

# Shared Municipal Services Study

## Fiscal Impact Analysis Of Consolidation

For The



Town and Village of Liberty, New York



Submitted By

**THE HUDSON GROUP, LLC**  
*Consultants*

In Association With

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September 1, 2008

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September 1, 2008

Mr. John Schmidt  
Supervisor  
Town of Liberty  
120 North Main Street  
Liberty, New York 12724

Dear Supervisor Schmidt:

I am pleased to submit this final report required by Task # 2 of our contract with the Town to conduct a study of the opportunities to share services, or to consolidate Liberty's Town and Village governments, that could ultimately lead to reducing the cost and property tax burden of supporting local government that is borne by the citizens of the two municipalities. We had previously submitted a draft of this report to the Joint Study Committee convened to work with us on this study. After taking their comments and suggestions into account, we are tendering this report as the final deliverable product called for by our contract.

This part of our contract calls for a presentation and analysis of information about the Town's and Village's fiscal history and current condition. It addresses such subjects as the methods and sources of funds employed to finance various municipal services, property tax policies, debt condition and financing, and State aid.

Much of the report's analytical treatment of the information provided is focused on the implications for dissolution of the Village and the assumption of all governmental services by the Town of Liberty. However, it also presents a unique insight into the recent history of the Town and Village government's management of their financial responsibilities. This should be of interest to Town and Village policy-makers as they decide how to proceed with future actions based upon our report.

David Gaskell of our firm prepared this report. His extensive professional background and experience in New York State municipal public finance and property tax policy bring a special quality to this work.

I have arranged for this report to be delivered also to Village Mayor William Smith and to Lynn Killian for the information of the Joint Study Committee.

Thank you and your staff for your continuing cooperation with our firm in conducting this study.

Sincerely,



Dennis Rapp  
Principal

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# **LIBERTY FISCAL IMPACT ANALYSIS OF CONSOLIDATION OF THE VILLAGE AND TOWN OF LIBERTY**

## Introduction

Among the requirements of Task 2 of the Scope of Work in the Liberty Shared Services/Consolidation Project is a study of a fiscal impact analysis. The fiscal impact analysis that follows is premised on the town and village consolidating. Most of the findings would not be pertinent under a shared services arrangement.

## Summary of Findings and Conclusions

- The property tax is the dominant and by far the most important local revenue source for the town and village of Liberty.
- Town expenditures have been growing at a much more rapid rate than village expenditures, with transportation expenditures having the most rapid growth. Within the village, police service costs have been increasing the most.
- Property tax levies in recent years in the village, town, and special districts have witnessed significant increases. The largest increase has been in town taxes (excluding special districts), which have exceeded those of the village beginning in 2002 and are now 20% higher.
- Property values in the village and town declined in the 1990's, but with the decline much more significant in the village. In the 2000's values in the village and town show quite similar patterns in real estate trends. Significant appreciation in values began in 2003, with double-digit growth in 2005 and 2006. It was not until 2006 that full value reached and exceeded those of 1993.
- Effective tax rates in both the village and town are extremely high. When property taxes for special districts, refuse and garbage, and police services are removed from the analysis, the effective village property tax rate is 11.1% higher than that of the town-outside-village area.

The town of Liberty's effective tax rate is 2.7 times higher than that of all towns collectively. The village of Liberty's effective tax rate is 4.3 times higher than that of all villages collectively.

In 2007, a typical village resident living in a \$ 150,000 home would have paid \$8,220 in property taxes and assessments. A typical town-outside-village home of \$ 150,000 would have paid approximately \$ 7,200 in property taxes and special district user charges.

- The village has come close to reaching its constitutional tax limit and may again do so in upcoming years if housing prices remain stagnant or decline.
- The village has a significant delinquent property tax problem. With town/village consolidation, the problem of delinquent property taxes would be remedied, since the County guarantees all town taxes. Village property tax collections have averaged to be only 77.0% during the interest free period for the last two fiscal years. At the end of the village fiscal year outstanding delinquencies for the past five years have averaged \$ 206,386, or 8.2% of the levy. Currently, outstanding delinquencies total \$ 328,933, and go back as far as 1990. Town/village consolidation should produce savings in excess of \$ 100,000 each year.
- Both the town and village have significant amounts of outstanding debt. Neither the town debt nor village debt has a bearing on consolidation. Town debt will be handled the same as now, and outstanding village debt will remain the responsibility of existing village residents should consolidation occur.
- The creation of town special districts provides a logical organizational arrangement for village lighting, water, sewer, and refuse and garbage services; and possibly police services.
- There is a wide variation among the town water and sewer districts in their choice of property taxes or user charges as the primary funding method. For the water districts collectively, user charges are significant, but not for sewer districts. For the water districts, property taxes are 55% of the total user charges. For the sewer districts, property taxes are 7.3 times greater than user charges. To relieve the pressure on the property tax (which totals nearly a million dollars) greater reliance could be placed on user charges.
- Should there be a consolidation of the town and village there would be no reduction in state aid. Under the aid and incentives for municipalities program, the town/village of Liberty would qualify for up to **\$ 1 million** in additional state aid. If used solely to reduce property taxes, a 15% reduction could be achieved in combined town/village property taxes (excluding special districts).
- The failure of the town to update assessments since 1995 results in village residents paying more than their fair share of school district, county, and townwide property taxes. A preliminary analysis indicates village residents may be paying \$ 300,000-400,000 more than their fair share of property taxes. A fair distribution of property taxes would bring the property tax payments of village residents and town-outside-village residents into much closer alignment than now exists.

## Revenue Sources to Fund Town and Village

The revenue sources used to fund town and village of Liberty services have maintained a fairly, consistent relationship over the last 10 years, but there are frequently aberrations in any given year which then return to a more traditional pattern. Both the town and village are highly dependent on the property tax to fund their services. A snapshot of revenue sources for the fiscal year ending in 2007 is as follows:

	<u>Town</u>	<u>Village</u>
Property taxes	65.4%	38.5%
Assessments	-	9.1
Interest & penalties on taxes	1.9	1.4
Non-property taxes	0.4	1.2
State aid	8.5	13.8
Federal aid	4.1	7.2
Other governments	-	0.2
Interest earnings	3.1	0.9
Sewer charges	1.4	11.1
Water charges	8.1	11.9
Home & community	0.2	-
Unclassified	6.9	4.7

The property tax share of total revenues is unusually low for the village in 2007. This results primarily from two phenomena. The first is the transfer of refuse and garbage collection to an assessment approach, resulting in a 9.1% reduction in the revenues from property taxes. Second, the village has received very significant additional state aid (\$ 647,305 in 2006 and \$ 801,399 in 2007) for a water capital project. For most of the past 10 years, property taxes have been around 50% of village revenues. The town's property taxes have consistently funded 65 to 71% of the town's revenue needs. A subsequent section will analyze the property tax in more detail.

Until 2006 and 2007, state aid had not been a major contributor to village revenues with between 2.5% and 4.3% of revenues coming from state aid. Most of the state aid received came from three primary sources; revenue sharing, the mortgage tax, and highway aid (CHIPS program). On the other hand, state aid has been more significant for the town with state aid ranging from 7.1% of revenues to 9.8%. Most of the state aid to the town has come from the CHIPS program, the mortgage tax, and revenue sharing.

Federal aid has varied widely year to year for both the town and the village. The village's federal aid is up substantially in 2007 as a result of community development grants and emergency disaster relief. The town historically has received relatively little federal aid. The past three years have seen an increase in federal aid received by the town. In 2007, the federal aid is largely highway safety aid and disaster relief aid. One can probably expect significant variations in federal aid in future years.

Water and sewer activities are major functions in both the town and village. The town water and sewer functions are carried out through special districts, which are discussed in detail later in this report. The town relies more on the property tax than user charges to fund water and sewer services. Property taxes are 35.7% of the total of combined property taxes and user charges in the water districts and 88.0% of the sum of property taxes and user charges in the sewer districts. The village on the other hand does not use any of its property tax levy to fund water and sewer services. All funding comes from user charges, interest and penalties, and miscellaneous income. User charge revenues have had steady growth in recent years in both the town and village with occasional years without growth.

Non-property taxes are small for both the town and village. The non-property taxes come primarily from franchise fees and utility gross receipts taxes. Non-property taxes have been incrementally growing over time in both the town and village. The village levies a utility gross receipts tax, which produced \$ 41,977 in 2007. Only villages and cities are empowered to levy utility gross receipts taxes. If a consolidation were to occur between the town and village, this revenue could be lost.

