



## BUDGET MESSAGE 2013

Over the past two years, the Town has set a forward-looking course to remedy the problems of the past and to lead to a more effective and efficient Town government. That course has been guided by two fundamental principles:

- sound financial policies and procedures, and
- effective organizational restructuring.

Guided by these principles, this Town has been able to:

- eliminate approximately \$7 million of fund balance deficits,
- significantly reduce personnel costs, and
- structurally balance both the 2011 and 2012 budgets with no increase in operational spending or tax.

These outcomes are best described in Moody's Rating Report of July 2012; where the Town's favorable rating was reaffirmed stating, **"The Aa1 reflects the town's strong financial management practices and demonstrated commitment to the replenishment of the town's reserves, which is expected to continue in accordance with management's multi-year plan."**

The Supervisor's 2013 Tentative Budget continues to move forward on that same course and is guided by the same fundamental principles of responsible financial management and effective restructuring – while adding the important third guiding principle of capital program restructuring.

Combined, these guidelines have achieved a zero increase, structurally balanced 2013 Tentative Budget – and again, as

commenced two years ago, the commitment to not only one, but two year planning, so also a preliminary 2014 budget.

This year, just as in the past couple of years, achieving these goals has been, to say the least, a challenge. Each year, we have hoped for some relief through an improved economic climate, marked recovery in revenues, such as the mortgage recording tax and others – and just as importantly, less dramatic and impactful increases in our fixed costs, such as pension and health care. But as we all know, that relief remains elusive, particularly as it relates to the increase in fixed costs. For the third year pension and health care costs have risen in the double digits – and are fixed costs that we cannot control.

That said, we have, I believe, accomplished a great deal in this budget. This budget continues the Town on a steady course toward financial stability – which no doubt begs the question: **How?**

**How can we accomplish all that is contained in this budget without raising taxes, borrowing to excess, or drastically cutting services?** We see so many of our neighboring municipalities, including Suffolk County, forced to take drastic measures to cut their budgets, slashing jobs and sacrificing service along the way, as well as raising taxes.

Here are the basic answers: First, the 2011 and the 2012 budgets **controlled spending**, adhered to sound budgeting practices, reduced staffing, included new health benefit contributions from

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employees, and in many areas, reorganized and restructured for greater efficiency.

Some of those steps we knew then would not result in immediate savings, but we are now beginning to realize the full measure of their impact.

In short, we are **now budgeting from a position of financial strength and stability, rather than from one of weakness and uncertainty.**

Second, we are seeing the benefit of a **beginning stabilization in our economy.** Our mortgage tax revenues are increasing, building permits are up, and the value of our tax rateables has remained constant, while in comparison, the overall value in every other Suffolk County Town has decreased. In fact, Southampton now has the highest total value of any town in the County, including much larger towns such as Brookhaven, with an assessed value base of \$55.5 billion.

Third, staffing represents the single highest cost for the Town. **The concerted effort to reduce staffing** through two consecutive years of retirement incentives and through attrition – coupled with a firm Town Board commitment to freezing the filling of vacated positions – is now bringing about salary cost stabilization – a noteworthy accomplishment that has contributed significantly to the ability to balance this budget, and will continue to positively impact future budgets.

Fourth, the Town’s strong credit rating, re-affirmed at Aa1 after our presentation to Moody’s this Spring, allowed us to refinance existing debt. The restructuring of those loans will result in \$1.8 million **in** interest savings over the life of these loans.

Fifth, **improved organization and modernization** have resulted in increased efficiencies and, in some cases, increased revenue.

For example, in 2011 the Town collected \$1.25 million in beach permit revenues. **Improvements in technology and processes has increased 2012 beach permit revenues to \$1.34 million as of mid-September,** a nearly \$80,000 revenue increase.

The 2013 Tentative Budget includes a number of examples of investment in modernizing procedures, equipment, and facilities for almost every Town department – an investment that will produce significant efficiencies, and, in some cases, improve revenue generation.

**So, all in all, we are a leaner town government than we were three years ago, and we are a more efficient and a more effective one as well.**

Finally, and perhaps most significantly, **our audit and control functions,** our fiscal policies and procedures, and our multiyear budgeting model have greatly improved our financial reserves – contributing significantly to our ability to present to you for the third year, a structurally balanced, zero increase budget. Again, to quote Moody’s, **“The timely replenishment of financial reserves has been driven by a number of management initiatives to**

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**increase internal controls from both an accounting and budget monitoring perspective.”** This is another example of the positive feedback and support for the Town’s strong credit rating.

