

Village of Maybrook

Financial Condition

JULY 2020



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

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Report Highlights

Village of Maybrook

Audit Objective

Determine whether the Board and Village officials appropriately managed the Village's financial condition.

Key Findings

The Board did not adequately manage the Village's financial condition.

- The Board used unrealistic revenue estimates during the budget process.
- The Village's overall fund balance decreased by \$642,000 (63 percent) from 2014-15 to 2018-19.
- The general and sewer funds experienced operating deficits during the past five years, and the water fund had an operating deficit in 2019.
- Village officials did not develop a fund balance policy, multiyear financial plan or capital plan.

Key Recommendations

- Develop reasonable revenue estimates and monitor and adjust budgeted revenues when warranted.
- Ensure adequate fund balance is available before appropriating it to finance operations.
- Develop and adopt a fund balance policy, multiyear financial plan and a capital plan.

Village officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Subsequent Event

Our audit fieldwork was completed prior to the COVID-19 pandemic (pandemic). The Village's 2020 projections and our audit work do not factor in the pandemic's financial effects.

Background

The Village of Maybrook (Village) is located in the Town of Montgomery in Orange County. The Village is governed by an elected Board of Trustees (Board), which includes four Trustees and the Village's Mayor.

The Board is responsible for the overall management and oversight of the Village's financial operations. As the chief executive officer, the Mayor is responsible for the Village's day-to-day management under the Board's direction. The Clerk/Treasurer, who is appointed by the Mayor, is the chief fiscal officer and is responsible for preparing, maintaining and reporting the Village's financial information.

Quick Facts

2019-2020 Overall Budget	\$3.9 million
Population	Approximately 3,600
Employees	37

Audit Period

June 1, 2014 – December 31, 2019

Financial Condition

What is Effective Financial Condition Management?

Financial condition may be defined as a village's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A village in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a village in fiscal distress usually struggles to balance its budget, can suffer through disruptive service level declines, has limited resources to finance future needs and may have minimal cash available to pay current liabilities.

To effectively manage financial condition, it is essential for Village officials to develop reasonable, structurally balanced budgets and manage fund balance responsibly. Realistic budgets should be based on historic or known trends, which provide sufficient recurring revenues to finance recurring expenditures. If annual revenues are not sufficient to fund expenditures, an operating deficit will occur.

When a village has recurring annual operating deficits, fund balance will be depleted and ultimately will go into a deficit position. Maintaining a reasonable level of unrestricted fund balance is an essential component of financial management. If the amount retained is too low, a village may not have a sufficient financial cushion for managing emergencies or other unanticipated occurrences.

Continually relying on appropriating fund balance¹ to finance operations can cause it to decline, which indicates a deteriorating financial condition. The Board is responsible for adopting realistic, structurally balanced budgets and monitoring the budget continually.

The Board should use historical data, such as prior years' actual results of operations, to guide them in determining whether budgeted revenues are reasonable. During the year, the Board must monitor the budget and amend it as necessary. In addition, to effectively manage the financial condition of water and sewer districts, a board must ensure billing rates are sufficient to cover the cost of operations.

The Board should establish a fund balance policy, multiyear plan and capital plan² to guide budgetary decisions. A fund balance policy helps officials ensure that adequate fund balance is available to protect against unforeseen expenditures, to offset economic downturns or revenue shortfalls and for daily cash flow needs. It also should address how surplus balances will be applied and when and in what amounts fund balance will be replenished.

Maintaining a reasonable level of unrestricted fund balance is an essential component of financial management.

¹ An appropriation of fund balance is the use of unexpended resources from prior years to finance appropriations contained in the current budget and is considered a one-time financing source.

² Refer to the Why Should the Village Have Multiyear and Capital Plans? section for further information on multiyear and capital plans.

The Village Experienced Operating Deficits

The general fund had operating deficits in the 2014-15 through 2018-19 fiscal years, the sewer fund had operating deficits in the 2014-15 through 2016-17 fiscal years and in 2018-19, and the water fund had an operating deficit in 2018-19 (Figure 1).