Unclassified revenues cover a number of areas. Included within unclassified revenues are park and recreation charges, safety inspection fees, charges for demolition of unsafe buildings, vital statistics fees, zoning fees, clerk fees, fines and forfeitures, licenses and permits, insurance recoveries, sales of property and other materials, etc. Unclassified revenues have generally been increasing over time, with some variation on a year-to-year basis, with reduced collections in 2007 over 2006 in both the town and village. If consolidation were to occur there is no reason to expect this revenue would be affected.

### Expenditure History of the Town and Village

Other studies, as part of this shared services/consolidation project, are examining in detail each of the functions of the town and village and their current costs. The focus in this section is to look at expenditures of the town and village over a 10 year period and identify important trends and significant events.

The basic functions of the town and village have not changed significantly over the years. The emphasis and expenditure growth may have varied, but the underlying functions have remained substantially unchanged over the years. The most dramatic changes in expenditures have occurred within the past two years. The village has spent substantial sums on capital water projects (\$ 1,956,046 in 2006 and \$ 678,058 in 2007) and the town on a new highway facility.

Expenditures can be examined both by purpose and by broad functional areas. The purpose breakdown is current operations, equipment and capital outlay, and debt service. As would be expected, equipment and capital outlay can vary widely on a year-to-year basis. However, in both the town and village the expenditures for equipment and capital outlay have risen dramatically in recent years. In the 1998 to 2003 period town expenditures for equipment and capital outlay ranged between \$ 300,000 and \$ 600,000.

Beginning in 2004, equipment and capital outlay expenditures began to rise rapidly and were \$ 1,338,145 in 2004, \$ 1,494,066 in 2005, and \$ 2,797,978 in 2006.

Village equipment and capital outlays varied from \$177,123 to \$ 880,118 between 1998 and 2004, but began to rise rapidly in 2005. Equipment and capital outlays were \$ 346,044 in 2004, \$ 1,461,919 in 2005, \$ 2,343,557 in 2006, and \$ 1,148,963 in 2007. In 2006, over 30% of expenditures in both the town and village were for equipment and capital outlays. One would expect that the infrastructure and equipment of the town and village should be in much better shape than a few years ago.

Both the town and village have approximately the same amount of outstanding debt service. However, the annual town debt service payments are approximately twice as large as those of the village. This results primarily from the town issuing shorter term bonds and the village issuing longer term bonds stretching out the debt service payments. Debt service is discussed in more detail later in a section on outstanding indebtedness. In both the town and village, debt service is a significant expenditure. For the town in 2006 it was 8.9% of expenditures and for the village in 2007 it was 6.4%. Because of recent debt issues, debt service will remain a significant expenditure in future budgets.

The significant year to year variation between current operations, equipment and capital outlay, and debt service is shown in the following table:

Percent of Expenditures by Purpose

	<u>2007</u>	<u>2006</u>	<u>2005</u>
		<u>Town</u>	
Current operations	n/a	60.6	71.5
Equipment & capital outlay	n/a	30.5	21.2
Debt service	n/a	8.9	7.3
		<u>Village</u>	
Current operations	76.7	64.7	70.6
Equipment & capital outlay	16.9	30.7	21.9
Debt service	6.4	4.6	7.5

The expenditures for current operations represent a smaller portion of total expenditures in recent years than has normally been true. Over the time period examined, town expenditures for current operations have averaged 76.7% and in the village 76.8%.

Total expenditures at the town level have grown much faster than at the village level. Using 1998 as a base year, the growth in expenditures since that time are as follows:

Town	1998-2006	109.6%
Village	1998-2007	41.7%

Thus, town expenditures have grown 2.7 times faster than village expenditures.

The Office of the State Comptroller reports expenditure information summarized into the following categories: general government, police, other public safety, health, transportation, economic assistance, culture-recreation, utilities, and other community services. Each of these functional areas have been examined for the town and village from 1998.

For the town there are five main functional areas, plus debt service: general government, other public safety, transportation, culture-recreation, and utilities. While the expenditures for general government have increased, they have increased at a much slower rate than other functions. Between 1998 and 2006, general government costs rose 45.2%. As a percent of total expenditures general government costs have declined from 20.8% to 14.4%. Other public safety (traffic control, public safety administration, on-street parking, animal control, building inspection, etc.) expenditures grew, but also at a slower rate than overall expenditures with a 62.3% growth. Debt service costs rose by 75.8% and utility costs by 92.5%.

The most rapid growth in town expenditures occurred in culture-recreation and transportation. Culture and recreation expenditures increased from \$ 302,341 to \$ 672,485, a 122.4% growth. As a percent of total expenditures, culture-recreation costs have risen from 6.9% to 7.3%.

The really, rapid growth in expenditures, however, occurred in transportation expenditures. In 1998 transportation costs were \$ 1,531,954 and in 2006 \$ 4,375,382, a growth of 185.6%. The transportation share of expenditures has increased from 35.0% to 47.7%. The addition of the highway building accounted for some of the higher expenditure in 2006. However, even if one discounts 2006 and examines the period from 1998 to 2005, a significant shift towards transportation is still evident. Expenditures from 1998 to 2005 for transportation grew by 115.6%. In 2005, transportation expenditures were 46.9% of all expenditures in contrast to the 35.0% in 1998.

In a sense, the expenditures figures for transportation are understated for 2006. Within debt service are expenditures of \$ 288,583 for transportation debt service, of which \$ 192,415 relates to the new highway facility. In 2007, the transportation expenditures for debt service will be \$ 285,178.

For the village the primary functional areas, plus debt service are: general government, police, other public safety, transportation, utilities, and other community services. The expenditure data for the village are distorted by the creation of refuse and garbage as a separately funded and budgeted item in 2007 and by the very large capital expenditure for water in recent years. Within this context, significant observations can still be made.

General government costs, while a smaller percentage of expenditures than the town, have risen at a faster rate than overall expenditures. From 1998 to 2007, general government expenditures increased by 65.6%. Their share of total expenditures went from 8.5% to 10.0%. Other public safety costs have grown by 80.9%, and their share of total expenditures has increased from 3.6% to 4.5%.

Debt service costs have actually declined by 26.3%. In 2007, debt service is 6.4% of expenditures while in 1998 debt service was 12.3% of total expenditures.

Transportation costs are difficult to analyze for 2007 since a large portion of the refuse and garbage collection costs were removed from this function. However, one can compare the period 1998 to 2006. Transportation costs have been by far the slowest growing function within the village, with only a 25.3% increase between 1998 and 2006. In 1998, transportation costs were 21.6% of total expenditures and in 2006 17.0%.

Utility costs are also hard to analyze as a result of the big capital expenditures for water. Utility expenditures increased only modestly from 1998 to 2004. In 1998, utility expenditures were 31.4% of the total, but by 2004 were only 21.9%. However, the utilities share of village expenditures has risen dramatically in the last three years.

Other community services generally covers such items as drainage and storm sewer, housing and community development, natural resources, and activities intended to improve the general government. In the village, expenditures had ranged from \$ 20,744 to \$ 454, 853. Expenditures increased dramatically in 2006 and 2007. In 2007, the refuse and garbage expenditures of \$ 574,019 became part of “other community services”. In 2006 and 2007, significant expenditures (with federal grants) were made on community development from rehabilitation loans and grants (\$ 339,802 in 2006 and \$ 437,176 in 2007).

The police function has been a fast growing component of village government. In 1998, police expenditures were 19.9% of total expenditures and in 2007 they were 22.2%. Police expenditures did not grow rapidly between 1998 and 2003 (18.8%), but have grown dramatically since. From 2003 to 2007, expenditures for police services increased by 33.4% for the four year period. If the time frame is stretched out to the 2008 village budget, police expenditures will have grown by 63.1% from 2003 to 2008.

## Property Tax Analysis

### a. Property tax levies

A primary reason that consolidation or the sharing of services should be studied and considered is the high level of property taxation in the town/village of Liberty. To understand the dynamics of the property tax, analyzes have been conducted from a number of different perspectives. Some of the findings may be surprising.

An historical look of property tax levies has been done of the county, village, town, special districts, and school districts from 1993 through 2007. In the context of this study, most of the focus will be on the village, town, and special district property taxes. A brief look at the county, school district, and total tax levy will be insightful. The first set of property tax data presents the property tax levies for the village, town, and special districts for the period from 1993 to 2007, along with the percentage change for each

year. The year for the village is the end of the fiscal year, thus 2007 would cover the 2006-2007 fiscal year. All of the data used in the table below was collected from information from the Office of the State Comptroller.

