

BUDGET MESSAGE

My 2014 Tentative Budget builds on my previous three years' budgets, where I have consistently presented to the Town Board and the public a Tentative Budget that is structurally balanced, controls costs, provides for new efficiencies, reduces borrowing and related debt service – and continues to maintain a zero increase to the tax levy to support our constituents and taxpayers. This budget achieves these same objectives and continues to build on many departmental and financial management efforts already underway.

The principal objectives of my previous three years' budgets have been to establish a sound financial footing for the Town, and to create sufficient reserves to meet any future challenge. This Budget continues to build on past successes and maximize efficiencies. The fundamental goal of sound and long-term financial strength of the Town remains a constant. The recent bond rating upgrade provides a strong indicator that we have moved in a very positive direction, and we must, of course, keep our focus on sustaining that positive trend. Consequently, we are now in a much better position to address some significant issues of the Town's assets and services – our beaches, our roads, our critically important technology infrastructure, our Town facilities, and our Town services, not the least of which being the needs of our public safety divisions. In this Tentative Budget, we take significant steps to build a process of addressing all of these critical components of Town government.

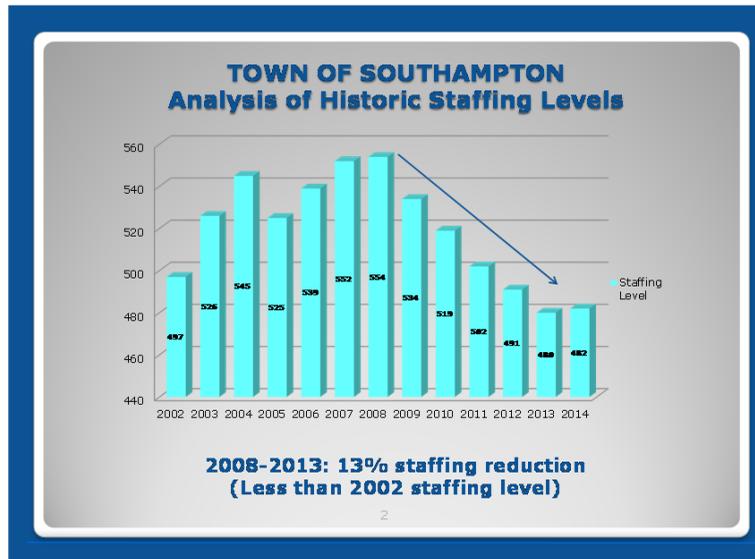
This Budget focuses on three main priorities:

1. Continue controlling costs;
2. Continue strengthening the Town's financial position;

3. Address critical staffing, service delivery and infrastructure needs.

1. CONTROLLING COSTS.

As with all municipal budgets, the greatest expense is associated with our greatest asset – personnel. We have been able to control costs by reducing staff through retirement incentives, both State and local, reorganizing operations to achieve greater efficiencies, and adhering to a hiring freeze where appropriate and suitable to the needs of the affected department. The budget I am presenting today includes 482 full time staff positions, a reduction from the all time high of 554 full time positions in 2008 when I was first seated as a member of the Town Board, and now, is the lowest level of staffing since 2002, a total 13% reduction from its high. Additionally, this budget eliminates previously funded but unfilled positions.



