

**Nassau County
Office of the Comptroller**



Commissioner-Run Water Districts in Nassau County

2007 Fund Balances

HOWARD S. WEITZMAN

Comptroller

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**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**

HOWARD S. WEITZMAN

Comptroller

Elizabeth Botwin

Chief Deputy Comptroller

Aline Khatchadourian

*Deputy Comptroller for
Audits & Special Projects*

Carole Trottere

*Director of
Communications*

Moira A. LaBarbera

Counsel

Staff

Linda Leung

Senior Project Manager

Douglas Hutter

Field Audit Supervisor

Commissioner Run Water District Fund Balances

Objectives and Scope of Study:

In this time of extreme fiscal pressure on our local taxpayers, it is more important than ever that governments limit their taxes and charges to those that are absolutely necessary to fund needed services. Our residents are facing job losses, declines in housing values and losses in their retirement accounts. State and local governments are slashing their budgets and raising taxes, increasing the burden on our hard pressed taxpayers. To the extent special districts can ease the pressure on taxpayers by spending down unneeded savings instead of raising taxes or user charges, now is the time to act. Special districts have over-taxed and over-charged Nassau County residents for at least a decade,¹ those unneeded bank balances should finally be distributed for our residents' benefit.

This report examines the fund balances retained by the 19 commissioner-run water districts in Nassau County.² We reviewed the 2007 audited financial statements for the 19 commissioner-run water districts. Our objective was to determine if fund balance amounts appeared reasonable and to identify those districts where fund balances appeared excessive because they are large in relation to the districts' annual expenditures or tax levy.

What is fund balance?

Fund balance is the accumulated surplus a district retains at the end of each year because it collected more than it spent. Fund balance can be put aside to be used for a specific purpose ("reserved" or "designated" fund balance) or can be left undesignated and kept for as a cushion against any future need.

Why do water districts accumulate fund balance?

Governments generally want to keep some fund balance since the availability of a financial cushion protects against sharp rises in expenses or drops in income. Fund balances can be appropriated into the following year's budget to lessen the burden on taxpayers of an increase in the district's operating budget. Because fund balances provide a government with financial flexibility, they are looked on favorably by bond rating agencies.

Large fund balances, however, are unnecessary and not in the interest of taxpayers. Taxpayers are entitled to keep their own money and only be taxed, or charged, for the costs of government operations. Certainly if the direct question were asked of taxpayers:

¹ "A Study of Unreserved and Unappropriated Fund Balances of Selected Districts in Nassau County," Office of New York State Comptroller Carl McCall 2002

² The Nassau County Comptroller's office has audited the commissioner-run Hicksville, Franklin Square, and Westbury water districts and the Town of Hempstead run East Meadow water districts. The audits can be found on the Comptroller's web site at:

<http://www.nassaucountyny.gov/agencies/Comptroller/index.html>

In addition to water districts, Nassau County residents receive water from authorities, private companies, villages and cities.

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“Would you rather keep your money for your own needs, or send it to your water district so that they can accumulate a large bank balance?” the answer is easily, and properly, predictable. Taxpayers have better uses for their own money than sending it to sit in a district bank account.

Some commissioner-run water districts will argue that they need to accumulate fund balances to pay for repairs or capital improvements. This practice is neither prudent nor good governmental budgeting. Repairs and routine maintenance should be built into each district’s annual budget and paid for in the year they occur. Repair reserves should be folded into the operating budget to the extent needed for current year repairs or returned to taxpayers if excessive amounts have been collected in advance of need.

Water districts should not over-tax to accumulate money to pay for long term capital improvements. This office disapproves of this practice, which is sometimes undertaken in order to avoid Town oversight over district borrowing.³ Capital improvements that are too costly to pay for out of the annual budget should be funded through capital borrowing, not through inflating taxes until the cost of the improvement has been accumulated. Some water districts argue that they are doing their taxpayers a favor by avoiding interest costs associated with bonding. But these districts are simply shifting the cost to their current taxpayers. By inflating taxes unnecessarily they take money interest free from current taxpayers. The taxpayers lose the use of this money forever; instead of being able to pay down credit card debt or invest the money themselves, the taxpayers must give money to the district for the district to keep in the bank. When current taxpayers are overcharged to accumulate funds for a capital project, the taxpayers who pay for the improvement may be long gone by the time the improvement is in operation and benefiting the district. When major capital expenditures are funded through borrowing, the taxpayers who benefit from the new improvements pay for them.⁴

