Overview

The Town of Colonie is located in the northeast portion of Albany County, in the center of the Albany-Schenectady-Troy metropolitan statistical area. The Town encompasses the Villages of Colonie and Menands and is home to over 80,000 residents. Colonie includes more densely-developed commercial corridors, such as those along Route 5 (Central Avenue), Route 9 and Wolf Road, and it is the site of the Albany International Airport. It also has many neighborhoods of suburban single-family homes.

Despite its strong tax base, the Town has struggled financially in the past decade. Due to multiple years of recurring deficits in multiple funds, Colonie had significant fiscal stress. However, between a series of property tax increases, including a one-time tax in 2009, and an arrangement involving payments to the Town by a private contractor for the right to operate the Town’s landfill, Colonie experienced a stronger financial position at the end of 2011 than it had seen since 2002.

The Town has made strides in the past few years, but it still has room to improve. A 2012 audit made several recommendations for the budget process, some of which were implemented in 2013. However, the 2012 budget underestimated certain expenses and overestimated some revenues, causing the Town to end the year with a combined fund deficit of $627,797, although it had a slight surplus in the General Fund. The combined fund deficit may be explained by the Town’s use of “enterprise” funds for water and sewer finances, which have a different basis of accounting than governmental funds. Available fund balance was also an issue: the General Fund ended 2012 with a cumulative deficit from prior years, despite an annual surplus in 2012. Due to a weak cash position, Colonie also had to borrow $2.5 million in 2012 for cash-flow purposes. The result was that the Comptroller’s Fiscal Stress Monitoring System (FSMS) rated Colonie in “significant fiscal stress.” The bottom line is that Colonie must ensure that it funds recurring expenses with recurring revenues, a challenging task for all municipalities in today’s fiscal environment.
Population and Economic Factors

Like many American inner-ring suburbs, Colonie’s population grew rapidly during the post-World War II baby boom. Between 1940 and 1970, the Town’s population more than tripled, growing from 20,631 to 69,147, an increase of 235 percent. Since then, the Town has continued to grow, but at a much slower rate as the amount of land left undeveloped shrinks. Between 1970 and 2010, Colonie’s population grew by 18 percent, reaching 81,591 by 2010.

Colonie’s median household income of $70,367 is substantially higher than the median of $52,047 for towns statewide. Fewer than one in ten children lived in poverty in 2011 (9.7 percent), compared to the median town poverty rate for children of 13.3 percent. Unemployment in Colonie is relatively low for the State. The Town’s 2012 unemployment rate was 6.7 percent, 1.8 percentage points lower than the statewide rate of 8.5 percent.

Tax Base

As the Capital District’s geographic center, the Town contains a diverse mixture of retail, office and other commercial properties, as well as single-family housing. It boasts a low property vacancy rate of 4.3 percent, compared with 10.7 percent statewide, and its median home value is $217,700, which is higher than the median town’s median home value of $117,550.

Colonie has not been without its challenges. Having seen more rapid growth in the full valuation of real property in the earlier part of the last decade than other large upstate towns, Colonie’s total full value fell in 2009, as growth in many other towns merely slowed. The Town’s full value growth leveled off between 2009 and 2012. Even after recent declines, however, property values in the Town were still 60 percent higher in 2012 than they were in 2002, more than double the inflation rate during the period.

The total effective tax “rate” in most of Colonie in 2012 ranged from $23.22 per $1,000 of full market value for properties in the North Colonie School District to $24.71 for those in the South Colonie School District.\(^3\) However, this included town, special district (including water, sewer, fire protection and independent fire district), village (where relevant), county, and school district taxes. Of this, Town and special district taxes accounted for only about $4.60. Both total and Town property tax rates in 2012 were comparable to those of other towns in the region.
Revenues and Expenditures

The Town of Colonie relies less on real property taxes and more on sales taxes than other towns. In 2012, slightly more than a third (34 percent) of the Town’s revenues came from real property taxes compared to well over half (54 percent) for towns generally. Conversely, approximately a quarter of Colonie’s revenues (23 percent) came from sales and use tax distributions compared to 12 percent for all towns. Although this is good for Town finances in times of economic prosperity, it does tend to expose Colonie to greater fluctuations in its revenue base when the economy contracts than a similarly sized town with less reliance on the sales tax would experience.

State and federal aid together accounted for just 7 percent of Colonie’s total revenues, compared with 10 percent for all towns. Charges for services accounted for just over 19 percent of the Town’s total revenues, including fees for the Town’s water and sewer districts, which are run as semi-independent “enterprise” funds. The Town’s landfill, which is run by a private company, generated $7.9 million in contractual revenues, boosting “other” revenues to over 16 percent of the total.

