



Village of Newark Valley

Capital Planning

Report of Examination

Period Covered:

March 1, 2015 – June 30, 2016

2016M-289



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2016

Dear Village 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 Village 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 Village of Newark Valley, entitled Capital Planning. 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 New York State General Municipal Law.

This audit's results and recommendation 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 Village of Newark Valley (Village) is located in Tioga County and has a population of approximately 960. The Village provides various services to its residents, including street maintenance, snow removal, lighting, water, solid waste and general government administration. The Village's 2016-17 budgeted appropriations for the general, water and solid waste funds total \$838,000, funded primarily by real property taxes, user fees, sales tax and State aid.

The Village is governed by an elected Board of Trustees (Board), which is comprised of a Mayor and four Trustees. The Board is the legislative body responsible for providing general oversight of operations and planning for capital infrastructure improvements. The Mayor is the chief executive officer and is responsible for, among other duties, appointing the Clerk-Treasurer, subject to Board approval. The Clerk-Treasurer is the chief financial officer and is responsible for the custody of all Village funds, maintaining the accounting records and preparing reports and the annual operating budget for Board review and adoption.

Objective

The objective of our audit was to review the planning process for capital improvements. Our audit addressed the following related question:

- Did the Board develop a formal multiyear capital plan to address the Village's critical infrastructure needs?

Scope and Methodology

We examined the Board's planning of its capital improvements for the period March 1, 2015 through June 30, 2016. We extended our scope to March 1, 2012 to examine the specific capital improvements started or completed by the Village. We also extended our scope to January 1, 2009 for the purpose of comparing vendor invoices for electricity for each of the well pumps before and after the municipal water project was completed.

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 B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendation have been discussed with Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendation and indicated they planned to take corrective action.

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 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 Clerk-Treasurer's office.

Capital Planning

A well-developed and maintained infrastructure, including water systems, is vital to the strength of local communities and their economies. Capital improvements to municipal buildings or parks can also improve residents' quality of life. One of the most basic responsibilities of local governments is to maintain, finance and plan improvements for this vital infrastructure using limited resources. With assistance from the federal and State governments, municipalities bear much of the responsibility for building and maintaining these important assets. Local governments must balance the need to invest in infrastructure with other spending priorities, while operating within the constraints on available resources that include generally low growth in local tax bases as well as the State-imposed property tax cap.

A multiyear capital plan can help a local government assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital improvements. It allows local government officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of unrestricted fund balance to finance operations and the accumulation of funds in Board-authorized reserves. Establishing and funding reserves, in conjunction with capital planning, may help to avoid large increases in real property taxes resulting from capital improvements and also increases transparency related to the intended use of revenues collected.

While the Board has not formally adopted a multiyear capital plan, they have informally planned for and addressed some of the Village's critical infrastructure needs and updated or improved other Village structures. From 2012-13 through 2016-17, Village officials completed three projects to improve the Village's critical infrastructure and other assets. These projects, totaling approximately \$4.7 million, included significant upgrades and improvements to the municipal water system (\$4.23 million), rehabilitation of the municipal building (\$390,000) and equipment additions to a local park (\$39,850). The financing sources for these projects included grants, debt and the planned use of fund balance including established reserves.

Figure 1: Project Funding Sources

Project	Grants	Debt	Fund Balance	Total Cost
Municipal Water System	\$1,987,999	\$2,030,341	\$211,660	\$4,230,000
Municipal Building	\$195,000	\$0	\$195,000	\$390,000
Playground Equipment	\$39,850	\$0	\$0	\$39,850
Totals	\$2,222,849	\$2,030,341	\$406,660	\$4,659,850

Village officials were able to fund these projects because of continual discussions and informal planning efforts, which were shared with residents through quarterly newsletters and Board meetings. In addition, Village officials make it a priority to search and apply for grants and other funding opportunities. By establishing adequate reserves and securing nearly \$2.2 million in grant funding, we estimate that Village officials saved residents \$1 million in interest and related financing costs for the municipal water system and building projects.

