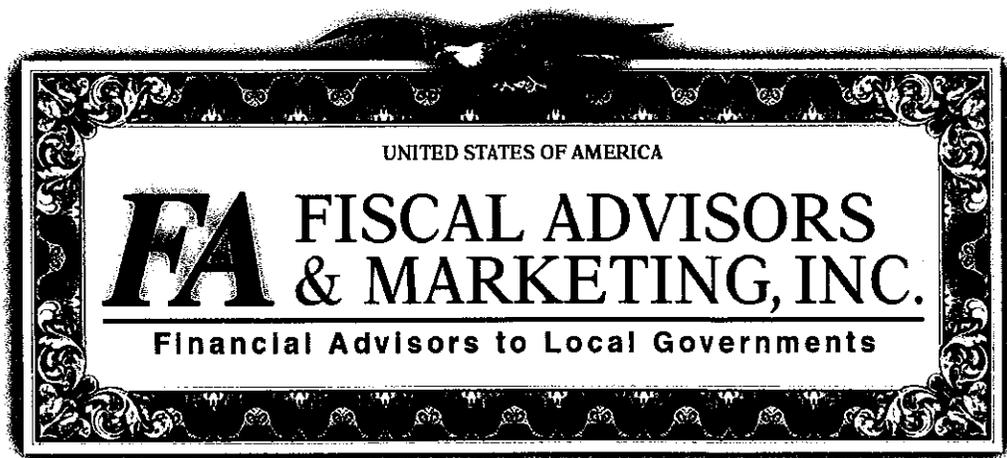


REPORT PREPARED  
FOR THE

TOWN OF  
EAST  
GREENBUSH



Fiscal Advisors & Marketing, Inc. (“FA”) is pleased to submit the following report as independent Financial Advisor to the Town of East Greenbush (the “Town”). This report provides the Town with an Overview of the Current Situation; the Bond Rating Review; A Financial Review, including an overview of five years of financial information and two years of budgets; Financial Recommendations and a Review of the Town’s Debt Position.

We started the financial review process by assessing the Town’s current situation in January, 2010.

The Town of East Greenbush’s Current Situation:

- 1) Four notch downgrade by Moody’s (from “A3” to “Ba1”);
- 2) Rating is now below investment grade;
- 3) Town still has a “negative outlook” from Moody’s. Is still at risk for a future rating downgrade;
- 4) Credit factors cited by Moody’s for downgrade:
  - i. Negative Cash Position

- ii. Expected increased deficits in Fiscal Year 2009
  - iii. Multi-year trend of operating deficits which led to a negative General Fund Balance equal to 24.6% of revenues
- 5) The Town has not increased taxes in six years;
- 6) Expenses have increased dramatically for health care, retirement and Department of Public Works repairs;
- 7) The Town has paid for equipment upgrades out of operating funds.

Bond Rating Review:

In December, 2009, Moody's Investors Service ("Moody's") downgraded the Town's long term rating to "Ba1" from "A3." Moody's said the downgrade reflects the Town's *"deteriorating financial position following a multi-year trend of operating deficits resulting in a fiscal 2008 General Fund balance equal to negative 24.6% of General Fund revenues."*

This downgrade will be costly to the Town when they need to borrow in future years, if the Town's rating remains below investment grade. In addition, Moody's has left the Town's rating with a Negative Outlook due to *"the absence of a plan to stabilize operations, absent an economic rebound, the timing of which remains uncertain. Moody's belief that management will be challenged to stabilize operations and rebuild reserves consistent with other investment grade-rated towns, given ongoing growth in contractual obligations and looming pension increases, and reliance on economically volatile sales tax and mortgage tax revenues, which comprised 19.4% and 8.6% of fiscal 2008 operating revenues."* The Negative Outlook indicates that the rating may further decline. The timeframe for the Outlook review can be between 12 and 24 months. We have attached the Moody's Investors Service Report as Exhibit One.

The most concerning factor for the Moody's analysts was the Town's absence of a plan to stabilize operations. According to Lisa Cole and John Medina, the Town stated that it's only plan was to *"wait*

*for the economy to turn around.*” Moody’s has a very conservative view on when the economy will turn around and is looking for the Town to take some concrete steps to decrease the General Fund deficits and turn the deficits into surpluses. We have provided recommendations to the Town to alleviate the financial strain and restore the Town’s General Fund balance to acceptable levels.