### PROPERTY TAX LEVIES WITHIN THE TOWN AND VILLAGE OF LIBERTY

	<u>Village</u>		<u>Town</u>		<u>Special District</u>	
	<u>Levy</u>	<u>% Change</u>	<u>Levy</u>	<u>% Change</u>	<u>Levy</u>	<u>% Change</u>
2007	2,561,256	-3.74	3,796,435	5.43	1,822,405	7.52
2006	2,660,650	6.46	3,601,006	5.99	1,694,956	4.80
2005	2,499,086	9.85	3,397,432	6.70	1,617,375	3.90
2004	2,275,016	0.16	3,183,989	11.58	1,556,646	2.70
2003	2,271,431	-4.56	2,853,533	15.19	1,515,660	2.36
2002	2,379,935	-1.47	2,477,241	11.92	1,480,734	3.95
2001	2,415,468	2.65	2,213,454	3.39	1,424,447	2.31
2000	2,353,159	-0.51	2,140,890	-1.42	1,392,278	2.91
1999	2,365,250	2.30	2,171,688	-0.07	1,352,896	3.57
1998	2,312,127	-2.80	2,173,194	-1.12	1,306,280	-0.63
1997	2,378,822	-0.21	2,197,800	2.25	1,314,589	20.90
1996	2,383,767	0.00	2,149,525	-0.06	1,087,327	-1.43
1995	2,383,767	3.30	2,150,777	-0.67	1,103,106	7.61
1994	2,307,608	4.03	2,165,292	1.04	1,025,053	10.46
1993	2,218,175		2,143,057		927,975	

From this data, a number of observations can be made. Village property tax levies were essentially flat from 1995 to 2000. The next three years, 2001-2003, then saw an annual decline in village property taxes. A significant bump in village property taxes occurred in 2005 and 2006, followed by a decline in 2007. This decline is largely attributable to the removal of refuse and garbage services from funding from the property tax. Assessments for refuse and garbage in 2006-07 totaled \$ 614,581. If added to the real property tax levy this would have resulted in a 19.36% increase in 2006-2007, not a 3.74% decrease.

The town property taxes have a quite different pattern. Like the village, there was a period of essentially flat property tax levies. For the town this period extended from 1993 to 2000. Beginning in 2002 and continuing for the next two years the town had dramatic double digit increases in their property tax levy. The most recent three years have seen lower, but still significant increases in property taxes.

The special districts show a pattern different from either that of the town or village. In only two years, 1996 and 1998, were there reductions in special district property taxes. The period from 1999 to 2006 witnessed annual increases in the 2.3% to 4.8% range. The 2007 levy broke this pattern and climbed to a 7.5% increase.

The property tax data has been analyzed for specific time frames. County, school district, and total property taxes have been included in this analysis. The first review was the 14 year period from 1993 to 2007. For this analysis to be meaningful, the 2007 assessments for village refuse and garbage must be added to the 2007 property tax levy. The

combined amount is \$ 3,175,837. The percentage increases in property taxes and assessments for the different governmental sectors was as follows:

	<u>County</u>	<u>Village</u>	<u>Town</u>	<u>Special Districts</u>	<u>School Districts</u>	<u>Total</u>
1993-2007	-2.14	43.17	77.15	96.39	98.13	62.63

Some of the trends in these percentages are not surprising and some are. School districts, not surprisingly, have the largest percent growth in property taxes, with school property taxes nearly doubling. Conversely, the amount of the county property tax levy paid by Liberty citizens is actually less in 2007 than in 1993. Special districts saw property tax percentage property tax growth nearly equal to that of school districts. The town/village percentage changes are surprising. While town property taxes grew by 77.2 %, village property taxes grew by 43.2%. Village property taxes were greater than those of the town until 2002, when the town's levy exceeded that of the village. The town's levy has continued to exceed that of the village and by 2007 is now 19.5 % higher than that of the village.

A 14 year time frame is a long period. A 10 year time frame is also used. The percentage changes in the property tax in the 10 year period are different from those in the longer time frame.

	<u>County</u>	<u>Village</u>	<u>Town</u>	<u>Special Districts</u>	<u>School Districts</u>	<u>Total</u>
1997-2007	8.78	33.50	72.74	38.63	81.49	53.79

In the context of a 10 year period, school district growth in property taxes again dominates. Town property tax growth at 72.7 % is nearly twice that of the special districts and 3.2 times that of the village. With the exception of the County, the village growth rate in property taxes has been lower than of any of the other governmental units during the past ten years. The analysis has been taken a step further and this 10 year period split into two 5 year intervals. The results again are most interesting.

	<u>County</u>	<u>Village</u>	<u>Town</u>	<u>Special Districts</u>	<u>School Districts</u>	<u>Total</u>
1997-2002	-6.24	0.05	12.72	12.64	23.76	12.81
2002-2007	16.02	33.44	53.25	23.07	46.65	36.33

In every instance, the growth in the most recent 5 years was substantially greater than that in the 1997-2002 period. Property taxes are on the rise. In the most recent 5 year period, the school districts did not lead the way, but the town did. The change in property taxes levied between 1997-2002 and 2002-2007 was greater in the town than in any other governmental unit.

It is difficult to make predictions and extrapolate from this data what the next 5 years will be like. Clearly, the trend in property tax increases seems strong unless there are efforts made to intercede and curb the property tax growth. For the past 6 years, the town has

annually had significant increases in property taxes. One can only conjecture whether this is now a pattern or whether the pattern will be broken. The village pattern in recent years is much more uneven, with years of significant increases and other years with decreases. The special districts seem to be on an upward spiral. The future of special district property tax levies will depend in part on the mix between user charges and property taxes to finance the maintenance and operations and debt service of special districts.

b. Value of taxable property

The effective tax rate is a measure frequently looked at to determine the level of property taxation (an effective tax rate is based on full value rather than assessed value). Two variables make up an effective property tax rate: the actual property tax levy and the full value of taxable property. The prior discussion has focused on property tax levies. The full value of taxable property has not been static in Liberty but changing dramatically over the years. The table below presents data for the past 12 years.

Full Value of Taxable Property

Year	Village	% Change	Townwide	% Change	TOV	% Change
2007	186,398,472	15.25	631,162,483	17.85	444,764,011	18.97
2006	161,732,202	13.18	535,583,661	12.50	373,851,459	12.21
2005	142,902,848	4.57	476,080,010	4.64	333,177,162	4.67
2004	136,652,496	8.96	454,971,370	8.13	318,318,874	7.78
2003	125,414,332	0.16	420,759,900	0.60	295,345,568	0.79
2002	125,216,716	0.19	418,249,836	1.51	293,033,120	2.08
2001	124,982,011	1.54	412,034,947	0.21	287,052,936	-0.35
2000	123,084,135	-2.74	411,151,183	-1.57	288,067,048	-1.06
1999	126,550,750	-2.30	417,690,342	-1.94	291,139,592	-1.78
1998	129,524,538	-1.07	425,937,882	-0.83	296,413,344	-0.73
1997	130,926,165	-1.58	429,510,000	-0.18	298,583,835	0.44
1996	133,032,000	-3.23	430,306,000	-7.48	297,274,000	-9.26
1995	137,476,000	-8.39	465,104,000	-0.63	327,628,000	3.04
1994	150,061,000	-9.63	468,033,000	-7.88	317,972,000	-7.02
1993	166,053,000	0.75	508,047,000		341,994,000	
1992	164,813,000					
1993-2007		12.25		24.23		30.05
1997-2007		142.37		146.95		148.96
2002-2007		48.86		50.91		51.78
1997-2002		-4.36		-2.62		-1.86
1992-1997		-21.15		-15.46		-12.69

There is a one-year lag in the data presented. Thus for the year 2007, the full value and the percent change reflect what occurred in the year 2006. The taxable full value number changes reflect a combination of market appreciation/depreciation,

improvements/demolitions, and exemption changes. The major factor will be appreciation/depreciation changes. The 1990's saw a loss of taxable full value both townwide and in the village as property values declined. The turnaround in real estate appreciation townwide and in the village started in 2000. Property values remained relatively flat in the early 2000's and began significant upward moves townwide and in the village in 2003. The townwide and village taxable full value of 1993 did not recover to the same level until 2006.

Several issues stand out from the data. First, is remarkable consistency in the direction of the changes between the townwide and village data since 1997. The percent changes townwide and the village for 1997-2002, 2002-07, and 1997-07 follow a similar pattern, but with the townwide numbers somewhat more favorable than the village appreciation numbers. Second, since 2005 there have been two years of significant double digit growth in taxable full value. With the current housing crisis and economic slowdown, this growth in taxable full value may be diminishing or over.

c. Effective tax rates

Effective tax rates will reflect what is occurring within property tax levies and taxable full values. With declining taxable full values and increasing property tax levies one can expect ever higher effective tax rates. On the other hand, when growth in taxable full value outstrips the growth in property tax levies, effective tax rates should decline. The table below shows the effective property tax rates for the town/village of Liberty.

