



Town of Vestal Capital Acquisitions

Report of Examination

Period Covered:

January 1, 2012 — January 15, 2013

2013M-78



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2013

Dear Town 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 Town Board 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 Town of Vestal, entitled Capital Acquisitions. 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 Town of Vestal is located in Broome County and has a population of 28,000 residents. The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four Board members. The Board is the legislative body responsible for overseeing the Town's operations and finances and overall management of the Town. The Supervisor is the Town's chief executive officer and chief financial officer. The Town Comptroller (Comptroller) audits and pays all claims and is the Town's budget officer responsible for presenting annual preliminary budgets to the Board.

The Town provides various services to its residents including street maintenance, fire and police protection, water and sewer service, and general government support. The Town's 2013 budget appropriations were \$24.5 million, funded primarily with real property taxes, sales tax, water and sewer charges, and State aid.

The Board is responsible for approving, monitoring, and financing capital asset acquisitions. The Comptroller provides the Board with short- and long-term debt financing recommendations. The Town finances its capital assets primarily by issuing short- and long-term debt. As of December 31, 2012, the Town's outstanding debt totaled about \$18.2 million.

Objective

The objective of our audit was to review the Town's planning and financing process for capital acquisitions. Our audit addressed the following related question:

- Did Town officials properly plan and finance capital assets and projects?

Scope and Methodology

We interviewed Town officials and examined financial records and reports related to capital acquisitions for the period January 1, 2012, through January 15, 2013. We expanded our scope to include a historical review of the Town's financial condition and capital project financing from January 1, 2001, through 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 is 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 Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the Town's 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 35 of the 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 this plan available for public review in the Town Clerk's office.

Capital Acquisitions

An important oversight responsibility of the Board is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important to develop comprehensive, multiyear capital plans to estimate the costs of current and future capital assets.¹ The acquisition and maintenance of capital assets can use large amounts of financial resources. A formal, comprehensive multiyear capital plan² helps manage these investments by scheduling expenditures over a number of years and by creating a financing plan to meet those expenditures.

Town officials did not always properly plan and finance the acquisition of capital assets and projects. The Board did not have a formal multiyear capital plan or a long-term financing plan in place. Instead, Town officials relied on annual requests from department heads seeking to fulfill their immediate capital needs and primarily issued debt to finance the capital expenditures they approved. As a result, over a ten-year period the Town's outstanding debt more than doubled, from \$9 million in 2002 to over \$18 million in 2012. Without a formal, comprehensive plan to guide the Board's decision-making process, there is limited assurance that the purchase, maintenance, or replacement of capital assets is in the best interest of the Town.

Planning

A formal, comprehensive multiyear capital plan helps to maintain and improve the Town's capital assets over time. The capital planning process should, at a minimum, include established annual capital budgets; a list of capital assets owned; identification of new assets needed; the priority and cost of assets to be acquired, replaced, retired or repaired; and the anticipated method of financing any new assets. After the plan's details are in order, the Board should seek public input and formally adopt the capital plan. The Board should revisit the plan annually as a part of its budget process, make any necessary adjustments, and monitor plan results to determine how well goals and objectives are being achieved.

The Board did not use a formal, comprehensive multiyear capital plan when determining which capital assets and projects to fund each fiscal year. Instead, department heads submit their capital needs requests in February to the Board for consideration in the next fiscal year's

¹ Capital assets are assets that have a useful life of more than one year and include such things as land, buildings and building improvements, furnishings, vehicles, and electronic equipment.

² See our publication entitled Multiyear Capital Planning available at: http://www.osc.state.ny.us/localgov/pubs/lmgm/capital_planning.pdf

budget.³ The Board then decides which capital needs to include in the budget based on the Comptroller's spreadsheet, which shows the effect on the following fiscal year if they issue debt to finance the capital assets and/or projects. Typically, debt is then issued for these capital acquisitions in May of that year. During our audit period, nine projects were approved totaling \$1.3 million; debt was issued for five of these projects totaling \$1.2 million. There was no documentation disclosing how the Board reviewed these departmental requests, assessed capital needs, prioritized capital acquisitions, or monitored current or completed capital project costs.

As a result of the absence of deliberate and regular consideration of the capital expenditures presented to the Board, the Board authorized expenditures that may not have been in the best interest of the Town's residents and taxpayers. While the information presented by the Comptroller did summarize the allowable time that debt could be issued for each capital asset or project under consideration and estimated the annual cost to pay the debt, there was no information presented regarding the long-term effect of continually issuing debt to finance capital needs or on other options to finance the capital needs.

