

Town of Oyster Bay

Financial Condition Management

SEPTEMBER 2020



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

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Report Highlights

Town of Oyster Bay

Audit Objective

Determine whether the Town Board (Board) and Town officials effectively managed the Town's financial condition.

Key Findings

The Board and Town officials need to continue to improve their management and oversight of the Town's financial condition.

- Three of the Town's funds have carried repeated fund balance deficits, while two other funds have accumulated unrestricted fund balances equal to at least 45 percent of the next year's budgets and no reserve funds were established.
- The Town has nearly \$605 million in outstanding debt, which is significantly more than neighboring towns and requires 37 percent of the revenue of the funds servicing this debt.
- The Board did not develop and adopt several comprehensive written plans and policies, including a multiyear financial plan, fund balance policy and reserve policy.

Key Recommendations

- Develop a comprehensive written multiyear financial plan and written policies establishing reasonable fund balance levels for each fund.
- Reduce excessive fund balances and eliminate deficit fund balances.
- Re-evaluate use of debt and consider other means, such as establishing reserves, to pay for long-term infrastructure needs.

Town officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action. Appendix B includes our comments on issues raised in the Town's response letter.

Background

The Town of Oyster Bay is located in Nassau County (County), covers approximately 169 square miles and includes 18 incorporated villages. The Town provides services to its residents, including street maintenance and improvements, snow removal, street lighting, fire protection, solid waste disposal and general government support.

An elected Board, composed of the Town Supervisor (Supervisor) and six Council members, governs the Town and is responsible for the general management and control of financial affairs, including establishing financial policies and adopting and monitoring the annual budget.

The Supervisor is the chief financial officer, generally responsible for the collection and custody of Town funds. The Finance Director assists the Supervisor with financial duties and serves as the Town's budget officer. The Town Comptroller is responsible for maintaining the accounting records and for financial reporting.

Quick Facts

Population	293,214
2019 Real Property Tax Levy – All Funds	\$225,032,649

2019 Expenditures

General Fund	\$130,984,759
Solid Waste Disposal Fund	\$25,931,548
Public Parking Fund	\$8,480,381

Audit Period

January 1, 2016 – December 31, 2019

Financial Condition Management

What Is Effective Financial Condition Management?

Prudent fund balance management helps ensure that sufficient funding is available to finance current and long-term obligations and address unexpected events without relying on short-term borrowing, routine use of fund balance, sudden tax increases or severe budget cuts.

To effectively manage financial condition, the board must adopt realistic and structurally balanced budgets based on historical or known trends that provide sufficient recurring revenues to finance recurring expenditures. Once the budget is adopted, the board should review year-to-date budget-to-actual reports, address variances in revenues and expenditures, and implement corrective action or budget amendments before financial condition declines. In addition, New York State Town Law¹ requires that the Supervisor should not permit any fund or appropriation account to be overdrawn at any time. This is important to assure that expenditures stay within the financial plan adopted by the Board.

Maintaining a reasonable level of unrestricted fund balance² is an essential component of financial management. If the amount retained is too low, a town may not have a sufficient financial cushion for emergencies or other unanticipated needs. A written fund balance policy should specify the appropriate levels of fund balance to be maintained in each fund and provide the board with guidelines during the budget process. A board can also legally set aside, or reserve, a portion of fund balance to finance future costs for specific purposes (e.g., capital improvements or vehicle replacements). Finally, a written multiyear financial plan³ enables officials to identify revenue and expenditure trends, establish long-term goals, maintain reasonable and stable fund balances, and consider the impact of budgeting decisions on future fund balance levels.

Fund Balance Was Not Properly Managed

The Board and Town officials need to continue to improve their management of financial condition in individual funds. Although Town officials maintain that the Town is not in fiscal stress because it had an overall cumulative fund surplus of \$8.1 million in 2018 (and more than \$27 million in 2019), our evaluation of all Town funds⁴ for the 2016 through 2019 fiscal years found that three funds – the solid waste disposal, public parking district, and TW general funds – have carried

1 New York State Town Law Section 125

2 For the purposes of this report, unrestricted fund balance is the total fund balance less reserves and amounts appropriated to fund the next year's budget (assigned fund balance).

