

Town of Marbletown

Financial and Capital Planning

DECEMBER 2017



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Multiyear Planning 2**
 - Why is Multiyear Planning Important? 2
 - The Town Does Not Have a Multiyear Financial Plan or a Fund Balance and Reserve Policy 2
 - The Town Has Unfunded Capital Needs 5
 - What Do We Recommend? 5

- Appendix A: Response From Town Officials 6**

- Appendix B: OSC Comment on the Town’s Response 7**

- Appendix C: Audit Methodology and Standards 8**

- Appendix D: Resources and Services 9**

Report Highlights

Audit Objective

Determine if the Board has established multiyear financial and capital plans as well as a fund balance and reserve policy to adequately address the Town’s operational and capital needs.

Key Findings

- The Board does not have a comprehensive multiyear financial and capital plan or reserve policy to address the Town’s operational and capital needs, including the replacement of vehicles and equipment, infrastructure or the aging highway garage.
- The Board has not adopted an adequate fund balance policy, which resulted in the Town accumulating excessive fund balance in the general fund.

Key Recommendations

- Develop multiyear financial and capital plans and a reserve policy to ensure that financial resources are available to provide funding for replacing vehicles, equipment and infrastructure.
- Develop a fund balance policy to govern the levels of unrestricted fund balance.

Town officials generally agreed with our audit recommendations. Appendix B includes an OSC comment on the Town’s response.

Background

The Town of Marbletown (Town) is located in Ulster County. The Town Board (Board) is responsible for managing the Town’s operations. The Town Supervisor is responsible for the Town’s day-to-day management and for the development and administration of the budget. The Town’s Highway Superintendent (Superintendent), a separately elected position, is primarily responsible for the maintenance and repair of Town roads.

Quick Facts

2016-17 Appropriations	\$3.1 million
Total Employees	53
Total Population	5,607

Audit Period

January 1, 2016 - June 26, 2017

Multiyear Planning

Why is Multiyear Planning Important?

Multiyear planning helps the Board assess alternative approaches to financial issues, such as accumulating money in reserve funds, obtaining financing or using surplus funds to finance annual operations. The Board should develop comprehensive multiyear financial and capital plans that set long-term priorities and goals. In order to accomplish the goals and priorities of the plans, the Board should adopt a fund balance and reserve policy to provide guidance to officials during the annual budget process. Such a policy should define what is considered an adequate level of fund balance to be maintained and the reserves to be funded and used. The Board's responsibility for financial oversight includes requiring that the Town maintain reasonable levels of fund balance and use reserve funds appropriately. Policies related to the use of reserve funds should include a clear purpose or intent for reserve funds that aligns with statutory authorizations and not be merely a "parking lot" for excess cash or fund balance. These plans and policies are not only an important planning tool for the Board, they are also an effective means of communicating the Board's goals and priorities to Town residents.

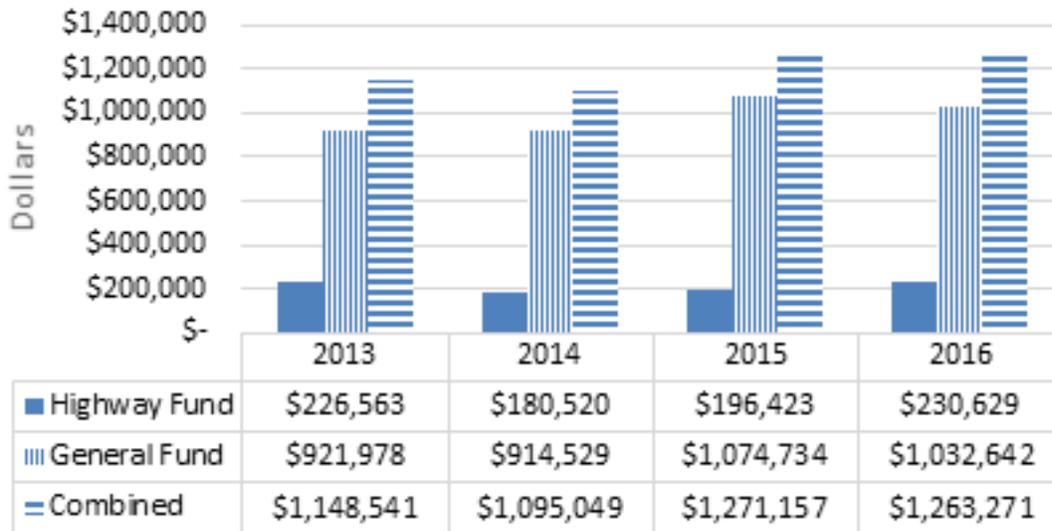
The Town Does Not Have a Multiyear Financial Plan or a Fund Balance and Reserve Policy