\$59.9 million in total fund balance

We reviewed the 2007 audited financial statements of the 19 commissioner-run water districts and found the districts had accumulated fund balances totaling \$59.9 million as of the year ended 2007. Of the total of \$59.9 million in funds, \$14.4 million was reserved for repairs and \$21.7 million for capital projects. The fund balances amount to approximately 77% of the districts’ total operating budgets of \$77.8 million in 2007. This is an extraordinarily high level of fund balance, whether considered as a percentage of operating budget or as an absolute number. Assuming a reasonable level of fund balance at 5% of operating expenses (see page 7-8, *infra*) these commissioner-run districts should be keeping no more than \$3.9 million in fund balance in the bank and returning the excess \$56.0 million to their hard pressed taxpayers.

³ Local Finance Law§102.00 (2008)

⁴ As the Manhasset-Lakeville Water District stated in its December 31, 2007 audited financials, borrowing for capital improvements “enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefits of these capital assets.” Page 23, fn 6(A) “Long Term Debt”

Commissioner Run Water District Fund Balances

Fund Balance Compared to Operating Expenses

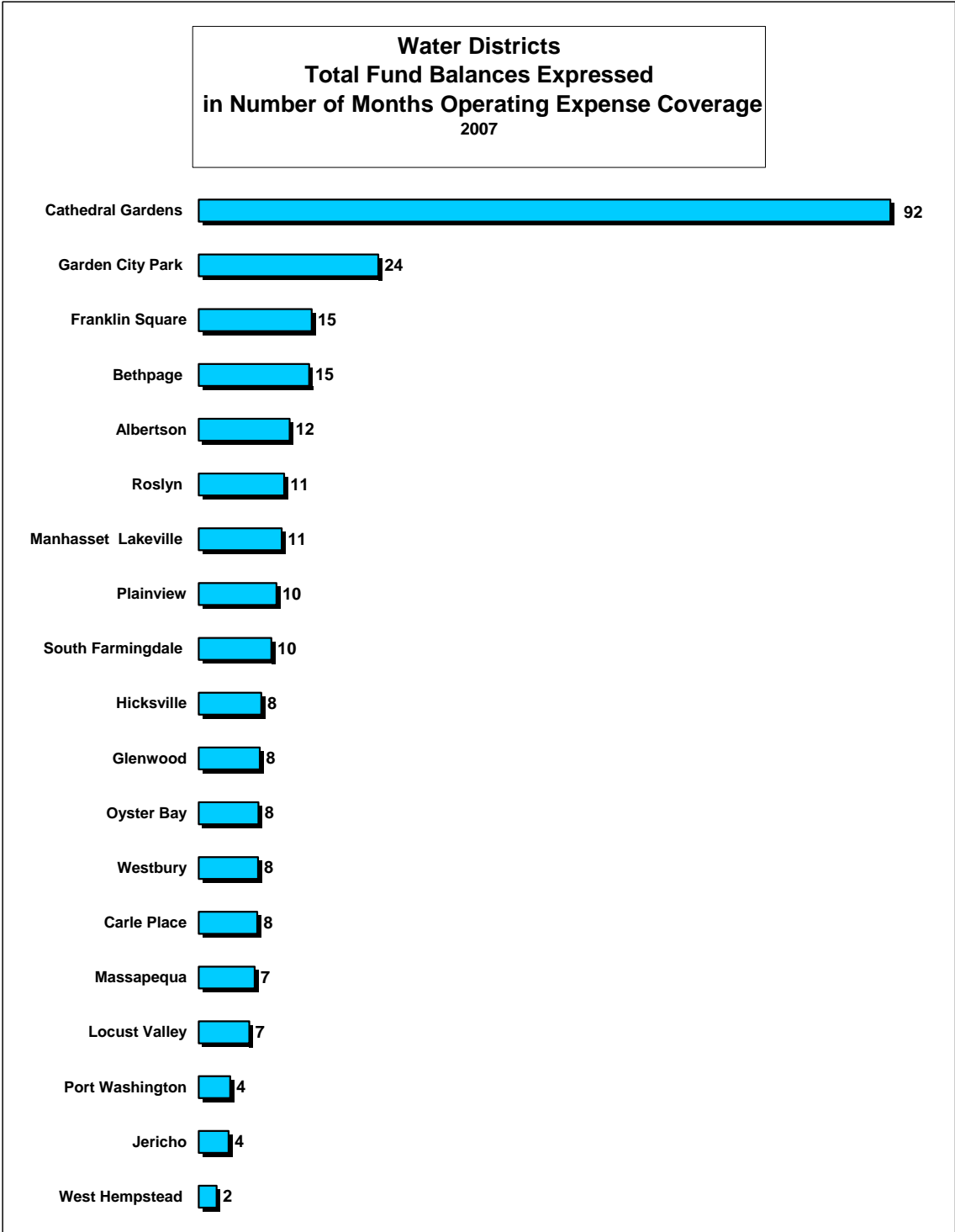
Water district revenue comes from both taxes and user charges. By comparing total fund balances⁵ with district operating expenses, we can see how long the districts could operate simply by spending down their fund balances, without collecting any taxes or imposing any user charges. While some fund balance should be retained, the analysis helps identify those districts that have vastly over-collected from their taxpayers and water users.