3 Refer to our publication Multiyear Financial Planning, available at www.osc.state.ny.us/localgov/publlgmg/multiyear.pdf

4 Except the debt service fund and capital projects fund

repeated deficits, while, by contrast, two other funds – the lighting district fund and part-town fund – have accumulated unrestricted fund balances equivalent to at least 45 percent of the subsequent year’s budgeted funds. Finally, the drainage district fund could experience a deficit in three years or less if the Town continues to overbudget payments in lieu of taxes (PILOTs).

Solid Waste Disposal Fund – While this fund improved its deficit by \$9.2 million – from \$15.2 million as of December 31, 2015 to \$6 million as of December 31, 2017 – it has incurred repeated operating deficits, steadily increasing the fund’s overall deficit since 2017. For example, the Town has received an average of \$508,000 less per year in State aid than budgeted. The 2019 data indicates that this fund’s deficit as of December 31, 2019 is \$7 million, or 27 percent of the fund’s revenues.

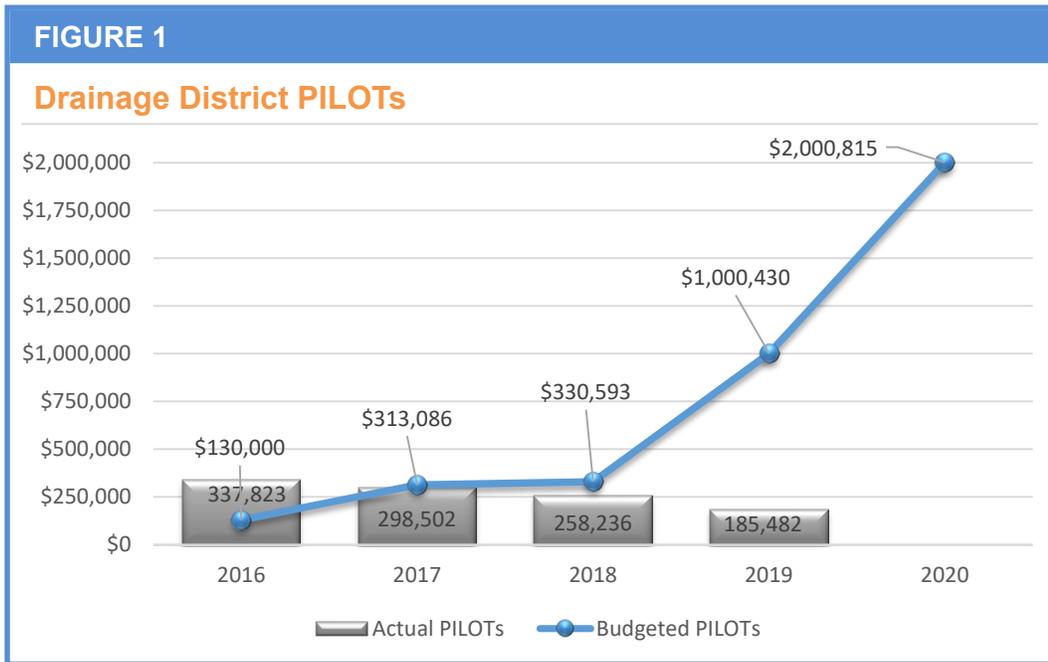
Public Parking Fund – The Town has been unable to maintain a trend of operating surpluses in this fund. Rather, inaccurate estimates of parking fees (lots, garages, meters) and salary expenses continue to exacerbate the deficit position of this fund. While the 2020 budget appears to address the salary issue and increases estimated administration costs, the Town has nearly quadrupled its estimated revenue from parking fees, asserting that the majority of bi-annual parking passes will be renewed in 2020. The 2019 data indicates that this fund’s deficit is \$1.3 million, or approximately 16 percent of the fund’s revenues.