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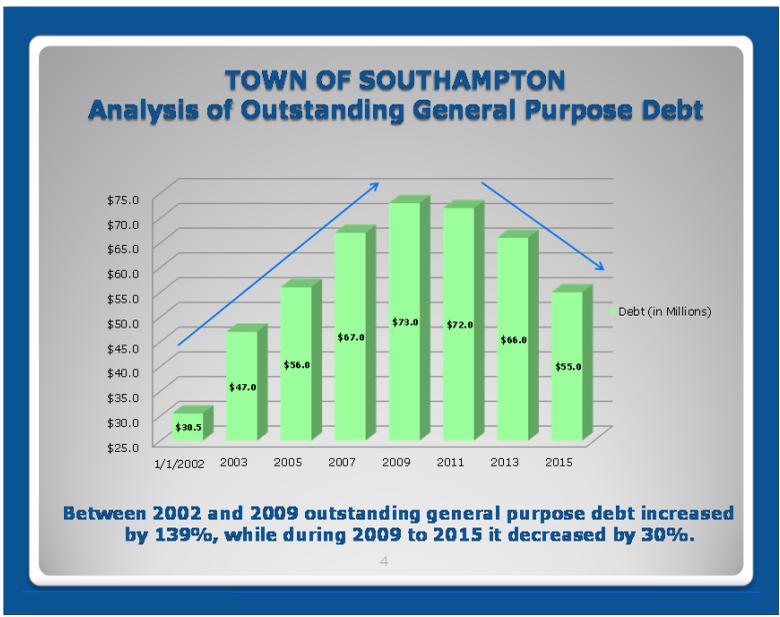
It creates two full time positions in key departments without increasing the overall employee count, and two new positions, one in Community Preservation Fund, and one in the Hampton Bays Water District. This budget provides for a modest across the board 2% salary increase while not increasing the bottom line. I will note that elected officials are not budgeted for a salary increase, consistent with the previous three years' budgets.

Another area where I have controlled costs is in the debt and debt service appropriations. Through aggressive treasury management and an increasingly favorable credit rating that my administration has obtained, the Town has been able to reduce the debt service on loans by over \$600,000. Equally significant is the strict control on new borrowing, a practice my

administration introduced and has resulted in a measurable decrease in debt service over each of the past 3 years, and continues into 2014 and 2015. This decrease in borrowing, favorable interest rates, and aggressive treasury management have resulted in a significant cost reduction for the Town and the taxpayer. It is important to note here, that consistent with my practice of setting a long-term financial strategy as a component of the annual budget, you will find a five-year borrowing projection plan that reduces borrowing an additional 30%, while providing sufficient funding for critical infrastructure.

Again, the practice of aggressive treasury management and strategic use of accrued savings have allowed the Town to pay down a significant portion of some of the most expensive borrowing undertaken in years. This is similar to your ability to pay off more expensive credit card or mortgage debt with the same beneficial outcome. This practice builds on the principal of combining the ability to refund (the financial term for refinancing existing debt at lower rates), while applying improved fund balance as a result of stringent cost controls, and paying down debt in advance. Over the past two years we have managed to refund a total of \$14.8 million for a total savings of \$1.7 million over 12 years, and limited our capital borrowing to \$3 million annually.

Another strategy for limiting borrowing has been the institution of a "Pay as you Go" policy - a policy continued and sustained in this budget. It is a very important financial management tool, moving us away from poorly conceived prior borrowing habits. We have eliminated the practice of using capital borrowing for employee salaries and short-lived capital assets, such as vehicles and computers. The "Pay as you Go" fund has