Chart 1 shows that if expenses stayed at the 2007 level, the Cathedral Gardens water district could operate for 7 and a half years without collecting any more money. Garden City Park could operate for 2 years, Franklin Square and Bethpage could go 15 months without collecting any taxes or imposing any charges on water users. Another 12 districts hold between six months and a year's worth of operating expenses in the bank. Only three districts had fund balances of less than six months' worth of operating expenses.

⁵ In calculating "total fund balance" we have excluded for presentation purposes short term notes that are included in three districts' capital project funds. See the Appendix to this report.

Commissioner Run Water District Fund Balances

CHART 1



Commissioner Run Water District Fund Balances

Fund Balance Compared to Annual Property Tax

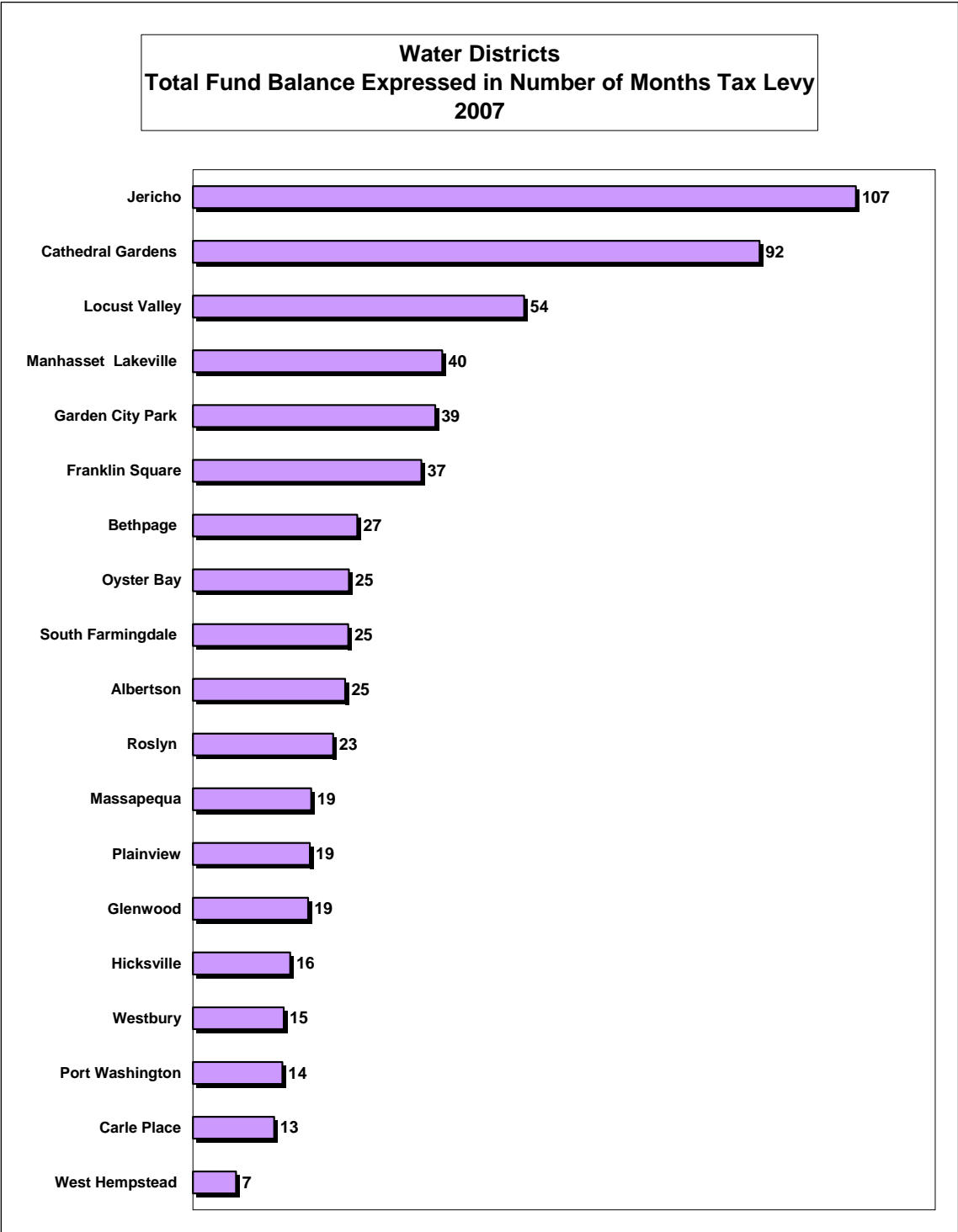
Since water districts collect taxes and water use charges, many commissioner-run districts could reduce their tax rates, while continuing to impose user charges, and use their excess accumulated fund balance to make up the difference in their operating budgets. Only Cathedral Gardens has no user charges and receives 100% of its revenue from property taxes. As shown in the previous section, it could stop collecting taxes for 7 years and 6 months if it drew down its fund balance.

