

BUDGET MESSAGE

This 2015 Tentative Budget, and my previous four budgets, is based on the notion that sound financial footing is the bedrock upon which all Town services rests. The degree and quality for which the Town can provide for public safety, safe and well maintained roadways, clean and accessible beaches, parks and public spaces -- and a host of other services that support and improve the quality of life for our citizens depends on our ability to provide that sound financial footing.

Over the past four years, we have been able to strengthen that very foundation and attain a level of financial soundness that recently rewarded our efforts and earned the Town a AAA (Triple A) credit rating -- a rating now unique among Long Island municipalities.

Achieving this status has required hard work, diligence, and frankly, some sacrifice on the part of many. And I want to remind every one that achieving this goal is only half the challenge. Maintaining this coveted status and soundness continues to present challenges of an almost equal magnitude.

The 2015 Tentative Budget I am presenting to the Town Board and to the community today meets those challenges.

In each of the budgets I have presented, I have had three main goals:

1. To present a structurally balanced budget that minimizes the impact of the budget on the taxpayer;
2. To identify and implement operational and procedural efficiencies including treasury management policies that would result in sustained cost savings;
3. To maintain support for infrastructure and services.

For the past four years I have presented to you a structurally balanced zero levy increase budget. The 2015 Tentative Budget proposes the same – structurally balanced with a zero levy increase.

As you know we have also developed the practice of presenting not only the budget for the upcoming fiscal year, but also proposing a tentative budget for the following year, essentially a two year budget projection.

This practice is unique among municipalities but one that has been praised by the credit rating agencies.

The principal tools utilized to achieve these higher standards in the Tentative Budget stem directly from the upgrade in the Town's credit rating, as well as major improvements in our treasury management functions.

These achievements have allowed the Town to refund (refinance) all possible debt, thus reducing debt service (interest payments) by \$500,000 (half a million dollars) annually.

It has allowed us to establish an aggressive pay down strategy for all remaining debt, while also renegotiating with banks servicing the Town's accounts to increase interest earnings.

Our treasury management has also allowed us to establish a Pay-As-You-Go Fund, making it possible for the Town to pay for smaller, short-lived assets from our operating budget, rather than adding to the overall debt and the need for additional borrowing.

In each of the past four years, I have presented tentative budgets that also identified and implemented economies and efficiencies, which then contributed to our ability to consistently maintain a zero levy increase over this same period.

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In order to meet all of our responsibilities to the public -- especially as it relates to public safety -- in this year's budget, I am proposing modest increases in both the operating and capital budgets -- principally in the Highway and Public Safety Funds, while proposing offsetting reductions or revenue increases in other areas.

The proposed increases address the need to maintain a comprehensive repaving program in the Highway Department Fund, as well as pointed increases in staffing as part of the Police Department Fund, and, five new Town staff additions-- all in an important effort to "right size" government and essential personnel.

These carefully planned increases, in addition to what are yearly, recurring, uncontrollable operational cost increases -- such as liability and insurance rates, retirement costs, health benefits, fuel cost increases, utilities costs, etc., result in a necessary appropriation increase of approximately \$3 million.

The challenge is identifying a formula for supporting increases with offsetting lasting revenue increases and cost reductions. As anywhere else, our operating costs continue to rise, but fortunately our annual revenue to support the offset has grown as well.

Such revenues include taxes based on assessed values, or the combined increase in the Town's overall real estate value -- which unlike other areas has seen robust growth, helping to stabilize the tax rate to support the necessary tax levy. Thanks to our robust real estate market, mortgage recording tax income continues to grow, putting our mortgage tax revenue for 2014 on track to be about \$1.2 million above the 2014 budgeted projection. In addition, permit fees, fines and penalties stemming from increases in operational efficiencies in our Justice Court, Code Enforcement and more aggressive prosecution of offenders, have also brought additional revenues to the Town.

These increases in recurring revenues combine to offset about 60% of the year-to-year appropriation increase to the tune of approximately \$1.7 million, leaving an appropriation need of \$1.3 million to balance this proposed budget. There are two options for addressing this shortfall.

The obvious would be to increase taxes to cover the gap; in this case translating to a required approximate 1.5% tax rate increase. This year, the Governor's NYS Tax Relief Rebate Program would entitle Star qualified taxpayers to a full rebate of their individual tax increase up to the amount raised; in sum, resulting in a zero increase to eligible taxpayers.

Or, to draw from our very healthy fund balance, now at about 32% or approximately \$29 million of total operating budget and accounting for nearly twice our mandated level of 17% -- sufficient to maintain a sizable rainy day fund.

In this budget, I have therefore proposed we appropriate modest fund balance to offset the budget-to-budget increase and NOT increase taxes, but rather utilize already raised tax funds, while maintaining a more than appropriate fund balance level.

Sound fiscal arguments can be made for both approaches. I have chosen to recommend a modest appropriation of fund balance for two reasons:

Our fund balances, by every measure, are both robust and viable. A transfer of an additional \$1.3 of the available \$29 million will not weaken that strong financial position or lessen our ability to address unanticipated budget needs.

Further, any tax increase this year, even with a rebate, will remain as part of the tax base going forward. As a result, the rebate program only defers the tax payment for one year, since there are no guarantees that the rebate program will continue beyond 2015,

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or if it does, there are no guarantees that the Town would be able to meet the eligibility criteria.