**Effective Tax Rates in the Town and Village**

(Based on per thousand of full value)

<u>Year</u>	<u>Village</u>	<u>Town Excludes Special District</u>	<u>Town Special District</u>	<u>Total Town</u>
2007	50.05	36.56	3.28	39.84
2006	57.35	41.24	3.62	44.86
2005	60.01	44.19	3.77	47.96
2004	58.44	43.14	3.94	47.08
2003	58.02	42.67	4.15	46.82
2002	55.36	38.85	4.16	43.01
2001	52.85	35.40	4.00	39.40
2000	50.53	33.83	3.94	37.77
1999	48.37	32.16	3.77	35.93
1998	47.48	31.87	3.67	35.54
1997	48.28	32.46	3.61	36.07
1996	48.59	33.27	3.03	36.30
1995	42.74	28.73	2.86	31.59
1994	40.34	28.31	2.55	30.86
1993	38.39	26.66	2.18	28.84

The village and town data excluding special districts has been derived from information of the Office of State Comptroller. The tax rate data require explanation. The town tax rate, excluding special district rates, covers the general and highway levies both townwide and town-outside village. The special district effective tax rates have been

calculated based on the annual property tax levies for special districts within the town-outside-village area. The special district effective tax rates are a composite of the tax levies of five lighting districts, seven water districts, and four sewer districts. There are a large number of tax rate permutations in Liberty. The village of Liberty effective tax rate for 2007 is lower reflecting the removal of refuse and garbage from funding from the property tax. Adding refuse and garbage back in would increase the effective property tax rate to 54.80.

The effective tax rate data includes the property tax levies for Sullivan County and for the Liberty School District. There are actually four school districts within the town of Liberty – Liberty, Sullivan West, Livingston Manor, and Tri-Valley. However, 93.8% of the taxable full value of the town of Liberty is in the Liberty School District and 96.5% of the school property taxes paid by Liberty residents are paid to the Liberty School District. The village of Liberty is wholly within the Liberty School District.

One must be careful not to overuse these effective tax rates because of the number of different taxing jurisdictions involved, and because of the different services provided. However, several observations can be made. First, effective property tax rates are high in Liberty. The village of Liberty experience ever increasing effective tax rates, with a high of \$ 60 per thousand of full value in 2005. Only the rapid appreciation in property has kept the effective tax rate from going higher. The total town (town outside village residents) has witnessed similar escalating trends in effective tax rates, but at a somewhat lower effective tax rate.

Second, a rather remarkable relationship exists between the effective tax rates of village residents and those outside the village. For the period 1993 to 2001, the effective tax rate for residents outside the village was approximately 25 % less than for those residents within the village. The year 2002 was a transition year, and from 2004 forward the effective tax rate for the town-outside-village residents has been about 20 % less than that of village residents.

Third, this data, along with that on property tax levies, demonstrates that the town and village of Liberty face a very, serious crisis in the property tax. Only a recent rapid rise in property values has softened the effective tax rate picture, which in the short run may not make the payment of high property taxes any easier.

A more meaningful comparison of effective tax rates can be made between the town and village if police services (funded by the real property tax), all water and sewer services, and refuse and garbage collection are removed from the full value tax rates calculated. When this change is made, the town's full value rate for 2007 is \$ 36.56 per thousand and that of the village is \$ 40.71 (the police services contribute \$ 9.34 per thousand to a village resident's property taxes).

#### d. Comparison with other local governments

Several different approaches can be used to compare the town and village of Liberty with other local governments. The Office of State Comptroller publishes information each year on tax rates. The latest publication is for fiscal years ending in 2007. For the village purposes only, the effective property rate is \$ 50.05 per thousand of taxable full value. If the assessments for refuse and garbage are added to the property tax levy the effective taxable full value rate becomes \$ 54.80. Of the state's 556 villages, only six (1.1%) have a higher effective taxable property rate above \$ 54.80.

Aggregate data for all towns and all villages from the Office of the State Comptroller have been examined. In 2006, the effective property tax rate statewide for property taxes and assessments for town purposes only (excluding special districts) was \$ 3.15 per thousand. The comparable rate for the town of Liberty was \$ 8.53 per thousand.

In 2006, the effective property tax rate statewide for village purposes was \$ 4.86 per thousand. The comparable rate for the village of Liberty was \$ 18.50 per thousand. In 2007, the effective property tax rate for village purposes for all villages was \$ 4.59 per thousand. For the village of Liberty, the comparable rate was \$ 19.84, which includes the assessments for refuse and garbage collection.

A still further comparison of Liberty property tax rates with those of Sullivan County and New York State (excluding New York City) has been prepared. Effective property tax rates have been for the State as a whole (excluding New York City), Sullivan County, and Liberty for 2006.

### Comparative Property Tax Levies

For fiscal years ending in 2006

	<u>Liberty</u>	Sullivan <u>County</u>	New York State <u>exc. NYC</u>
County	3,301,610	40,409,781	4,548,280,877
City/Village	2,660,650	7,902,718	1,850,139,709
Town	3,601,006	30,347,366	1,910,658,997
Special Districts	1,694,956	12,463,997	1,718,355,865
School	14,580,558	122,005,762	16,362,509,580
	25,838,780	213,129,624	26,389,945,028
Full Value	535,583,661	6,569,928,302	1,045,294,610,283
Effective Tax Rate	48.24	32.44	25.25

On a statewide basis (excluding New York City) the effective property tax rate for all property taxes is \$ 25.25 per thousand of full value, within Sullivan County \$ 32.44 per thousand, and within the town of Liberty \$ 48.24. Thus, the effective property tax rate for all purposes is nearly twice that of the State as a whole.

While there is no such thing as a typical homeowner, an attempt is made to define one for Liberty. Single family residential sales were examined for the January 1, 2007 to February 29, 2008 period. During this period, 79 sales occurred with 30 in the village and 49 in the town-outside-village area. The median sales price in the village was \$ 149,000 and in the town-outside-village area \$ 150,000. This means that our typical village of Liberty single family homeowner living in a \$ 150,000 house would have paid \$ 8,220 in property taxes and assessments (of which \$ 1,400 was for police services) in 2006-07. Our typical town-outside-village resident living in a \$ 150,000 house would have paid \$ 6,200 in 2007 in property taxes and special district user charges.

An effective property tax rate for all local government purposes higher than three percent has to be considered high. However one comes at an analysis of property taxes in Liberty the conclusion is the same. Property taxes are high in the town and village of Liberty.

### Constitutional Tax Limits

The town is not subject to the constitutional tax limits, however the village is subject to constitutional tax limits. While the village has not reached its limit it has been in the danger zone. The village in managing its affairs must be conscious of this limit and take steps not to put itself at risk. The percentage of the constitutional limit used has varied over the years. A 15 year composite has been developed of the tax limit history of the village.

#### Village Constitutional Tax Limits

<u>Year</u>	<u>Tax Limit for Government Operations</u>	<u>Tax Levy Subject to Limit</u>	<u>% of Limit</u>	<u>Tax Levy for Municipal Purposes</u>
2008	3,012,401	2,336,753	77.57	2,586,915
2007	2,767,674	2,322,556	83.92	2,561,256
2006	2,620,673	2,382,634	90.92	2,660,650
2005	2,541,399	2,173,461	85.52	2,499,086
2004	2,496,273	1,937,289	77.61	2,275,016
2003	2,512,714	1,922,474	76.51	2,271,431
2002	2,535,552	2,022,789	79.78	2,379,935
2001	2,567,750	1,835,241	71.47	2,415,468
2000	2,656,623	2,122,670	79.90	2,353,159
1999	2,750,664	2,135,424	77.63	2,365,250
1998	2,896,778	2,136,902	73.77	2,312,127
1997	3,024,000	2,141,000	70.80	2,379,000
1996	2,997,000	2,136,000	71.27	2,384,000
1995	2,742,000	2,054,000	74.91	2,384,000
1994	2,436,000	2,014,000	82.68	2,308,000
1993	2,062,000	1,900,000	92.14	2,218,000

For the 15 year period, the village came closest to its constitutional tax limit in 1993 with 92.14% used. The percent of the limit used then declined rapidly and hit a low point of 70.80% in 1997. For the next few years, the percentage varied year to year. Beginning

in 2003, the percentage of the tax limit used began to climb steadily and reached 90.92 in 2006. For the past two years, the percentage of the tax limit used has decline and now stands at 77.57%.