TW General Fund – The TW general fund has unrestricted fund balance equivalent to less than 2 percent of the subsequent year’s budget as of December 31, 2019, having incurred deficits since 2011. Following three consecutive years of operating surpluses, each in excess of \$10 million, this fund recovered from an unrestricted fund deficit of \$45.6 million as of December 31, 2016 to an unrestricted fund balance of \$2.3 million as of December 31, 2019. However, the Town recently settled litigation for which it plans to issue \$30 million in bonds. This increase in debt, along with potential unanticipated expenditures and revenue shortfalls related to the COVID-19 pandemic, could negatively affect this fund balance in the future.

Part-Town Fund – The part-town fund had operating surpluses averaging 10 percent every year since at least 2016. Consequently, this fund accumulated unrestricted fund balance equivalent to nearly 46 percent of the fund’s subsequent year budgets.

Lighting District Fund – The Town accumulated as much as \$3.1 million of fund balance in its lighting district fund by overbudgeting for expenditures for a number of years, through 2017. Even though the Town used this fund balance to fund the Lighting District’s operations in 2018 and 2019, the fund balance was still equivalent to 45 percent of the subsequent year’s budget as of December 31, 2019. The purpose of this fund is to raise taxes to pay lighting costs in the District. Since the cost from year to year is relatively consistent, this fund should be able to operate with very little fund balance.

Drainage District – The Town drastically increased its budgeted PILOT revenue for this district from \$330,593 in 2018 to \$1,000,430 in 2019, and doubled it again to \$2,000,815 in 2020, despite a steady decline in actual payments received since a peak of \$337,823 in 2016 (Figure 1).



Town officials told us they purposely overbudget this revenue to spend down fund balance. However, by continuing to overbudget PILOTs, the Town will see its drainage district fund balance decline rapidly, potentially reaching a deficit in three years or less. If the intent is to spend down fund balance, Town officials should simply show appropriated fund balance as part of the budget and use a reasonable estimate for PILOT revenue.

The Town Has Significantly More Debt Than Neighboring Towns

In 2019, the Town had nearly \$605 million in outstanding debt. While this is \$129 million less than in 2016 and is only 15.4 percent of the Town’s constitutional debt limit (CDL),⁵ the annual debt service requirements still represent 37 percent of the annual revenue (excluding interfund transfers) for the debt-bearing funds⁶ and \$2,063 of debt per capita (Figure 2).

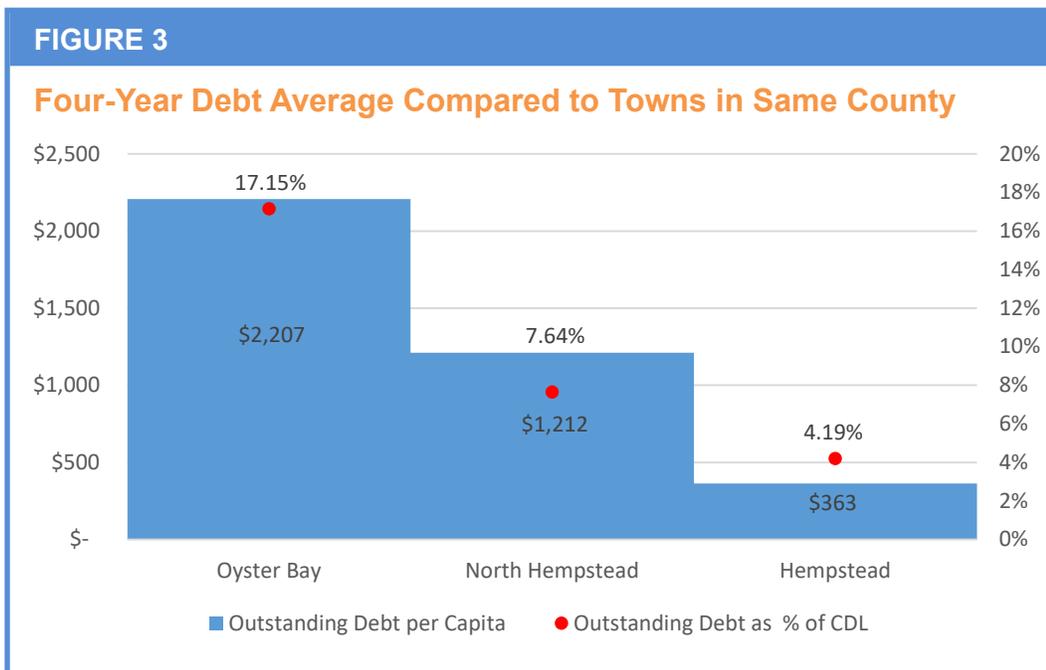
⁵ The constitutional debt limit is 7 percent of the five-year average full valuation of taxable property within the Town (as established in the NYS Constitution, Article VIII, Section 4). Debt issued for the purpose of water supply and distribution and certain types of short-term borrowings are excluded from the debt limit.