Districts that rely little on property tax revenues could eliminate property tax entirely for years by drawing down their fund balance, assuming expenses stayed at the 2007 level. The Jericho Water District receives less than 5% of its revenue from property taxes; it could operate for 8 years and 9 months by drawing down its fund balance instead of collecting property taxes. Similarly, the Locust Valley Water District receives less than 25% of its revenue from property taxes. It could stop imposing property taxes for 4 years and 5 months by substituting its accumulated fund balance.

If expenses stayed at the 2007 level, districts that receive more than 25% of their revenue from taxes could eliminate many years of property taxes by drawing down their fund balance. Among those districts, three could eliminate any property taxes for over three years and still meet their 2007 operating expenses by drawing down on fund balance: Manhasset-Lakeville has 3 years and 4 months worth of property taxes in the bank, Garden City Park has 3 years and 3 months of property taxes in the bank and Franklin Square has 3 years and 1 month of property taxes in the bank. Bethpage, Oyster Bay, South Farmingdale and Albertson all have over two years' worth of property tax collections in the bank. Eight districts had accumulated between one and two years' worth of property taxes. Only West Hempstead retained less than one year's tax levy in the bank.

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CHART 2



How much should commissioner-run districts squirrel away as fund balance?

Fund balances are normally a small percentage of the government's operating budget. For example, Nassau County's fund balance policy states as the County's goal to keep unreserved fund balance of between 4 – 5 % of the County's prior year operating budget.⁶

New York State law restricts the amount of fund balance that school districts may retain. As of 2008-09, school districts are authorized to keep 4% of the current year's budget as fund balance, in addition to reserves specifically authorized by law.⁷ A recent report by New York State Comptroller DiNapoli found that Nassau and Suffolk County schools had approximately \$240 million in fund balance and reserves, some in excess of the authorized amounts.⁸ The Comptroller suggested that the school districts use the funds to lower school tax increases in the following years' budgets.

The Government Financial Officers' Association (GFOA) recommends that general-purpose governments retain undesignated fund balances, of between 5 – 15% of the government's operating budget or 1 – 2 months' of operating expenses.⁹ Similarly, the National Advisory Council on State and Local Budgeting Practice suggests that governments established a minimum and a maximum amount to be accumulated as fund balance.¹⁰

What is a reasonable fund balance size for commissioner-run water districts?

There is no clear statutory provision outlining how much fund balance commissioner-run water districts may retain. New York State Law provides that governments such as special districts may retain "reasonable" undesignated fund balances. Town Law §107(1) (2008). The law directs that governments look to whether their income and expenditures are predictable in determining whether a fund balance is reasonable and review past years' income and expenditure levels to set a fund balance policy.