#### Review of Financial Position:

At the beginning of the engagement, we received five years of financial statements and two years of budgets. We created a five year overview of the Balance Sheet and Income Statements. We have attached this information as Exhibit Two. We reviewed all of this information and found that despite the fact that the Town was eroding the fund balance, the Town continued to spend money at a considerable pace. For instance, in 2007 we noticed that there was a 40% increase in the “Culture and Recreation” line item. That was because the Town purchased and installed new playground equipment in the Town Park.

Expenses continued to rise in most categories in 2006, 2007, 2008 and 2009, despite the fact that certain revenue categories were slowing down and some were declining. Revenues from State sources (mostly mortgage recording tax) as well as Inspection and Recycling fees have declined. When comparing the 2008 Budget to the actual results, we found that the Town was over \$808,000 off in the budget projections. Revenues came in \$178, 000 below budget and expenditures came in \$630,000 above budget. The result is that the General Fund deficit doubled to \$1.68 million. Based on preliminary projections for Fiscal Year 2009, the trend has continued and the deficit has grown by another \$730,000. We have outlined below an overview in the deterioration of the General Fund Balance since Fiscal Year 2004.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Beginning Fund Balance</b>	422,123	306,913	112,436	(320,646)	(859,087)	(1,667,958)
<b>Prior Period Adjustments</b>	0	(41,541)	(29,390)	0	0	0
<b>Operating Deficit</b>	(115,210)	(152,936)	(403,692)	(538,441)	(808,871)	Not Available
<b>Ending Fund Balance</b>	306,913	112,436	(320,646)	(859,087)	(1,667,958)	Not Available (1)

*(1) According to Town officials, the 2009 General Fund Deficit has increased by \$730,000 to \$2,400,000.*

Based on the five year overview above, we have made the following observations:

The Town has allowed the General Fund balance to deteriorate from \$422,123 at the beginning of 2004 to (\$2,400,000), or by over \$2,822,123 at the end of 2009. During this time, the Town continued to pass unrealistic budgets and did not consider raising taxes or imposing spending restrictions. Instead, the Town relied on depleting the fund balance in 2004 and 2005, and continued to do so despite creating a significant operating deficit. The Town must reverse the damage that has been done to General Fund operations, and the Town's creditworthiness.

Financial Recommendations:

We offer the following recommendations for the Town Board to consider for improving financial operations:

- 1) The Town should engage the services of an independent accounting firm to prepare the Town's annual financial statements;

2) The Town needs to build a more intelligent budget process.

Ideally, the Town should develop a tentative budget by department and use that as a guide for budget preparations. Budget hearings should be held for each department. The Town must make more realistic projections for both revenues and expenditures when crafting the annual budget;

3) The Town must implement property tax and fee increases;

4) The Town should consider if there are any Town assets that can be sold, with the proceeds being applied directly to the General Fund deficit;

5) The Town should review employee benefit expenditures and implement changes to the health care benefits offered to employees with an emphasis on lowering the Town's costs;

6) The Town should charge the water districts for the Town's administrative expenses relating to billing;

7) The Town should institute a hiring freeze, and reduce Town positions;

- 8) The Town should enact spending controls in all departments;
- 9) The Town should also consider if there are any areas where consolidation of services could be effective. Some Towns are consolidating certain services with their County's operations, for services like police and animal control;
- 10) The Town should have an Energy Audit completed to see if there are possible energy savings to be achieved;

The Town needs to develop and implement a comprehensive plan to address the cumulative deficits. The basic elements of the plan must include, among other things, a concerted effort, on a department-by-department basis, to reduce expenditures and to generate additional revenues. While this plan contains positive elements for the Town, it cannot be determined at this time whether any or all of these components can be implemented in a timely fashion, nor the ultimate effect of these components, individually or in the aggregate, in the financial position of the Town.

### Review of Debt Position:

The Town has a modest amount of long term debt outstanding, but a number of Bond Anticipation Notes outstanding. We have attached the overview of Bond Anticipation Notes as Exhibit Three. The Town should consolidate the outstanding Bond Anticipation Notes and must track the maturity dates and principal paydowns required by law. Once the Town's bond rating is returned to investment grade, the Town should consolidate outstanding BANs into one bond issue.