Financing

Issuing debt allows the Town to provide vital capital assets and infrastructure that it might not otherwise be able to afford through annual budget appropriations. However, when Town officials rely exclusively on debt to finance such capital assets, the long-term issuance and interest costs can significantly impact current and future operating budgets by limiting financial flexibility and the ability to finance essential capital projects in the future. Therefore, officials should issue debt only to purchase capital assets with longer useful lives, and use current budget appropriations to finance assets with shorter useful lives.

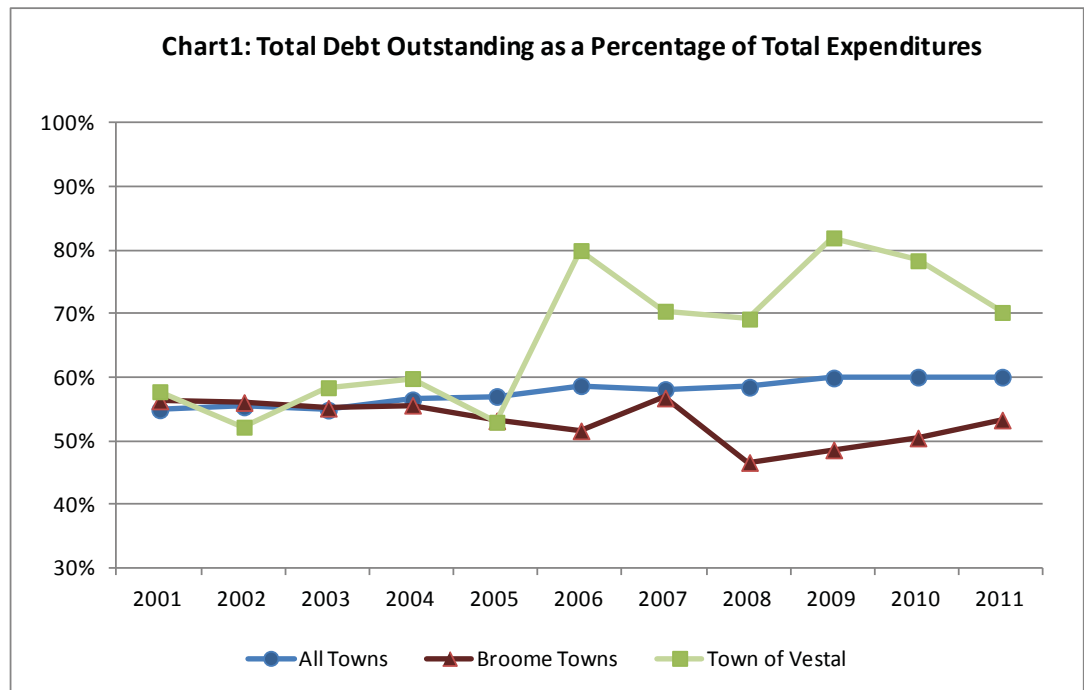
The Board uses debt to finance most capital assets, regardless of the useful life of the capital asset. Town officials do not perform an analysis of financing options for capital expenditures that are proposed and considered, and do not consider the long-term impact of those options when added to previously-issued debt. Instead, the Board typically relies on the maximum period of probable usefulness of the capital assets, as defined by Local Finance Law, to determine how long to finance capital assets and continually rolls the debt forward until that limit is reached. The Board is essentially adding new borrowing on top of old borrowing while making payments over the maximum useful life for each capital asset.

³ The Highway Superintendent has not presented a complete list to the Board since February 2012. Capital needs were comprised of a list of equipment needs and a list of roads with estimated replacement costs.

The Comptroller told us the Board tends to use debt to finance capital expenditures as the Town does not have sufficient current resources available to make the purchases and leave a reasonable amount of surplus funds available for contingencies. One Board member told us that he made several unsuccessful attempts to establish reserves to aid in the funding of capital projects, and that the Town does not have additional resources; therefore, debt became the financing means. Additionally, another Board member told us that, in the past, the Board issued debt to finance capital expenditures because interest rates on savings were relatively high and the Town actually made a profit on the funds; however, this practice continued during recent years while interest rates were drastically declining.