The standard established by Town Law §107 would limit fund balances to the amount necessary for cash flow management and to protect against unusual spikes in operating expenses. Water districts have predictable levels of operating expense – primarily utility costs, repairs, debt service and payroll for approximately 10 - 15 employees. Water districts also have predictable income streams – property taxes, received twice yearly,

⁶ Nassau County 2009 – 2012 Multi-Year Plan

⁷ Real Property Tax Law §1318 [1]

⁸ "Reserve-fund tussles" Newsday.com, October 24, 2008

⁹ Report of Committee on Governmental Budgeting and Fiscal Policy

http://www.gfoa.org/index.php?option=com_content&task=view&id=120&Itemid=134

¹⁰ "A framework for Improved State and Local Government Budgeting and Recommended Budgeting Practices" National Advisory Council on State and Local Budgeting Practices Section 4.1.3
http://www.co.larimer.co.us/depts/commis/budget/budget_practices.pdf

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and user charges, collected on a billing schedule set by the district. Therefore, districts should not need to accumulate large fund balances for cash flow or operating purposes.

Because of the stability of the water district's revenue stream and the predictability of their expenses, it would be reasonable to limit fund balance to no more than 5% of the prior year's operating expenses. It is important to compare fund balance to actual expenditures, as opposed to budgeted expenses, because many of the commissioner-run districts routinely overstate their expenses and understate their revenue. Engaging in that practice, districts accumulate surpluses that add to fund balance each year.

Many commissioner-run water districts retain much more fund balance than is reasonable

The 19 commissioner-run water districts have accumulated more undesignated fund balance than is reasonable, whether stated as a percentage of prior years' expenses or as a percentage of the district's operating budget. All 19 commissioner-run districts accumulated more fund balance than would be permitted under state law for school districts. All 19 commissioner-run water districts have accumulated more fund balance as a percentage of operating budget than the 5 – 15% standard set by the GFOA.

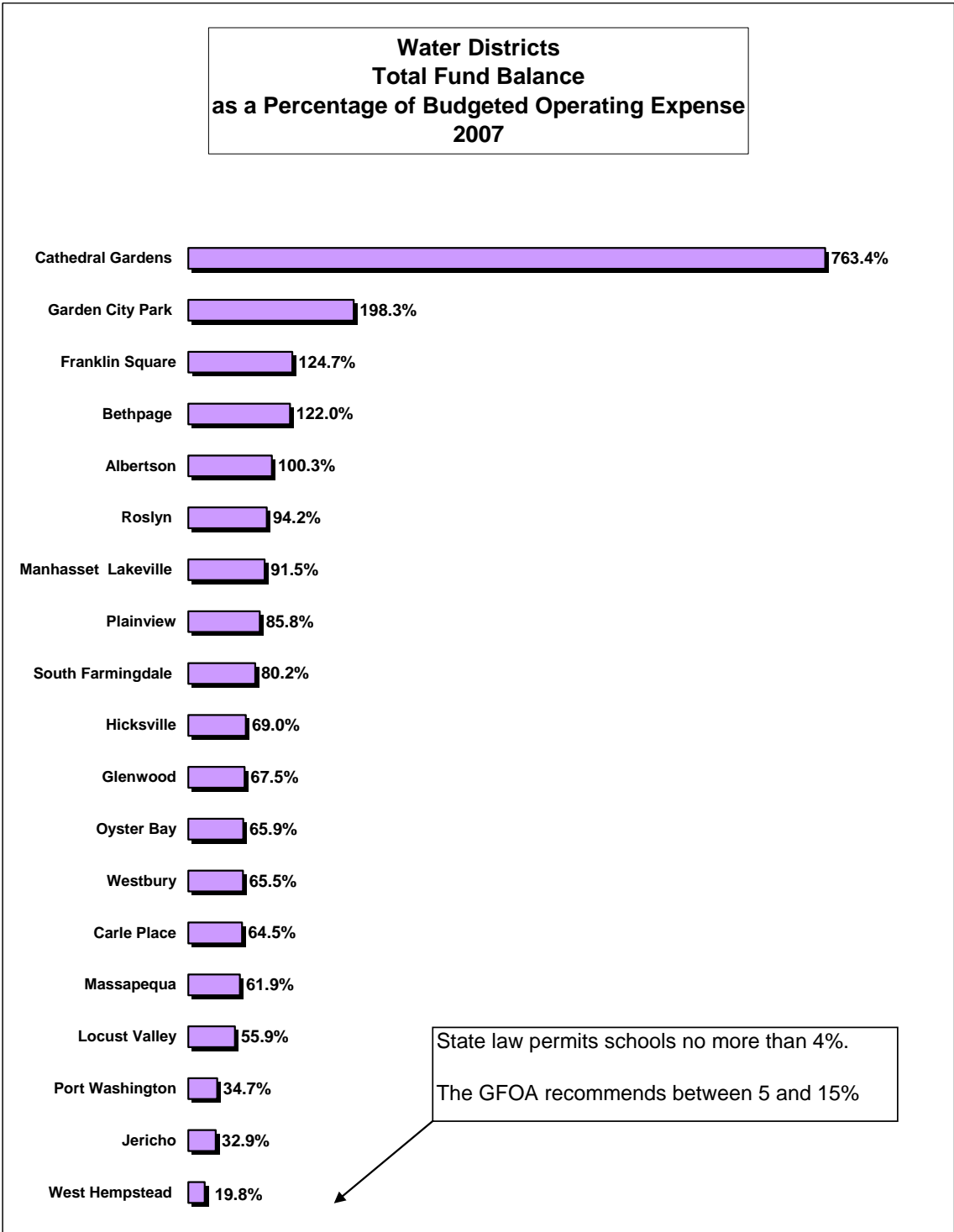
For purposes of this analysis we have looked at the districts' fund balance as a whole¹¹ because we found that to the extent fund balance had been reported as reserved in the financial statements, the set-aside was either for a purpose that should be funded out of the operating budget, such as repairs, or by long term borrowing, such as capital projects.