The Board has not adopted a comprehensive multiyear financial plan or a fund balance and reserve policy. As a result, the Town has accumulated excessive fund balance in the general fund with no plans on how the funds are to be used or at what levels fund balance should ideally be maintained.

Because officials have not developed a multiyear financial plan or a fund balance and reserve policy that adequately details their intentions for accumulating, maintaining and using reserve funds as a financing source for future needs, we analyzed the Town's operating results. Officials have budgeted conservatively within the general and highway funds, keeping the unassigned balance relatively stable during the past four years (2013 through 2016).

FIGURE 1

Total Available Fund Balance - Highway and General Funds



However, the general fund balance at year-end is excessive, averaging approximately 63 percent of the ensuing year's budget (Figure 2). The highway fund balance at year-end has averaged approximately 13 percent of the ensuing year's budget. The Town's unrestricted fund balance for the general and highway fund combined averaged 38 percent of ensuing year's expenditures for the past four years. As of December 31, 2016, the Town's combined unassigned fund balance totaled \$1.3 million. The Board has not established a policy or plan to guide officials in determining the amount of fund balance it deems to be reasonable or under what specific circumstances or in which manner fund balance should be used.

Figure 2: Fund Balance as a Percentage of the Ensuing Year's Appropriations

	2013	2014	2015	2016	Average
Highway Fund Balance	\$226,563	\$180,520	\$196,423	\$230,629	
Highway Fund Ensuing Year's Appropriations	\$1,652,269	\$1,588,958	\$1,598,251	\$1,533,950	
Highway Fund Balance as a % of Ensuing Year Appropriations	13.7%	11.4%	12.3%	15.0%	13.1%
General Fund Balance	\$921,978	\$914,529	\$1,074,734	\$1,032,642	
General Fund Ensuing Year's Appropriations	\$1,594,207	\$1,485,937	\$1,634,978	\$1,583,578	
General Fund Balance as a % of Ensuing Year Appropriations	57.8%	61.6%	65.7%	65.2%	62.6%
Combined Fund Balances	\$1,148,541	\$1,095,049	\$1,271,157	\$1,263,271	
Combined Funds Ensuing Year's Appropriations	\$3,246,476	\$3,074,895	\$3,233,229	\$3,117,528	
Combined Fund Balances as a % of Ensuing Year Appropriations	35.4%	35.6%	39.3%	40.5%	37.7%

In addition, we found that officials established separate repair reserves as part of their general and highway funds. However, we were unable to determine if the reserve funds were "legally established" because officials could not provide us with any authorizing resolutions establishing the reserves. The Supervisor told us the reserve funds date back to the 1970s and were created to pay for repairs associated with the highway garage and Town Hall.

The Supervisor also informed us that the Board is planning to dissolve the general fund repair reserve because the Town recently moved into a new Town Hall as part of a shared services agreement with the Town of Rosendale. As of December 31, 2016, the general fund repair reserve had a reported balance of \$239,700. Therefore, the unassigned fund balance for the Town's general fund would increase to approximately \$1.3 million or 82 percent of the ensuing year's budget.

A multiyear financial plan can help residents and Town officials see the impact of fiscal decisions over time. It can provide the Board with the opportunity to prospectively decide what program funding choices to make while avoiding sudden tax increases or dramatic budget cuts.

The Town Has Unfunded Capital Needs

The Board has not established a multiyear capital plan. The Board did not plan for the replacement of highway vehicles and equipment, infrastructure or the aging highway garage.