### 2012 Revenues by Source

<table>
<thead>
<tr>
<th>Percentage of Total Revenues</th>
<th>Town of Colonie</th>
<th>All Towns*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Property Taxes</td>
<td>34.2%</td>
<td>54.5%</td>
</tr>
<tr>
<td>Sales and Use Taxes</td>
<td>23.2%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>11.7%</td>
<td>14.3%</td>
</tr>
<tr>
<td>State Aid</td>
<td>5.9%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Federal Aid</td>
<td>4.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other</td>
<td>9.5%</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

* Includes the 848 towns that had filed 2012 data as of June 28, 2012.

### Change in Revenues and Expenditures, 2002 to 2012

<table>
<thead>
<tr>
<th></th>
<th>Annual Average</th>
<th>Total Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Colonie</td>
<td>All Towns</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Property Taxes</td>
<td>7.6%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Sales and Use Taxes</td>
<td>2.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>-2.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>State Aid</td>
<td>0.9%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Federal Aid</td>
<td>1.8%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Other</td>
<td>14.5%</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>6.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>3.0%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Transportation</td>
<td>-1.2%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Utilities</td>
<td>4.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Sanitation</td>
<td>-6.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>9.6%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Other</td>
<td>0.6%</td>
<td>3.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3.2%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>
Between 2002 and 2012, Colonie’s total revenues increased by 42 percent, or an average of 3.6 percent annually, which was the same rate as for New York towns in the aggregate. Real property taxes during the same period, however, more than doubled, growing at an average of 7.6 percent per year, while sales and use taxes grew by 23 percent in total, or not quite 2.1 percent per year on average.

Colonie spends a larger share of its budget on public safety than other towns (24 percent of expenditures vs. 13.8 percent). The Town has its own police department and four fire protection districts, as well as an emergency medical service (EMS) department that provides coverage to a portion of neighboring Niskayuna as well. Although Colonie’s public safety spending is high for an upstate town, it is consistently rated one of the nation’s safest communities in its population category based on FBI crime statistics, despite having several relatively densely developed commercial areas. Its EMS has won several awards in recent years.

The Town also devotes a higher percentage of spending than average to employee benefits (21 percent), general government (18 percent), and utilities (9 percent). It spends a smaller percentage than other towns on transportation (7 percent of expenditures compared to 18 percent for all towns), and sanitation (4 percent compared to 11 percent for all towns).

Between 2002 and 2012, Colonie’s overall expenditure growth was lower than for towns as a whole: 3.2 percent annually, on average, compared to 3.9 percent for all towns. As is the case for other towns (and other local governments in general), expenditures for employee benefits have been growing much faster than most other categories. Between 2002 and 2012, the Town of Colonie’s expenditures for employee benefits grew by 151 percent, or an average rate of 9.6 percent annually, compared with 8.6 percent for all towns.
Fiscal Stress: Not a New Story

In 2013, the Office of the State Comptroller (OSC) instituted a Fiscal Stress Monitoring System as a way to help evaluate the financial condition of local governments and school districts, using a number of financial and environmental stress indicators. The Town of Colonie was rated as being “In Significant Fiscal Stress,” having triggered a number of flags for measures of financial condition in 2012 and over the past three years, including running an operating deficit across major funds, having no available fund balance in the General Fund, having less than 50 percent of the cash on hand to pay for current liabilities at the end of the fiscal year, and having issued short-term debt to cover cash shortfalls in each of the past three years.

However, this is not the first time that the Comptroller’s Office has noted that the Town of Colonie was not in sound financial condition. OSC released financial condition audits on Colonie in 2008 and again in 2012. Most of the findings from the 2008 report have been addressed by the current administration, although the 2012 report found some opportunities for further improvement.