If only "undesignated" or "unreserved" fund balances were considered, all 19 commissioner-run districts would still have more fund balance in the bank than permitted under state law for school districts.

¹¹ In calculating "total fund balance" we have excluded for presentation purposes short term notes that are included in three districts' capital project funds. See the Appendix to this report.

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CHART 3



Commissioner Run Water District Fund Balances

Assuming each commissioner-run water district retained 5% of their 2007 operating budget as fund balance, some districts could return millions to their taxpayers and water users. Table 4 shows how much money could be returned in each district if this standard were applied.

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CHART 4

Water Districts Fund Balance Summary Excess Fund Balances 2007			
	Total Fund Balance	5% of Budgeted Expenditures	Excess fund balance that could reduce taxes or water charges
Manhasset Lakeville	\$ 8,206,888	\$ 448,310	\$ 7,758,578
Garden City Park	7,221,409	182,085	7,039,324
Hicksville	5,804,064	420,578	5,383,486
Plainview	4,806,160	280,169	4,525,991
Bethpage	4,457,099	182,741	4,274,358
Roslyn	3,642,699	193,411	3,449,288
South Farmingdale	3,386,516	211,255	3,175,261
Albertson	3,090,682	154,072	2,936,610
Massapequa	3,186,269	257,457	2,928,812
Franklin Square	2,884,447	115,680	2,768,767
Westbury	2,905,426	221,843	2,683,583
Jericho	2,679,585	407,828	2,271,757
Oyster Bay	1,566,610	118,830	1,447,780
Locust Valley	1,585,372	141,900	1,443,472
Carle Place	1,449,821	112,395	1,337,426
Port Washington	1,548,012	223,154	1,324,858
West Hempstead	782,917	197,485	585,432
Cathedral Gardens	430,569	2,820	427,749
Glenwood	283,864	21,036	262,829
	<u>\$ 59,918,409</u>	<u>\$ 3,893,049</u>	<u>\$ 56,025,360</u>

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Recommendations:

1. Excessive fund balance is an undue burden to taxpayers. Fund balances should be limited to the amount necessary to ensure adequate operating cash flow and to cushion against unexpected expenditures. Commissioner-run water districts need not accumulate more than 5% of their operating budget or previous year's expenditures as a cushion.
2. Excess fund balance should be returned to property taxpayers and water users in the form of reduced taxes or rates for water use.
3. If districts limited their fund balances to 5% of their operating budgets, out of the \$59.9 million held in the bank by commissioner-run water districts, approximately \$56 million could be returned to taxpayers and water users, the equivalent of almost two year's tax levy for all districts combined.
4. Future capital improvements, such as wells, water tanks and land acquisition and repairs that extend the useful lives of assets should be financed through long term borrowing, which is subject to review by Town government, not by over-taxing current taxpayers. Districts should not take money, interest free, from current taxpayers and water users, to pay for future needs.
5. Unnecessary fund balances are accumulated when districts routinely fail to budget accurately. Budgets should be based on actual spending over prior years and realistic projections for the current year. Districts that consistently over budget expenses or under budget revenues should be required to explain their budget assumptions to their Town Supervisors when the Towns review their budgets pursuant to Town Law §215[10].

