OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Lansing Fire District

Financial Condition

Report of Examination

Period Covered:

January 1, 2012 — January 22, 2013

2013M-80

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

July 2013

Dear Local Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Fire Commissioner governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Lansing Fire District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

Introduction

Background

The Lansing Fire District (District) is a district corporation of the State, distinct and separate from the Town of Lansing and the County of Tompkins in which it is located. The District provides fire protection services from four stations over an area of 75 square miles. The District's 2013 budget appropriations are approximately $1.4 million, which are funded primarily with real property taxes.

The Board of Fire Commissioners (Board) consists of five elected members, with one member being appointed as Chairman, and is responsible for the District's overall financial management. The Board appoints a Treasurer who acts as the District's chief fiscal officer. As such, the Treasurer is responsible for preparing budgets and the long-term financial plans for the Board's review. The Board is responsible for monitoring and adjusting the budget, as needed, and setting goals for the financial plans to achieve.

Objective

The objective of our audit was to examine the District's financial condition. Our audit addressed the following related question:

- Did the Board establish reasonable financial plans?

Scope and Methodology

We examined financial records and reports relating to the District's budgeting for the period January 1, 2012 to January 22, 2013. We expanded our scope to review the District's financial condition for the period January 1, 2008 to December 31, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials disagreed with the findings in our report. Appendix B includes our comments on issues District officials raised in their response.

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 forwarded to our office within 90 days, pursuant to Section 181-b of Town 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 this plan available for public review in the District Secretary's office.

Financial Condition

The Board should only levy taxes that are necessary to fund District operations. In addition, long-term planning can help reduce taxes by preparing for capital needs and increases to expenditures due to inflation. Such a plan would enable the District to project fund balance needs over the length of the plan.

The District's budgets from fiscal years 2008 through 2012 were unrealistic. Total expenditures during this period were approximately $777,000 less than appropriations. These unrealistic budgets caused total fund balance to increase significantly. At the end of 2012, total fund balance was nearly double the ensuing year's appropriations, and total fund balance is projected to remain above 100 percent of the subsequent year's appropriations through 2031. The District continues to raise taxes unnecessarily even though it has excessive fund balance. These actions are not in the best interest of District taxpayers.

Budgeting Practices

An annual budget is the document that details the District's projected revenues and expenses for the fiscal year and serves as the spending authority for District officials. The Board must ensure that budgets are prepared and adopted based on reasonable and accurate assessments of expenses and the resources used to fund them. The budget is an essential ingredient in the financial planning, control, and evaluation process of local governments. The budget also serves as a way to communicate to taxpayers the manner in which officials plan to spend their tax dollars. In preparing the budget, the Board estimates what the District will receive in revenues and the appropriations needed to pay expenditures during the year. Estimates based on valid assumptions help ensure that the levy of real property taxes is not more than necessary.

We reviewed the District's budgets from fiscal years 2008 through 2012 and found that they were unrealistic. Total actual expenditures during this period were approximately $777,000 less than appropriations. For example, from 2008 to 2012, contractual expenditures have been, on average, 39 percent lower than budgeted (for a total difference of $952,703). Additionally, equipment and capital expenditures have been, on average, 31 percent lower than budgeted (for a total difference of $459,389).

The District's unrealistic budgets caused total fund balance to increase significantly from $2.3 million in 2008 to $3.7 million in 2010. During 2011 and 2012, the total fund balance declined to $2.6

million; however, this is mainly due to a total combined transfer of $2.6 million to the capital projects fund. As indicated in Table 1, the District's 2012 unexpended surplus fund balance[1] of approximately $1.1 million is 78 percent of its 2013 budgeted appropriations of $1.4 million. Having an available fund balance that is almost sufficient to fund an entire year's operations is excessive.