So while the 2015 Tentative Budget presents an option which draws an additional \$1.3 million from fund balance; there is another option which I encourage my colleagues on the Town Board to consider as we move through the budget adoption phase. While my budget proposes a zero tax levy increase, NYS has offered municipalities incentives in the form of a rebate equal to the amount of any town tax increase up to the tax cap limit. If my colleagues agree, I would be supportive of including a budget amendment to this proposed budget that takes advantage of the NYS Tax Relief Program to provide needed funding for projects that are non-recurring in nature. In such an option, homeowners would receive a tax rebate for the increase and the Town would then benefit by not having to borrow or provide for them in the future.

For example, the town has current needs such as additional police and code enforcement vehicles, public safety communications equipment, and town fueling station upgrades, as well as parks facilities and equipment enhancements. All of these “one shot projects” can be funded by taking advantage of this NYS offered program, at no cost to the local taxpayers who will see their increase in taxes rebated directly to them in the form of a check from NYS.

In simple terms, we would create a one time line item and GL code, for the sole purpose of appropriating one shot funding for capital investments such as just described and then eliminate that line going in to the following year budget, and as such resetting the levy at the 2014 base.

This is an option that warrants more discussion, and I look forward to evaluating the merits of utilizing this program with my

colleagues as we move through the deliberative process and final budget adoption.

Whether or not we pursue that option, this proposed budget allows the town to move forward addressing our operational and infrastructure needs, while protecting the taxpayer from an increase in the Town’s portion of their taxes.

The 2015 Tentative Budget accomplishes the following:

1. Meets all monetary demands for increases resulting from newly negotiated labor contracts -- which represent the second set of contracts negotiated with 2% annual increases, while incorporating increases in employee contributions to health benefits. And it bears noting these contracts represent the most conservative increases in Suffolk County.
2. The proposed budget pays off all amortized pension costs, resulting in considerable savings to the Town.
3. It pays down debt for existing borrowing at a faster rate, reducing debt service costs going forward.
4. It sustains our pay-as-you-go Capital Fund at \$650,000, decreasing our need to borrow to fund assets with less than a five year useful life.
5. It further provides funding to support a similar 2% cost of living increase for non-union administrative staff, as well as provisions for the rightsizing of Town staff, so that we can assure the community that we are providing a level of service needed in the most cost effective manner. In the past four years we have reduced overall staffing by about 15%. However, as you all know, our town population continues to grow, and so then too, the need for services. Accordingly, this budget proposes modest staff increases in two areas – public safety and highway. We have further, and importantly, continued the effort to correct and balance staff salaries, where years of inconsistencies have

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plagued the salary schedule for non-union, administrative personnel. To that end, we have created a salary matrix that clearly defines appropriate salary and compensation levels for all employees based on title, job duties, and length of service. Correcting these imbalances required time and thought, and was an early goal of mine, and I am happy to say that I believe this budget finally achieves that goal and the appropriate fairness and predictability that comes with it.

6. The budget also provides funding for a critical partnership with SUNY Stony Brook for a nitrogen mapping and awareness program as part of our overall effort to address water quality in our community and the region.
7. And, it continues the Town's support for several community service and health initiatives -- and where I also want to note that although the budget does not specifically add an appropriation for the South Fork Behavioral Health Initiative, I have estimated Cablevision revenue to where it will allow a subsequent budget amendment providing for these costs in 2015. This represents a commitment to supporting a new important public and mental health initiative by our State lawmakers and Southampton Hospital.

In addition to these significant aspects of the operating budget, we have been able to increase our capital program as a consequence of our ability to reduce our overall debt service, as well as take advantage of the low cost of borrowing -- also a direct result of our AAA Credit Rating.

The proposed capital budget recommends the following:

1. Major upgrades to our Police Technology infrastructure, which has not been upgraded in over 20 years.
2. Overall facilities improvements to
 - a. Town Hall

- b. The Animal Shelter
 - c. Several facilities at the Jackson Avenue Complex, and
 - d. A modern and efficient fuel management system.
3. It includes parks improvement projects to:
 - a. Good Ground Park
 - b. The Ed Warner Park
 - c. And much needed repair to the Old Ponquogue Bridge fishing platforms
4. As well as previously mentioned, capital improvement increases for the Highway department.

My principal responsibility as the CFO of the Town is to prepare and present this Tentative Budget to the Town Board and Community by Sept. 30 of the current fiscal year. As indicated earlier, I approach each budget process with three objectives in mind:

1. To present a structurally balanced budget with minimal additional impact to the taxpayer;
2. To identify and implement operational and procedural efficiencies including treasury management policies that result in sustained cost savings; and
3. To maintain critical support for infrastructure and services.

This Tentative Budget reflects those three objectives and establishes a financial plan to make each of these continually attainable in the year 2015, as well as looking forward to 2016.

This presentation of the Tentative Budget is then followed by a series of scheduled public hearings and discussions with the Town Board, and the public, over the next several weeks, with a final adoption scheduled by statute on Nov 20.

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I look forward to a continued productive discussion and deliberation process of what has already been a very collaborative Tentative Budget development process.

Thank you again for joining me today and thank you to all Town personnel and staff for your great work and dedication.



Anna Throne-Holst
Supervisor

September 30, 2014

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