The timing of the Town’s fiscal difficulties has been problematic, from an economic perspective. The worst financial setbacks occurred during a time of economic prosperity: although sales tax growth averaged only 2.4 percent per year from 2002 to 2008, most years saw increases of between 3 and 4 percent, and none had major decreases. During this time, property taxes did increase faster than sales taxes, but major property tax increases had to be made in 2008 and 2009, as the economy began to sink. The one-time property tax increase of 2009 coincided with a sales tax drop of 7.1 percent and a decrease in property values of 8.5 percent.
Improvements Made, But Difficulties Not Over

The first audit, issued in early 2008 and covering the period from 2004 to 2007, found that the Town’s financial condition had been deteriorating during that period, culminating in large cumulative deficits by the end of 2006 in both the General Fund and several other operating funds. The audit noted that the deficits were caused by officials’ wish to “restrain the growth of property taxes” during that time instead of raising local revenues or decreasing spending.\(^7\)

In 2008, local officials put into effect a number of difficult changes, including repaying the town-outside-village funds and addressing the accumulated deficit in the General Fund. An important step toward this goal was a one-time tax in 2009. Another was the contracting of the landfill’s management to a private company in August 2011. Although it has to defer recognition of some of the revenues it received from this arrangement, the Town was able to use a portion of the one-time, up-front payment to close most of the remaining cumulative deficit in the General Fund.

Despite these changes, however, challenges remain. The Town has not ceased running deficits in some of its funds, although the General Fund did end 2012 with a surplus for the fourth year in a row. Factoring in part-town, highway, water and sewer funds as well, for a more comprehensive combined fund approach, yields a 2012 deficit of $627,797. However, it is worth noting that Colonie reports its water and sewer finances in “enterprise” funds, which use a different basis of accounting than the governmental “special district” funds employed by almost all other towns in New York. This uncommon presentation may help explain their combined deficit.
Even with its 2012 operating surplus, the General Fund had no fund balance available for unanticipated events, such as revenue shortfalls or emergency expenditures. Although the General Fund had $568,548 in fund equity, officials had restricted or committed $813,298 for specific purposes, leaving the fund with a cumulative deficit of $244,750. On a combined funds basis, Colonie does have an available fund balance of $2 million, or about 2.5 percent of expenditures, but this is down from $4.4 million in 2011. It might be a little higher if water and sewer were shown as governmental funds (closer to 7 percent of expenditures), but it is still a relatively slim margin, compared with a median of 32.2 percent for large upstate towns.

The Town’s cash position also remains weak. Ideally, a local government should have a minimum of 100 percent of the cash necessary to cover liabilities at any point during the year, and towns tend to have much larger cash ratios. In 2012, the median town had a cash ratio of 458 percent, and the median large upstate town had a cash ratio of 975 percent. By stark contrast, Colonie only had enough cash on hand to cover 36.7 percent of its current liabilities at the end of 2012, down slightly from 44.6 percent in 2011.

Lack of cash has, in turn, led to repeated short-term cash-flow borrowing, incurring additional legal fees and interest costs. The rate appears to have slowed since OSC’s 2008 audit found issuances totaling $5.4 million in 2004, $11 million in 2005 and $11 million in 2006. Recent annual financial reports to OSC show declines in the total amount of Revenue Anticipation Notes (RANs) issued each year, with attendant reductions in interest payments. It is still worth noting that the recurring issuance of RANs is a sign of very poor cash position.
Bond Ratings and Budget Process

Colonie's bond rating has suffered from its budgeting problems. The Town was downgraded in 2006 to Baa1. In 2007 Moody’s reaffirmed the Baa1 rating and added to it a negative outlook (reaffirmed in 2008 and 2009). In April 2010, the Town’s rating was recalibrated to A1, as a result of a change in the Agency’s methodology. Subsequently (June 2010), based on that new methodology, the Town’s rating was again downgraded (Baa1) but the negative outlook was removed. The 2010 ratings report noted six consecutive annual operating fund deficits between 2002 and 2007 and cited, “inaccurate budgeting of employee benefits, budgeting of land sale proceeds which did not materialize, and annual appropriation of fund balance without replenishment” as reasons for the downgrade. In April 2012, Moody’s confirmed the Baa1 rating, but its report stated that there was recent positive financial performance including revenues from the new landfill operating agreement and also noted “the town’s sizable tax base, above average income levels, and manageable debt position with moderate future debt plans.”

OSC’s 2012 audit concluded that Colonie should make a more concerted effort to “adopt structurally sound budgets where recurring revenues fund appropriations.” In order to facilitate this, the audit suggested that the Town implement several changes to its budget format. Some of these – adding a more complete descriptive budget summary message, estimated fund balances by type, and estimated actual revenues and expenditures for the last completed fiscal year – were implemented for the 2013 budget. The 2014 budget could still implement the others, including: current year updated revenue and expenditure estimates and year-to-date amounts.

1 The Office of the State Comptroller’s Fiscal Stress Monitoring System defines “Combined Funds” for towns to include the following funds: General Town-Wide, General Part-Town, Highway Town-wide, Highway Part-Town, All Water, and All Sewer Funds.