Further, the completion of the municipal water project also significantly contributed to improving the system's efficiency. In 2009, the Village's unaccounted-for water system losses ranged from 47 percent to 54 percent and have since decreased to a range of 9 percent to 19 percent,¹ which is within or close to the 10 percent industry goal established by the Environmental Protection Agency.²

This reduction in unaccounted-for water system loss also resulted in energy cost savings of approximately \$4,300 in 2015 as compared to 2009 due to less electricity being consumed by the well pumps to distribute water through the system. In addition, prior to the start of the municipal water project, 69 of the Village's 76 fire hydrants were either not working or were in need of repairs. The hydrants were fixed or replaced as part of the project. These fire hydrant replacements and repairs were a contributing factor in the improvement of the Public Protection Classification (PPC) rating assigned to at least the Village portion of the Newark Valley Joint Fire District as determined by the Insurance Services Office (ISO) in May 2016.³ This improvement in the PPC rating may result in the reduced cost of insurance premiums for homeowners and business owners within the Village.

While Village officials made a conscientious effort to fund the costs associated with these capital improvements through the use of fund balance and other funding resources, the Board increased the 2016-17 real property tax levy by 9 percent, or about \$20,000, to reduce its continued reliance on fund balance. Through a formally documented multiyear plan, Village officials may have been able to mitigate the need for a significant one-time increase to the tax levy.

¹ Village officials calculate unaccounted-for water system loss on a quarterly and annual basis. In addition to the gallons produced and billed, Village officials include the unmetered use of water from fire hydrants by both the Village and third-party governments (including the Newark Valley Joint Fire District, Town of Newark Valley and New York State) for repairs, maintenance, street cleaning and fire suppression. These estimates are derived from records and reports that are provided to the Village on a monthly basis. However, we were unable to verify the reliability of these estimates.

² For more details, see <http://www.osc.state.ny.us/localgov/costsavings/water.htm>.

³ The ISO is an organization that rates the municipal fire protection efforts in communities on a scale of one to 10 (one being the best) using a variety of data that includes, among other things, the adequacy of water supply within the community. The rating information is then used by certain insurance vendors to determine appropriate homeowners' insurance premiums within that community.

Recommendation

1. The Board should develop and adopt a formal, comprehensive multiyear capital plan to establish the goals and objectives for funding long-term operating and capital needs.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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TRUSTEES

Douglas Card
Patricia Flint-Beck
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November 14, 2016

Office of the State Comptroller
Division of Local Government & School Accountability
PSU-CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

RE: Village of Newark Valley
Capital Planning Report of Examination
2016M-289

Audit Response:

The Village of Newark Valley agrees with the NYS Comptroller Audit Findings 2016M-289 for the period covering March 1st, 2015 through June 30th, 2016

Audit Recommendation:

The Village Board should develop and adopt a formal, comprehensive multiyear capital long-term operating plan to establish the goals and objectives for funding long term operating and capital needs.

Implementation Plan of Action(s):

The Village Trustees and Mayor will create a five member sub-committee comprised of one Trustee, two staff, one resident not a Trustee and the Mayor to create long term capital infrastructure and multiyear operating proposals for budget planning and eventual Board consideration and adoption. Our existing asset lists of buildings, water system, electronic media, intellectual property, solid waste and equipment is basis for replacement and improvement. We find certain OSC appendices a guide to create these spreadsheets to create replacement

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solutions. These excel documents will extend beyond the terms of existing Trustees and Mayors; yet, assist future elected officials toward goals. The Village currently utilizes an informal approach.

Our timetable: create subcommittee, set agenda and standards February 2017, create electronic operating and capital documents May 2017, Trustee and Mayor consideration and adoption: July 2017.

The Mayor and Trustees are responsible for action and implementation.

Please respond to us with any further questions or thoughts.

Best Regards,

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Village officials and reviewed both the Board-approved minutes and Village newsletters to gain an understanding of Village officials' policies and procedures for planning infrastructure improvements.
- We reviewed the Village's accounting records and other applicable documentation to determine the scope, cost and source of funding for infrastructure improvements started or completed in the Village since March 1, 2012.
- We calculated the amount of unaccounted-for water system loss from January 1, 2015 through December 31, 2015 by comparing the amount of water produced to the amount of water billed. Additionally, although we were unable to determine the reliability of unmetered water use estimates provided by the Village, we did document these estimates and factored them into a separate calculation of unaccounted-for water.
- We reviewed electric bills for the municipal well pumps before and after the municipal water project was started in 2009 and completed in 2015. We compared the total number of units and the total cost of the electricity consumed by the well pumps to determine if any cost savings were achieved as a result of the project.
- We reviewed documentation from the ISO to gain an understanding of the results of its review, which was completed in May 2016, of the fire protection services provided to the Village.
- We reviewed the Village's real property tax levies for 2012-13 through 2016-17 to determine if the tax levies had been increasing.

We conducted this performance audit in accordance with 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 C

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