

# Town of Warwick

## Water and Sewer Fund Financial Condition

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APRIL 2019

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

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# Report Highlights

## Town of Warwick

### Audit Objective

Determine whether Town officials effectively managed the water and sewer funds' financial condition to ensure the sustainability of current and future operations.

### Key Findings

- Four of the seven water districts experienced operating deficits during the audit period with totals ranging from \$11,100 to \$59,700, and are projected to have operating deficits in 2018. Four water districts also had deficit fund balances in 2017 ranging from \$3,340 to \$40,400.
- The two sewer districts experienced operating deficits totaling \$138,972.
- Six water districts and one sewer district rely on general fund advances to finance operations, totaling \$236,296 as of 2017.
- Fairgrounds Sewer District had a 2017 deficit fund balance of \$39,283 and a general fund advance with a balance of \$45,662.

### Key Recommendations

- Develop reasonable revenue estimates for the water and sewer districts, and monitor and adjust budgeted revenues if needed.
- Develop a plan to address the negative fund balances in individual water and sewer districts from prior fiscal years.
- Ensure that interfund advances are made and repaid in accordance with statute.

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

### Background

The Town of Warwick (Town) is located in Orange County and encompasses the Villages of Florida, Greenwood Lake and Warwick. The Board of Trustees (Board) is responsible for the overall management and oversight of the Town's financial operations, including adopting the annual budget and establishing financial policies and procedures. The Town Supervisor (Supervisor) serves as the Town's chief executive officer and budget officer.

The Town Comptroller is responsible for preparing, maintaining and reporting the Town's financial information.

#### Quick Facts

Population	32,100
2018 Water Fund Appropriations	\$386,236
2018 Sewer Fund Appropriations	\$373,940

### Audit Period

January 1, 2013 – September 5, 2018. We expanded the scope to review the 2019 adopted budget.

# Water and Sewer Fund Financial Condition

## What Is Sound Financial Condition?

A town's financial condition determines its ability to finance services on a continuing basis, maintain adequate service levels and survive economic fluctuations. A town's fund balance (which represents assets remaining from prior years) is a key measure of financial condition. Town officials should ensure that the level of fund balance maintained is sufficient to provide adequate cash flow to guard against unanticipated and anticipated expenditures and/or revenue shortfalls.

A town in sound financial health can consistently generate sufficient, recurring revenues to finance anticipated expenditures, and maintain sufficient cash flow to pay bills and other obligations when due, without relying on interfund advances.<sup>1</sup> A continual reliance on the appropriation of fund balance<sup>2</sup> and subsequent decline in available fund balance indicates a deteriorating financial condition.

## Water Districts Experienced Operating Deficits

The Town has seven water districts that are combined in the water fund financial statements each year. These districts have different tax bases depending on the part of the Town in which services are provided.

Overall, the water fund had an operating surplus of \$70,864 during the audit period. This overall surplus was due to the performance of three of the seven districts which obscured the operating deficits of the remaining four districts.

**Figure 1: Water District Operating Surplus/(Deficit)**

Water District	2013	2014	2015	2016	2017	2018 Projected
Bellvale	(\$3,480)	(\$2,318)	(\$5,517)	\$364	(\$128)	(\$2,167)
Eurich Heights	(\$7,549)	(\$1,810)	(\$4,947)	(\$2,272)	(\$555)	(\$1,613)
West Side	(\$7,418)	\$17,868	\$50,417	\$40,996	\$40,162	\$32,244
Wickham	(\$26,051)	\$1,661	(\$31,123)	(\$9,491)	\$5,299	(\$21,372)
Fairgrounds	(\$3,459)	\$5,062	\$2,283	\$6,184	\$8,372	\$9,384
WVOTCP <sup>a</sup>	\$0	(\$1,525)	(\$7,030)	(\$16,931)	(\$14,868)	(\$12,944)
Pine Island	\$7,581	\$3,538	\$9,151	\$11,205	\$7,193	\$6,260
Overall Water Fund	(\$40,376)	\$22,476	\$13,234	\$30,055	\$45,475	\$9,792

<sup>a</sup> This district was established in 2013 and became operational in 2014.