⁶ Debt-bearing funds include TW general, PT highway, part-town, garbage collection, solid waste disposal, drainage, parks, lighting, and public parking.

Figure 2: Town of Oyster Bay Debt Affordability

Debt Affordability	2016	2017	2018	2019
Average Full Valuation	\$54,383,116,639	\$54,096,119,985	\$54,851,844,539	\$56,071,487,966
Constitutional Debt Limit (CDL)	\$3,806,818,165	\$3,786,728,399	\$3,839,629,118	\$3,925,004,158
Outstanding Debt				
Total (excluding water district debt)	\$733,961,041	\$666,142,306	\$617,175,508	\$604,861,511
As % of CDL	19.28%	17.59%	16.07%	15.41%
Per Capita	\$2,468	\$2,230	\$2,068	\$2,063
Debt Service				
Annual Debt Service	\$87,480,706	\$94,069,610	\$84,429,445	\$124,178,035
Revenue of Debt-Bearing Funds	\$283,844,423	\$330,441,918	\$305,055,211	\$335,784,529
Debt Service as a % of Revenue	30.82%	28.47%	27.68%	36.98%

On average, this is significantly more debt than the other two Nassau County towns of Hempstead and North Hempstead. In those towns, the average debt per capita is less than a one-sixth and just over half as much, respectively, as in Oyster Bay, and the average percentage of CDL used is less than one-fourth as much in Hempstead and less than half as much in North Hempstead (Figure 3).



With the Town planning to issue another \$30 million in bonds to fund a recent settlement, the Town's debt could again reach 16 percent of its CDL. The Town should consider its continued ability to repay this additional debt. Over the last four years, while the Town's debt has decreased by \$129 million, debt service has averaged nearly one-third of revenue earned by debt-bearing funds.

The Board Did Not Establish a Multiyear Financial Plan, or Fund Balance and Reserve Fund Policies

The Board did not develop or adopt a comprehensive written multiyear financial plan. The Board also did not adopt a written fund balance policy or reserve fund policy detailing the level of fund balance and specific reserves needed, including funding levels, and a plan for the periodic review of these funds. Without a written fund balance policy, the Town risks using too much fund balance from some funds and has no guidelines to know when the other funds have sufficiently recovered. In addition, since the majority of the Town's special district funds only serve portions of the Town located outside of villages, tax inequities could result from using fund balance of some funds to finance deficits in other funds, since taxpayers may see either increases or decreases depending on their special districts of residence.

The Board also has not established any reserve funds as a mechanism for saving money to finance all or part of future infrastructure, equipment or other needs. The Board should consider establishing a reserve fund policy and reserves, in particular capital and repair reserves, especially considering the Town's capital needs. Reserve funds would help to reduce the reliance on debt to finance future capital expenditures.

Without a written multiyear financial plan and policies to guide the Board regarding fund balance and reserves, it is difficult for the Board to properly manage the Town's fund balance and assess alternative approaches to financial issues, such as raising real property taxes, the depletion and accumulation of unrestricted fund balance or using fund balance to finance annual operations.

Our audit period ended December 31, 2019, prior to the start of the pandemic. Given the negative financial effect of the pandemic, it is even more important for Town officials to develop and monitor appropriate annual budgets and begin multiyear financial planning.

The Board Needs To Improve Oversight

While the Board receives monthly budget status reports, Board members told us they do not look at these reports in depth or look at specific budget lines for overspent appropriations. Also, while the Board approves budget transfers at every meeting, the Board members are unaware of whether these transfers occur before an appropriation is overspent. Without policies to guide the Board in

managing the financial condition of individual funds, the Town is at risk of creating tax inequities and potentially compromising its ability to provide essential services.

