

Town of Tuxedo: Fiscal Situation

The Town of Tuxedo enters 2016 facing a serious fiscal challenge. I have been working part-time in the Town's finance department since March, yet I did not perceive the full extent of the situation until we began preparing the 2016 budget earlier this fall. Our initial estimates going into the budget planning process showed that the Town faced a gap between projected expenditures and revenues of \$1.6 million, or 16%. More recent estimates, which include compulsory increases in expense items such as health insurance and pension costs, and a reduction in estimated revenues, place this hurdle in excess of \$2 million.

Compounding the urgency of this disparity is that according to recent projections, I expect the Town to end fiscal year 2015 with an available town-wide fund balance of approximately \$11,000, which is 0.1% of our 2015 expenditures. This fact means that the Town does not have the ability to roll out a restructuring over the next few budget years, because there is no available fund balance to ease any cuts in over several budget years. It is unlikely and inappropriate to borrow from the future to solve today's problems, in my opinion, and incrementally more expensive to do so following a downgrade of Tuxedo's credit rating in August.

The purpose of this article is to discuss, in plain English, the situation that the Town is in currently. In spite of numerous Town Board meetings and countless hours of discussion with the public, I still find that taxpayers and employees who will all be impacted by the proposed changes remain confused and some are unaware of the full depth of what is going on.

I have not been able to reduce the cause of the fiscal stress to any single event. The difficulties that we face as a municipality are the compounded effects of several years of inattention and of deferred decisions (can-kicking). The damage was not done all in a single year, and it simply will not be fixed in a single year.

So that is the bad news. The good news is that we are now facing the situation with open eyes. My hope is that the severity of the situation will refocus our elected officials and employees and force us to work together moving forward. This is not the time for anger or finger-pointing. Now is the time to set aside political and personal differences and unite toward a common goal of a stable and efficient Town government focused on providing quality services for its citizens.

Events Leading to Fiscal Year 2016

My personal concerns with the Town's budget extend for at least the prior nine budget years. Although independent verification is difficult, it appears as if several line items were inappropriately adjusted across the Town's different funds going back to the 2005

and 2006 budget years. These changes went unnoticed until the Office of the State Comptroller General audit report for the 2012 and 2013 budget years which was issued in January of 2015. Because going back and trying to fix nine budget years is likely an impossible and burdensome task, I have chosen to focus my attention on the last few years.

The most likely cause of the lack of fiscal discipline is simply that detailed financial information was not made available to the Town Board or the taxpaying public. The previous independent auditor for the Town of Tuxedo did not deliver financial statements for FY 2012 and 2013 until November of 2014, thus detailed information concerning the Town's financial situation during a critical time was not available going into the 2014 or 2015 budget planning processes. Our public officials for at least two budget years were flying blind. That auditor's contract has not been renewed, and the Town hired a professional and competent auditor in 2015, whose assistance to me personally has been critical in gaining an understanding of the situation.

According to the Town's new auditor, in 2013 the town's expenses exceeded revenues by \$593,694, primarily due to decreased revenues from real property rents (Perfect Cut, \$224,060) and a town-wide property tax cut (\$302,379). That left the Town of Tuxedo with no available funds to deploy and in fact entered the 2014 budget year with a negative fund balance exceeding -\$200,000. The end of 2013 and beginning of 2014 seems to have been the "worst" that the situation has been at any point.

			Year-End Balance 2013 (Restated)	Year-End Balance 2014	Year-End Balance 2015 (Projected)	Year-End Balance 2016 (Budgeted)	Balance % Change (Budgeted)
Fund Balances							
General Fund Townwide	A	(509,652)	811,860	648,642	648,642	25.2%	
General Fund-Town Outside Village	B	(710,959)	(1,271,030)	(1,063,211)	(813,211)	56.3%	
Highway Fund - Townwide	DA	267,577	(193,133)	(378,133)	(328,133)	-41.1%	
Highway Fund-Town Outside Village	DB	281,106	191,677	66,677	66,677	187.5%	
Tuxedo Refuse District	SR1	127,921	128,459	128,459	128,459	0.0%	
Tuxedo Refuse District	SR2	100,092	200,225	200,225	200,225	0.0%	
Sewer District	SS	323,325	383,867	383,867	383,867	0.0%	
Drainage District	SD	13,896	25,740	39,430	39,430	-34.7%	
Capital Projects	H	(98,234)	(14,588)	(14,588)	(14,588)	0.0%	
Total Government Funds			(204,928)	263,077	11,368	311,368	18.4%