Table 1: Results of Operations					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Beginning Fund Balance	$1,806,235	$2,285,836	$3,162,273	$3,698,212	$2,939,308
Revenues	$1,204,911	$1,504,798	$1,349,304	$1,331,793	$1,304,681
Expenditures	$725,310	$628,361	$813,365	$568,602	$593,676
Less: Transfers to Capital Projects Fund	$0	$0	$0	$1,522,095	$1,100,000
Operating Surplus/(Deficit)	$479,601	$876,437	$535,939	($758,904)	($388,995)
Prior Period Adjustments	$0	$0	$0	$0	$22,095
Year-End Fund Balance	$2,285,836	$3,162,273	$3,698,212	$2,939,308	$2,572,408
Less: Unexpended Surplus Appropriated for the Next Fiscal Year	$30,000	$30,000	$30,000	$100,000	$100,000
Less: Restricted Fund Balance	$1,718,056	$2,114,685	$2,503,418	$1,862,662	$1,416,832
Unexpended Surplus Fund Balance at Year End	$537,780	$1,017,588	$1,164,794	$976,646	$1,055,576

Furthermore, District officials continued to budget unrealistically with the 2013 budget, which includes contractual appropriations that are 37 percent higher than 2012 actual contractual expenditures. As such, the District will likely experience operating results similar to those in previous years.

In addition, while the Board has taken steps to reduce the District's tax levy in 2011 and 2012 by appropriating $100,000 each year in fund balance to fund the next year's budget, the District unnecessarily plans to raise an extra $1.4 million in taxes over the next 20 years (which increases taxes, on average, by about $70,000 each year). The District could easily appropriate more available fund balance to fund the ensuing year's appropriations instead of raising additional taxes.

[1] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

The Board is trusted by the public to only levy the taxes necessary to finance District operations. Therefore, the Board's allowance of the surplus to grow to the unreasonable levels, while continuing to increase the amount of taxes levied, was not in the best interest of the taxpayers.

Long-Term Planning

Multiyear capital planning allows a local government to coordinate projects and acquisitions, and schedule orderly replacement or rehabilitation of existing assets. After formulating appropriate projections, the Board can use this information to make well-reasoned and supported decisions regarding services to be provided and how best to provide for identified capital needs. The practice of planning ahead and saving incrementally for expected future events is prudent management and helps local governments reduce or eliminate interest and other costs associated with debt issuances. The Board can establish (and fund) reserve funds to accumulate cash for future capital outlays and other nonrecurring expenditures and should establish a reasonable target[2] fund balance.

The Board established a long-term and detailed financial plan for the replacement of the District's equipment and building infrastructure (capital plan), as well as for future operational needs (operational plan). This 20-year plan includes $27.8 million of revenue, including $26.2 million of taxes levied, $17 million of operating expenditures and $11.7 million of capital expenditures. This plan also contains the spending and funding of building and apparatus reserves. The capital plan is based on plan expenditures at a 3 percent inflation rate. The operational plan is based on the most recent completed fiscal year because the Treasurer updates it annually and assumes 2.5 percent inflation for expenditures and 1.5 percent inflation for total assessed value.