2 For the purpose of this report, “available fund balance” and “cumulative” surplus or deficit refer to unassigned and assigned unappropriated fund balances after 2011, and to unreserved unappropriated fund balance prior to 2011.

3 Tax rates are calculated per $1,000 of assessed value; for comparability the full value “rates” above have been calculated per $1,000 of full market value, derived by using Tax and Finance Department equalization rates. It is actually slightly lower ($21.21 per $1,000) for the small portion that is in the Watervliet school district, and higher ($28.98 per $1,000) for the small portion that is in the Niskayuna school district. The rates in the Villages of Menands and Colonie are similar than those in the portions of the Town outside those villages. For more detail, see OSC, “Financial Data: Overlapping Real Property Tax Rates and Levies” at: http://www.osc.state.ny.us/localgov/orptbook/taxrates.htm.

4 Data for “All Towns” in the remainder of this report includes the 848 towns that had reported 2012 data to OSC as of June 28, 2013.

5 Colonie’s public safety expenditures include spending by its police department and its EMS department (which covers the Town of Colonie and the Stanford Heights Fire District). It also includes the amount the Town pays to the fire companies that cover its four fire protection districts. However, the six fire districts that cover other portions of the Town are independent local governments that report their expenditures to OSC separately, and the Villages of Menands and Colonie have village fire departments that are reported in their own budgets.


8 Moody’s Investor Service reports dated June 1, 2010 and April 23, 2012.

<table>
<thead>
<tr>
<th>Demographic Statistics</th>
<th>Town of Colonie</th>
<th>All Towns</th>
<th>New York State (including New York City)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Median</td>
<td>Aggregate</td>
<td></td>
</tr>
<tr>
<td>Percentage Change in Population, 1950-2010 [a]</td>
<td>176.4%</td>
<td>55.6%</td>
<td>127.5%</td>
</tr>
<tr>
<td>Percentage Change in Population, 2000-2010 [a]</td>
<td>2.9%</td>
<td>0.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Median Household Income, 2011 [b]</td>
<td>$70,367</td>
<td>$52,047</td>
<td>N/A</td>
</tr>
<tr>
<td>Child Poverty Rate, 2011 [b]</td>
<td>9.7%</td>
<td>13.3%</td>
<td>N/A</td>
</tr>
<tr>
<td>Unemployment Rate, 2012 [c]</td>
<td>6.7%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Property Value Statistics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median Home Value, 2011 [b]</td>
<td>$217,700</td>
<td>$117,550</td>
<td>N/A</td>
</tr>
<tr>
<td>Owner-Occupied Housing Units, 2011 [b]</td>
<td>72.7%</td>
<td>80.9%</td>
<td>77.8%</td>
</tr>
<tr>
<td>Percentage Vacant Housing Units, 2011 [b]</td>
<td>4.3%</td>
<td>13.4%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Full Value per Capita, 2012 [d]</td>
<td>$102,455</td>
<td>$65,231</td>
<td>$115,360</td>
</tr>
<tr>
<td>Revenue and Tax Statistics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Growth in Revenues, 2002-2012 [e]</td>
<td>3.6%</td>
<td>4.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Annual Growth in Expenditures, 2002-2012 [e]</td>
<td>3.2%</td>
<td>4.0%</td>
<td>3.9%</td>
</tr>
<tr>
<td>General Fund (GF) Available Fund Balance as a Percentage of Expenditures, 2012 [f]</td>
<td>-0.5%</td>
<td>31.1%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Cash Ratio, 2012 [f]</td>
<td>37%</td>
<td>458%</td>
<td>346%</td>
</tr>
<tr>
<td>Short-Term Debt as a Percentage GF Revenues 2012 [f]</td>
<td>5.8%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Debt Service as a Percentage of GF Revenues 2012 [e]</td>
<td>7.7%</td>
<td>3.9%</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

[a] Census Bureau, decennial Census data.
[c] New York State Department of Labor.
[d] Office of the State Comptroller (OSC) and New York State Department of Taxation and Finance.
[e] OSC. Annual Growth is compound annual growth rate for all funds excluding the Capital Projects Fund. Concept excludes Capital Projects Fund;
[f] OSC, Fiscal Stress Monitoring System (FSMS). “General Fund” includes both the town-wide general fund and the town-wide highway fund;

“Cash Ratio” is calculated for total of General, Part-Town, all Highway, all Water and all Sewer funds.
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