Figure 1: Operating Surplus/(Deficit)

Fund	2014-15	2015-16	2016-17	2017-18	2018-19
General	(\$230,955)	(\$262,792)	(\$8,532)	(\$114,995)	(\$87,636)
Sewer	(\$42,579)	(\$87,274)	(\$37,711)	\$924	(\$33,596)
Water	\$9,254	\$26,851	\$4,796	\$7,809	(\$49,689)
Total Deficits	(\$264,280)	(\$323,215)	(\$41,447)	(\$106,262)	(\$170,921)

While the general fund's operating deficits were planned,³ the operating deficits in the sewer and water funds were not. Those operating deficits were caused by Village officials consistently overestimating sewer rent and water sales revenues.

General Fund – The average overall budget variance for the general fund in the 2014-2015 through 2018-19 fiscal years was 2.45 percent, which indicates that the deficits resulted from the use of appropriated fund balance. The Mayor told us that the Board appropriated fund balance, instead of raising taxes, to avoid exceeding the tax cap.⁴

Because this use of appropriated fund balance depleted the Village's unassigned fund balance, the Board has taken steps to replenish the general fund's fund balance through tax increases beginning in the 2019-20 fiscal year.

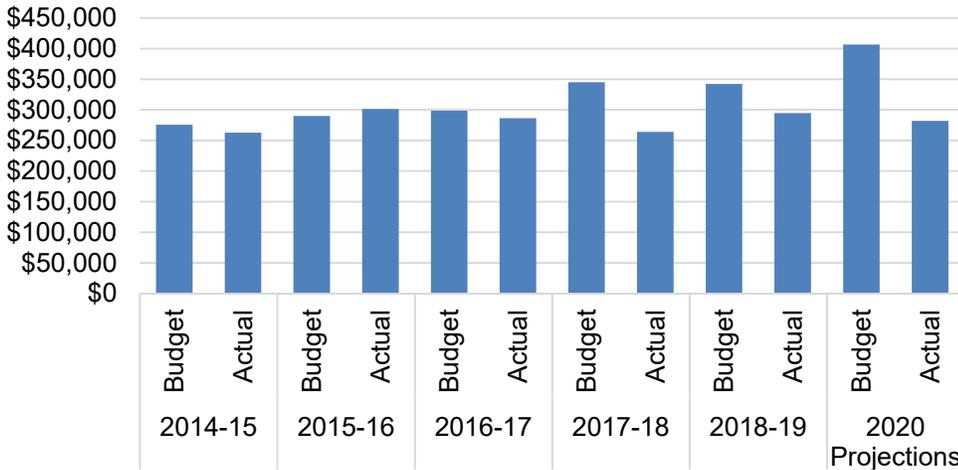
Sewer Fund – We compared estimated sewer rent revenues in the Village's adopted budgets to actual revenues for the 2014-15 through 2018-19 fiscal years and found that estimated revenues exceeded the prior years' actuals ranging from approximately 10 percent to 38 percent (Figure 2).

3 A planned operating deficit occurs when a portion of fund balance from previous years is used to finance the ensuing year's appropriations.

4 The State Legislature enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts. The law precludes a village from adopting a budget that requires a tax levy which exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of village voters approve a budget that requires a tax levy that exceeds the statutory limit.