The decline for 2007 and 2008 is wholly attributable to the significant rise in property values, which first appeared in data used for 2004. This appreciation in real estate has continued into the 2007 data. Should real estate values now stabilize or decline, in another year or two one could expect the percent of the tax limit used to begin rising again. Depending on the local and national economy and the housing market, the village could again reach the danger zone in its constitutional tax limit in four or five years.

### Village Delinquent Tax Problem

With the exception of Westchester County, all counties in the State of New York guarantee town and school district taxes. At the end of the warrant period, towns and school districts turn over their uncollected taxes to the county, who then makes the towns and school districts whole and takes all responsibility for collecting the then outstanding property taxes. The towns and school districts each year know that they will receive the full amount of their property tax levies.

Counties have the option of guaranteeing village property taxes. At least 45 of the 56 counties (Westchester excluded) guarantee village property taxes. Sullivan County is one of the few counties that do not guarantee village taxes. In all likelihood many property owners who do not pay their village property taxes, also do not pay their county/town or school district property taxes. This results in a duplicative and redundant effort in attempting to collect unpaid property taxes. Counties all have a formalized, and usually aggressive, approach to the collection of unpaid property taxes. Counties may be successful directly through relevies, solicitations, or ultimately foreclosures in recouping part or all of unpaid property taxes. Unpaid village property taxes are not part of the county delinquent tax collection process.

Delinquent property taxes have long been a problem in Sullivan County, which has had among the highest property tax delinquency rates in the State. The town of Liberty does not have to confront the unpaid property tax problem, but the village of Liberty must. The data for the village suggests that a serious problem in collecting village property tax has existed for some time and remains. The unpaid taxes outstanding at the end of the most recent, five fiscal years is as follows:

## Outstanding Village Taxes at Year End

<u>Year</u>	<u>Outstanding at Year End</u>	<u>Percent Delinquent</u>
2007-08	193,213	7.47%
2006-07	185,324	7.24
2005-06	235,001	8.83
2004-05	216,710	8.67
2003-04	201,683	8.87

The data for 2007-08 covers the first 11 months of the fiscal year which does not end until May 31<sup>st</sup>. The delinquency rate has improved slightly in the last two fiscal years, but is still very significant. Were the county guaranteeing village taxes, these sums would be received by the village. With a town/village consolidation the whole issue of delinquent taxes would go away.

The first month after the property tax levy is an interest free period. At the end of the month interest begins to accumulate on unpaid village taxes. A significant portion of the village property taxes remain unpaid after the interest free period and begin to accrue interest. For the past two fiscal years, the levy and collection during the interest free periods were as follows:

### Collections at the End of the Tax Free Period

	<u>2006-07</u>	<u>2007-08</u>
Property tax levy	2,561,259	2,586,916
Collected during interest free period	1,994,200	1,971,349
Percent collected	77.8%	76.2%

The village thus starts off each fiscal year with a significant amount of uncollected property taxes, some portion of which comes in during the last 11 months of the fiscal year, but with still a significant outstanding balance at fiscal year end.

The total delinquent village property taxes outstanding at the beginning of 2000 were \$676,960. Currently the sum of existing delinquencies is \$ 328,933. Thus some improvement has occurred in the outstanding delinquencies in the last eight years. The oldest outstanding delinquent taxes go back to 1990.

In order to collect delinquent property taxes the village has retained the MTA Group, an outside firm, which begins and follows through on all foreclosure actions. According to the village treasurer this effort has been quite successful, with the last round resulting in payments from all but one property. The MTA Group does receive a portion of the penalties and as of May 1 for 2007-08 they have received \$ 79,286.61.

When the County forecloses on property, they request a statement of taxes due from the Village. Once the County has received foreclosure money, the County provides the

Village a portion after they have covered their costs and taken a fee. This does not make the village whole or guarantee that it will receive any payment at all.

The levy and billing of the village property tax does result in some costs. The village treasurer estimates these costs to be approximately \$ 3,500 annually. The more serious problem is the collection of unpaid property taxes and the delinquencies that may go on for years. A town/village consolidation would reduce or eliminate the costs associated with the preparation of a village assessment roll, the preparing and mailing of village tax bills, and the collection of tax payments. More importantly, the very important delinquent property tax problem would be resolved with the county now guaranteeing town/village property taxes. It is difficult to quantify the exact savings that would occur since delinquent property taxes for a specific year may be collected over several years. It seems reasonably safe to assume that the savings in the delinquent property tax process from a town/village consolidation would be in excess of \$ 100,000 a year.

### Outstanding Indebtedness and Consolidation

Both the town and village have substantial amounts of debt outstanding. In considering a consolidation of the town and village, attention will need to be given to this outstanding debt, particularly that of the village. Before discussing the future aspects of the outstanding debt, it is useful to look back at the debt history of both the town and village. The tables below present a ten year history of bonds issued, bonds paid off during the year, total debt outstanding, principal and interest payments, and debt service as a percent of total expenditures since 1998 for the town and village.

### Town of Liberty Debt History

<u>Year</u>	<u>Issued During Year</u>			<u>Paid During Year</u>			<u>Total Debt Outstanding</u>
	<u>Bonds</u>	<u>BANs</u>	<u>Notes</u>	<u>Bonds</u>	<u>BANs</u>	<u>Notes</u>	
2007	135,000			593,000			6,025,000
2006				420,000			6,483,000
2005	4,140,000			350,000	1,000,000		6,903,000
2004		1,000,000		344,000			4,113,000
2003	2,685,000			2,734,000			3,457,000
2002	100,000			224,000			3,506,000
2001	280,000			194,000	300,000		3,630,000
2000				189,000	60,000		3,844,000
1999				189,000	75,000		4,093,000
1998				159,000	315,000		4,357,000

<u>Year</u>	<u>Debt Service</u>			<u>Total Expenditures</u>	<u>Debt as % of Expend.</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
2007	679,582	251,085	930,667	9,683,885	9.61
2006	516,168	307,795	823,963	9,167,717	8.99
2005	390,295	120,261	510,556	7,043,529	7.25
2004	382,790	106,362	489,152	6,287,708	7.78
2003	290,858	176,328	467,186	5,398,748	8.65
2002	339,297	205,938	545,235	4,781,501	11.40
2001	214,000	217,000	431,000	4,419,781	9.75
2000	199,000	225,234	424,234	4,649,820	9.12
1999	264,000	241,768	505,768	4,594,408	11.01
1998	184,000	281,165	465,165	4,373,840	10.64

## Village of Liberty Debt History

<u>Year</u>	<u>Issued During Year</u>			<u>Paid During Year</u>			<u>Total Debt Outstanding</u>
	<u>Bonds</u>	<u>BANs</u>	<u>Notes</u>	<u>Bonds</u>	<u>BANs</u>	<u>Notes</u>	
2007				235,474			5,757,999
2006	2,850,000			140,158			5,915,631
2005				139,842	120,000		3,205,789
2004	600,000			649,526	30,000		3,465,631
2003		150,000		329,211			3,545,157
2002				148,895			3,724,368
2001	240,000			118,579	250,000	100,000	3,873,263
2000				117,263	353,500	98,000	4,101,782
1999	2,094,000		198,000	167,947	2,151,500	215,000	4,670,545
1998		2,755,000	215,000	167,692	2,797,500	267,000	4,912,992

<u>Year</u>	<u>Debt Service</u>			<u>Total Expenditures</u>	<u>Debt as % of Expend.</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
2007	288,892	140,050	428,942	6,406,374	6.70
2006	194,607	151,998	346,605	7,625,937	4.55
2005	338,539	163,738	502,277	6,670,789	7.53
2004	758,420	172,775	931,195	5,562,376	16.74
2003	397,910	218,395	616,305	5,097,928	12.09
2002	209,572	221,017	430,589	4,776,944	9.01
2001	177,123	223,550	400,673	4,775,274	8.39
2000	183,691	293,171	476,862	4,017,402	11.87
1999	264,733	143,691	408,424	4,028,576	10.14
1998	241,775	349,247	591,022	4,799,441	12.31

In some respects the debt patterns of the town and village are similar and in other respects quite different. The total outstanding debt of the town and village are quite similar. Both saw a decrease in the amount of debt outstanding in the early part of the decade, followed by increased debt outstanding in the past few years.

A key difference is in the payments for debt service. The town is much more aggressively paying down debt service with total debt service payments now more than two times greater than that of the village. Bond redemption for 2007 for the town was \$ 593,000 in contrast with the village's 2006-07 redemption of \$ 235,474.