<sup>1</sup> In accordance with New York State General Municipal Law, Section 9-a, any advances must be repaid (along with applicable interest) by the close of the year in which the advances are made.

<sup>2</sup> 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.

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These operating deficits were a result of Town officials regularly overestimating budgeted water sales revenue in these four districts. Further, the use of appropriated fund balance in Bellvale and Eurich Heights in 2013 and 2014 reduced available fund balance. In addition, water rates have not increased for six districts during the audit period.<sup>3</sup> The last rate increases for Bellvale, Eurich Heights and Wickham were in 1986; therefore, the current water rates do not generate enough revenue to offset the annual cost of operations in these three districts.

We compared the adopted budget to the actual results of operations for 2013-17 and found that the adopted budget contained water sales estimates that exceed the prior year's actuals in Bellvale, Eurich Heights and WVOTCP.<sup>4</sup> No budget adjustments were made in the following years to correct the overestimations. In addition, as of the end of our audit fieldwork, the low number of users in the WVOTCP district could not cover the associated costs of the 2014 start-up and ongoing operations. Town officials believe that a bond issuance for the start-up costs will occur in 2019 with the first payment due in 2020 and at this point, the district will be able to generate enough revenues to eventually become self-sufficient.

We project that Bellvale, Eurich Heights, Wickham and WVOTCP will end 2018 with operating deficits of approximately \$2,200, \$1,600, \$21,400 and \$13,000, respectively, while West Side, Fairgrounds and Pine Island will end 2018 with operating surpluses. For the overall water fund, we project an overall surplus of approximately \$9,800. This projected surplus could hide the poor financial performance of the individual water districts.

Town officials are aware that rates are insufficient in the four districts with operating deficits and told us that the individual district rates will be reviewed and potentially increased. We followed up on these rates after the 2019 budget's adoption and found Town officials increased the rates in 2019 for the Bellvale Water District and will implement a rate increase for the Eurich Heights and WVOTCP water districts in 2020. In addition, WVOTCP will be adding two more users which will begin to offset its operating deficits.

Because Town officials overestimated water sales revenue and did not raise water rates, four of seven water districts have realized operating deficits and are projected to do so in 2018. In addition, the 2019 budget did not include rate increases for three of those four water districts. Therefore, these three districts

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<sup>3</sup> The rates for West Side water district were adjusted beginning in 2014. The increases were phased in over four years and have generated operating surpluses each year.

<sup>4</sup> This district was established as a result of the Town taking over water services for the district after the closing of a correctional facility in 2011. The facility is being redeveloped for low-impact industrial users by the Warwick Valley LDC. The district was shut down at the time of the closing and had to be restarted for the facility to be redeveloped.

are likely to experience operating deficits for 2019. If this trend continues, the water fund will reach a point where there is inadequate cash to pay for recurring expenditures.

### Sewer Districts Experienced Operating Deficits

The Town has two sewer districts that are combined in the sewer fund financial statements each year. These districts have different tax bases depending on the part of the Town in which services are provided. Sewer users in both districts are billed quarterly. The bills for the Wickham, Kings Estates and WVOTCP Sewer District are calculated based on the total operation and maintenance expenditures for the previous three months and allocating the costs by customer usage. The Fairgrounds Sewer District operation and maintenance costs are billed based on meter readings.

Both sewer districts experienced operating deficits totaling \$138,972 over the past five years. The operating deficits in the Wickham, Kings Estates and WVOTCP district were planned for each year; the operating deficits in Fairgrounds were unplanned. We project both districts will end 2018 with an operating deficit.

**Figure 2: Sewer Fund Operating Results**

Sewer District	2013	2014	2015	2016	2017	2018 Projected
Wickham, Kings Estates and WVOTCP	(\$47,066)	(\$10,919)	(\$11,081)	(\$14,832)	(\$20,435)	(\$1,596)
Fairgrounds	(\$18,244)	(\$5,524)	(\$3,535)	(\$6,536)	(\$800)	(\$886)
<b>Overall Sewer Fund</b>	<b>(\$65,310)</b>	<b>(\$16,443)</b>	<b>(\$14,616)</b>	<b>(\$21,368)</b>	<b>(\$21,235)</b>	<b>(\$2,482)</b>

The operating deficits occurred in the Fairgrounds sewer district because appropriations were overspent in 2013 and service revenue was less than budgeted for 2015 through 2017. We project revenues will not meet budget estimates in 2018. This is a result of excluding equipment purchases in the expenditure total when preparing the quarterly billings.