FIGURE 2

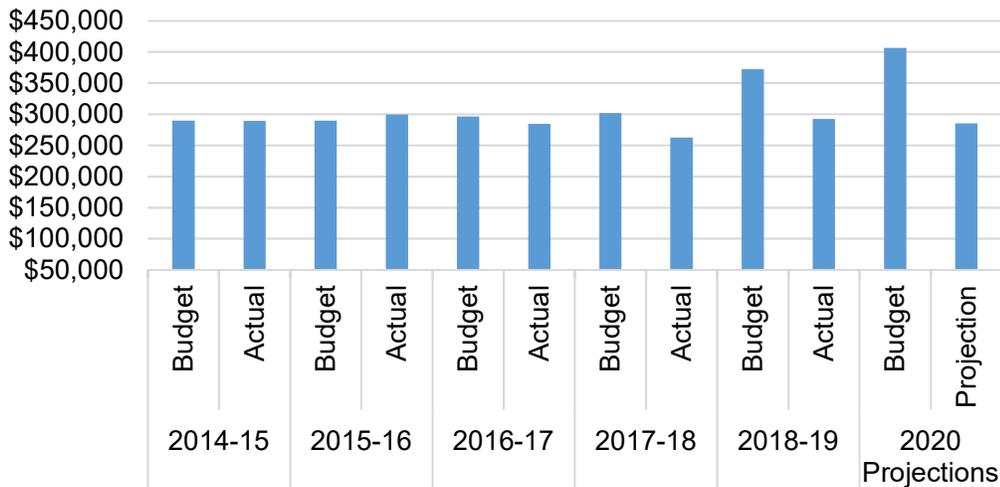
Sewer Rents Budget-to-Actual Comparison



However, officials did not adjust their revenue estimates in the following years to correct the overestimations. The Mayor told us that the Board budgeted in this manner to avoid raising sewer rents at the same time real property taxes were raised. Because the Board continued to develop budgets with spending offset by these overstated revenue projections, the Village continued to have operating deficits and deteriorating financial condition.

We project the sewer fund will end the 2019-20 fiscal year with an operating deficit of approximately \$63,000. Officials are aware of the operating deficits and are in the process of increasing the rates for sewer rents beginning in the 2020-21 fiscal year. This increase should help the sewer fund begin improving its financial condition, but it may take several years to eliminate the deficit.

Water Fund – The water fund’s operating deficit in 2018-19 occurred because actual water sales were less than was budgeted for. Beginning in 2017-18, Village officials’ budget estimates for water sales exceeded the highest revenues in any of the prior three years (Figure 3). These revenue estimate increases were unrealistic and caused an operating deficit in the 2018-19 fiscal year.

FIGURE 3**Metered Water Sales Budget-to-Actual Comparison**

However, officials did not raise water rates to increase water revenues. The Mayor told us the Board budgeted in this manner to avoid raising water rates and real property taxes at the same time.

We project that the water fund will have an operating deficit of approximately \$67,000 in 2019-20. If the Board continues to make unrealistic revenue estimates in the water fund's budgets, its fund balance will continue to decline.

Total Fund Balances Have Declined

Because the Board inadequately managed the Village's financial condition, the Village's overall fund balance⁵ decreased by approximately \$642,000 (63 percent) from the 2014-15 to 2018-19 fiscal years (Figure 4).

Figure 4: Combined Total Fund Balances^a

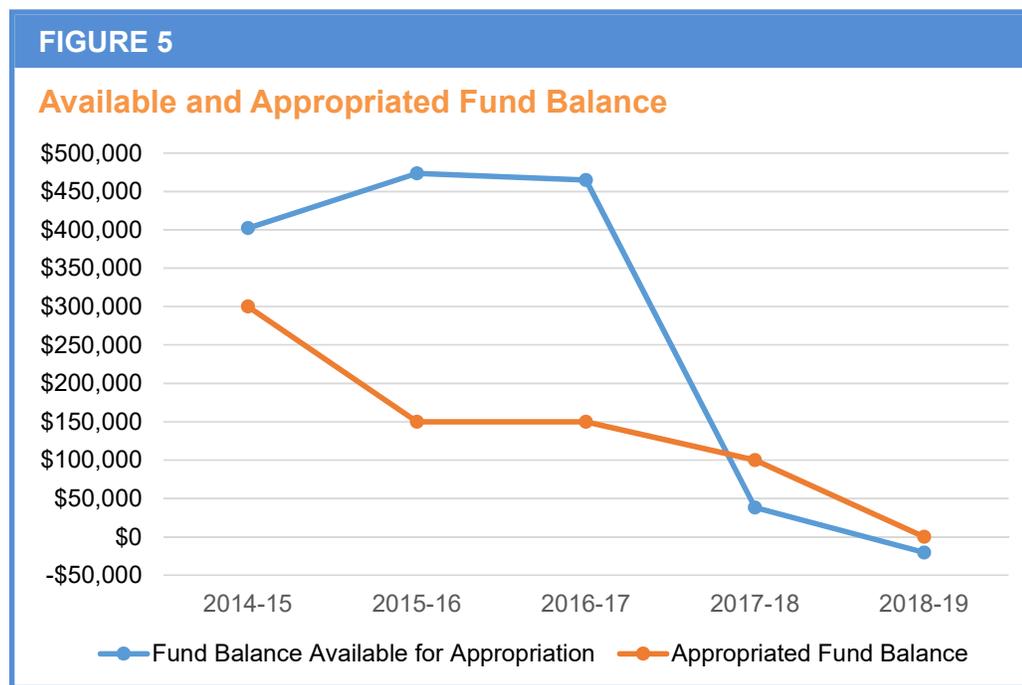
Fund	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 (projected)
General	\$736,339	\$473,547	\$465,015	\$350,020	\$262,384	\$354,214
Sewer	\$81,890	(\$5,384)	(\$43,095)	(\$42,171)	(\$75,767)	(\$138,729)
Water	\$199,174	\$226,025	\$230,821	\$238,630	\$188,941	\$121,766
Totals	\$1,017,403	\$694,188	\$652,741	\$546,479	\$375,558	\$337,251