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2007

Appendix - Fund Balance Summary

Water Districts Fund Balance Summary 2007											
	Total General Fund Reserved	Total General Fund Unreserved Balance	Total General Fund Balance	Capital Projects / Debt Service	Add Back: Debt Due Currently (Bond Anticipation Notes)	Total Capital Projects Debt Service before BANS	Total Fund Balance	Budgeted Expenditures	Unreserved General Fund as a % of Budgeted Expense	Total General Fund as a % of Budgeted Expense	Total Fund Balance as a % of Budgeted Expense
Albertson	\$ 559,096	\$ 878,079	\$ 1,437,175	\$ 1,653,507		\$ 1,653,507	\$ 3,090,682	\$ 3,081,439	28.5%	46.6%	100.3%
Bethpage	1,789,455	285,554	2,075,009	2,382,090		2,382,090	4,457,099	3,654,818	7.8%	56.8%	122.0%
Carle Place	657,752	416,450	1,074,202	375,619		375,619	1,449,821	2,247,908	18.5%	47.8%	64.5%
Cathedral Gardens	235,717	194,852	430,569	-		-	430,569	56,400	345.5%	763.4%	763.4%
Franklin Square	1,702,960	981,591	2,684,551	199,896		199,896	2,884,447	2,313,605	42.4%	116.0%	124.7%
Garden City Park	6,961,392	260,017	7,221,409	-		-	7,221,409	3,641,709	7.1%	198.3%	198.3%
Glenwood	94,000	189,864	283,864	-		-	283,864	420,710	45.1%	67.5%	67.5%
Hicksville	978,953	1,498,981	2,477,934	3,326,130		3,326,130	5,804,064	8,411,552	17.8%	29.5%	69.0%
Jericho	243,817	1,894,079	2,137,896	541,689		541,689	2,679,585	8,156,554	23.2%	26.2%	32.9%
Locust Valley	105,540	1,479,832	1,585,372	-		-	1,585,372	2,838,000	52.1%	55.9%	55.9%
Manhasset Lakeville	1,393,555	2,345,177	3,738,732	4,468,156		4,468,156	8,206,888	8,966,204	26.2%	41.7%	91.5%
Massapequa	387,681	376,999	764,680	2,421,589		2,421,589	3,186,269	5,149,138	7.3%	14.9%	61.9%
Oyster Bay	43,766	1,014,568	1,058,334	(216,724)	725,000 *	508,276	1,566,610	2,376,597	42.7%	44.5%	65.9%
Plainview	2,433,622	2,160,814	4,594,436	(4,733,276)	4,945,000 *	211,724	4,806,160	5,603,375	38.6%	82.0%	85.8%
Port Washington	580,600	770,495	1,351,095	196,917		196,917	1,548,012	4,463,080	17.3%	30.3%	34.7%
Roslyn	3,118,374	510,929	3,629,303	13,396		13,396	3,642,699	3,868,213	13.2%	93.8%	94.2%
South Farmingdale	286,805	1,624,650	1,911,455	(1,424,939)	2,900,000 *	1,475,061	3,386,516	4,225,102	38.5%	45.2%	80.2%
West Hempstead	-	540,396	540,396	242,521		242,521	782,917	3,949,706	13.7%	13.7%	19.8%
Westbury	2,056,602	370,557	2,427,159	478,267		478,267	2,905,426	4,436,868	8.4%	54.7%	65.5%
	\$ 23,629,687	\$ 17,793,884	\$ 41,423,571	\$ 9,924,838	\$ 8,570,000	\$ 18,494,838	\$ 59,918,409	\$ 77,860,978	22.9%	53.2%	77.0%

* Bond Anticipation Notes (BANS) are temporary financings used to bridge a timing gap between the need for funds and the issuance of permanent, long term financing. Governmental accounting uses a modified accrual basis and contains only current assets and current liabilities. Long term debt is not recognized in the financial statements. The BANS will be replaced by long term debt, and in order to present these three districts on a basis consistent with the other districts, the BANS have been excluded from the fund balances.