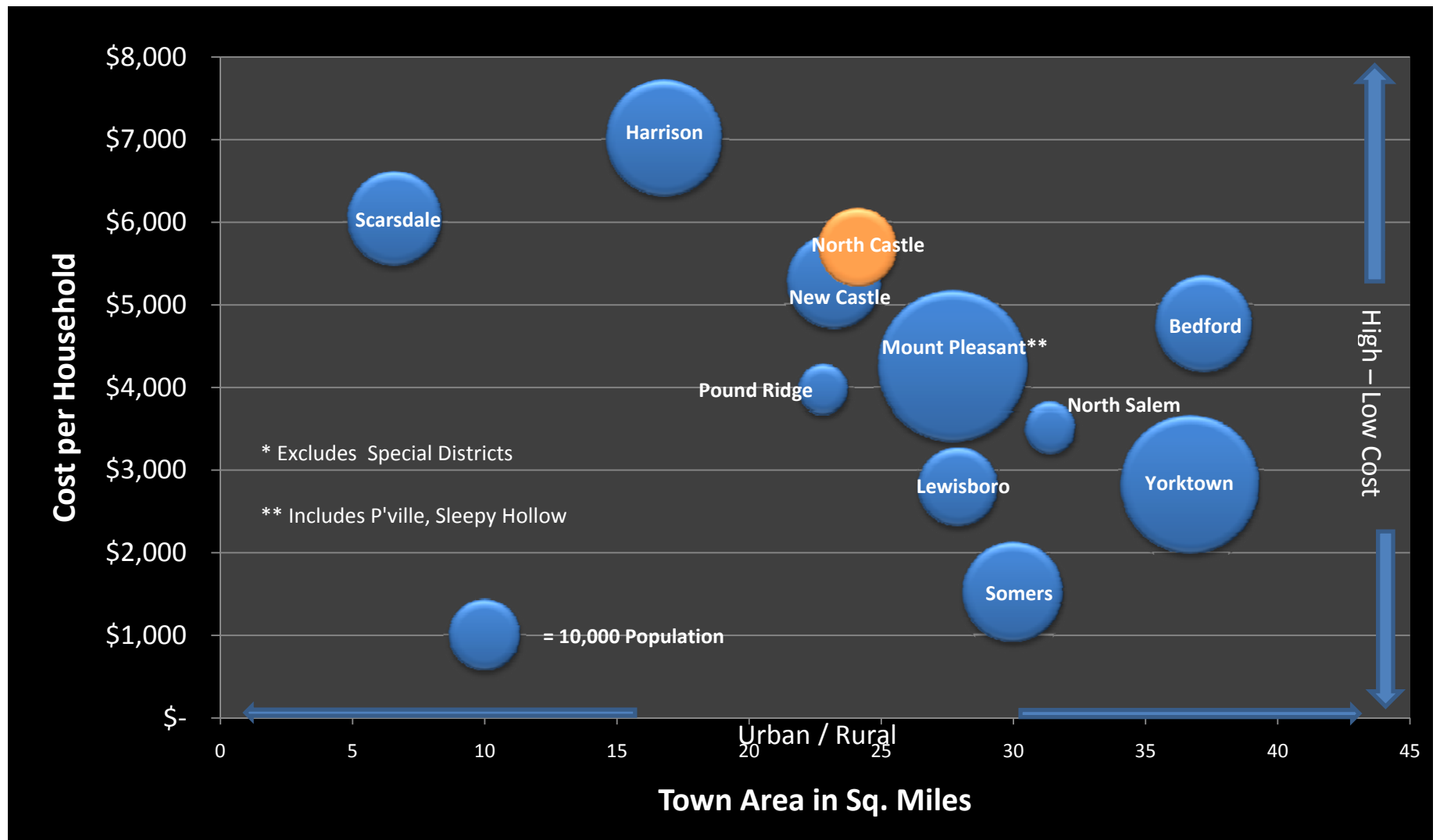
- Selected Like Northern Westchester Towns
- Used NYS Open Book Data Base Source Data
- Adjusted For Comparability
 - Eliminated Non-Comp Functions – Special Districts, Trash Collection, Fire etc.
 - Added Library to New Castle & Pound Ridge
 - Consolidated Mount Pleasant Towns / Villages
- Compared Per Household and Other Performance Bases
- Validated Against Most Current Budgets



