

Financial Report – Fourth Quarter 2011 and First Quarter 2012

Town of East Hampton Budget Office

Presented to the East Hampton Town Board

May 1, 2012

During the fourth quarter of 2011 the Supervisor and Town Board drafted and adopted its 2012 operating budget, which included a tax levy decrease of 1.7%. This means that the tax levy cap for East Hampton Town in 2013 will be around 3.5% when the credit from 2012 is included. Tax rates went down slightly for residents outside the villages and by almost 10% for those living inside the villages. The within year 2011 budget was closely monitored during the fourth quarter to ensure all operating funds would come in at least balanced for the year, which they did, when accounting for all revenue and expenditure sources. Cash flow was also closely monitored to ensure all funds had 2011 revenues available to meet financial obligations. The within year performance was as good, or better, than what was projected. The general whole town fund and part town general fund are both projected to have operating surpluses at the end of the year for the first time since 2004, based on the recently completed Annual Update Document (AUD) sent to the State Comptroller, which is a financial summary prepared by the town's accounting and auditing staff. Town Board approved appropriated non-dedicated surplus was used to supplement other revenues in Highway and Sanitation, but with an eye towards maintaining ample non-dedicated surplus in those funds – which was accomplished and is illustrated in the chart below.

Highlights – Fourth Quarter 2011

1. The Community Preservation Fund (CPF) was made completely whole financially. All remaining money owed was repaid with interest. Town management was deliberate and thoughtful in the timing of the repayments so as to ensure adequate cash flow in all funds that owed CPF money as it worked through the 2011 fiscal year and gained a better awareness of the impact of deficit borrowing and the cost of current operations on the financial position of the town. The biggest repayment to CPF that helped close the payback process was \$1,337,407 from the Capital Fund.
2. The Town unanimously adopted the 2012 operating budget on November 17, 2012. The budget contained a decrease in the tax levy (down 1.7%) and a modest increase in spending (up 2.6%). Increases in projected non-tax revenue (mortgage tax, clerk's fees, appropriation from new debt reserves, and justice court fees) helped to moderate the impact on the tax levy. In addition, strong controls over spending created by zero based budgeting and operations that reflect the seasonal nature of services contributed to the strong spending/tax levy ratio.
3. The State Comptroller's Office reviewed the 2012 budget in accordance with the deficit financing rules and requirements and made several comments about: contingency appropriations; cablevision franchise fee revenue; sales of real property; and appropriation of debt reserve. The comments were responded to in a letter to the Deputy Comptroller on November 30, 2011. Town management stated the over \$600,000 in contingency money budgeted was sufficient in its

opinion; that the Town expected to receive more than \$850,000 in cable franchise fees in 2012 (the Town actually received \$855,000 in 2011); and that the agreement to sell the Town's share of the Poxabogue Golf Course to the Town of Southampton was near completion and would generate the reserve that would be used to pay down outstanding debt on the original acquisition (the sale was completed in 2012 and awaits final State legislative action which should take place any day according to Assemblyman Fred Thiele).

4. The Town ended the year without adding any new debt, with the exception of the money borrowed to eliminate the deficit created between 2005 and 2009. As a result of the no new capital borrowing/debt policy for 2010 and 2011 the Town was able to absorb the debt service created by deficit financing in the 2012 budget in a way that did not adversely impact overall spending and the tax levy for 2012. In other words, deficit financing helped to correct the problems created by the previous administration without burdening the taxpayer with bigger tax levies, and as explained below, helped to establish some year-end surplus that the town was strongly urged to create by the town's financial advisor and the credit rating agencies.
5. Overall town indebtedness actual declined from 2009 to 2010 to 2011. Debt declined by slightly over \$10 million between 2010 and 2011. The chart from the recent official statement issued for our just closed refund bond sale illustrates this fact (attached).
6. The Town updated its three year financial plan. After distributing hard copy draft reports to the Town Board members in December the report was forwarded to the State Comptroller. A copy of the report is on file in the Town Clerk's Office. The update calls for modest increases in spending and property taxes and reductions in staff as the Town further implements its seasonal approach to operations. The plan also calls for growing undedicated fund balances over the period. Overall the plan calls for the Town to stay within the State tax levy cap for each of the years covered in the plan. The plan will be updated at the end of 2012 to reflect actual 2011 results and adjust projections moving forward.