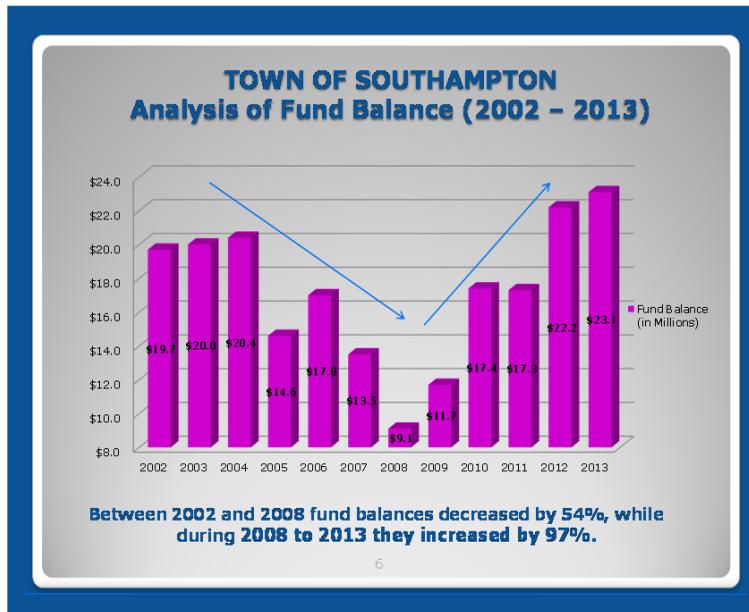
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transferred expenses from capital borrowing and made those expenses components of the operating budget. The fiscal wisdom of this practice is twofold. First, you eliminate the costs associated with borrowing money. Essentially, the Town uses accrued cash on hand and not the more expensive “credit card” purchase, thereby avoiding the costs associated with frequent piecemeal borrowing. Second, a “Pay as you Go” fund can be more responsive to critical needs than the annual capital budget borrowing process allows. As unanticipated needs arise, having a Pay as you Go fund available to address those needs allows for flexibility without the necessity of cutting other projects, depleting fund balance, or taking on additional borrowing. Further, in 2012 we instituted a strict purchasing control for the fourth quarter of the fiscal year. These strict controls resulted in a nearly \$2 million savings. As part of this year’s budget process, I built on that successful practice and put forth a resolution, adopted by the Town Board last week, to institute similar controls for the fourth quarter of 2013. It is anticipated that these strict controls will once again result in significant savings for the Town.

2. FINANCIAL POSITION.

Rating agencies establish data points as criteria against which to measure a municipality’s financial strength. Two of these key data points are fund balance reserves and debt burden relative to size of budget. Fund balance is essentially the Town’s cash reserves, and also an important financial safety net in the event of some unanticipated financial demand, such as a severe storm event. Fund balance is also used as a tax stabilization reserve. Several months ago, I proposed, and the Board approved, an increase to the fund balance policy. The policy requires the Town to maintain a 17% General Fund

Balance in its operating fund, and 7% amongst the special district funds. The 2014 Budget I am presenting today not only



meets but exceeds those self-imposed standards across all funds.

In addition, this budget incorporates a continuing strategy that has already lowered our overall debt from a high of \$73 million in 2009 to \$61 million in 2014. The strategy to accomplish this important goal includes a proposed second refinancing effort in 2014, a restricted borrowing plan, as well as continuing the Pay as you Go fund. This effort will reduce our overall debt to \$51 million by 2016, a full 30% reduction from the high in 2009. The rating agencies have been clear that they see strong indicators in our financial management practices, and are looking for longer periods of continuing positive trends

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resulting from these practices. This budget does just that; it continues to build on these positive trends.

3. CRITICAL STAFFING, SERVICE DELIVERY, AND INFRASTRUCTURE NEEDS.

The 2014 Tentative Budget provides a level of controlled spending and cost efficiencies that allows the Town to address several important staffing needs, and the ability to focus resources on a number of critical infrastructure and operational needs.

Staffing:

- This budget provides for a modest 2% salary increase for all union and non-union administrative employees, with the exception of appointed boards and elected officials.
- The budget also includes staff, title, and job description and salary adjustments for key personnel in several divisions.
- The budget adds one heavy equipment operator to the Municipal Works Department
- This budget includes a new groundskeeper position in Community Preservation Fund department, and a new maintenance mechanic in the Hampton Bays Water District
- In the Highway Department, the budget promotes a part-time maintenance mechanic to full time.
- The budget also includes the addition of one part time code enforcement officer in Public Safety, one part time garage mechanic in

Central Garage, and one part time data entry clerk in the Information Technology division.

These staffing additions are proposed in order to address the increased needs of these departments, and directly supports their core mission. We have also abolished two unfilled vacancies: the deputy assessor and civil engineer positions.

General Expenditures:

This proposed tentative budget continues funding all program areas across all cost centers. This budget:

- Continues the Pay-as-you-Go program
- Includes funding to cover a 5% increase in health insurance costs
- Includes reduced debt service resulting from effective refunding, producing an annual recurring savings of roughly \$150,000.
- Amortizes pension costs with the caveat that any surplus generated in excess of projected amounts will be used to fund additional contributions, as is the current practice. (I will be putting forth a resolution for Town Board approval to assure this strategic allocation of surplus monies is appropriated for that purpose.) This strategy resulted in \$1.8 million of these amortized amounts being paid off in 2013.