^a Total fund balance includes the following components: not in spendable form, assigned appropriated fund balance and assigned unappropriated. Figures inside parenthesis indicate deficit amounts.

5 General, sewer and water funds' fund balances combined

This was caused by planned operating deficits in the general fund’s budget through appropriating fund balance for operating needs, overestimating revenues in the sewer and water funds’ budgets and increasing operating costs.⁶ In addition, Village officials used fund balance in the general fund to finance infrastructure and Village park improvements, instead of incurring debt to pay for the improvements.⁷

General Fund – In the 2017-18 fiscal year, the Board appropriated \$100,000 of fund balance as a financing source for operations. However, approximately \$62,000 of this amount was unavailable (Figure 5).



The Board was unaware that the fund balance was unavailable at the time they adopted the budget. This occurred because the Board did not accurately project year-end operating results, and, as a result, was unaware of the amount of unrestricted fund balance that was available for appropriation in the 2017-18 fiscal year. As shown in Figure 5, the Board’s repeated use of fund balance as a financing source has completely depleted the available balance on hand.

Village officials have begun taking steps to address the general fund’s declining fund balance. For example, they increased the real property tax levy by 9 percent in the 2019-20 fiscal year. In addition, Village officials told us they planned on

6 Refer to The Village Experienced Operating Deficits section for further information.

7 Refer to the Village Officials Have Not Developed Multiyear and Capital Plans section for further information.

increasing the tax levy by 3 to 4 percent in future years to continue rebuilding the general fund's fund balance.

Sewer Fund – The sewer fund's fund balance decreased by \$158,000 (193 percent) from the 2014-15 to 2018-19 fiscal year. As a result, the sewer fund's fund balance has been in a deficit position since 2015-16 and is currently being subsidized by the water fund. We project that the sewer fund's fund balance will further decline in 2019-20 because the Board continues to overestimate sewer rent revenues in the sewer fund's budget.

Water Fund – Although the water fund's fund balance increased by approximately \$39,500 from the 2014-15 to 2017-18 fiscal year, it decreased by approximately \$49,700 from the 2017-18 to 2018-19 fiscal year. This occurred because the Board overestimated water sales revenues in the water fund's budgets without taking steps to increase the water sales rate.

We project that the water fund's fund balance will further decline in 2019-20 because, as of the end of our fieldwork, officials had not adjusted revenue estimates in the 2019-20 budget or increased the water sales rate.

Village officials told us they will monitor the water fund's financial position and, if necessary, increase the water sales rate in the 2021-22 fiscal year. In addition, because sewer rents have increased⁸ – which should reduce the sewer fund's reliance on subsidies from the water fund – the water fund's fund balance should either stop declining or decline more slowly.

Furthermore, the Board did not develop a comprehensive fund balance policy. Without a fund balance policy, officials do not have clear guidelines for establishing and maintaining fund balance levels to finance cash flow needs and to provide a cushion for unexpected events. Without reasonable fund balance levels, the Village may not have adequate cash flow to meet Village needs, which could limit its ability to provide services to taxpayers.

Why Should the Village Have Multiyear and Capital Plans?

Multiyear financial planning is a vital tool for local governments, especially those struggling with difficult financial conditions. It enables officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact that one-time financing sources or other short-term budgeting decisions may have on future fiscal years.

Multiyear plans should include revenue and expenditure projections, reserve and fund balance plans and a fiscal improvement plan. Officials must monitor and update multiyear plans on a continuing basis to provide a reliable framework for

Multiyear plans should include revenue and expenditure projections, reserve and fund balance plans and a fiscal improvement plan.