### Conclusion:

The Town of East Greenbush has some difficult decisions to make. It is imperative that the financial position be addressed immediately and firm policies must be implemented to stop the growing General Fund Deficit. The Town needs to act on these financial recommendations. Once firm measures have been taken, we will need to document these measures and discuss with Moody's Investors Service to remove the Town's bond rating from Negative Watch.

# EXHIBIT ONE



**Moody's Investors Service**

**Rating Update:** MOODY'S INVESTORS SERVICE HAS DOWNGRADED THE TOWN OF EAST GREENBUSH (NY) TO Ba1 FROM A3. CONCURRENTLY, MOODY'S HAS ASSIGNED A NEGATIVE OUTLOOK TO THIS RATING.

Global Credit Research - 15 Dec 2009

## **Ba1 RATING AND NEGATIVE OUTLOOK AFFECT \$2.6 MILLION OF RATED DEBT OUTSTANDING**

Municipality  
NY

### **Opinion**

NEW YORK, Dec 15, 2009 – Moody's Investors Service has downgraded the Town of East Greenbush (NY) to Ba1 from A3 affecting \$2.6 million in outstanding debt secured by the town's general obligation, unlimited tax pledge. Concurrently, Moody's has assigned a negative outlook to this rating reflecting the town's negative cash position, and expectation of increased deficits in the fiscal year ending December 31, 2009. The downgrade reflects the town's deteriorating financial position following a multi-year trend of operating deficits resulting in a fiscal 2008 General Fund balance equal to negative 24.6% of General Fund revenues. The Ba1 rating balances the town's depleted financial position against a moderately sized \$1.6 billion tax base and above average socio-demographic profile; while the town benefits from the relatively stable capital region economy, given its location in Rensselaer County economic growth is expected to remain dampened given the ongoing economic downturn. The rating also reflects the town's average direct debt burden which is expected to remain low given rapid amortization of principal (88.6% repaid within 10 years) and the absence of future borrowing.

Assignment of a negative outlook reflects the absence of a plan to stabilize operations, absent an economic rebound, the timing of which remains uncertain. Moody's belief that management will be challenged to stabilize operations and rebuild reserves to a level consistent with other investment grade-rated towns, given ongoing growth in contractual obligations and looming pension increases, and reliance on economically volatile sales tax and mortgage tax revenues, which comprised 19.4% and 8.6% of fiscal 2008 operating revenues. In addition to the town's long term debt, the town currently has \$3.2 million in BAN's outstanding, which are rolled annually, in addition to budget notes totaling \$500,000, which were issued in November of 2008. The town's ability to repay the budget note and gain market access to refinance the bond anticipation notes could be pressured due to the town's narrow financial position and decreased credit quality. Positively, all of the town's debt is fixed rate and the town is not party to any derivative agreements. Given the magnitude of the cumulative deficit, a return to a positive fund balance position in the near term is unlikely. Further deterioration in reserves or liquidity could result in further negative action on the town's rating.

### **RECURRING OPERATING LOSSES DRIVE SUBSTANTIAL CUMULATIVE DEFICIT AND DEPLETION OF LIQUIDITY**

Management's failure to match recurring revenues with ongoing expenses is evident in the town's six year trend of operating deficits. Despite the town's above average wealth levels and unlimited taxing authority, increases in tax rates have been minimal. Most recently, fiscal 2008 ended with an \$809,000 General Fund operating deficit, resulting in total General Fund Balance of negative \$1.6 million (an inadequate -24.6% of revenues), and a depleted net cash position. Moody's analysis of the town's finances factors two major operating funds (General and Highway). On a combined basis, the accumulated deficit in these funds reached -\$2.85 million (-31.2% of revenues), reflecting the impact of a substantial deficit in the Highway Fund (-\$1.8 million, or 50% of revenues in that fund). To fund operations, management has relied on transfers in from the town's Sewer and Water funds, resulting in significant deterioration of liquidity in these funds, given sizeable receivables from the illiquid General Fund totaling \$3 million. The town's operating trend is expected to continue in fiscal 2009, given a projected operating deficit and illiquid fund balance at year-end.

The town's fiscal 2010 budget decreased by 5% or \$419,000, with the majority of decreases resulting from general support and employee benefits, due to reduction in staff and restructuring. Moody's believes that while positive steps, these actions will be insufficient to stabilize operations and rebuild reserves. Positively, the town's major source of revenue is derived from property taxes (58.8% of total revenues) which are guaranteed in full annually by the County.