Budgeted Revenues:

- Includes modest increases in some fees and adjustments in all revenue lines.

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- Includes \$.5 million of \$1.4 million in anticipated FEMA reimbursements
- Includes a \$1 million increase in projected mortgage tax revenue. This is in line with the conservative projections in the 2012 and 2013 budgets, and projections we have consistently exceeded.
- Includes an appropriation of \$1.7 million of a \$28.5 million fund balance, leaving \$26.8 million in reserved fund balance, an amount well in excess of the reserves necessary for compliance with the newly adopted Town Board Fund Balance Policy.

Capital Improvements:

Now, having established a sound financial footing for the Town, including sufficient reserves, I propose a controlled capital borrowing plan that we can afford, and that will address our critical infrastructure needs. Some highlights are as follows:

- Provides for a \$3.6 million road improvement and highway projects budget.
- Provides for significant investments in new technologies designed to bring new and improved effectiveness and efficiencies to many Town operations. They include:
 - The deployment of the Accela public safety software solution which will allow code enforcement and the fire marshal to share data, have immediate access to multiple levels of information (site maps, permits, building plans, etc.),

and allow for an immediate response to data as it comes in and is entered -- while providing a turnkey operation from notice of violation to adjudication. This level of technology will reduce processing time, while much increased time can be dedicated to field operations. Designed specifically for public safety related information management, the Accela software solution has the potential to provide new efficiencies for all levels of government information management, especially permit and application processes. Those options will be explored and expanded as this deployment proceeds.

- The soon to be undertaken implementation of a complete law enforcement information management operating system will greatly enhance law enforcement operations. We are in the final stages of a selection process that will provide the same level of information sharing and field access to information that will be available to our public safety divisions. Police officers will have faster access to data through improved mobile operations, reduced time entering field data, provide enhanced dispatching operations, and improved records management.

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- Provides for the completion of the installation of time and attendance software. This system will provide a complete accounting of hours worked, sick time, vacation time, compensation time, absences, leaves and overtime. Having this accurate and complete data will assure accurate payroll accounting as well as rapid reconciliation of any discrepancies.
- This budget also provides for park and general facility upgrades, such as the Bridgehampton Senior Center and improvements to Town hall and other related Town facilities. It provides for equipment in Waste Management, heavy-duty equipment in the Police and Parks Departments, and a Bay Constable Patrol Boat.

In conclusion, I am honored to set forth for the Town Board and the public's consideration a structurally balanced, two-year budget, and a series of fiscal strategies that go well beyond the next two years – in spite of weathering the worst economic downturn since the Great Depression, and on the heels of three major federally declared disasters that left our Town hard-hit: IRENE, NEMO, and SANDY. A great deal of effort goes into the development of a Tentative Budget, but I remind everyone that this is the first step in the process. Over the weeks ahead, there will be opportunities for the public and for my colleagues on the Town Board to examine the Budget in great detail before final adoption in November.

I am confident that this is a sound fiscal plan that will keep the Town on the steady course to improved financial stability that it has been on for the past three years. I value input and public discourse. At the end of the day, a budget is evidence of your local government's stewardship of your tax dollars. As Chief Financial Officer for the Town, I have no greater responsibility.

Let me close by thanking all of the department heads, staff members, community members, Town Board members, and the staff in our Comptroller's Office for their advice and input throughout the budget development process. Without their commitment and their expertise, no budget document is possible and no real budgetary goals are achievable. It is and remains my honor and my very great pleasure to serve alongside all of the hardworking women and men who work for the Town as we go about the daily tasks of serving the public. The taxpayers of the Town of Southampton and I are truly blessed to be served by a most dedicated, and often fun, group of people. Thank you all!



Anna Throne-Holst
Supervisor

Dated: September 30, 2013

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