For both the town and village, debt service is a significant annual part of their expenditures. For the town debt service as a percent of expenditures has varied between 7.25 and 11.40%. For 2007, debt service payments were 9.6% of total expenditures. Village debt service payments have ranged from 4.55% of expenditures to 16.74%. Currently, debt service is 6.7% of expenditures. Debt service as a percent of expenditures for the village is lower than that of the town primarily because the village is paying off a smaller portion of its outstanding debt each year than the town. This debt

service difference in part is a result of the village issuing 35 and 40 year bonds, while town bonds are of a much shorter duration. The longest town bond is for 20 years.

Both the town and the village are subject to constitutional debt limits. The debt limit history of the town and village as reported in the Office of the State Comptroller's annual reports is as follows:

#### Town of Liberty Debt Limit History

Year	<u>Not Subject to Limits</u>			<u>Subject to Limits</u>			Constitutional Debt Limit	% Debt Limit Used
	Bonds	BANs	Notes	Bonds	BANs	Notes		
2006	6,483,000						35,259,805	
2005	6,903,000						32,279,028	
2004	3,063,000	1,000,000		50,000			30,549,346	0.16
2003	3,382,000			75,000			29,640,341	0.25
2002	3,406,000			100,000			29,190,899	0.34
2001	3,630,000						29,348,537	
2000	3,544,000	300,000					29,604,334	
1999	3,733,000	360,000					30,183,555	
1998	3,922,000	435,000					30,888,351	

#### Village of Liberty Debt Limit History

Year	<u>Not Subject to Limits</u>			<u>Subject to Limits</u>			Constitutional Debt Limit	% Debt Limit Used
	Bonds	BANs	Notes	Bonds	BANs	Notes		
2006	4,765,000			1,150,631			9,686,860	11.88
2005	1,945,000			1,260,789			9,172,359	13.75
2004	1,970,000	120,000		1,375,631	150,000		8,894,897	15.47
2003	1,995,000			1,400,157			8,736,958	17.74
2002	2,230,000			1,494,368			8,794,500	16.99
2001	2,285,000			1,588,263			8,874,432	17.90
2000	2,070,000	250,000	100,000	1,681,782			8,987,127	18.71
1999	2,094,000	571,000	198,000	1,775,045	32,500		9,298,180	19.44
1998	1,330,000	2,690,000	215,000	612,992	65,000		10,117,213	6.70

As can be seen, the town has very little debt that is subject to the constitutional debt limit. On the other hand, nearly 25 percent of the village bonds were subject to the constitutional debt limit. The amount of village debt subject to debt limits has been gradually decreasing and the percent of the constitutional debt limit used is now the lowest it has been in eight years.

**Outstanding Village Debt**  
May 31, 2008

<u>Final Due Date</u>	<u>Purpose</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	1989 Sewer Refunding	440,000	144,166	584,166
2014	1999 Route 52 Sewer	119,368	9,386	128,754
2016	1994 Serial Bond - Sewer	295,000	94,080	389,080
2035	1999 Lily Pond Water Plant	1,820,000	1,442,088	3,262,088
2035	2006 Water Bond	2,565,000	0	2,565,000
2010	1994 Serial Bond - Police	<u>75,000</u>	<u>4,800</u>	<u>79,800</u>
		5,314,368	1,694,520	7,008,888

**Outstanding Town Debt**  
December 31, 2007

<u>Final Due Date</u>	<u>Purpose</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	2001 Route 55 Water	120,000	34,250	134,250
2010	2003 Ferndale Water	290,000	13,587	303,587
2011	WSS Water Line Replacement	150,000	9,000	159,000
2005	Sherwood Wells #1	1,655,000	980,109	2,635,109
2023	Sherwood Wells #2	450,000	136,280	586,280
2015	Swan Lake/Briscoe Road Sewer # 1	135,000	21,902	156,902
2014	Infirmary Road-EFC Sewer Bonds	175,000	35,853	210,853
2015	Infirmary Road-Sewer Bonds	144,000	22,904	166,904
2015	2003 Loomis Sewer Bonds	532,800	84,743	617,543
2015	2003 Swan Lake Sewer Bonds	763,200	121,388	884,588
2015	2007 Sewer Refunding	135,000	21,902	156,902
2025	2005 Highway Facility	<u>2,210,000</u>	<u>919,532</u>	<u>3,129,532</u>
		6,760,000	2,401,450	9,141,450

A composite of outstanding debt has been constructed for both the town and the village. The town information is based on a December 31, 2007 date and the village information on a May 31, 2008 date. It is this information that is critical in the discussion and exploration of a consolidation of a town/village consolidation. The table below delineates the outstanding debt situation of the town and village.

While the data for the town is not complete, most of the information on the outstanding debt is contained in the above information. The town debt can be broken into three components; water, sewer, and highway facility. The water and sewer debt are all part of special districts and is paid for either through property taxes or user charges on the residents within the special districts. The debt for the highway facility is paid for through property tax levies and is a townwide levy, even though the village has a separate and distinct highway department for street maintenance and snow removal.

None of the outstanding town debt will have any impact or bearing on a possible town/village consolidation. It is only the village debt that is of concern in studying consolidation. At the end of 2007-08, the remaining debt of the village is \$ 7,008,888, composed of \$ 5,314,368 in principal and \$ 1,695,520 in interest payments.

The village debt can be broken down into three categories: sewer, water, and police. The largest portion of the village outstanding debt is water related, 83.1 percent; with sewer debt 15.7 percent, and the police barracks debt 1.2 percent. The water bonds will not be fully paid off until 2035. The sewer bonds will be paid off by 2016. The police barracks bonds have two years of payments remaining.

Section 19-1912 of the Village Law provides legal information on the provision for village debt obligations in a consolidation. Unless the consolidation plan provides otherwise, the outstanding debts and obligations of the village shall be assumed by the town and be a charge upon the taxable property within the limits of the dissolved village and collected in the same manner as town taxes. In effect, a town-inside-village property tax levy is created. The town board shall have all powers with respect to such debts and obligations as the board of trustees would have had, if the village had not been dissolved, including the power to issue town bonds to redeem bond anticipation notes issued by the village.

A choice available to the town, and perhaps the most reasonable one, is the creation of a Town Improvement Water District and a Town Improvement Sewer District for the current village water and sewer services. The creation of special districts for the water and sewer functions may be especially relevant if these services are provided beyond the borders of the village as seems apparent from the differing rate schedules for the inside and outside areas. Prior to the effective date of the village dissolution, the town would need to hold public hearings and adopt orders establishing special improvement districts to operate existing village improvements and services as would be required. The hearing notice would specify the amount of indebtedness to be charged to the district or benefited area and the basis of the future assessment of costs of the improvement or service. The establishment of such districts would be effective on the dissolution, however assessments could be made prior to the dissolution date.

### Special District Analysis

Special districts are creations of a town to provide specific designated services to a portion of a town, although nothing prevents a special district from being townwide. The most common forms of districts are for lighting, water, and sewer, although there a myriad of special district possibilities (e.g. mosquito and escalator districts).

In consideration of an organizational arrangement for the water and sewer services now provided by the village, special districts provide a fairly obvious choice; particularly if water and sewer services are being provided outside village limits. The village water services are now being almost totally paid for out of metered sales and water charges (97.6%). Similarly, sewer services are funded by sewer rents and charges (99.8%).

Consideration could also be given to creating a special improvement district for the refuse and garbage service now provided by a separate village fund. In 2006-2007 this service moved from a dependency on property tax levies to assessments on property owners. In 2006-07, assessments were \$ 614,581 and interest and earnings \$ 15,277. In 2007-2008, \$ 544,583 has been budgeted for the refuse and garbage function. This service quite logically could be carried out through a special district.

It probably also makes sense to create a Lighting Special District within the village area. The town currently has five lighting special districts (Ferndale, Parksville, Loch Sheldrake Road, Swan Lake, and White Sulphur Springs). Rather than include village lighting as a townwide supported function, logic suggests the creation of a special district comparable to the ones that now exist in the town.

The dissolution resolution for the village of Elizabethtown in Essex County provides an example of how special districts can be created for prior village functions. The Elizabethtown dissolution resolutions specifically create special improvement districts for water, fire protection, lighting, refuse and garbage, and sidewalks. The costs of each district are met through either user charges or taxes, or both.

The town has five lighting districts, seven water districts, and four sewer districts. Their methods of financing have been analyzed. The lighting districts finances are very straightforward; revenues come from property taxes to pay the contractual services of the lighting districts. Summarized data for the 2008 for the lighting districts is as follows:

#### Lighting District Analysis

<u>Lighting Districts</u>	<u>Property Taxes</u>	<u>Penalties &amp; Interest</u>	<u>Total</u>	<u>Contractual Expenditure</u>
Ferndale	5,850	150	6,000	6,000
Swan Lake	16,000	500	16,500	18,000
White Sulphur Springs	6,750	250	7,000	8,000
Parksville	6,300	200	6,500	6,500
Loch Sheldrake	<u>4,500</u>	<u>500</u>	<u>5,000</u>	<u>6,500</u>
	39,400	1,600	41,000	45,000

The water and sewer districts have much more complex and varied financing. No standardized or common approach exists in the financing of the water and sewer districts.