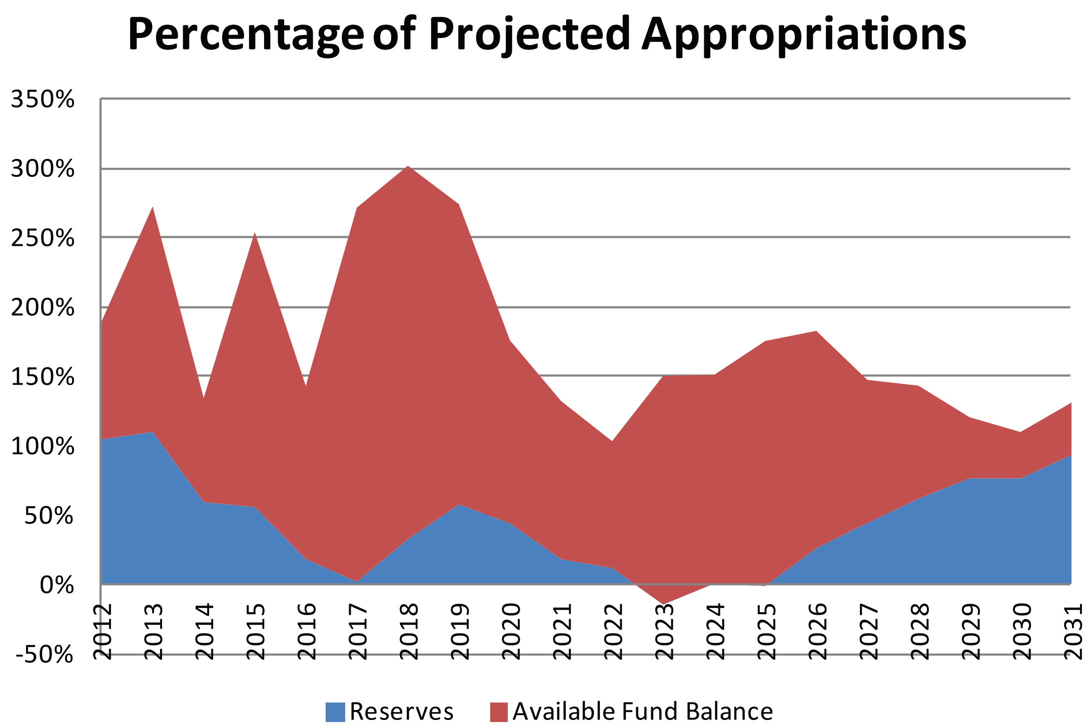
We commend the Treasurer for preparing these comprehensive financial plans; however, the District's total fund balance projections do not go below $1.4 million through 2032.[3] While it is good business practice to maintain a reasonable level of fund balance for emergency situations, maintaining a fund balance amount that is equal to the District's budgeted expenditures is excessive.

The Board has not established a target fund balance in its financial plans. The District's projected expenditures are increasing at a higher rate (2.5 percent) than projected revenues (1.5 percent); however, given that its revenues raised of $1,995,242 far exceed the expenditures of

[2] A target fund balance is the Board's "goal" for fund balance, or its planned amount of fund balance to be available at the end of the long-term plan.

[3] Because the Treasurer updates the plan annually, these figures may differ in the future.

$1,427,442 in 2012, the base year, it will take more than 20 years to exhaust the excess fund balance. Additionally, the operational plan contains certain errors that impact the calculated fund balance, such as double-counting interfund transfers, which resulted in the fund balance calculation being $450,000 lower than what it should have been in the base year.



The Treasurer said that the District intends to maintain some fund balance to offset a potential decrease[4] in assessed value and to avoid large tax increases. In addition, he indicated that reasons for their high available fund balance are that District officials and District residents prefer to avoid debt, when possible, by using available funds, and that bids came in well under what they had anticipated for a recent capital project. However, as indicated by the chart above, the District currently has nearly double its appropriations in reserves and available fund balance. The total available fund balance remains above 100 percent of the subsequent year's appropriations through 2031. As such, the District's budget projections are unrealistic and include an unreasonably high fund balance.

Recommendations

1. District officials should use the surplus fund balance identified in this report in a manner that benefits District taxpayers. Such uses could include, but are not limited to:

    - Increasing necessary reserves

[4] Currently, there is a large industrial property challenging its assessment.

- Financing one-time expenses
- Reducing District property taxes.

2. The Board should establish realistic revenue and expenditure assumptions in its budget and adjust them accordingly as circumstances change.

3. The Board should establish a reasonable fund balance target based on the District's needs, and adjust its plan as necessary to reach its target fund balance.

4. The Board should ensure the capital and operational plans are calculated accurately.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The district officials' response to this audit can be found on the following pages.