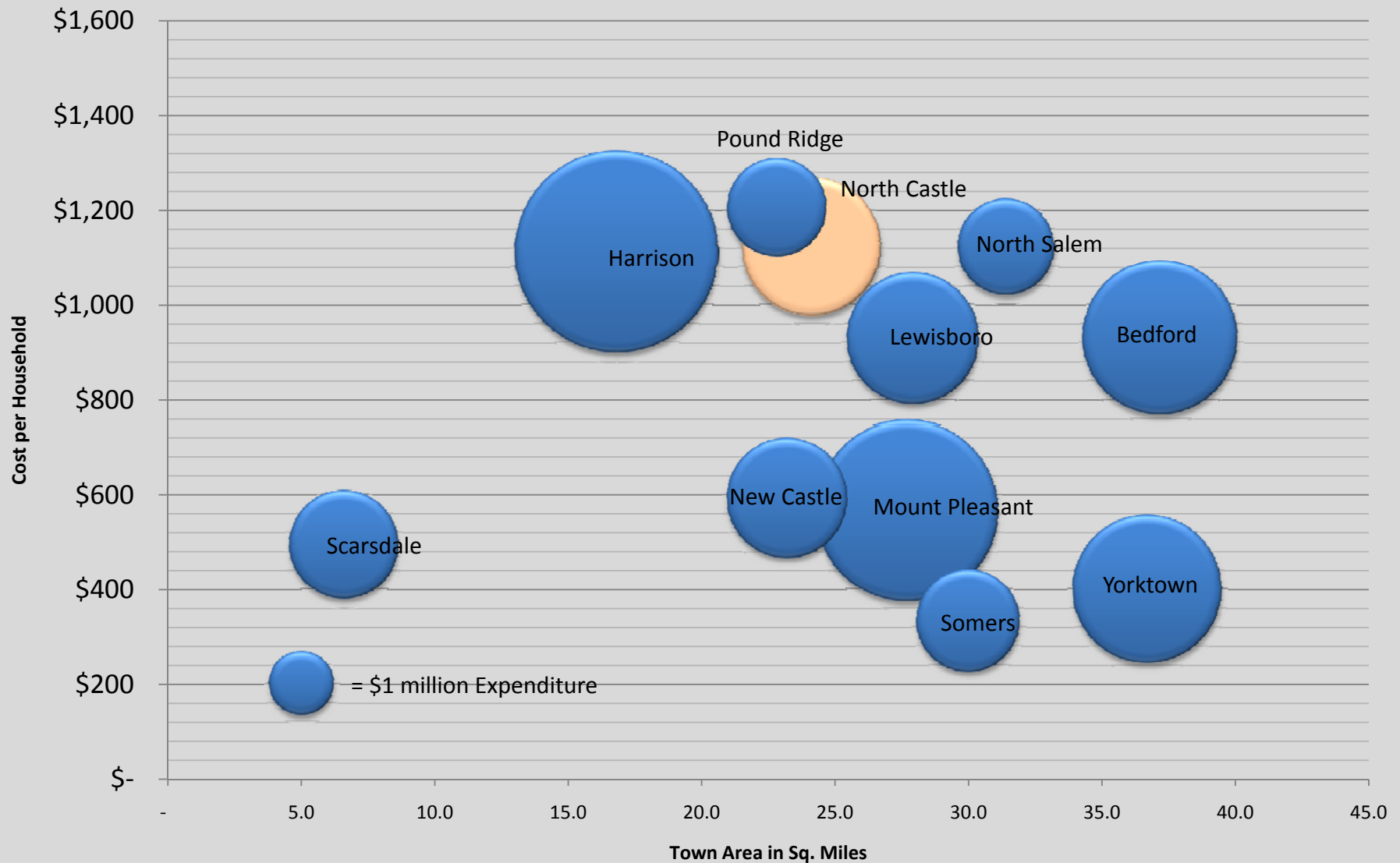
Peer Review - Key Observations

- North Castle's Cost per Household High Compared to Neighbors.
 - Not explained by town size or scale
 - Particularly high in Public Safety and Highway
 - High real cost growth compared to town history
- The Large Size of the Variations Suggest Very Different Approaches Among Towns
- Results Not Prescriptive but Suggest that Alternative Approaches are Available to North Castle