2011 Full Year Performance – Preliminary/Projected

From the year-end 2009 audited financial statements through the projected year end 2011 numbers the Town's general fund has made a dramatic turnaround, in part due to the much needed aggressive deficit financing pursued by Supervisor Wilkinson and the town board, as well as a hard push down on spending in 2010 far below the budgeted amounts, and a very tight 2011 adopted budget. Difficult, and sometime critical decisions, are paying off in solid financial numbers for the Town.

At the end of 2009 the whole town general fund closed with a \$15.7 million deficit and the part town general fund closed with a \$10.1 million deficit. During 2010 thanks to strong spending controls instituted by Supervisor Wilkinson the Town underspent the whole town budget by \$4.7 million and the part town budget by \$2.9 million – this sliced off over \$7.5 million from the inherited general fund deficit. A positive revenue variance of \$3.3 million helped to eliminate much more from the deficit. The Town issued \$9.5 million in deficit bonds. As a result of these actions, the year end 2010 general fund deficit went from \$25.8 million

(year end 2009) to a little over \$6 million, which put the Town in a position to turn the corner on the 2005-2009 financial crisis and move forward in a very positive manner.

The Town adopted a very tight 2011 budget that was developed using the zero based method. There was little room for overspending and the amount set aside for emergencies in the contingency lines proved adequate. The 2011 fiscal year proved the town could adopt a tight but fiscally responsible operating budget, and through close management oversight stay within that budget and generate positive within year results.

The 2011 AUD figures indicate the whole town general fund had a within year positive revenue/expenditure balance of \$2.457 million, and the part town general fund had a positive balance of \$223,400. When factoring in the residual effects of the final installment of deficit financing, the whole town general fund ended the year with a \$6.9 million surplus, and the part town general fund ended the year with a \$1.4 million surplus.

The other large funds; Highway; Sanitation; Scavenger Waste; and Airport also posted good results for the 2011 fiscal year. Highway had a positive \$20,697 revenue/expenditure balance; Sanitation was \$280,828 on the positive size; and the Airport ended with a plus \$408,321 within year surplus. The Scavenger Fund saw its deficit cut by \$206,254 in 2011 (the amount of within year surplus), with an expectation that the deficit could be eliminated in 2012-2013.

The AUD contains positive fund balances in the general fund components for the first time in over five years; very healthy fund balances in Highway, Sanitation and Airport; and the reduction of the deficit in the Scavenger Waste Fund. Year-end projected fund balances are presented below:

Figures Reported in the Annual Update Document to the State Comptroller as Compiled by the Town Accounting and Auditing Staff

<u>Fund</u>	<u>Revenue</u>	<u>Expend.</u>	<u>2011 Performance</u>	<u>Yr. End Balance</u>
Whole Town General Fund	28,669,368	26,212,230	+2,457,138	+6,895,690
Part Town General Fund	20,881,820	20,658,420	+223,400	+1,415,586
Highway Fund	5,825,174*	5,804,477	+20,697	+2,396,582
Sanitation Fund	6,292,616*	6,011,788	+280,828	+2,945,583
Scavenger Fund	1,173,482	967,228	+206,254	-200,014
Airport Fund	4,129,011	3,710,690	+408,321	+2,100,820
Capital Fund	2,761,657	434,655	+2,327,002	+2,327,002

Community Pres. Fund	14,349,432	16,118,107**	-1,768,675	+32,003,566
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*This includes appropriation of surplus approved by the Town Board in advance of expenditure.

**Land purchases used money collected during the year in addition to CPF money in fund balance.

Turned the Financial Corner

By all financial measures, management believes it has turned the corner and the Town is headed in the right direction for the long term. Obviously, the 2012 budget adopted last November is tight, as was the 2011 budget, even with \$600,000 of contingency built into its major operating funds. Ensuring that the budget is not overspent will require close monitoring and scrutiny. The Town, however, has set up several systems to monitor the budget, including requiring Department Heads to analyze their projected month by month spending against actual spending. The Budget Officer and Supervisor also review monthly budget performance to ensure all departments are staying within the spending plan. In addition, the Budget Office has designed a budget review form which Department Heads now use to flag any potential problem expenditure or revenue lines and propose how to deal with the potential problems before they become actual problems.