Lansing Fire District

—BOARD OF COMMISSIONERS—

P.O. BOX 349
LANSING, NEW YORK 14882
(607) 533-4204

June 14, 2013

[redacted]
NYS Office of the State Comptroller
44 Hawley Street – Room 1702
Binghamton, NY 13901-4417

Dear [redacted]:

The Lansing fire district submits this statement in response to the revised preliminary report of audit by the NY State Comptroller. We thank the Comptroller for its review and its suggestions and we recognize that the Comptroller seeks to protect the interests of the residents and tax payers of the Fire District. The Commissioners of the Fire District share the same concerns and we believe we have provided the tax payers a good return for their tax dollars. However, we take a very different view of our actions and we believe that your draft report fails to paint an accurate picture or give the Fire District credit for its actions.

We agree with the dollar amounts shown in the revised report for fund balances during the past four years. We do not agree with your projections for the future and believe that the concerns of the Comptroller with regard to the excess fund balance failed to consider events up until the present day.

The twenty year plan you were provided had not been updated with the audited information from 2012, as the District was in the midst of its financial audit and did not possess the necessary information to do so. Upon receipt of the audit information and our annual review of capital and budget needs there is always a need for some tweaking of the reserve balances and tax rates to keep everything on track. The newly updated plan shows what we believe to be acceptable fund balances. We are happy to provide a completely updated plan with our CAP after we obtain tax assessment information for 2014 and prepare our preliminary budget.

In 1991, the Lansing Fire District developed a twenty year capital needs and cash flow plan. The District has followed this plan for budget deliberations since then, extending the plan one year for each year that had passed. A complete copy of the 2012 version was provided to your audit team when they arrived.

Your statement that "At the end of 2012, total fund balance was nearly double the ensuing year's appropriations, and total fund balance is projected to remain above 100 percent of the subsequent year's appropriations through 2031" is very misleading because it includes authorized and required reserve fund balances. The funds we

See Note 1 Page 13

raised were appropriate for our financial projections. The District should be credited with reducing expenses and with coming in under budget for construction and demolition expenses, and should not be accused of raising excess funds. As detailed below, the funds raised were consistent with our planned construction costs. The funds simply were needed in future years due to the delays in the projects and thus the delayed expenditure of such funds.

See Note 2 Page 13

To frame the history of the time period that was audited; in 2006 the Fire District increased the tax rate by 4% in anticipation of an estimated $3 million in construction work to provide bunking facilities in our Central Station and replace the deteriorated fire station in the Village of Lansing. This increase was about $40,000 per year which, in conjunction with existing reserves would allow us to complete the construction with estimated bonding of $1.7 million. Initial construction estimates for the first building came in at over $3.7 million and the plans were put on hold, a new architect selected and building concepts revised to reduce the cost.

In 2008, the tax rate was reduced by 2.9% because reserve levels were reviewed, discussed, and deemed adequate and consistent with the financial plan. In 2009, the District finally received an acceptable construction estimate and design for the addition to Central Station in the amount of $2.1 million. The planned $1.7 million in bonding was reduced to $700,000 and an additional tax rate reduction of 1% was made in the budget for 2010. After the requisite public hearing and mandatory referendum that approved construction and bonding of $700,000, the project went to bid. Acceptable bids of $1.5 million eliminated the need for bonding and permitted us to pay for the construction with reserve and available fund balances. The District should be credited for seeking out an acceptable construction expenditure, avoiding the need for bonding and utilizing the cash reserves.

Construction finally began later in 2011. This is the point in time when the audit report indicates that the District had $3.7 million in total fund balance, of which $2.5 million was in reserve for capital projects. The majority of construction spending did not occur until later in 2011 and additional and final bills were rendered in 2012. The long delays due to planning changes for the new building resulted in a buildup of necessary cash that was used to eliminate the need for any bonding and future debt service. This again enabled us to lower the tax rate for 2012 by 2%.