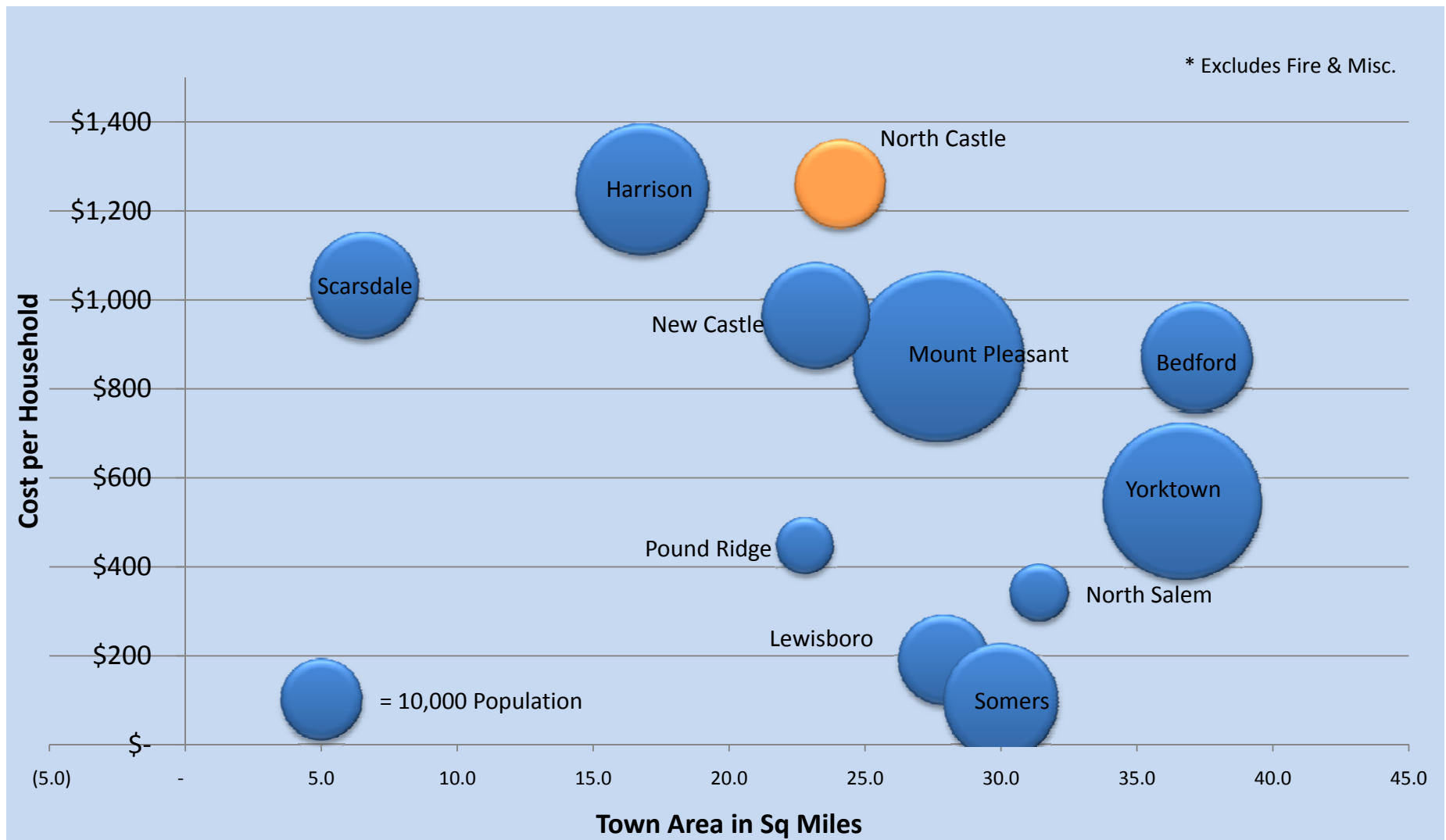
Town Cost per Household *



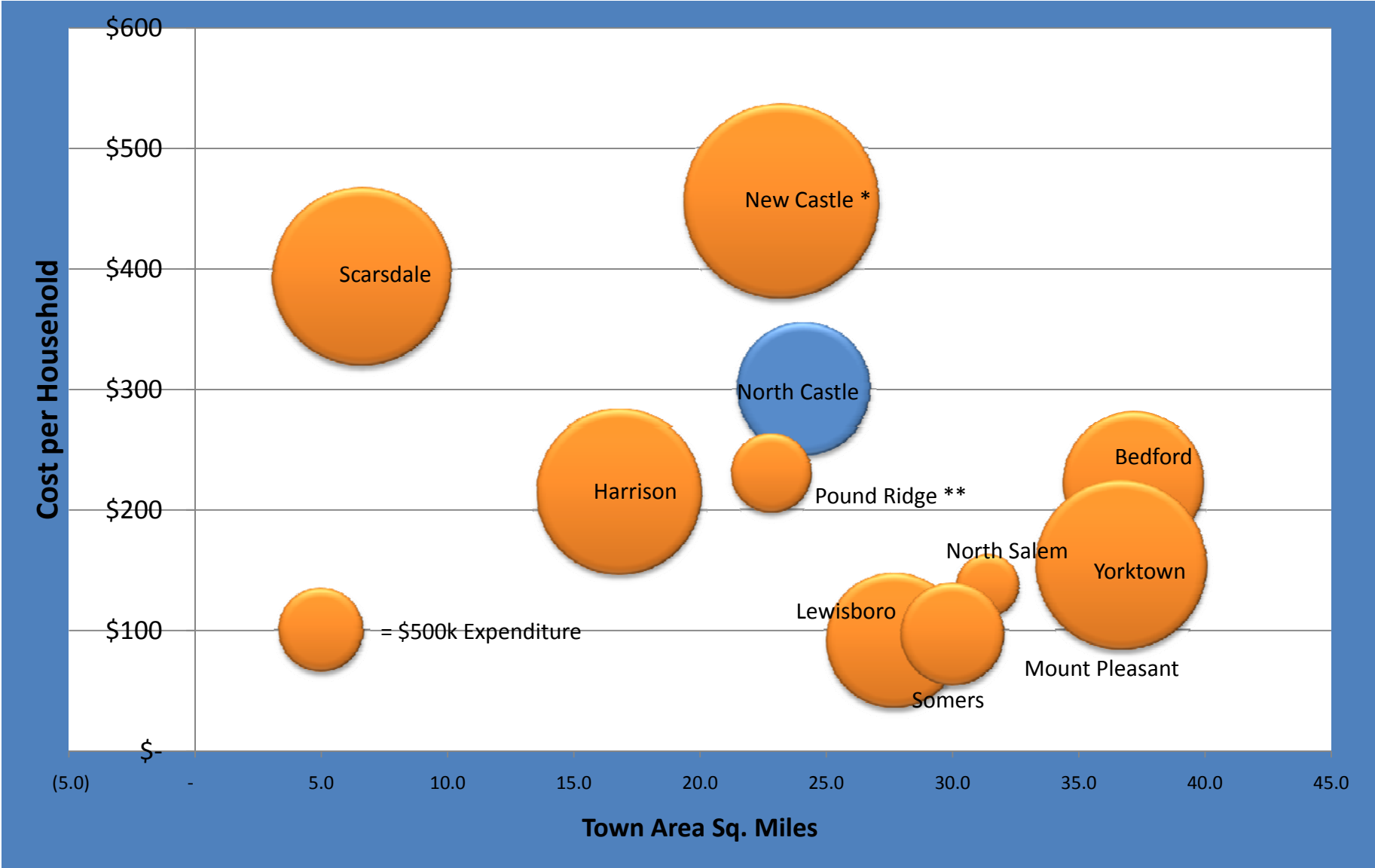
Highway / Transportation



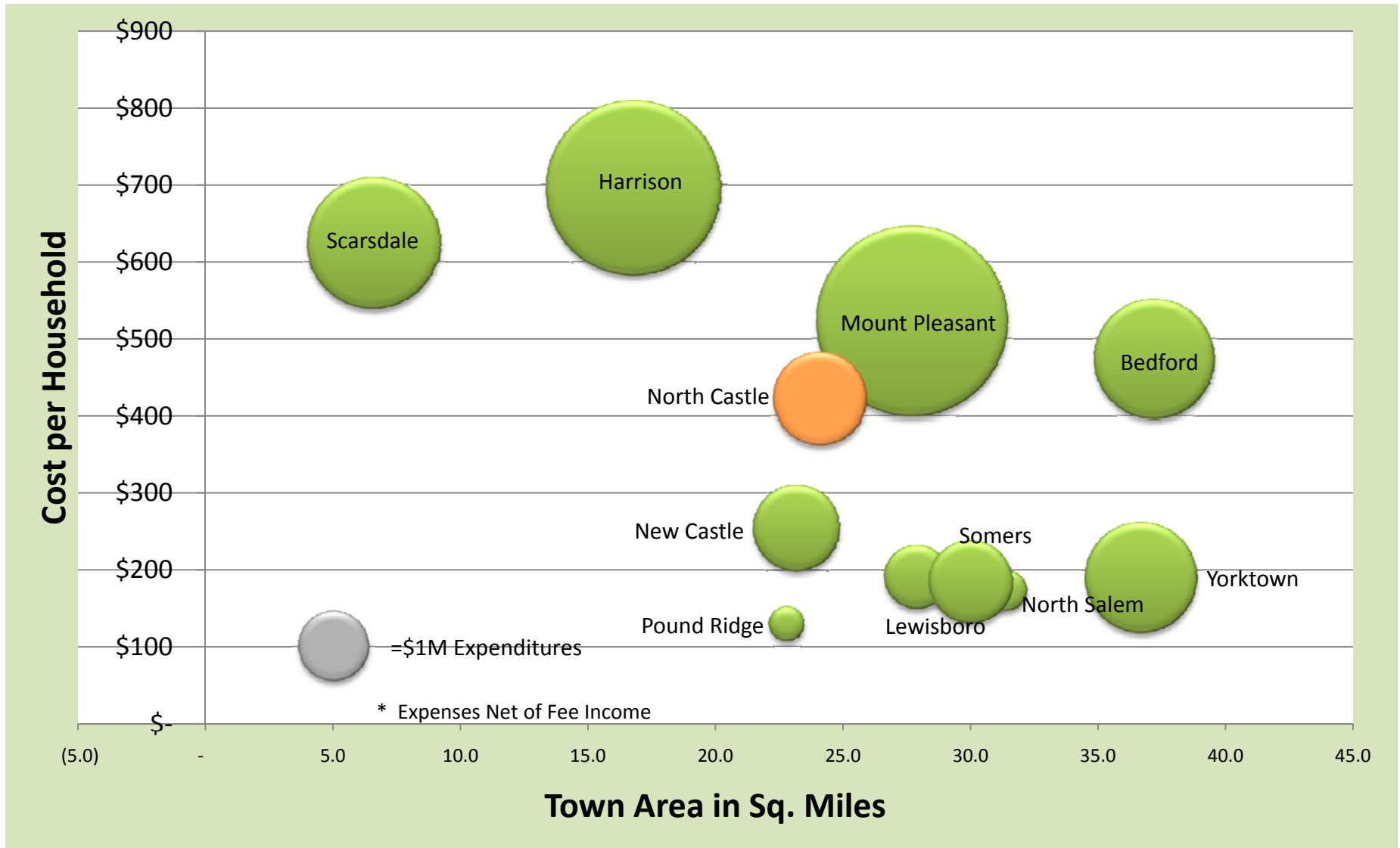
Public Safety – Town Comparison



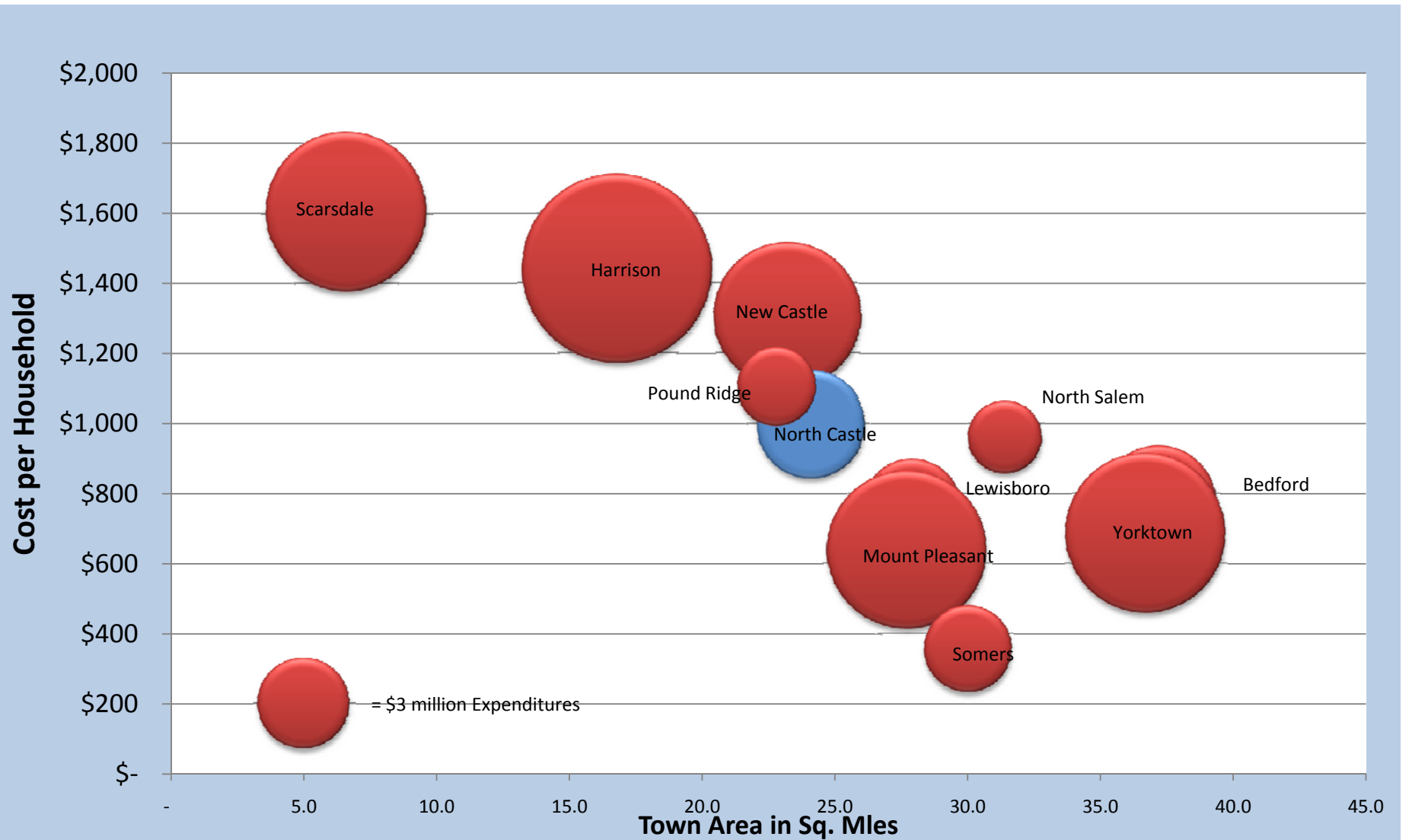
Library



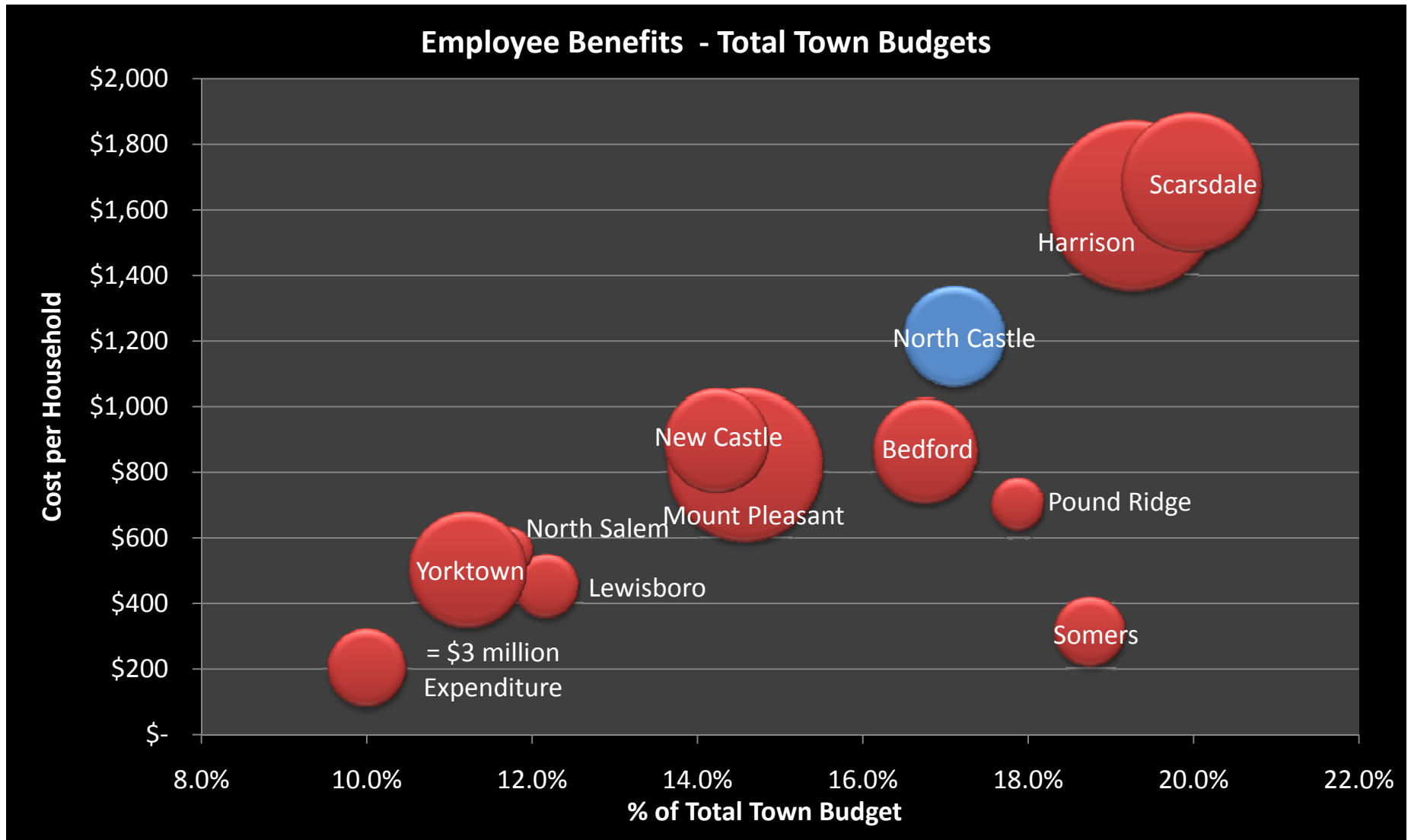
Park / Rec and Elder Programs*



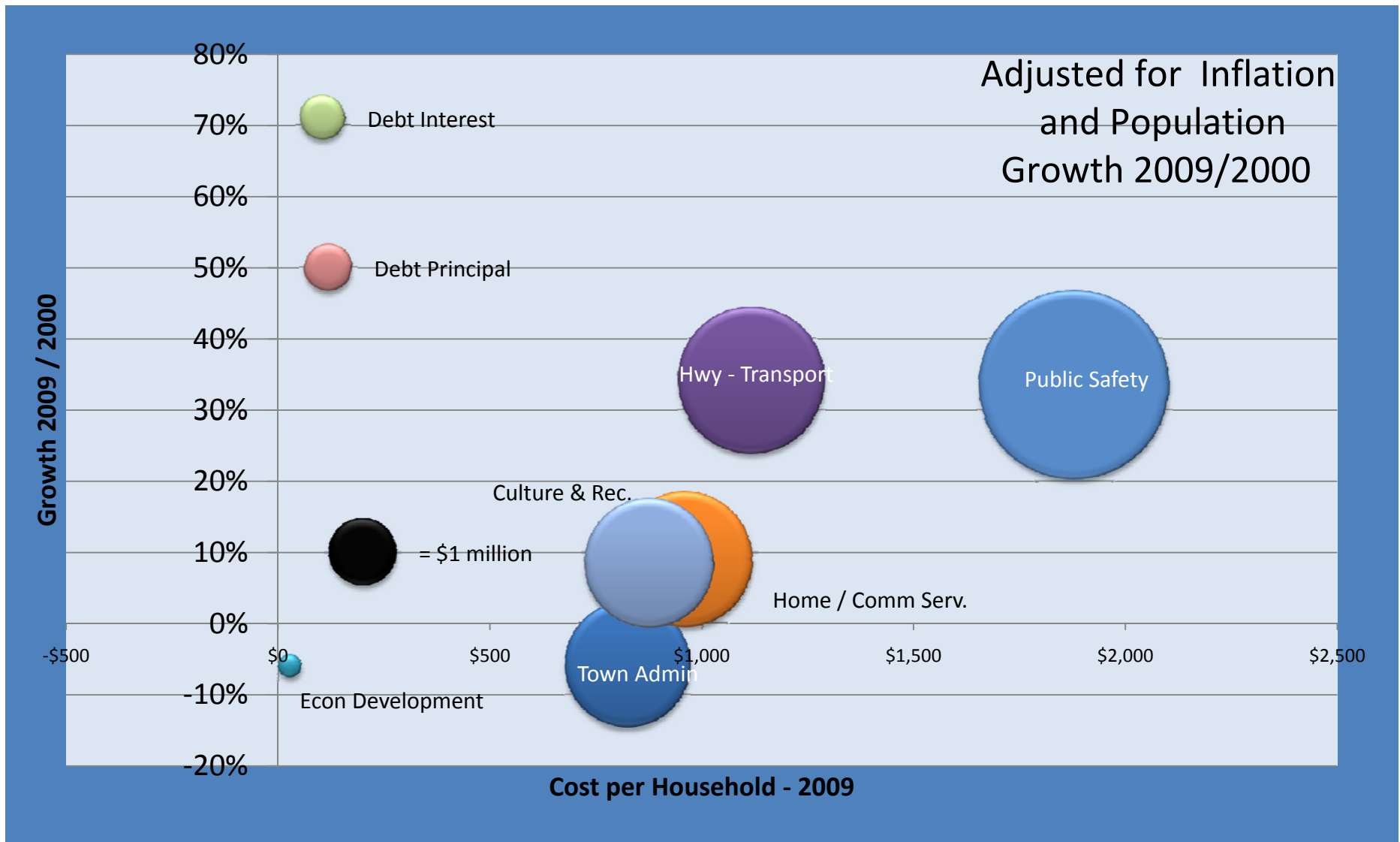
General Government & Administration



Employee Benefits



Real Growth by town Function '00/'09



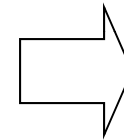
Initiatives Underway and Task Force Recommendations