We examined all 35 Town-owned highway assets to determine their age and remaining useful life. Based on the asset's average age, many of the highway's capital assets have exceeded their useful life. While useful life may not always be an accurate indication of how long a particular piece of equipment will last, officials should consider this information when developing a multiyear capital plan.

Furthermore, officials also cited additional capital needs such as a new highway garage and a bridge replacement. Because officials do not have a capital plan or financing mechanisms established, such as capital reserve funds, they are not able to determine the budgetary impact, including debt service costs (if any), impact on fund balance or future operating expenditures.

A multiyear capital plan can also help the local government spread the costs of providing capital improvements over time, thereby creating more future financial flexibility without overburdening residents or disrupting vital services.

What Do We Recommend?

The Board should:

1. Develop multiyear financial and capital plans.
2. Develop a fund balance and reserve policy to govern the levels of unrestricted fund balance and reserves to maintain.
3. Develop a plan to reduce unrestricted fund balance in a manner that benefits Town residents. Such uses include, but are not limited to:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Reducing property taxes.
4. Consider establishing reserves, as part of its long-term planning efforts, to set aside funds for identified future expenditures. When establishing reserves, the Board should clearly establish the purpose, planned uses and desired funding level of each reserve.

Appendix A: Response From Town Officials



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December 18, 2017

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This letter is in response to the audit findings of New York State regarding the Town of Marbletown for the period January 1, 2016 to June 26, 2017.

While we agree with all of the findings of the audit report as being factually correct, we do not necessarily agree with the general philosophy of New York State.

The concept of a multiyear financial plan or fund balance and reserve policy for a two year elected position is placing restraints on future administration. The town has recently moved to a vacated school building, shared with a neighboring town, which has saved the taxpayers millions of dollars. Funds were set aside twenty (20) years ago for the upgrade of the old town hall. These funds will probably be used to fund a new town garage facility which we envision to be a shared facility with the neighboring town.

The NYS tax cap is a budgeting nightmare because if surplus funds are used to reduce the tax burden in one year, the chances are that the town will exceed the tax cap in the next year, since the expenses rarely decrease.

The Town of Marbletown has transferred unrestricted monies \$600K into a "reserve replace and repair fund" for future use of new Highway garage.

In the current year 2017, the town had to replace one small bridge (culvert), as it was deemed unsafe. The unexpected cost of the bridge was \$236,000, which totally eliminated the highway fund balance. There are over seven bridges or culverts in the town. The general fund will be transferring money to the highway fund this year until it can build back its unappropriated fund balance.

The town was faulted for unfunded capital needs in the highway department for having assets that have exceeded their useful lives. The town has a different thought process in the equipment replacement area. The town buys used equipment with good maintenance records and low mileage. The equipment is then used for the next ten (10) to twelve (12) years at a significantly lower purchase price. We believe that our procedure is much better for the town's taxpayers. It seems to work very well, as the town has the lowest tax rate in Ulster County for the past eight years.

On behalf of the town board and the employees of the Town of Marbletown, we would like to thank the auditors for their professionalism, insight and guidance throughout the audit.

~~Sincerely,~~

Michael Warren
Supervisor

See
Note 1
Page 7

Appendix B: OSC Comment on the Town's Response

Note 1

A multiyear financial plan and fund balance policy not only provides guidance for current officials but for future officials as well. In addition, it allows residents to be informed of the Town's future plans.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State (NYS) General Municipal Law. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Board and officials to gain an understanding of the Town's financial condition.
- We calculated the Town's historical operating results using the reported figures on the Town's annual update document (AUD). We calculated the estimated/current year results using the Town's 2017 adopted budget.
- We compared the Town's capital asset inventory with the insurance policy records to determine if they matched. We were then able to compare those assets against the NYS Office of General Services (OGS) useful life schedule to determine the remaining useful life.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Town Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

http://www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<http://www.osc.state.ny.us/localgov/costsavings/index.htm>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

<http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm>

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

<http://www.osc.state.ny.us/localgov/planbudget/index.htm>

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf>

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

<http://www.osc.state.ny.us/localgov/finreporting/index.htm>

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<http://www.osc.state.ny.us/localgov/researchpubs/index.htm>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

<http://www.osc.state.ny.us/localgov/training/index.htm>

Contact

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