A summary financing table for the water districts in 2008 is as follows:

Water District Analysis								
<u>Water Districts</u>	<u>Property Taxes</u>	<u>User Charges</u>	<u>Penalties &amp; Interest</u>	<u>Transfer</u>	<u>Total Revenues</u>	<u>Oper. &amp; Maint.</u>	<u>Debt Service</u>	<u>Other</u>
Loomis	20,003	22,200	750		42,953	20,500		
Ferndale	150,975	46,000	1,250		389,225	110,900	102,288	
Stevensville	20,257	299,000	4,500	56,000	379,757	106,205	157,063	31,500
Stevensville Extension	650				650			
White Sulphur Springs	79,189	29,500	1,350		110,039	25,450	56,500	
Indian Lake	2,818	7,250	350		10,418	5,600		
Cold Spring	5,968	8,500	600		15,068	9,250		6,818
Route 55	<u>0</u>	<u>92,518</u>	<u>1,500</u>		<u>93,518</u>	<u>36,000</u>	<u>35,700</u>	
	279,860	504,968	10,350	56,000	1,041,678	313,905	351,551	38,318

The primary focus of the discussion that follows will be on property taxes and user charges. A review of the use of property taxes versus user charges varies widely by water district. First, Loomis, Indian Lake, and Cold Spring have no outstanding debt, yet each finances their operation and maintenance costs quite differently. The reliance on property taxes versus user charges for these three districts is as follows:

Loomis	47.4 %
Indian Lake	28.0
Cold Spring	41.3

While all have higher user charges than property taxes, there is still a significant reliance on the property tax for their operation and maintenance costs.

The Ferndale, Stevensville, White Sulphur Springs, and Route 55 all have outstanding debt service. Their use of property taxes versus user charges to fund operation and maintenance costs and debt services vary extremely widely. The reliance on property taxes versus user charges for these four districts is as follows:

Ferndale	76.6 %
Stevensville	6.3
White Sulphur Springs	72.9
Route 55	0.0

Two districts, Ferndale and White Sulphur Springs, rely very heavily on property taxes to fund their operation and maintenance costs, while Stevensville and Route 55 rely

exclusively or almost exclusively on user charges. One might expect that there would be some relationship between property tax levies and debt service. There is none. The property tax levies and user charges bear no direct relationship to either debt service or operation and maintenance costs.

The accounts for the four sewer districts are split between operation and maintenance and debt service. The financing for each is shown separately. A summary financing table for the sewer district follows:

### Sewer District Analysis

	<u>Property Taxes</u>	<u>User Charges</u>	<u>Penalties &amp; Interest</u>	<u>Contract</u>	<u>Total Revenues</u>	<u>Operation &amp; Maintenance</u>
<u>Operations</u>						
Loomis	26,382	1,000	750	46,000	74,882	38,475
Loomis Extension	19,750	24,000	1,250		45,000	46,000
Swan Lake/Briscoe	310,838	46,000	1,500		359,838	119,400
Youngshill	9,218	6,000	600		15,218	10,000
Infirmary Road	<u>92,189</u>	<u>2,700</u>	<u>1,500</u>		<u>96,389</u>	<u>63,300</u>
	458,377	79,700	5,600	46,000	591,327	277,175
	<u>Property Taxes</u>	<u>User Charges</u>	<u>Transfer</u>		<u>Total</u>	<u>Debt Service</u>
<u>Debt Service</u>						
Loomis	43,838		8,400		52,238	52,238
Loomis Ext. # 1	17,474	16,000			33,474	25,074
Loomis Ext. # 2	1,100				1,100	1,100
Swan Lake/Briscoe	128,071				128,071	128,071
Infirmary Road	<u>50,531</u>				<u>50,531</u>	<u>50,531</u>
	241,014	16,000	8,400		265,414	257,014

Of the four sewer districts, three have outstanding debt service; Youngshill does not. For both the operation and maintenance costs and the debt service costs most of the financing comes from property taxes. The reliance on the property tax versus user charges for the operation and maintenance costs is as follows:

Loomis	96.3 %
Loomis Extension	45.1
Swan Lake/Briscoe	87.1
Infirmary Road	97.2
Youngshill	60.6

Only Loomis Extension relies for less than half its financing on the property tax for maintenance and operations costs, while Loomis and Infirmary Road rely almost exclusively on the property tax.

When it comes to debt service for sewer districts, the reliance is almost exclusively on the property tax.

Loomis	100.0 %
Loomis Extension # 1	52.2
Loomis Extension # 2	100.0
Swan Lake/Briscoe	100.0
Infirmary Road	100.0

Only Loomis Extension # 1 imposes user charges for debt service. It also relies more heavily than the other sewer districts on user charges to finance maintenance and operations costs.

A summary table has been created pulling together the property tax and user charge information for the water and sewer districts.

#### Combined Water & Sewer Financing

	<u>Property Taxes</u>	<u>User Charges</u>	<u>Total</u>	<u>% Property Taxes</u>
Water Districts	279,860	504,968	784,828	35.7
Sewer Districts - O & M	458,377	79,700	538,077	85.2
Sewer Districts - Debt Service	<u>241,014</u>	<u>16,000</u>	<u>257,014</u>	<u>93.8</u>
Sewer District - Total	699,391	95,700	795,091	88.0
Total Water and Sewer	979,251	600,668	1,579,919	62.0

From this table, it is clear that sewer districts depend much more heavily on the property tax (88.0%) for their financing than water districts (35.7%). In total 62.0 % of the financing comes from the real property taxes. For 2008, this meant property tax levies of nearly a million dollars.

There is great unevenness and no uniformity in Liberty's approach to financing water and sewer districts. Property taxes in the town-outside-village area of Liberty could be significantly lowered if more reliance was placed on user charges. There seems to be no built-in reason not to do so, since some districts are already primarily relying on user charges. Certainly, such a move would lessen the pressure of the property tax. The village has already moved in this direction with its imposition of assessments for refuse and garbage.

## Impact on State Aid of Consolidation

Both the village and the town are beneficiaries of state aid. An important consideration in the determination of the virtues or shortcomings of shared services or consolidation is the impact such considerations will have on the amount of state aid received. A breakdown of the state aid received by the village in 2006-07 and the town in 2007 is as follows:

	<u>Village</u>	<u>Town</u>
Aid & Incentives for Municipalities	30,678	42,591
Mortgage tax	44,082	264,483
Public safety	4,616	0
Real property tax administration	0	2,794
Youth	9,000	3,750
Consolidated highway	55,963	273,875
Water – capital project	<u>801,015</u>	<u>0</u>
	945,534	587,493

Of these three state aid programs, three are of primary concern in a proposed consolidation; consolidated highway aid, the mortgage tax, the aid and incentives aid for municipalities. Each of these programs will be discussed separately.

The mortgage tax rate varies depending on whether a local government benefits from the Metropolitan Transportation Authority. However, a base percent of 0.50 is collected on each mortgage and then returned back to each city or town based on the origin of the mortgage. Towns are then required to share their allocation with any villages that they may have. The village share is determined by dividing the village portion of the town assessment roll by two times by two times the townwide assessment roll. This formula has the practical effect of splitting the mortgage tax into two components, a town-outside-village component and a village component. The village component is then split 50-50 between the town and the village. As shown above the village received \$ 44,082 in mortgage taxes in 2006-07 and the town \$ 264,483. Should consolidation occur, the amount of the state aid received from the mortgage tax within the town would not be reduced. Mortgage tax receipts could go up or down depending on the mortgage originations within the town. The effect of consolidation would be to shift all of the receipts to the town and abrogate the use of the existing formula.

Both the village and town receive consolidated highway aid. The aid formulas contain a hold harmless provision, so that should a consolidation of the town and village occur there would be no change in state aid as a result of the consolidation.

The most important aid program relative to consolidation is the aid and incentives for municipalities. The aid for the town in 2007 was \$42,591 and for the village in 2006-07

was \$30,678. For 2007-08, for the village, the aid will be \$32,212. Towns and villages that consolidate now have three options under this aid program. Additional options were added to the existing option in the 2008-09 State budget. A brief summary of each option and their impact on Liberty is as follows:

Option 1. The aid and incentives for municipalities (AIM) is increased by 25% for consolidating municipalities. This incentive funding continues annually and is capped at \$ 1 million annually. The current combined AIM state aid for the village and town is \$74,803 (\$42,591 + \$32,212). A 25% increase would be \$18,701. This additional aid would be added to the \$74,803 in combined AIM and continued annually.