Highlights – First Quarter 2012

During the first quarter of 2012 the Town finalized asset sales and structural reorganizations that will save the town \$2.7 million in debt service over the long term, and at least \$170,000 in recurring operating expenses. Such actions will create approximately \$425,000 in tax cap space for the town that it would not have had if the actions were not taken. Specific highlights of the first quarter are described below.

1. The Town hired a full time Chief Auditor to conduct internal audits of Town operations and financial activities in an effort to improve internal financial controls and ensure efficient operations. The Chief Auditor, among other duties will manage the accounting and internal audit function. In addition to the internal audits the Chief Auditor will oversee accounting activities and activities related to grants to ensure grants are pursued when available and then tracked once awarded. The new unit will also oversee the review, payment, and internal control of the Health insurance billing process (one of the biggest monthly expenses of the Town besides payroll and a function formerly performed by the Human Resources Department).
2. The new internal audit function completed a spot audit of all Town petty cash funds and prepared a report with recommendations to the Town Board, such as regular reconciliation of funds in the MUNIS system.
3. The Town reorganized its Human Resources function in a manner that will lead to recurring cost savings of over \$170,000 per year. In close consultation with the Suffolk County Director of Civil

Service, the Town developed a reorganization plan that folded the Human Resources and Grants management function directly into the Budget Office/Finance operation. Based on the advice from Suffolk County Civil Service that if a reorganization were to occur that the Town needed to retain one personnel related position to handle human resource matters and liaison with the County, and the fact that full time positions have decreased to about 313 (with the ultimate goal to lower that number further), the Town Board decided in 2011 to streamline the HR function reducing the number of staff working solely on HR issues from four to one. The reorganization was implemented in 2012. Periodic support of personnel activities will be provided on an as needed basis by other Budget Office staffers who have experience in personnel and payroll matters.

4. The first quarter budget performance is in line with expectations on both the revenue and expenditure sides of the ledger. The first report for 2012 from the Suffolk County Clerk's Office shows mortgage tax revenue for January at \$250,138 which is consistent with revenue projections. Our health insurance billings are in line with the budget for the year as are other payments for benefits.
5. The town is relocating the Grants Analyst from the Information Technology Unit to the new Audit and Accounting Unit to create better structure and financial controls over the grant application, monitoring and collection process.
6. At the end of the quarter Southampton Town approved the purchase of East Hampton's share of the Poxabogue Golf Course located in the Town of Southampton. East Hampton will be receiving \$2.2 million for the sale and a 50% portion of a capital reserve made up of "profits" from six years of operation – approximately \$200,000. The total amount of \$2.4 million when incorporated into a defeasance plan to eliminate the debt being carried by East Hampton for its original purchase of the 50% share of the facility will save East Hampton taxpayers over \$2.7 million in debt service costs that otherwise would have been paid without the sale. The average savings per year in the first four years is about \$255,000, with additional per year savings of about \$250,000 between 2016 and 2023, inclusive.
7. The town's independent auditors (Nawrocki and Smith) have begun field work on the 2011 financial audit and will hopefully have a draft report in May. The auditors from Cullen and Danoski have completed field work for the 2011 Community Preservation Fund audit required by law. A draft was circulated to the town board on Friday April 27.
8. A draft three year capital plan was formulated using requests made by department heads during the meetings held in August and September of 2011 to formulate the 2012 operating budget. Meetings were held in February 2012 between the departments making capital budget requests last year and the Town Supervisor, Budget Officer and various Town Board members. As a result of those meetings a draft plan was formulated by the Budget Office on a project by project basis over 2012, 2013 and 2014 with projected debt service payments for the money to be borrowed in the plan. The plan was reviewed by the Town Board at public work sessions on March 20, and April 3, 2012 and was adopted at the Town Board's regular meeting on April 5th. In total, the three year plan contains approximately \$7.2 million in capital spending and borrowing – a very modest average of \$2.4 million per year. This amount represents a number that is less than the amount of principal debt to be retired on existing borrowing for the same period. Separate bond resolutions for

various capital projects and purchases have been adopted by the Town Board and more will be on the agenda for the May 3rd meeting. Each resolution identifies the fund that will be responsible for paying the debt service on the borrowing. In addition, the total amount borrowed and yearly debt service it would create was scrutinized within the context of the 2% tax levy cap to ensure the additional debt service created still allowed for an ample amount of funding for discretionary/variable items in future budgets.