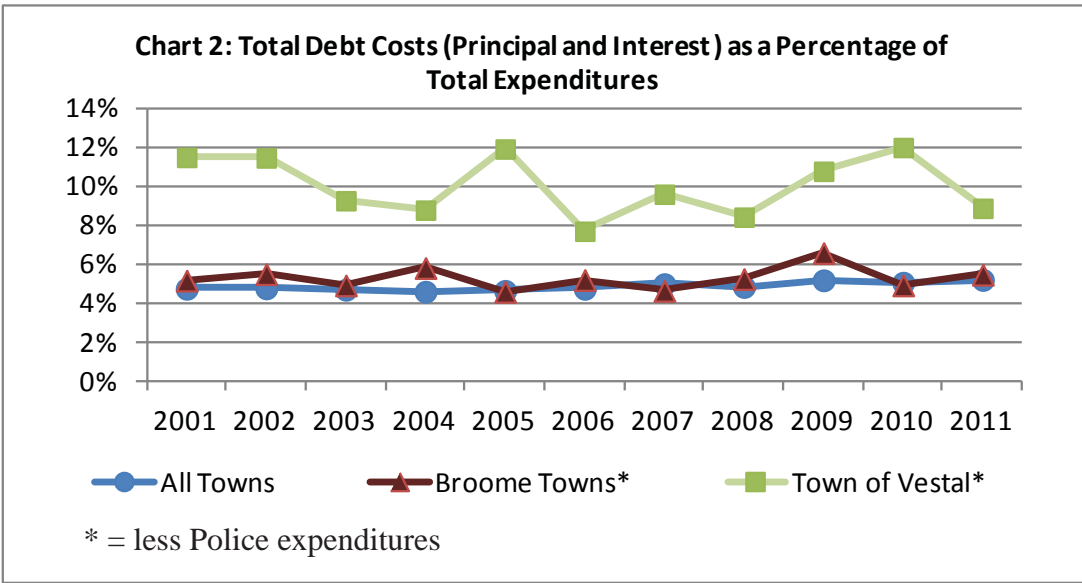
The Town had an average of more than \$480,000 available fund balance each year to fund a number of lower-cost capital assets. Over the last five years, the Town issued debt for 30 items that each cost under \$50,000. During this same time period, the Town paid more than \$3 million in total interest costs⁴ and incurred more than \$145,000 in fees relating to the issuance of debt.⁵ We found that \$59,000 of these fees were added to the debt issuances and incurred additional interest costs over the life of the debt.

To compound the situation, the Town’s total debt outstanding and debt-related expenditures have impacted the Town’s financial flexibility. Compared to other towns in Broome County, as well as other towns across the state, the Town’s debt activity is much higher.



⁴ Interest costs were summarized for 2007 through 2011 as reported to OSC on the Town’s annual financial reports.

⁵ These fees included legal, administration, printing, and advertising fees.



Although the Town’s debt costs as a percentage of its total expenditures fell by a little more than 2 percent in 2011 from its rate in 2001, the Town’s total debt cost and total expenditures⁶ rose 48 percent and 91 percent, respectively, over the same period. As these trends continue, the Town’s ability to react to external influences, such as economic downturns or emergencies, could be detrimentally impacted. If the trend accelerates, the Town’s ability to maintain sufficient service levels could be compromised, and the overall financial health of the Town could be at risk.

Recommendations

1. Town officials should develop a formal, comprehensive multiyear capital plan. This plan should, at a minimum, include annually established capital budgets; a list of all assets owned; identification of new assets needed; the priority and cost of assets to be acquired, replaced, retired or repaired; and the anticipated method to finance new assets.
2. Town officials should consider alternative methods of financing to fund acquisitions, such as pay-as-you-go and use of reserve funds.
3. Town officials should ensure that their long-term capital planning is integrated into their budgetary process.

⁶ Yearly expenditure totals were reduced by inter-fund transfers.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF VESTAL

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June 3, 2013

H Todd Eames, Chief Examiner
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RE:

Unit Name: Town of Vestal
Audit Report Title: Town of Vestal Capital Acquisitions
Audit Report Number: 2013M-78

Dear Mr. Eames:

We have reviewed the Report of Examination and wish to clarify some of the town's processes for its readers.

Annually the capital needs of each department for the following year are submitted to the Town Board along with the departmental operating budget requests. The department heads present their capital and operating budget requests during budget planning sessions with the Comptroller and Town Board. Sometimes these requests are funded within the operating budget but often funding decisions are delayed until a later date when year end fund balance and reserve fund levels are confirmed. Any projects that will be funded by borrowing in the subsequent year will not have an effect on the operating budget being developed so those decisions are usually postponed until after the operating budget is adopted. Time and staffing constraints are such that completing the capital program at the same time the operating budget is being developed has proven to be too burdensome. Therefore, additional meetings are held to review the capital project requests in further detail and to decide those that will be funded and how they will be funded.