For reasons that are difficult to understand, beginning fiscal year 2014 with an available fund balance of -\$204,928, the Town's adopted budget showed revenues of \$8.54 million vs. expenses of \$9.52 million. The Town-wide tax levy increase in 2014 was only 1.6%, with the budget gap close to \$1 million being filled by appropriating fund balances that simply did not exist. As bad as things are today going into 2016, if 2014 had played out as budgeted, the Town would have entered 2015 facing serious fiscal jeopardy to the tune of -\$1.18 fund balance at year's end.

TOWN OF TUXEDO, NEW YORK
ADOPTED BUDGET SUMMARY
2014

		ACTUAL FULL YR 2012	MODIFIED 2013	ACTUAL Y-T-D 2013	TENTATIVE BUDGET 2014	PRELIM- INARY BUDGET 2014	ADOPTED 2014	CHANGE FROM 2013	%CHANGE FROM 2013
Appropriations									
General Fund Townwide	A	2,996,245	2,918,402	1,554,296	2,910,009	2,910,009	2,905,282	(13,119)	-0.45%
General Fund-Town Outside Village	B	2,764,740	2,826,673	1,650,388	2,968,379	2,968,379	2,968,378	141,705	5.01%
Highway Fund - Townwide	DA	979,759	1,318,199	597,147	1,242,317	1,242,317	1,247,567	(70,632)	-5.36%
Highway Fund-Town Outside Village	DB	326,785	470,886	150,639	374,128	374,128	375,528	(95,358)	-20.25%
Joint Fire District	SF	851,013	822,945	822,945	857,475	857,475	857,475	34,530	4.20%
Tuxedo Library District	SL	297,901	479,034	479,034	487,666	487,666	487,666	8,632	1.80%
Tuxedo Refuse District	SR1	304,455	100,000	-	100,000	100,000	100,000	-	0.00%
Tuxedo Refuse District	SR2	-	197,901	222,734	197,901	197,901	197,901	-	-
Sewer District	SS	274,778	398,730	163,339	365,125	365,125	365,125	(33,605)	-8.43%
Sterling Mine Estate DD	SD	-	6,896	10,343	11,986	11,986	11,986	5,090	73.81%
Total Appropriations		8,795,676	9,539,666	5,650,865	9,514,986	9,514,986	9,516,908	(22,758)	-0.24%
Revenues									
General Fund Townwide	A	2,700,813	2,658,402	1,974,746	2,650,009	2,650,009	2,645,282	(13,120)	-0.49%
General Fund-Town Outside Village	B	2,761,322	2,571,673	1,983,229	2,713,379	2,713,379	2,713,378	141,705	5.51%
Highway Fund - Townwide	DA	1,015,699	1,067,256	1,019,892	985,625	985,625	985,625	(81,631)	13.84%
Highway Fund-Town Outside Village	DB	495,503	470,886	472,241	202,628	202,628	204,028	(268,258)	-56.97%
Joint Fire District	SF	851,013	822,945	822,945	857,475	857,475	857,475	7,700	34.53%
Tuxedo Library District	SL	297,901	479,034	479,034	487,666	487,666	487,666	8,632	1.80%
Tuxedo Refuse District	SR1	419,447	100,000	223,061	100,000	100,000	100,000	-	0.00%
Tuxedo Refuse District	SR2	-	197,901	-	197,926	197,926	197,926	25	0
Sewer District	SS	356,561	338,730	322,282	338,625	338,625	338,625	(105)	-0.03%
Sterling Mine Estate DD	SD	6,869	6,896	6,860	12,036	12,036	12,036	5,140	74.54%
Total Revenues		8,905,128	8,713,723	7,304,290	8,545,369	8,545,369	8,542,041	(199,911)	-2.29%