What Do We Recommend?

The Board should:

1. Develop and adopt a written fund balance policy that establishes a reasonable amount of fund balance to be maintained in each fund to meet the Town's needs.
2. Develop a plan to reduce the amounts of fund balance in the lighting district and part-town funds in a manner that benefits taxpayers. Such uses include, but are not limited to:
 - Funding one-time expenditures,
 - Funding needed reserves,
 - Paying off debt, and
 - Reducing Town property taxes.
3. Establish a plan to eliminate deficit unrestricted fund balances in the solid waste disposal and public parking funds and ensure that those funds are self-sustaining (recurring revenues funding recurring expenditures) going forward.
4. Monitor the financial activity in the drainage district and TW general funds to ensure that those funds remain self-sustaining.
5. Discontinue overbudgeting PILOT revenues in the drainage district fund.
6. During the budgeting process, consider the Town's continued ability to repay debt, including the interest that accrues over the life of the bonds.
7. Develop and implement a comprehensive multiyear financial plan. The plan should be periodically reviewed and updated, as appropriate.
8. Consider establishing reserves, as part of long-term planning efforts, to set aside funds for identified future expenditures. The purpose, planned uses and desired funding level of each reserve should be established in a written reserve policy.
9. Use monthly budget status reports to compare actual financial activity to the original and modified budgets, and identify spending trends to develop realistic budgets based on prior actual results and expected future changes.
10. Ensure that it approves budget transfers before expenditures exceed available appropriations.

Appendix A: Response From Town Officials



Office of the Comptroller

Town of Oyster Bay

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Steven C. Ballas
Comptroller

Christine M. Wiss
Deputy Comptroller

August 21, 2020

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Re: Audit Report Title: Financial Condition Management
Audit Report Number: 2020M-74

Dear Mr. McCracken:

We have reviewed the draft Report of Examination in the Town of Oyster Bay's *Financial Condition Management*, 2020M-74. It is a priority of the Town Supervisor and Board to provide transparency and accountability to the taxpayers and we appreciate the time expended to review the Town's financial records and procedures to offer suggestions for improvement in attaining these goals.

The final audit objective was to determine whether the Town Board and Town Officials effectively managed the Town's financial condition. Following the New York State audit team's favorable review of several town processes (i.e., internal controls, payroll processing, etc.), the audit team transitioned to a financial condition audit.

See
Note 1
Page 12

This response shall serve as the Town's Corrective Action Plan. As you are aware, several of the audit team's recommendations have already been implemented, and the Town Board and its officials will give the other recommendations serious consideration:

1. Develop and adopt a written fund balance policy that establishes a reasonable amount of fund balance to be maintained in each fund to meet the Town's needs.

The Town agrees with this recommendation and will begin to draft a written fund balance policy.

2. Develop a plan to reduce the amounts of fund balance in the fire protection district, lighting district and part-town (Planning & Development) in a manner that benefits taxpayers. Such uses include, but are not limited to:

- Funding one-time expenditures;
- Funding needed reserves;
- Paying off debt; and
- Reducing Town property taxes.

The fund balance for fire protection is almost entirely restricted, therefore, there is no need to reduce any further. The excess lighting district fund balance has been addressed in the 2020 budget and will not be an issue moving forward. The part-town fund (P & D) balance will continue to see improvement in future budgets. This will also be addressed in the fund balance policy.

See
Note 2
Page 12

3. Establish a plan to eliminate deficit unrestricted fund balances in the solid waste disposal and public parking funds and ensure that those funds are self-sustaining (recurring revenue funding recurring expenditures) going forward.

The Town agrees with this recommendation and is in the process of eliminating these deficits, one fund at a time, with the General Fund receiving priority attention in 2019. We will make budget adjustments that will ensure improvements to the solid waste disposal fund and the public parking fund in the 2021 and 2022 budgets. The Town will continue with its plan to eliminate deficits in these unrestricted funds ensuring these funds are self-sustaining.

4. Monitor the financial activity in the drainage district and TW (Town) general funds to ensure that those funds remain self-sustaining.

The Town will continue to monitor these funds to ensure they remain self-sustaining, as recommended.