See
Note 1
Page 12

Town of Vestal officials have recognized the need for a comprehensive review of the town's infrastructure and needs, both current and future. As such, significant improvements have been made to the town's water, street and road systems. As sufficient reserves had not been accumulated to fund these improvements, the town financed in excess of \$5 million to replace water tanks and explore future wells sites and has added in excess of \$3 million in debt to finance street and road reconstruction. Residents have made it clear that these improvements were, and continue to be, a priority. Town officials have refused to postpone or neglect these areas recognizing that to do so could result in unsafe conditions and increased costs due to inflation or further infrastructure deterioration.

Town officials have consistently worked with professional fiscal advisors on projecting future needs and planning debt issuances in order to project and plan annual debt service costs. Due to the complexity of state and federal regulations, the town also engages the services of legal counsel

TOWN OF VESTAL

specializing in municipal debt. With the assistance of these professionals, the Town's fiscal policies and fiscal health, as measured by fund balances and reserves, the Town has attained a high AA- bond rating from Standard and Poor's. While working with these professionals comes with a cost, the town has benefited by receiving significantly lower and more competitive interest rates due to investor confidence.

While the auditors compared the Town of Vestal to other towns in the county and state, a comparison to other first class towns with populations between 25,000 and 50,000 showed that for 2011, total debt costs were 7.95% of total expenditures and below the average of 8.38% that year for the comparable towns.

See
Note 2
Page 12

To monitor the approved and funded projects, the Town Board is provided a monthly report showing, along other things, the cash balance of each capital project. At least once a year the Town Board is provided a listing of completed capital projects with a request to close the projects and transfer any funds remaining to reserves for the retirement of debt.

While we feel that the Report of Examination does not accurately portray our capital planning and acquisition process, we do agree that improvements to the process could be made and that the recommendation for a formal comprehensive plan has merit. We will consult the publications of the State Comptroller for specific guidance in this area.

See
Note 3
Page 12

The Town Board of the Town of Vestal wishes to thank the State Comptroller for dedicating resources for the betterment of local governance.

Sincerely,

W. John Schaffer
Town Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

Although projects funded by borrowings may not have an effect on the subsequent year's budget, they will impact the year after as well as several future years to come as the Town makes principal and interest payments on the debt. The annual cycle of issuing debt is then compounded and increases the Town's debt balances which, in turn, decreases its future spending flexibility.

Note 2

Our analysis of comparisons between the Town and other towns in Broome County and across the State covered a 10-year period to show the long-term trends in total debt outstanding and total debt costs as a percentage of total expenditures, rather than looking at the data for a single year. We presented comparisons to two different groups of towns – those in Broome County and those towns north of Rockland and Westchester Counties – to provide a broader picture of the trends encountered in all classes of towns.

Note 3

The process described in the Town's response is similar to the conditions we found and reported on in our audit. Because of the Town's inability to jointly plan capital and operating needs, the Town is limiting itself to the use of debt for financing purposes, thereby restricting its ability to accumulate any reserve funds. Town officials did not provide us adequate documentation to support the decision-making process for determining which capital assets and projects to fund each fiscal year.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We reviewed the Town's capital project planning and financing process for the period January 1, 2012 through January 15, 2013. We expanded our scope to include a historical review of the Town's financial condition and capital project financing from January 1, 2001, through December 31, 2011. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Town officials, tested selected records and transactions, examined pertinent documents, and performed the following procedures:

- We compared the Town's total expenditures to fixed assets, fixed costs, and total debt each year for a five-year period. We determined the overall effect of the Town's financial condition as a result of issuing debt.
- We compared the length of the debt issuance to the capital asset useful life according to Local Finance Law, NYS Office of General Services (OGS) useful life tables, and the Town's estimated useful life schedule to determine if the Town is financing items longer than their useful lives.
- We determined if payments are still being made on capital assets that have been replaced.
- We compared the amounts appropriated from fund balance in the adopted budget to the amount actually spent to determine whether the Town could have financed capital projects with the excess unspent budgeted appropriations.
- We compared the Town's expenditures over the past ten years with the expenditures of all towns located in Broome County and all towns in the State located north of Rockland and Westchester County. We compared the Town's annual fixed costs as a percentage of total expenditures to these towns.
- We identified the total administration fees for issuing debt and total administration costs allocated to capital projects from invoice summary printouts for the past five years related to debt issuances.
- We compared the excess proceeds from issuing debt to determine whether excess proceeds were used correctly to pay down debt.

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.

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