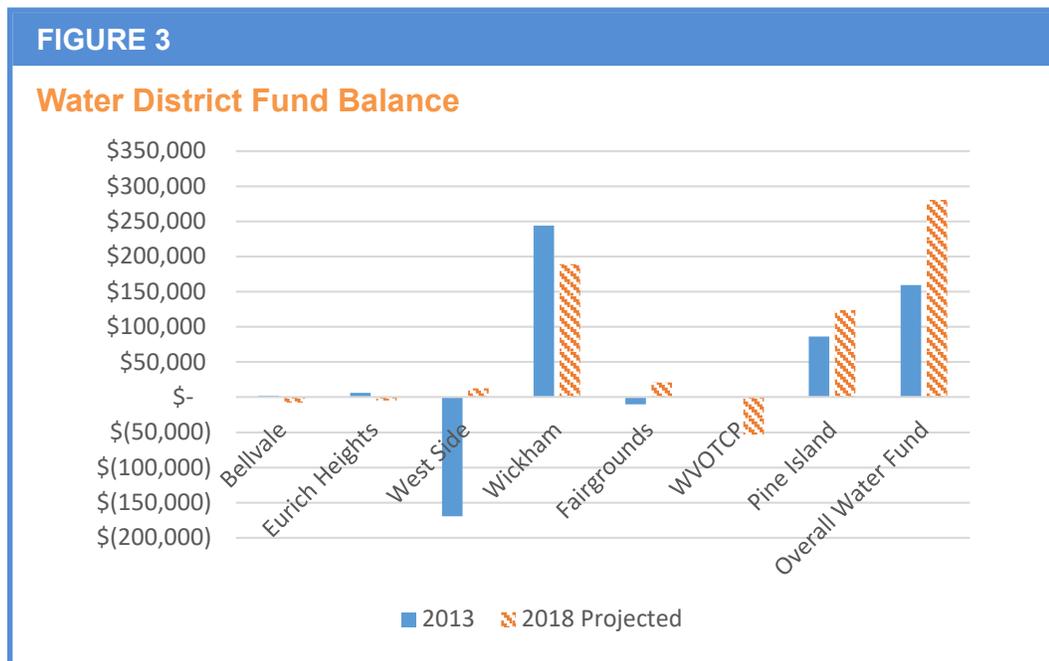
Town officials were aware of the operating deficits and stated that the major cause was excluding equipment expenditures from the expenditure total used for quarterly billing. However, they could not explain why this is done or why they continued to follow this practice that caused repeated operating deficits.

Because the cost of equipment purchased for each district was not recouped through quarterly billings and other sources of revenue were not enough to make up the shortfall, the districts continually incurred operating deficits. If this trend continues, the sewer fund will reach a point where there is inadequate cash to pay for recurring expenditures.

## Water and Sewer District Fund Balances Have Declined

The overall fund balance for the water districts increased by \$111,240 (70 percent) from 2013 to 2017. However, this overall increase masks declining financial positions in four of the seven water districts: Bellvale, Eurich Heights, Wickham and WVOTCP, all of which experienced operating deficits during the audit period. Four of the seven water districts also had negative fund balances at the end of 2017. The negative fund balances for the Bellvale, Eurich Heights and WVOTCP water funds are a result of operating deficits. We project that these fund balances will further decline in 2018. The declining fund balances are due to the practice of Town officials budgeting the amount of revenue they need rather than the amount they anticipate to receive.

While Town officials have begun to correct this, they have only adjusted the rates for one of the four districts for 2019. The Board has approved a 25 percent rate increase for Bellvale Water District in 2019, which will not be sufficient for the district to become self-sustaining. Another increase is planned for 2020 which should allow the district to begin improving its financial condition. In addition, a rate increase for the Eurich Heights and WVOTCP Water Districts is scheduled to be implemented in 2020. However, Town officials did not mention plans to correct the declining financial position of Wickham Water District.