5. Discontinue over-budgeting PILOT revenue in the drainage district fund.

The Town agrees with this recommendation; it is anticipated that the 2021 budget will bring this fund back in line.

6. During the budgeting process, consider the Town's continued ability to repay debt, including the interest that accrues over the life of the bonds.

The Town follows this recommendation during its budgeting process and will continue to do so.

7. Develop and implement a comprehensive multiyear financial plan. The plan should be periodically reviewed and updated, as appropriate.

The Town has had numerous discussions on this matter. The Board will consider this recommendation seriously and act accordingly.

8. Consider establishing reserves, as part of long-term planning efforts, to set aside funds for identified future expenditures. The purpose, planned uses and desired funding level of each reserve should be established in a written reserve policy.

The Town agrees with this recommendation and will look to show improvement in this area. Our top priority is establishing a surplus in each and every fund.

9. Use monthly budget status reports to compare actual financial activity to the original and modified budgets, and identify spending trends to develop realistic budgets based upon prior actual results and expected future changes.

The Board will continue to ensure the receipt of monthly budget status reports sufficient to review actual financial activity versus original and modified budgets. The Town will continue to incorporate these findings and trends in the Town's future budget planning process.

10. Ensure that it approves budget transfers before expenditures exceed available appropriations.

The Board approves budget transfers and modifications at every Town Board meeting, as needed. We will continue to ensure that the Board, as necessary, approves transfers so that expenditures will not exceed available funds.

To summarize, the audit period for this report was 2016 to 2019. The Supervisor, Town Board and the entire administration is proud of the financial turnaround that has taken place during this period. A \$44 million deficit has been turned into a \$27 million surplus; total Town debt has been reduced \$160 million and the practice of short term borrowing for cash flow purposes was eliminated in 2019. Given these facts, Moody's and Standard and Poor's have recognized these accomplishments with three bond rating upgrades in 2020 alone. Finally, when the State Comptroller's Office releases its Fiscal Monitoring Stress scores later this year, we expect that the Town's score as calculated by the State Comptroller's Office will be reduced enough to completely remove any fiscal stress designation.

Re: Audit Report Number 2020M-74

August 20, 2020

We would like to extend our appreciation for the cooperative effort to improve our operations. Thank you for the recommendations made and we look forward to continuing to work with your office in the future.

Very truly yours,

STEVEN C. BALLAS
Comptroller

SCB/cmw

cc: Honorable Joseph Saladino, Town Supervisor
Honorable Members of the Town Board

Appendix B: OSC Comments on the Town's Response

Note 1

As indicated in Appendix C, we conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we adequately plan our audit, which was limited to the Town's financial condition management. Before selecting our audit objective and scope, we conducted a risk assessment, which was not an audit and not enough of a review to form conclusions about these other areas of operations. We discussed observations noted during our risk assessment with Town officials.

Note 2

As discussed with Town officials at our exit conference, all mention of the fire protection districts fund has been removed from our report, based upon the Town's audited 2019 Comprehensive Annual Financial Report that was issued in June 2020.

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 General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Board members and Town officials and reviewed Board meeting minutes and the Town code to:
 - Gain an understanding of the Town's budgeting and accounting practices, reporting and oversight of its financial operations.
 - Determine whether written multiyear financial and capital plans or reserve and fund balance policies were developed, adopted and used during the budget development process.
- We obtained original budgets, annual financial reports and 2019 financial data to compare the original budgets to actual results of financial activity from 2016 through 2019 to assess whether the budgets were reasonably estimated. We also obtained the 2020 original budget and assessed whether it was estimated in a manner consistent with historical trends. We interviewed Town officials to identify reasons for any large or unusual budget variances.
- We assessed fund balance at year-end from 2016 through 2019 for all funds⁷ and analyzed the results of operations.
- We reviewed financial records and reports and Town debt filings to identify the Town's outstanding and anticipated debt and debt affordability ratios.

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, we selected samples for testing based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, we present information concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. 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.

⁷ Excluding the debt service and capital project funds

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

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

www.osc.state.ny.us/local-government/required-reporting

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

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

www.osc.state.ny.us/local-government/academy

Contact

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