⁸ See supra, note 5.

preparing budgets and ensure that decisions are guided by the most current and accurate information available.

A capital plan is designed to help officials maintain and improve a village's capital assets over time. It should include a list of all major public assets that have a significant useful life, address legal and policy requirements such as clean water or economic development, establish parameters for how capital assets will be financed and address how to respond to ongoing maintenance, new needs and emergencies.

Village Officials Have Not Developed Multiyear and Capital Plans

The Board did not develop or adopt comprehensive multiyear financial and capital plans. Had such plans been developed, they would have provided useful tools for the Board to use in addressing the general fund's declining fund balance and sewer fund's budgetary deficits. They also could have outlined the Board's intentions for financing future capital improvements and maintaining existing infrastructure.

While the Board did not have formal multiyear and capital plans in place, it has implemented some components of multiyear planning. For example, during our audit period, the Board planned and completed infrastructure projects, such as new sidewalks on a portion of Homestead Avenue and improvements to the Village Park, while avoiding the need to issue debt to finance operations and capital expenditures. However, without formal multiyear financial and capital plans, the Board has an increased risk that its current and future intentions may not be fulfilled.

Our fieldwork was completed in February 2020, prior to the start of the pandemic. Given the negative financial effect of the pandemic, it is even more important for Village officials to develop and monitor appropriate annual budgets and begin multiyear financial and capital planning.

What Do We Recommend?

The Board should:

1. Develop reasonable revenue estimates during the budget process, and monitor and adjust budgeted revenues during the fiscal year if anticipated results are not attained.
2. Monitor fund balance amounts during the fiscal year to ensure adequate fund balance is available before appropriating it to finance operations in the succeeding year's budget.

-
3. Address the declining fund balances in the general, sewer and water funds and the Village's overall financial condition.
 4. Monitor sewer rent revenues to determine whether the increase in sewer rent rates is effectively addressing the deficit fund balance in the sewer fund.
 5. Develop and adopt a fund balance policy and multiyear financial and capital plans. Also, update multiyear plans on an ongoing basis.

Appendix A: Response From Village Officials



VILLAGE OF MAYBROOK

111 Schipps Lane, Maybrook, New York 12543 • Telephone: (845) 427-2717

June 12, 2020

Lisa Reynolds, Chief Examiner
New York State Comptrollers Newburgh Regional Office
33 Airport Drive, Suite 103
New Windsor, NY 12533

Dear Ms. Reynolds,

This letter is in response to an audit conducted in January of 2020 by the New York State Comptroller's Office of the Village of Maybrook finances. Specifically, the audit involved the 2014-15 through 2018-19 fiscal years. In previous years, the Village Board appropriated a fund balance to offset the tax burden on the residents, and to make up for the revenue shortfall to meet expenditures. The Village of Maybrook identified the issues of the level of the Village's fund balance in the Village's accountants' audit in the fall of 2018. The Village Board took immediate action in the 2019-20 budget with a 9% tax increase, with a ZERO fund balance being applied in the budget. I had a conversation with the New York State Comptroller's Office before the 2019-20 Budget adoption, in which I was advised that the Village was "UNDER taxing the residents". During the 2019-20 Budget year, the Village kept a watchful eye on expenditures, and we are expecting a surplus in the Village's finances to be applied to the existing fund balance.

A significant reason underlying the present level of the Village's fund balance was the critical and urgent need in 2008 through 2015 that the Village address its aging and failing infrastructure that had experienced a lack of attention in prior administrations. The Village's urgent infrastructure improvements included the construction of a new \$5.3 million Sewer Treatment Plant to ensure the plant's compliance with federal and New York State regulations, avoid significant threatened fines, and allow for commercial growth in the Village to expand the Village's tax base and revenue stream. The Sewer Treatment Plant was the largest capital project in the history of the Village, and an extraordinarily significant investment given the size and tax base of the Village.

In 2015, the Sewer Treatment Plant was completed with minimal fines incurred. The Village of Maybrook was able to secure an Environmental Facilities Corporation Grant with a .7 percent interest rate to lessen the surcharge burden on residents. However, during those years we experienced the great recession and the closing of the Maybrook Elementary School (the only school within the Village), which further dampened real property market values.