As illustrated in Figure 3, we project that the West Side Water District will no longer have a deficit at the end of 2018 due to rate increases that have been fully phased in over the last four years. The resulting operating surpluses have enabled Town officials to make the district self-sufficient during the audit period.

In addition, due to the repeated operating deficits caused by not charging the sewer equipment purchases to the sewer users, the overall sewer fund balance has decreased by \$73,622 (25 percent) during the audit period. The deficit fund balance of the Fairgrounds Sewer District grew by \$16,395 (72 percent) over the same period (Figure 4) and we project that its fund balance will decrease further in 2018.

**Figure 4: Sewer Fund Balance**

Sewer District	2013	2014	2015	2016	2017	2018 Projected
Wickham, Kings Estates and WVOTCP	\$314,615	\$303,696	\$292,615	\$277,783	\$257,348	\$255,752
Fairgrounds	(\$22,888)	(\$28,412)	(\$31,947)	(\$38,483)	(\$39,283)	(\$40,169)
<b>Overall Sewer Fund</b>	<b>\$291,727</b>	<b>\$275,284</b>	<b>\$260,668</b>	<b>\$239,300</b>	<b>\$218,065</b>	<b>\$215,583</b>

If Town officials do not generate additional revenue, including billing sewer users for equipment purchases, or decrease expenditures for the water and sewer districts experiencing operating deficits, the financial condition of the overall water and sewer funds will eventually decline, reducing the Town’s ability to provide services to the taxpayers who pay for them.

### **Five Water Districts and One Sewer District Relied on General Fund Advances**

The Town has relied on advances from the general fund to subsidize water operations in five of the seven water districts and one sewer district. Although General Municipal Law allows for advances between funds, these advances are intended to be short-term loans to be repaid by the end of each year and not used as long-term deficit financing. As of December 31, 2017, the general fund had advanced a total of \$190,634 to the water districts and \$45,662 to the Fairgrounds Sewer District (Figure 5). The continued operating deficits of Bellvale, Eurich Heights, Wickham and WVOTCP have led to an increase in the loan amount to each district, and the amount advanced to the sewer district has increased 62 percent since 2013. We project that this trend of increasing advances continued in 2018.

However, general fund advances to the West Side water district have been declining. Because Town officials addressed the financial condition of this district in 2014 with phased-in rate increases, this district was able to repay a portion of the advance with interest each year. Town officials indicated that this loan should be fully repaid in 2020. In addition, Fairgrounds fully repaid its advances with interest in 2017. We reviewed the 2019 budget and we found that Town officials have budgeted for partial repayment of the West Side Water District loans. However, the 2019 budget does not include plans for the repayment of the

remaining loans. Figure 5 shows balances due from each district for advances received from the general fund.

**Figure 5: Year-End Balances Due to the General Fund**

District	2013	2014	2015	2016	2017
Bellvale WD	\$250	\$3,500	\$9,598	\$9,756	\$10,018
Eurich Heights WD	\$1,000	\$4,500	\$7,590	\$9,228	\$9,380
West Side WD	\$157,675	\$152,006	\$132,006	\$90,000	\$65,000
Wickham WD	\$20,025	\$23,346	\$54,929	\$65,918	\$65,918
Fairgrounds WD	\$19,216	\$16,504	\$13,752	\$10,979	\$0
WVOTCP WD	\$0	\$0	\$9,000	\$25,281	\$40,318
Fairgrounds SD	\$27,209	\$30,619	\$39,079	\$44,724	\$45,662
<b>Total Balance Due</b>	<b>\$225,375</b>	<b>\$230,475</b>	<b>\$265,954</b>	<b>\$255,886</b>	<b>\$236,296</b>

The advances from the general fund are a direct result of the operating deficits that have occurred due to insufficient water rates and excluding equipment expenditures from the sewer billing. Until officials can reverse the financial decline of the Bellvale, Eurich Heights, Wickham and WVOTCP water districts and the Fairgrounds Sewer District, the districts will need to continue to rely on advances from the general fund. This dependence on advances to meet current obligations indicates inadequate revenues from water and sewer sales and declining financial condition. In addition, continued advances from the general fund could cause a decline in the general fund’s financial condition.