Option 2. In this option, \$250,000 is received in the first year after a consolidation. This aid is phased down in equal parts over a five year period (a reduction of \$50,000 each year). Under this option, the amount of aid is capped at 25% of the combined property tax levy of the consolidating municipalities. For Liberty 25% of existing property tax levies is \$1,589,422.50. Thus for Liberty the cap is not relevant. Under this option Liberty would receive a total of \$750,000 over a five year period as a consolidation incentive.

Option 3. This new option is the most attractive and financially rewarding of any of the consolidation incentives. Under this incentive, AIM would be increased to 15% of the combined property tax levies of the consolidating municipalities. The incentive continues annually and is in addition to the AIM payments now being received. The amount of additional consolidation incentive funding is capped at \$ 1 million.

The Office of the State Comptroller reports property taxes of \$ 2,593,655 for the village in 2006-2007 and \$ 3,796,435 for the town in 2007. Town special district property tax levies are excluded. The combined property tax levy is \$ 6,357,691.

Application of the 15 percent incentive to the \$ 6,357,691 produces \$ 953,654. This means that Liberty is just under the \$ 1 million threshold and would annually qualify for **\$ 953,654** in additional incentive state aid each year if consolidation occurred now. If 2008 property taxes were used the incentive, in all likelihood, would be higher and might reach the \$ 1 million cap. If the cap is not reached in 2008, then it would be in the near future. An additional town/village property tax levy of \$ 300,000 (4.7%) would result in the consolidation incentive reaching \$ 1 million.

An additional annual state aid payment to Liberty of **\$ 1 million** is a very significant sum of money. This amount is equivalent to 8.6% of combined village/town revenues from all sources. If used solely to reduce property taxes, a 15% reduction in the existing level of property taxes town/village (excluding special districts) could be made.

## Disproportionate Sharing of Townwide, County, and School Property Taxes

The town of Liberty last did an update of assessments of all properties in 1995. The town conducted a full townwide reassessment of all properties in 1991. In 1995, those assessments were updated to 1995 values. The property inventory base remains a 1991 base. Properties do not appreciate or depreciate in a straight line or at the same rate. As a result over time, assessments become increasingly unfair and inequitable. It has now been 13 years since assessments have been updated in Liberty.

The village of Liberty by a local law has given up its assessment responsibility. Thus, the town determined assessments are used for all property tax levies – school, county, town, and village.

The level of assessing, in part, can be measured by the equalization rate. The Office of Real Property Services in 2007 set an equalization rate of 62.75 for Liberty. This roughly means that property values in the aggregate have grown by 37.27% since 1995. The equalization rate of 62.75 is expected to fall to the 57-58 range when the 2008 equalization rate is determined.

The question posed is whether village properties have appreciated at a faster or slower rate than those of the town-outside-village area. If village properties have appreciated at a slower rate, than village residents are paying more than their fair share of townwide, county, and Liberty School District property taxes. By using equalization rates and taxable assessed values, a full value (or market value) can be determined by year for both the town and village, and by inference the town-outside-village area. While the data are not perfect and contain extraneous data unrelated to appreciation/depreciation changes, the data does quite vividly provide direction and trends.

Taxable assessments generally change for one of four basic reasons. First, there may be a physical change to the property, either as a result of an improvement or demolition. Second, exemptions granted or removed will affect the taxable assessment. Third, the property owner may challenge his/her assessment and receive a reduction. Fourth, appreciation or depreciation of a property may result in an assessment change. The first three factors generally explain the year to year changes in the taxable assessments, when no update or reassessment is done. The determination of full value for a town/village will take into consideration all four factors. Without a great deal of work these different factors are not easily sorted out.

An analysis has been done of the full values of taxable properties since 1995, the base year, for the town, village, and town-outside-village area. The following table presents this data and the year to year changes in full value:

## MARKET TRENDS IN THE TOWN/VILLAGE OF LIBERTY

Year	Equalization Rate Year	<u>Town</u>		<u>Village</u>		<u>Town Outside Village</u>	
		Full Value	% Change	Full Value	% Change	Full Value	% Change
2007	62.75	631,162	17.85	161,732	13.18	469,430	19.54
2006	70.70	535,584	12.50	142,903	4.57	392,681	15.69
2005	83.00	476,080	4.64	136,652	8.96	339,428	3.00
2004	91.00	454,971	8.13	125,414	0.16	329,557	11.51
2003	93.64	420,760	0.60	125,217	0.19	295,543	0.78
2002	100.00	418,250	1.51	124,982	1.54	293,268	1.50
2001	100.00	412,035	0.22	123,084	(2.74)	288,951	1.53
2000	101.83	411,151	(1.57)	126,551	(2.30)	284,600	(1.24)
1999	102.80	417,690	(1.94)	129,525	(1.07)	288,165	(2.32)
1998	101.05	425,938	(0.83)	130,926	(1.58)	295,012	(0.43)
1997	100.28	429,510	(0.18)	133,032	(3.23)	296,478	1.25
1996	99.38	430,306		137,476		292,830	
			46.68		17.64		60.31

The 1995 update of assessments was first used for the 1996 property tax levies, so that the taxable assessments in 1996 become the base for the ensuing analysis. First, it is clear that in the 1995 to 1999 period properties declined in value in Liberty. The years 2000 to 2004 witnessed very modest appreciation, with the exception of the village in 2003 (11.51% as a result of the year lag in data use). Market value trends have been strong for 2005 and 2006.

In all but three years, the full value changes in the town-outside-village area have been greater than those of the village. When one looks at the composite period of 11 years, full value has grown by 46.68% townwide, 17.64% in the village, and 60.31% in the town-outside-village area. As indicated earlier, these numbers include the effects of physical changes and exemptions, as well as appreciation/depreciation. If most of the physical change has occurred in the town-outside-village area, this will skew the percentage change upwards for the town-outside-village area relative to the village. This phenomenon probably explains a significant part of the relative change in the taxable assessed values and the full values in the village and town between 1996 and 2007.

	<u>2007</u>		<u>1996</u>	
	<u>Village</u>	<u>TOV</u>	<u>Village</u>	<u>TOV</u>
Full value percent	25.62	74.38	31.95	68.06
Assessed taxable value percent	30.11	69.89	33.13	66.87

The percent of the taxable assessed values for the town-outside village area has risen from 66.87% to 69.89% in 11 years. Without a reassessment occurring it is assumed that much of this growth results from developments occurring in the town-outside-village area.

The next question posed is what affect the different changes in full value have on property tax payments by village and town-outside-village residents. Clearly, it has no

impact on village only taxes or town-outside-village tax levies. The different rates of full value growth are significant between the village and the town-outside-village area. The village was 31.9% of the town's full value in 1996, but only 25.6% in 2007. Conversely, the town-outside-village area portion of the town's full value was 68.1% in 1996, but 74.4% in 2007.

This data clearly indicates that village residents are paying more than their fair share of townwide, Sullivan County, and Liberty School District taxes. A townwide reassessment would shift property taxes from the village to the town-outside-village area. Without a reassessment it is impossible to make an accurate determination. The best that can be done is a "back of the envelope" approach. For 2007, townwide general fund property taxes were \$ 1,655,176 and townwide highway taxes were \$ 1,091,687 for a total of \$ 2,746,863. If one makes the assumption that the percentage change over the 11 year period in taxable assessed value of the town-outside-village results largely from physical growth and improvements, the result would be an approximately \$ 100,000 shift in townwide property taxes from village residents to town-outside-village residents. This translates into 4.5 to 5.0% increase in townwide taxes for town-outside-village property owners, and an approximately 9.0% reduction for village property owners.

Similar shifts would occur in the Sullivan County property taxes paid by the Liberty property owners and in the Liberty School District property taxes within the Liberty portion of the school district. For the 2007 levy year, Liberty property owners paid \$ 14,367,508 in property taxes to the Liberty School District. It is not known what portion of this sum was paid by village property owners and what portion by non-village Liberty property owners. Given the magnitude of the amount of the property taxes (over five times the townwide levy), the result of the property tax consequences for village residents are far more significant than for townwide taxes. Without extensive additional work, it is hard to pin point full impact of the outdated assessments on the Liberty School property tax levy. A very preliminary analysis suggests village residents may be paying in the vicinity of \$ 300,000-400,000 more than their fair share would require.

Whether or not consolidation between town and village is effectuated, all should only pay their fair share of whatever property tax is levied.