Alex Greene

What “has been” vs. what “is”

Steps taken in recent years (then) have addressed immediate needs (\$\$); steps in process today (now) are more forward thinking

| Then... |
|------------------------------|
| Hiring freeze |
| Reduction in force |
| Reduction in services |
| Reserve drawdown |
| Deferral of capital spending |



| ...Now |
|-------------------|
| Establish DPW |
| Labor Consultant |
| Budget Task Force |
| Early retirement |
| Rebuild reserves |
| CIP review |



Are the proposed changes logical, timely, can they be executed and are they enough

Action items

Next Steps -
Departmental Reviews
to develop well
thought out solutions

- Restructure management
 - Outsource selected functions
 - Develop shared service opportunities
 - Merge operations across jurisdictions
 - Invest in technology
 - Alter / rebalance service levels
 - Adopt approaches in other towns
 - Volunteer services to address peaks
 - Eliminate non-essential activities
 - and, importantly...*
 - Develop revenue opportunities
-

North Castle doesn't have to reinvent the wheel to succeed

Headwinds

However, very real
challenges lie
ahead

- Weak economy
- Substantial reduction in revenue
- Few new development projects
- Decline in real estate values
- Outdated and inefficient organization
- Complex labor negotiations
- Rising cost of health care
- Pension costs mandated by NYS
- Borrowing to support re-investment in infrastructure requires credible plan

To succeed the Town must come together

Tough decisions

- ✓ The times require change. Now.
- ✓ Change requires new thinking and a willingness to challenge old ways
- ✓ Not all change is in our control
- ✓ Change requires political will
- ✓ North Castle has an opportunity to lead the way in change



Efficient, productive and accountable government

Spending caps

The Elephant in
the room

- Good in concept, challenging in practice
- Tool for managing and instilling discipline
- Must accommodate changing realities and shifts in services sought by the community
- Alternative is a culture of efficiency and accountability

For each action there should be
an equal and opposite reaction

**IF IT COSTS MORE,
DO IT BETTER AND
LESS EXPENSIVELY**

Recommendations

- Accelerate actions underway
 - Consolidate town functions through DPW initiative
 - Re-balance labor cost structure
 - Undertake departmental reviews (i.e., police, library, parks/recreation)
- Reform town benefit policies and plans
 - Invest in in-depth and detailed review
- Reform the planning and budget processes
 - Adopt rolling five year financial plan
 - Promote decisions based upon informed and supportable analysis
- Borrow responsibly to rebuild infrastructure
- Create a permanent advisory/review board

Questions & Answers

William Potvin

Moderator