**What Do We Recommend?**

The Board should:

1. Develop reasonable revenue and expenditure estimates for the water and sewer districts, and monitor and adjust the budget if the anticipated results may not be achieved.
2. Develop a plan to address the negative fund balances in individual water and sewer districts which includes provisions to repay the outstanding interfund loans.
3. Ensure that interfund advances are made and repaid in accordance with statute.

# Appendix A: Response From Town Officials

## TOWN OF WARWICK

132 KINGS HIGHWAY  
WARWICK, NEW YORK 10990



TOWN HALL TELEPHONE (845) 986-1124  
POLICE DEPT. TELEPHONE (845) 986-3423  
RECEIVER OF TAXES (845) 986-1125  
PUBLIC WORKS TELEPHONE (845) 986-3358  
TOWN HALL FAX (845) 986-9908  
SUPERVISOR [supervi@warwick.net](mailto:supervi@warwick.net)  
TOWN CLERK [townclk@warwick.net](mailto:townclk@warwick.net)

March 11, 2019

Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Dear Sir/Madam,

The Town acknowledges that most of the issues raised by the OSC audit are correct, however, the Town Board has already taken action to eliminate the deficits in two of the districts and had plans to implement corrective actions for the other two districts beginning in 2020.

The Wickham Sewer and Water District deficits resulted from the abrupt closure of the Mid Orange Correctional Facility in 2011 by the State of New York who provided 55% of the total billing in the sewer district. A plan to reduce costs and mitigate an 85% increase in rates to Wickham Water/Sewer District residents was put in place in 2012 until new commercial users could be found to replace State use. The second phase of that plan will take effect in 2020 to eliminate the deficits over several years as commercial users are currently finalizing plans to relocate to that area. As sewer rates stabilize there for homeowners we will be able to adjust water rates to eliminate deficits.

Fund balance decreases are directly related to costs incurred in starting up two new districts, Fairgrounds and WVOTCP, with limited users. Adequate surplus allowed the Town to launch these districts, making the needed capital investment that was necessary to attract new users that will now make the districts sustainable. The fund balance decreases you cited also occurred in the Wickham sewer and water districts from the closure of the State facility mentioned above. Via use of existing fund balances at the time of closure, the Town was able to maintain operations and continue capital investment during the ensuing timeframe, while homeowners labored through a time period of extremely higher billings. Most of the other districts cited in your report have extremely small user bases (ie 39 users) where one repair or water quality issue in a given year can wipe out any planned surplus. The board has planned rate changes for 2020 (as previously indicated) in connection with the satisfaction of debt service payments in order to mitigate the per household costs in some of these districts.

The Town thanks the OSC for their thorough analysis of our Town operations.

Sincerely,

Michael P. Sweeton  
Town Supervisor

MPS/rb

## Appendix B: Audit Methodology and Standards

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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 Town officials and reviewed Board meeting minutes, resolutions, financial documents and Town code to gain understanding of water and sewer operations, officials' responsibilities and oversight, and policies and procedures for budgetary and fiscal control.
- We prepared budget-to-actual comparisons for appropriations and revenues to determine whether revenues and appropriations were reasonable and whether specific revenues and appropriations were consistently and significantly under- or overestimated.
- We analyzed the Town's financial records for the water fund and sewer fund to determine whether the appropriation of fund balance resulted in planned operating deficits and a decline in fund balance.
- We examined water rates, sewer billings and associated revenues to determine whether they were sufficient for related expenditures.
- We reviewed adopted water fund and sewer fund budgets for 2018 to determine whether revenues and appropriations were reasonable based on actual results for the period January 1 through August 31, 2018, historical data and supporting source documentation. We projected actual revenues, expenditures and fund balance as of fiscal year-end 2018.
- We reviewed the 2019 budget to determine whether corrections were made to address the operating deficits in individual water and sewer districts.

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

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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

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