Plans for the second building, being the replacement of the fire station in the Village of Lansing, were completed in 2012. The architect's estimates indicated that the District would require $950,000 to demolish the old structure and to construct the new building. After approval by the Commissioners and publication of the abstract of the resolution, which was subject to permissive referendum, the project went to bid without any need for financing due to the cash in reserves. Bids for the demolition came in at approximately $700,000, and construction was commenced in 2012. The majority of the construction expenses will be paid in 2013, thus substantially reducing the cash position of the district. With the ability to pay cash for both projects and a scheduled replacement piece of fire apparatus in 2013, the tax rate was once again lowered by

2%; this despite a reduced tax base as a result of a major reduction in assessed valuation for a large coal fired power plant in the Fire District.

Upon payment of commitments for 2013, we anticipate that our available fund balance at year end will be approximately 20% to 40% of appropriations, which we believe is a reasonable target level. We anticipate maintaining a reserve balance of $1 to 1.6 million for the foreseeable future. We disagree that this amount is excessive in any way. Fire apparatus which are planned for replacement in future years are expensive, totaling approximately $1.5 million in some years. The Fire District is required to maintain a significant number of fire apparatus, and this comes at a cost.

See Note 3 Page 13

The Fire District has always been up front and open with our public. We have discussed our construction plans and our financial positions with the public at hearings. Had the District spent what it projected instead of saving on expenses, you would not have criticized us for raising such funds.

Fund balances were not excessive during the years you reviewed, as the District was well aware of the looming expenses in the following years. The District completed its projects: under budget and debt free. You do not seem to provide the District with any credit for such an accomplishment. Our available fund balance in the future will be in the range of 20 to 40% of appropriations. The Commissioners will make that available fund level a matter of policy during the budget negotiations in August. If the public disagrees, it will have the ability to voice such dissent at the public hearing in October.

See Note 4 Page 13

We ask that you reconsider your conclusions and that you credit the District with constantly lowering its taxes and with avoiding long term debt. The funds raised were utilized for necessary expenses which were in planning long before the funds were raised. The District should be credited for its planning, for lowering taxes when possible, and for its avoidance of debt. Instead, you paint a much different and misleading picture.

Respectfully,

Robert Wagner
Chairman
Lansing Fire District

APPENDIX B

OSC COMMENTS ON THE DISTRICT OFFICIALS' RESPONSE

Note 1

Total fund balance is comprised of both total restricted and unrestricted amounts. As of the fiscal year ended 2012, total fund balance was 190 percent, restricted fund balance was 112 percent and unrestricted fund balance was 78 percent of the 2013 fiscal year's appropriations, respectively. These amounts are excessive.

Note 2

District officials indicated that they continued to accumulate fund balances to fund construction projects. However, total fund balance did not go below $1.4 million throughout the length of the multi-year plan that District officials provided us during the audit. If the District's plan was sufficiently comprehensive and included all anticipated expenditures, there was no need for such surplus balances.

Note 3

Reserves can be an important financial component of any capital plan. However, the District's multi-year plan does not include $1.5 million for replacement of fire apparatus as discussed in the response. Maintaining balances of at least $1 million annually, that are not forecasted to be used for specific capital purposes, are likely unnecessary.

Note 4

The scope of our audit did not include the administration of any capital projects.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

During our audit, we examined the District's budgeting operations for the period January 1, 2012 to January 22, 2013. We expanded our scope to review the District's financial condition for the period January 1, 2008 to December 31, 2011. In order to accomplish the objective of this audit, and to obtain relevant audit evidence, our procedures included the following:

- We interviewed District officials to gain an understanding of the policies and procedures used to prepare and monitor the budget.
- We compared actual revenues and expenditures to budgeted revenues and appropriations for fiscal years 2008 to 2012.
- We compared year-end fund balance to subsequent year budgeted appropriations for fiscal years 2008 to 2012.
- We compiled historical tax rates and assessed values for fiscal years 2008 to 2012 and analyzed them for trends.
- We reviewed Board resolutions to ensure reserves were properly established to determine if the reserve fund moneys were legitimately reserved or if they were actually part of the General Fund's fund balance.
- We reviewed the District's 20-year capital and operating plans for accuracy and reasonableness.
- We calculated the effect of total budget variances on the District's tax levy for fiscal years 2008 to 2012.

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.

APPENDIX D

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