



Town of Ulster Town Board Meeting, November 5, 2020
Preliminary 2021 Budget Hearing
Testimony given by Regis Obijiski, 170 Ledge Road, Town of Ulster,
regis.m.obijiski@gmail.com

As we understand the Town's Preliminary Budget,¹ the total dollar increase proposed for 2021 is \$56,791 or approximately 0.6%. This is a remarkable reduction of about \$225,000 to last month's Tentative Budget. Similar to our comments over the past few years, we think this small gap of \$56K can and should be closed by tapping into a healthy unassigned fund balance of \$1.7 million.² Citizens of the Town of Ulster, whose lives have been turned upside-down with job losses and health effects due to the COVID pandemic, deserve a flat budget and they would be grateful for this affordable gesture.

The 132-page Preliminary Budget Report relates a comparison between the estimated 2020 actual expenses and the financial picture of the 2021 projections. Of course, 2020 is not yet completed, so reasonable extrapolations about expenses are made to the unfinished final quarter of the current year. In addition, projected changes, up or down, to commercial and residential levies are factored in as income considerations. According to the Preliminary Budget, there appears to be an anticipation of a slight reduction in commercial taxable values for 2021. Apparently, Lowe's, Wal-Mart and other commercial enterprises have sought and won reductions in assessments for 2021. The TownOfUlsterCitizens.org supports our Town Board's efforts to influence state legislation that would eliminate the practice of factoring "dark" or vacant commercial properties into comparable taxable values. If we can assist your efforts with scripted phone calls or letters to state legislators and the Governor, please let us know.

As in previous years, the Budget is, not surprisingly, personnel-intensive with a lion's share of expenditures applied to payroll and benefits. Adjusting these commitments downward is never easy, but a search for savings leads one in that direction.

Another useful exercise that rounds-out our understanding of our Town's budget thinking and preparation is examining a few years of Town of Ulster Audited Financial Statements, prepared by the EFPR Group of Williamsville NY. The Financial Audits are instructive to us

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<https://townulster.digitaltowpath.org:10023/content/Generic/View/101:field=documents:/content/Documents/Finance/4888.pdf>

² Id., page 7

in a few ways: 1) they reflect a completed fiscal/calendar year, offering the reader has an exact idea (or nearly so) of how well our Town has performed fiscally; 2) they reflect cumulative assets, liabilities and fund balances; 3) they have made it clear to ordinary citizens that our Town has managed the people's finances very well, placing our Town in a strong financial position year after year; and 4) if there are any accounting anomalies, they are explained in the audit's notes. We wish to highlight some instructive information gleaned from the 2019 Financials³ that is consistent with previous years, shedding light on the financial health of the Town of Ulster. We will demonstrate our rudimentary understanding of our Town's financial position by asking five very ordinary but important questions and answering our questions as succinctly as possible by referring to the most recent independent audit where it parallels previous audits.

- Where does our Town's money come from? There are 11 sources of revenue, and 77% of revenues are taxes.
- Where does our Town's money go? There are 12 areas of expenditure; 91% goes for payroll, benefits and general government support. The largest single expense is our police department.
- Does our Town have any money left over at the end of the year? Yes, consistently.
 - At the end of 2019, there was a collective fund balance of \$1.4 million (\$17 M in revenue minus \$15.6M in expenditures); notably, we saved 8% of our revenue, which is consistent with previous years.
 - Our Town's total fund balance at the end of 2019, accumulated from 2019 and from previous years, was \$13.6 million (\$1.4M from 2019 added to \$12.2M from previous years).⁴
 - We understand that the accumulated fund balance is not a free-for-all pot of money for three reasons:
 - Government fund accounting has rules prohibiting full budget interchange authority; i.e., informal "Peter-to-Paul" arrangements between and among funds;
 - Government Accounting Standards Board (GASB) has strict definitions applied to fund balances, such as "non-spendable, restricted, unrestricted, assigned, unassigned"; and
 - Accordingly, the Town of Ulster has in place a fund balance policy of its own created by our Town Board to ensure the prudent management of these funds.⁵
- Is our Town able to meet its short-term obligations; i.e., pay its regular expenses and bills? Yes, by a long shot. There are two quick ways to make such a determination:
 - The Current Ratio
 - Determined by dividing current assets by current liabilities
 - A ratio of 1.00 indicates a break even between the available liquid assets of the Town and its current obligations. A 2.00 ratio means you are twice as good as breaking even.

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<https://townulster.digitaltowpath.org:10023/content/Generic/View/102:field=documents;/content/Documents/File/4764.pdf>

⁴ Id., page 18 (rounded figures)

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<https://townulster.digitaltowpath.org:10023/content/Generic/View/95:field=documents;/content/Documents/File/4549.pdf>

- Dividing \$14.7M in liquid assets by \$1.5M in current obligations,⁶ our Town's current ratio at the end of 2019 was 10.14 which is ten times better than break even.
 - Working Capital is determined by using the same numbers above but using them differently, subtracting \$1.5M from \$14.7M. Working Capital would be \$13.2M.
- Is our Town able to meet its long-term financial obligations? Yes. Very likely. According to our reading, the two largest long-term obligations are retirement benefits and serial bonds.
 - In 2019, the Net Position of the Town regarding all the money owed (Total Liabilities) was greater than all the cash on hand and cash equivalents (Total Assets) by \$7.1M.⁷
 - Balancing total funds with total long-term obligations, our Town adds the total accumulated fund balance (\$13.6M) to all the capital assets (\$22M).⁸
 - There is a problem with determining the accuracy of our Town's Net Position. The \$22M value of capital assets (infrastructure, property and equipment) turns out to be more of a good guess than a verifiably accurate number, according to our independent auditors. The auditors state in three places that they cannot verify the \$22M because our Town has not implemented GASB 34 which requires an inventory of its capital assets that include depreciation and amortization⁹
 - Depreciation tracks the accumulated, decreasing value of its assets over time that affects the Net Position. For example, if our Town buys a dump truck for \$300K today, it will be worth less in subsequent years according to "useful life" value tables for such equipment.
 - Amortization is the periodic payment of principal and interest (as in a mortgage) that also affects the Net Position. Interest, which is the cost of borrowed money, cannot be applied to value.

Except for one small blemish, the necessary inconvenience of tracking capital assets as prescribed by the Government Accounting Standards Board, our Town appears to be in strong financial condition. Much of this strength is due to our Town's hard work at building a robust fund balance for "rainy days" and long-term liabilities. Our Town also has "sunny days" and a fair amount of cash. Currently, our Town has a healthy unassigned fund balance of \$1.7M, and we ask our Town Board to use \$56 K of that fund balance to eliminate any 2021 tax levy increases to residential properties in the Town of Ulster.

Thank you.

⁶ 2019 audited Financial Statements, page 14

⁷ Id., page 14

⁸ Id., pages 12 & 17

⁹ Id., Pages 2, 30, and 56