### **WHAT COULD MAKE THE RATING GO UP (REMOVAL OF NEGATIVE OUTLOOK)**

- \* Implementation of a plan to stabilize operations
- \* Demonstrated progress toward restoring satisfactory financial flexibility

**WHAT COULD MAKE THE RATING GO DOWN**

\* Further deterioration of the town's reserves and negative cash position

**KEY STATISTICS:**

2000 Population: 16,891 (+8.6% since 2000)

2009 Full Valuation: \$1.6 billion

2008 Full Value Per Capita: \$96,212

1999 Per Capita Income (as % of NY and US): \$25,503 (109% and 118.1%)

1999 Median Family Income (as % of NY and US): \$62,917 (121.7% and 125.7%)

Direct Debt Burden: 3.3%

Payout of Principal (10 years): 88.6%

2008 General Fund Balance: Negative \$1.66 million (-24.6% of General Fund revenue)

Total long-term Debt Outstanding: \$6.4 million

Total rated G.O Debt outstanding: \$2.6 million

**RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN**

The principal methodology used in rating the issuer was "General Obligation Bonds Issued by U.S. Local Governments," published in October 2009, and available on [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer also can be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on March 28, 2002 when Moody's assigned the A3 rating on the town's general obligation debt.

**Analysts**

Danielle DeCamillis  
Analyst  
Public Finance Group  
Moody's Investors Service

Lisa Cole  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653



**Moody's Investors Service**

**CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT**

# EXHIBIT TWO

**GENERAL FUND**

**Balance Sheets**

Fiscal Years Ending	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b><u>ASSETS</u></b>			
Cash and Short-term Investments	\$ (34,559)	\$ 5,943	\$ 221
Receivables:			
Taxes - net	-	-	-
Accounts	167,111	366,974	143,860
State and Federal	-	-	-
Due from Other Funds	-	-	-
Due From Other Governments	-	-	-
Inventories	-	-	-
Other Assets	-	-	-
	<u>\$ 132,552</u>	<u>\$ 372,917</u>	<u>\$ 144,081</u>
<b>TOTAL ASSETS</b>	<b>\$ 132,552</b>	<b>\$ 372,917</b>	<b>\$ 144,081</b>
 <b><u>LIABILITIES AND FUND EQUITY</u></b>			
Accounts Payable	\$ 241,277	\$ 266,275	\$ 285,611
Accrued Liabilities	-	-	-
Notes and Loans payable	-	-	348,000
Long Term Debt Payable	-	-	-
Due to Other Funds	211,921	965,729	1,178,428
Due to Other Governments	-	-	-
Deferred Revenue	-	-	-
Other Liabilities	-	-	-
	<u>453,198</u>	<u>1,232,004</u>	<u>1,812,039</u>
<b>TOTAL LIABILITIES</b>	<b>453,198</b>	<b>1,232,004</b>	<b>1,812,039</b>
 <b><u>FUND EQUITY</u></b>			
Reserved	\$ -	\$ -	\$ -
Unreserved:			
Appropriated	-	-	-
Unappropriated	(320,646)	(859,087)	(1,667,958)
	<u>(320,646)</u>	<u>(859,087)</u>	<u>(1,667,958)</u>
<b>TOTAL FUND EQUITY</b>	<b>(320,646)</b>	<b>(859,087)</b>	<b>(1,667,958)</b>
 <b>TOTAL LIABILITIES and FUND EQUITY</b>	<b>\$ 132,552</b>	<b>\$ 372,917</b>	<b>\$ 144,081</b>

source: Annual financial reports of the Town.