As important as all of the structural and policy changes mentioned above is the process by which we get to a sound and advantageous budget. And there, productive input and collaboration are equally as vital a component. So, I want to give a truly heartfelt thank you to all the Department Heads, the Division Heads, the Town employees, as well as citizen members of advisory groups – all of whom have contributed to the crafting of this year’s Tentative Budget.

I want to thank our new Comptroller, Len Marchese, and his staff for their professionalism and their expertise, and I want to thank our Town Management Service Administrator, Russell Kratoville, and his staff for all of their combined hard work and dedication.

Most of all, I want to thank my fellow board members for their involvement and candor throughout the process. As Supervisor, I am charged with presenting a Supervisor’s Tentative Budget, a responsibility I take most seriously. But I truly feel I am presenting *our* budget to the community – and again, I am truly thankful for the time and effort spent together during hours of discussion and pro-active thinking. Thank you all.

The weeks ahead will bring additional Town Board as well as community input and discussion. All aimed at refining the budget before adoption in late November. I am confident that the budget

presented to you today, as well as what gets finally adopted in November, is both fiscally sound and will serve the staff and residents well.

So this budget builds on the work of this Town Board **over the past two years and what is now established as a solid financial and operational foundation, and continues to build on that foundation to provide you, the taxpayer, with an efficient, effective, and cost-contained town government.**

The 2013 Tentative Budget is designed to achieve two main objectives:

1. First, to continue to exercise fiscal constraint consistent with the policy, procedures, and controls implemented over the past three years, and where appropriate, to strengthen those policies and procedures in fulfilling our most important role as stewards of taxpayers’ dollars, coupled with continuing to implement and to refine the practices that have helped the Town move all fund balances into the positive and reduce overall operating costs.
2. Second, to continue to review and evaluate operational structures for greater effectiveness and efficiency, and where possible, cost savings. Over the past two years, these efforts have allowed for personnel cost reductions which are now beginning to be more fully realized in this budget. In actuality, those reductions have absorbed the annual increases in salaries, as well as increasing retirement and

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benefit costs, while still providing a \$1.1 million overall personnel cost savings. **This noteworthy savings contributes significantly to the ability to present a structurally balanced budget for 2013** – and importantly allows us not to have to pursue the staff layoffs so many other municipalities are having to contend with.

To achieve those objectives, the 2013 budget focuses on two major components: **Restructuring Capital Programs as well as new steps in Reorganization and Restructuring.**

### **I will start with Restructuring Capital Programs.**

In this budget, the Town is beginning an effort to move away from the past practice of capitalizing recurring costs, such as new vehicles and equipment, as well as some personnel costs, **by creating, for the first time, a “pay as you go” fund in the operating budget.** The past practice of capitalizing these recurring expenses has resulted in a higher than needed capital budget and, of course, increases in the annual debt service. Of equal significance, capitalizing these recurring expenses has hamstrung the Town’s ability to respond to immediate, unanticipated needs in a timely fashion without resorting to fund balance transfers. A “pay as you go fund” is a more prudent and effective way to budget for these needs. In years past, the Town has borrowed to support a capital budget between \$8 and \$10 million annually. This budget presents a Capital Budget of slightly more than \$3 million. This transition will present its challenges – but not only does it begin to exercise necessary control over our capital borrowing, it also prepares the

Town for anticipated increases in debt service costs which will peak in 2014. Of note, though, is a \$1 million commitment to developing a shovel-ready project for the long awaited raising of Dune Road, affirming the Town Board’s commitment to seeing this project to fruition.

**It has been my habit to craft and present a budget model that projects two years out in order to better anticipate these costs, and this budget adheres to that model.** Shifting some capital costs to more appropriate operating costs will take some time. But, it is a better and more fiscally responsible model and we are taking a significant step forward in this 2013 Tentative Budget.

### **Reorganization and Restructuring.**

This budget also presents several significant reorganizations including:

- a. the consolidating of public safety divisions into one department;
- b. the repositioning of the central garage as another major step toward achieving a comprehensive fleet management plan;
- c. providing for a much-needed operational link between our information technologies department and the financial hub of Town operations – the Comptroller’s office and;

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- d. creating a new centralized purchasing department allowing for consolidated purchasing.

These changes will allow the Town to maintain its level of service while improving productivity and modernizing its organizational structure to meet the current and future needs of the Town.