In addition to addressing infrastructure issues, we also identified and put a plan in place to generate additional revenue to the Village to offset the tax burden on the residents. As discussed, the Village of Maybrook has limited revenue streams and the burden falls on individual taxpayers, as there is not a significant number of commercial taxpayers in the Village. Compounding this problem is that a number of businesses in the Village over the years have obtained tax assessment relief through litigation, which in turn lessens the Village's anticipated revenue.

Beginning in 2012, the Village worked hard to generate new revenue through a concerted effort to increase economic development in the Village. In September 2017, the Board of Trustees introduced a plan to revitalize an area of the Village that incentivized shovel-ready sites for development. This multi-faceted plan included the adoption of Zoning Code amendments that

Mayor
Dennis K. Leahy

Deputy Mayor
Robert Pritchard

*Village Clerk -
Treasurer*
Valentina Johnson

Trustees
Kevin Greany
James R. Barnett
Daryl J. Capozzoli

Meetings 2nd
and 4th Mondays

Fax: (845) 427-2164

TDD: 1-800-662-1220

created a Traditional Downtown Design District, and a necessary, but costly, environmental review process that produced a Generic Environmental Impact Statement (DGEIS). The plan was adopted in 2018 and the Village has been working with the County and a private not-for-profit economic development organization to attract developers and businesses to this area.

In addition, the Village Board has for several years been in discussions with a particular developer on a project that would re-develop 70-acres of the former Maybrook Rail Yard to approximately 888,000 square feet of commercial use. The developer is currently in the final stages of their environmental review and we are hopeful a concrete presentation will be made soon. The present pandemic has obviously slowed down this process of late. This project will open a road through our Main Street and run parallel north of our village to create a Business Park with commercial rail service which will revitalize our Main Street and generate desperately needed revenue for the Village.

On April 27, 2020, the Village Board adopted the 2020-21 Budget with a 4% increase, with ZERO fund balance being utilized. The Village Board has continued corrective action and will follow the path of restoring the Village's fund balance. We have been reviewing and will adopt a Fund Balance Policy before the end of 2020.

The Village Board identified a deficit in the sewer fund in the Village's audit in the fall of 2019. We adopted a Sewer Rate increase from \$4.15 to \$5.00 per thousand gallons to address the shortfall. Rates will be revisited yearly and adjusted accordingly, on a going forward basis. The apparent over-estimating of revenues is due in part to the Village's water and sewer deficits and its related delinquent taxes which the Village is made whole by the County, but only in the following fiscal year. This will be closely monitored moving forward.

In closing, the Village of Maybrook Board of Trustees have taken significant steps to correct the Village's fund balance level in the 2019-20 and 2020-21 budgets, including both revenue raising initiatives and non-utilization of fund balance monies to supplement the budgets. The Village will continue on this path by more closely monitoring our progress going forward on water and sewer issues while implementing moderate budget increases to reach our goal.

Sincerely,

Dennis K. Leahy
Mayor, Village of Maybrook

Cc: Robert Pritchard, Deputy Mayor
James Barnett, Village Trustee
Kevin Greany, Village Trustee
Daryl Capozzoli, Village Trustee

Appendix B: 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 Village officials and reviewed Board meeting minutes, resolutions, financial documents and Village code to gain an understanding of Village operations, officials' responsibilities and policies and procedures for budgetary and fiscal control.
- We prepared budget-to-actual comparisons for revenues and appropriations to determine whether revenue estimates and appropriations were reasonable and whether specific revenue estimates and appropriations were consistently and significantly under- or overestimated.
- We analyzed the Village's financial records and fund balances to determine whether the appropriation of fund balance from the general fund resulted in planned operating deficits and a decline in fund balance.
- We reviewed the adopted 2019-20 budget to determine whether revenue estimates and appropriations were reasonable based on historical data and supporting source documentation. We projected actual revenues, expenditures and fund balance as of the end of the 2020 fiscal year.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

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 Clerk's office.

Appendix C: 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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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NEWBURGH REGIONAL OFFICE – Lisa Reynolds, Chief Examiner

33 Airport Center Drive, Suite 103 • New Windsor, New York 12553-4725

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