## GENERAL FUND

## Revenues, Expenditures and Changes in Fund Balance

Fiscal Years Ending	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>REVENUES</b>				
Real Property Taxes	\$ 2,551,772	\$ 2,604,913	\$ 2,688,052	\$ 2,923,528
Real Property Tax Items	112,434	117,641	141,711	166,603
Non-Property Tax Items	1,274,005	1,411,474	1,550,634	1,607,170
Departmental Income	444,763	587,210	492,668	580,269
Intergovernmental Charges	-	-	-	-
Use of Money & Property	33,760	68,706	61,932	57,776
Licenses and Permits	9,875	12,009	16,234	18,189
Fines and Forfeitures	264,871	223,897	263,970	319,385
Sale of Property and Compensation for Loss	39,560	36,869	27,937	61,237
Miscellaneous	112,576	83,665	6,277	32,563
Interfund Revenues	-	-	-	-
Revenues from State Sources	892,971	778,626	783,654	870,003
Revenues from Federal Sources	-	-	-	110,117
<b>Total Revenues</b>	<b>\$ 5,736,587</b>	<b>\$ 5,925,010</b>	<b>\$ 6,033,069</b>	<b>\$ 6,746,840</b>
<b>EXPENDITURES</b>				
General Government Support	\$ 1,905,855	\$ 1,541,087	\$ 1,728,135	\$ 1,865,676
Education	-	-	-	-
Public Safety	1,856,705	1,972,899	2,056,708	2,251,686
Health	5,930	6,108	6,291	6,511
Transportation	153,964	173,783	199,621	186,188
Economic Assistance and Opportunity	8,000	6,837	7,135	8,210
Culture and Recreation	385,587	425,939	434,677	603,604
Home and Community Services	541,397	461,527	504,163	746,169
Employee Benefits	918,704	1,409,549	1,417,284	1,479,226
Debt Service	75,655	80,217	82,747	138,011
<b>Total Expenditures</b>	<b>\$ 5,851,797</b>	<b>\$ 6,077,946</b>	<b>\$ 6,436,761</b>	<b>\$ 7,285,281</b>
Excess of Revenues Over (Under) Expenditures	<u>(115,210)</u>	<u>(152,936)</u>	<u>(403,692)</u>	<u>(538,441)</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
<b>Total Other Financing</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(115,210)</u>	<u>(152,936)</u>	<u>(403,692)</u>	<u>(538,441)</u>
<b>FUND BALANCE</b>				
Fund Balance - Beginning of Year	422,123	306,913	112,436	(320,646)
Prior Period Adjustments (net)	-	(41,541)	(29,390)	-
<b>Fund Balance - End of Year</b>	<b>\$ 306,913</b>	<b>\$ 112,436</b>	<b>\$ (320,646)</b>	<b>\$ (859,087)</b>

Source: Annual financial reports of the Town.

**Changes In Fund Equity**

Fiscal Years Ending	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b><u>HIGHWAY-TOWN-WIDE FUND</u></b>					
Fund Equity - Beginning of Year	\$ (495,158)	\$ (502,085)	\$ (623,152)	\$ (740,742)	\$ (902,643)
Prior Period Adjustments (net)	-	-	-	-	-
Revenues & Other Sources	1,937,902	2,467,226	2,105,379	2,242,867	2,360,146
Expenditures & Other Uses	1,944,829	2,588,293	2,222,969	2,404,768	2,642,219
Fund Equity - End of Year	\$ (502,085)	\$ (623,152)	\$ (740,742)	\$ (902,643)	\$ (1,184,716)
<b><u>WATER FUND</u></b>					
Fund Equity - Beginning of Year	\$ 337,429	\$ 252,987	\$ 95,177	\$ 99,007	\$ 594,707
Prior Period Adjustments (net)	-	-	(200)	-	(567,140)
Revenues & Other Sources	1,802,193	1,860,387	1,957,132	2,129,962	2,614,581
Expenditures & Other Uses	1,886,635	2,018,197	1,953,102	1,634,262	2,288,643
Fund Equity - End of Year	\$ 252,987	# \$ 95,177	# \$ 99,007	\$ 594,707	\$ 353,505
<b><u>WER FUND</u></b>					
Fund Equity - Beginning of Year	\$ 1,517,909	\$ 1,610,780	\$ 1,254,689	\$ 1,160,912	\$ 1,247,840
Prior Period Adjustments (net)	-	-	-	603	-
Revenues & Other Sources	1,974,150	2,095,988	2,133,624	2,235,578	2,530,538
Expenditures & Other Uses	1,881,279	2,452,079	2,227,401	2,149,253	2,311,851
Fund Equity - End of Year	\$ 1,610,780	\$ 1,254,689	\$ 1,160,912	\$ 1,247,840	\$ 1,466,527

Source: Annual financial reports of the Town.

# EXHIBIT THREE