Fortunately, gifts and donations received by the Town from developers in 2014 and 2015 totaling \$2.25 million brought Tuxedo back from insolvency. However, because the imbalance between expenditures vs. revenues was not resolved during these budget years, these surplus funds will be exhausted by year-end 2015. The Town of Tuxedo will enter FY 2016 with a net fund balance around \$11,000 without much room for error. As a municipality, Tuxedo has run out of both time and money.

Therefore, my conclusion is that a fiscal restructuring was necessary two years ago. Only through serendipity and private donations negotiated by our officials from potential developers have allowed the Town to remain intact financially since 2013. We can pin our hopes to increased property tax and other private source revenues from planned developments, but as I learned in the Army and now as a financial planner, "hope is not a plan."

The impact of losing these private revenue sources is significant. The town-wide (A) fund experienced a -38.6% tax levy decrease in fiscal year 2015. While it may have been prudent to return these one-time revenues directly back to the tax base, in effect that set up a "fiscal cliff" situation going into the 2016 budget year, because corresponding A-fund costs are at the same level or higher than they were two years ago. In order to "break-even" with 2014 expenses the fund's tax levy must increase by nearly 80%. My strong recommendation to future public officials is absolutely never to use one-time, non-repeating revenues to pay for ongoing, structural expenses such as employee salaries and benefits. Doing so places undue stress on both the Town's employees and taxpayers.

To illustrate the size of the gap, appropriations (expenses) in fiscal year 2015 were budgeted at \$9.85 million, while total revenues from all sources were \$9.12 million, including a total tax levy of \$6.54 million. If appropriations in 2016 remain at \$9.85 million or above, assuming that no private sources of revenue are presented, the tax levy would need to increase by approximately \$1.4 million. If this were the case, the average taxpayer would see a property tax increase of approximately 28%, likely an undue hardship for many taxpayers. As mentioned previously, because of statutory cost increases projected for 2016, the actual tax levy increase would be closer to \$2.17 million, or a 33.2% tax levy increase. This would clearly have a very harmful effect on the taxpayer.

Thus, the gap between revenues and expenses is not minor, and is structural in nature. As it exists, the Town simply cannot provide its current level of services without a drastic tax levy increase. That leaves our officials with only two real options to reduce deficit this large: decrease expenses or increase property taxes.

To make matters more complicated, the individual fund balances themselves are not uniform, are quite imbalanced, and will be for some time. The town-wide (A) fund, for example, had a healthy fund surplus entering 2015 of \$811,860 and is projected to end 2015 at approximately \$648,642. However, the town-outside-village fund (B) entered 2015 with a large deficit of -\$1,271,030, and is projected to end the year at -\$1,063,211. Because each fund corresponds to a slightly different tax base, the surplus in the A fund cannot be directly applied to "extinguish" the deficit in the B-fund, but rather through changes in future budgets impacting each funds revenue and expenses.

The negative fund balance in the town-outside-village (B) fund is the most significant at more than \$1 million. While there are no exact guidelines on when this fund should return to a positive balance, it would be responsible to begin to restore the balance with a reasonable plan to be completed in 2-3 budget years. That would require either decreases expenses or increasing revenues by approximately \$300,000 per year. The town-wide highway fund (DA) also has a negative balance of \$328,133, which mostly governs snow removal and operation of highway vehicles and equipment. Since these two funds are where the largest fund imbalance exists, the DA- and B-funds should be the focal point for cost savings or tax levy increases. The DA-fund is primarily used for snow removal, machinery, and other highway-related tasks, while approximately 91% of B-fund expenditures go towards law enforcement, with the other 9% toward planning/building/zoning. The only remaining option outside of decreasing expenses significantly in these funds is to raise property taxes.