**Going forward, sound fiscal management and operational effectiveness continue to be our main focus and healthy fund balances are at the forefront of that focus.** Deficit fund balances have long been a thorn in the financial side of the Town. We have, as many know, succeeded in erasing previous deficits and in all cases have established positive fund balances. In this budget, we are able to use nearly \$1.6 million in fund balance to help offset operational costs without raising taxes – while having sufficient fund balance remaining **to meet current fund balance policy thresholds.**

**But, I think we can do better. So, I am proposing a policy establishing higher fund balance thresholds and will introduce a resolution for the Board's consideration to that end.**

Rating agencies look for fund balances to be in the black, a threshold we have attained, but they also require a healthy fund balance ratio. **Current fund balance policy requires the Town to maintain a 15% balance in the general fund and 7% in all other funds. I will be proposing that we increase those thresholds to 20% in the general fund and 10% in all other funds.** I believe the Town can meet the expectations of this

proposed policy change while meeting the dual goal of a zero spending increase and a structurally balanced budget.

In short, a healthier fund balance and our reduced capital spending, mentioned earlier, will further solidify the Town's financial well-being.

**In addition, we are proposing improved Town services.**

Quality of life issues, as one important example, are of concern to everyone in our town. I have long felt that the separation of our enforcement agencies – code, fire, and bay constables – into separate departments has lessened our operational effectiveness and underutilized our resources. In this budget, we are proposing to bring all of those agencies together under the umbrella of the Town Attorney's office and to relocate both Code Enforcement and Public Safety (Fire Marshal) to Town Hall. Their relocation will bring about two benefits. One, the operations will be close to the town attorney's office, which is responsible for overseeing their operations, and it will improve the collaboration and coordination among these divisions, as well as with the activities of the building and electrical inspectors in land management. This restructuring will go a long way to organizing and implementing strategic, targeted enforcement actions and maximizing the effectiveness of our personnel in all of these divisions.

Also, the retention of experienced code enforcement officers has plagued that department. Officers gain experience working in Southampton, but then move on to higher paying positions in

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neighboring municipalities. So, this budget proposes a salary grade increase for our code enforcement officers, commensurate with that of the fire prevention officers – and the Town is actively pursuing filling a currently vacant position maintained in the 2013 Budget. Although this salary increase is still not quite on par with other municipalities, it is an important step in the right direction.

These structural changes combined with the renewed focus provided by the Quality of Life Task Force set the stage for a significant enhancement of all code enforcement efforts.

Of course, staffing is our number one asset but is also our number one expenditure. Over the past few years, we have reduced staffing by about 18%. At this point, we are about as lean as we can get without eliminating services, which we would prefer not to do.

Our focus moving forward is to increase productivity. In this budget, staffing remains constant, thus controlling personnel costs, but the proposed redeployment and reorganization of staff will result in improved productivity. These reorganizations are supported in this budget by an investment in the modernization of several Town facilities and equipment, and the increased deployment of technology. We have included in the operating budget funds for building maintenance, replacement of obsolete equipment, replacement of fleet vehicles, and the overall improvement of vehicle maintenance and fuel management – allowing the Town to maintain services to the taxpayer and increase the productivity of our employees – again without increasing taxes.

This budget also increases operational expenditures for our senior and youth services divisions to help improve transportation and program offerings – and importantly, provides for the much-needed 24 hour Advanced Life Support services within those ambulance districts that can no longer find qualified volunteers to fill this vital role.

As an additional example of reorganization and consolidation leading to increase efficiency and productivity, this budget creates a **central purchasing agent position** that will be authorized to oversee all purchases, obtain pricing quotes, and approve expenditures. **At one time, there were 21 separate individuals with purchasing authority within the Town.** Duplication of processes and inventory control alone accounted for significant waste. The new central purchasing agent, reporting to the Comptroller, will standardize purchasing throughout the Town, with the goal of reducing overall costs.

Budgets are complex documents, and budgeting for a Town as large and as diverse as Southampton is equally as complex -- **but the arithmetic is simple**. Revenue and expenditure should offset each other. That is a structurally balanced budget. We have, once again, adhered to that simple arithmetic.

**The budget presented to you today is structurally balanced, does not increase operating costs, and continues to guide the Town on a course toward financial stability and effective operations.** A word of caution and reality, though, needs to be said: This budget is dependent upon the Town's maintaining a

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strict staffing schedule as well as spending levels. We begin union negotiations shortly, the outcome of which will affect this and future years' budgets.

And again, I want to thank all who have helped craft this budget and I look forward to a productive, cooperative negotiating process. I want to thank all the hard-working and dedicated women and men that serve all of us.

Anna Throne-Holst

Southampton Town Supervisor

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