Fortunately, the town-wide (A-fund) and other non-major funds enjoy fund surpluses which have allowed the Town to remain solvent. In theory, the \$648,642 of surplus in the A-fund, for example, could be returned to the tax base to "soften" the impact of any proposed tax levy increases. However, because the total government fund balances are projected to begin 2016 around \$11,000, it would not be prudent to return these fund balances to their underlying tax bases until such a time that town-wide finances are

healthy. Any returns of available fund balance must be offset by a tax levy increase somewhere else in the budget. The Town must be careful to ensure that it has enough operating funds to remain solvent in 2016 and beyond to avoid the situation it faced in 2013.

Thus, the priorities for the 2016 fiscal year: 1) create a balanced budget that 2) reduces expenditures and increases revenues while having a minimal impact on services and the tax base, 3) begin to restore negative fund balances.

The 2016 Budget address many of the concerns through a combination of cost savings measures such as salary reduction and renegotiated contracts. However, much of the fiscal damage – particularly the deficit in the B-fund – is simply too much to resolve in a single budget year. Thus, 2016 should be the beginning of a long process that will ultimately result in the Town of Tuxedo returning to a strong fiscal foundation.

2016 Budget Summary

Working with the Supervisor and Town Board, the finance department has prepared a 2016 Budget for review and potential adoption by the Town Board. Highlights of the budget Include:

- Town-wide reduction in appropriations (spending) of \$1.68 million (-17.1%)*
- Town-wide reduction in revenues of \$652,660 (-7.2%)
- Town-wide tax levy increase of \$649,412 (9.9%)
- Approx. \$3 reduction of spending for each \$1 of tax levy increase
- Fund balance restoration of \$300,000 (B and DA funds)

Town-wide (A) fund:

- Reduction of \$600,700 of total expenditures (-19.6%)
- Reduction of \$26,801 in elected salaries (Clerk & Highway Superintendent due to turnover)
- Reduction in other general government support salaries due to elimination of all employee stipends for medical insurance and smaller job functions
- Suspension of Recreation & Youth programs
- Reduction of \$9,000 in janitorial services contract
- Redistribution of \$47,982 of Workers Compensation premium (to other funds; A-fund is primarily office work, low overall cost of \$0.20 per \$100 of salary)

Town-outside-village (B) fund:

- Reduction of \$871,700 of total spending (-26.4%)*
- Reduction of \$624,738 of salaries through elimination of three full-time positions and 63% reduction in planned overtime
- Reduction of \$189,847 of total benefit costs

- Redistribution of \$92,844 of Workers Compensation premium (to other funds)

Highway town-wide (DA) fund:

- Reduction of \$384,376 of total spending (31.5%)*
- Reduction of \$40,000 of snow removal expenses (due to not accepting Orange County contract)
- Redistribution of all Brush & Weed costs (\$256,509) to DB fund
- Increase of \$38,288 of Workers Compensation from other funds
- Redistribution (and partial reduction) of \$166,762 of benefits to DB fund

Highway town-outside-village (DB) fund:

- Increase of \$264,593 of total spending (79.0%)
- Reduction of \$279,660 of salaries through elimination of four full-time positions
- Increase of \$38,365 in Workers Compensation from other funds
- Increase of \$158,925 of benefits from DA fund

Sewer District (SS) fund:

- Decrease of \$39,070 in salaries
- Reduction of \$18,887 in benefits
- Retiring of \$58,000 of debt service (schedule completed 2015)

*Note that these figures include the reduction in appropriations of \$1.38 million as shown on the "Budget Summary" page plus \$300,000 of fund balance restoration in the B and DA funds. These can be seen as budget code 9620.N.

Impact on Property Taxes

In spite of more than \$1.7 million in spending reductions, property taxpayers in the Town of Tuxedo will see a property tax increase in 2016. The two primary reasons for the tax levy increase are 1) the lack of private gifts & donations revenues enjoyed in 2014-2015 that will not repeat in 2016, and 2) the Town cannot use existing fund balances to reduce property taxes as it did in 2015 (\$678,000). The town-wide tax levy increase for all taxpayers is expected to average 10.2%. This is obviously a very difficult situation for all taxpayers, and in great excess of the Town's 2016 tax levy cap of 0.7%.

Note that this increase is not uniform across the tax base – taxpayers will see a varying level of tax levy impact depending on whether or not their property is subject to B and DB (Town Outside Village) taxes, and whether or not they are part of any special districts. Note as well that the full impact should be reduced by 1) projected Orange County property tax levy increase of +2.0% (estimated), and 2) a slight expansion of the property tax base in all funds due to reassessment.

The tax levy impact per-fund can be seen on the "Tax Rate Schedule" page but is summarized as A +85.1% (significant decrease in the 2015 levy, lack of private revenue

sources), DA -10.1% (reorganization), B -16.9% (reorganization and deficit reduction), DB +248.6% (reorganization), and special districts -4.9% (reorganization).

The "average" property full market valuation in Tuxedo is approximately \$489,000 according to realty data tracking sources such as Realtor.com and Zillow. Using a \$500,000 full market value, that translates to a taxable assessed value of \$88,500.

This average taxpayer should see an estimated property tax increase of \$365 due solely to the projected Town tax levy increase for a Town Outside Village property, and an estimated property tax increase of \$389 for a Town Inside Village property.

Note that unit charges (sewer, drainage) are not calculated in this estimate as they are unit charges and are difficult to estimate. The A/DA/B/DB funds involve the majority of the tax base.

Here is an estimated worksheet for a property with a full market value of \$500,000 and at various valuations:

2016 HYPOTHETICAL TAX BILL

(Excludes funds such as Sewer District, Drainage District)

FUND	DESCRIPTION	FULL MARKET	TAX VALUE	2015 Rate	2016 Rate	+/-	2015 TAX	2016 TAX	DIFF	%
TOWN WIDE										
A	General Fund-Town	\$ 500,000	\$ 88,500	5.8	10.7	4.9	\$ 511	\$ 943	\$ 432	84.6%
DA	Highway Fund - Tov	\$ 500,000	\$ 88,500	5.6	5.0	-0.6	\$ 494	\$ 444	\$ (50)	-10.1%
TOWN OUTSIDE VILLAGE										
B	General Fund-Town	\$ 500,000	\$ 88,500	24.9	20.8	-4.1	\$ 2,201	\$ 1,839	\$ (362)	-16.5%
DB	Highway Fund-Town	\$ 500,000	\$ 88,500	1.5	5.4	3.8	\$ 136	\$ 474	\$ 338	248.6%
SPECIAL DISTRICT										
SF	Joint Fire District	\$ 500,000	\$ 88,500	4.6	4.6	0.0	\$ 404	\$ 406	\$ 2	0.6%
SL	Tuxedo Library Dist	\$ 500,000	\$ 88,500	2.8	2.8	0.1	\$ 243	\$ 248	\$ 5	1.9%
TOTAL							\$ 3,989	\$ 4,354	\$ 365	9.1%

\$ INCREASE	\$ 365
% INCREASE	9.1%

Note: estimate only. This figure will differ from the tax levy because the amounts are calculated differently due to special districts and estimated changes to the tax base of each fund.

At Various Valuations

JURISDICTION	FULL MARKET	TAX VALUE	2015 Tax	2016 Tax	+/-	% +/-
Town Outside Village	\$250,000	\$ 44,250	\$ 1,995	\$ 2,177	\$182.48	9.1%
	\$500,000	\$ 88,500	\$ 3,989	\$ 4,354	\$364.96	9.1%
	\$1,000,000	\$ 177,000	\$ 7,979	\$ 8,709	\$729.92	9.1%
Town Inside Village	\$250,000	\$ 44,250	\$ 826	\$ 1,021	\$194.67	23.6%
	\$500,000	\$ 88,500	\$ 1,652	\$ 2,041	\$389.35	23.6%
	\$1,000,000	\$ 177,000	\$ 3,304	\$ 4,082	\$778.69	23.6%

William Sweet CFP®, Bookkeeper
&
Michael Rost, Town Supervisor