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October 16, 2013

Honorable Ralph V. Suozzi, Mayor
Members of the City Council
City of Glen Cove
City Hall
9 Glen Street
Glen Cove, NY 11542

Report Number: B7-13-16

Dear Mayor Suozzi and Members of the City Council:

Chapter 337 of the Laws of 2007 authorized the City of Glen Cove (City) to issue debt totaling $12.8 million with a period of probable usefulness set at 10 years to liquidate various accumulated fund deficits for the fiscal year ending December 31, 2006. Local Finance Law Section 10.10 requires all local governments that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year, starting with the fiscal year during which the local government is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, their proposed budget for the succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on the adoption of the budget or the last date on which the budget may be finally adopted, whichever is sooner. The City Council is scheduled to adopt the budget on October 22, 2013. The State Comptroller must examine the proposed budget and make recommendations for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the City.

The City Council, no later than five days prior to the adoption of the budget, must review all recommendations made by the State Comptroller and may make adjustments to its proposed budget consistent with those recommendations contained in this report. All recommendations that the Council rejects must be explained in writing to our Office.

Our Office has recently completed a review of the City's budget for the 2014 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following questions related to the City budget for the 2014 fiscal year:

- Are the significant revenue and expenditure projections in the City's proposed budget reasonable?

- Did the City take appropriate action to implement or resolve recommendations contained in the budget review report issued in October 2012?

To accomplish our objectives in this review, we requested your proposed budget, salary schedules, debt payment schedules, and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries, and reviewed supporting documentation to determine the nature of the items and assess whether the estimate was realistic and reasonable. In addition, we evaluated whether written recommendations from the prior year's budget review were implemented or resolved and therefore, incorporated as part of the current year's budget.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

The proposed budget package submitted for review for the fiscal year ended 2014 consisted of the following:

- 2014 Proposed Budget
- 2012 Independent Auditor's Report
- Supplementary Information

The proposed budget submitted to our Office is summarized as follows:

Fund	Appropriations and Other Financing Uses	Estimated Revenues and Other Financing Sources[c]	Real Property Taxes
General	$40,476,862 [a, b]	$10,801,545	$29,675,317
Water	$3,219,000 [a]	$3,219,000	-
Golf and Recreation	$3,116,472 [a]	$3,116,472	-

[a] Includes non-operating amounts expected to be transferred to the debt service fund
[b] Includes non-operating amounts expected to be transferred to the recreation and golf fund
[c] Includes interfund transfers

The City's financial outlook, as projected by the City, is improving in 2013 as a result of more accurate revenue and expenditure estimates in the 2013 budget. The City projects operating surpluses for the 2013 fiscal year of $980,179 for the general fund and $67,075 for the water fund. However, due to overstated revenue estimates, the golf and recreation fund is projecting a $93,308 operating deficit. The unassigned fund balances in these three funds are still expected to remain as deficits of $2.3 million in the general fund, $483,242 in the water fund, and $668,867 in the gold and recreation fund.

The 2014 proposed budget contains significant financial risks that the City Council should consider when adopting the 2014 budget. The City continues to finance operating expenditures with debt when it should be funding such expenditures with operating revenues. In addition, the practice of supporting operating expenditures with unrealistic revenue estimates and one-shot revenues is not prudent.

We also found that City officials had not fully implemented the recommendations in our prior budget review letter, issued on October 16, 2012. At that time, we recommended that City officials slow or curtail the use debt as a financing source to cover recurring operating expenditures, appropriate funds for termination payments and tax certiorari payments, include reasonable revenue estimates, and adjust the City's budget presentation so that all fund activities are budgeted, accounted for, and reported in the proper fund.

Our review disclosed the following findings which should be reviewed by the City Council for appropriate action. Good management practices require that City officials take prompt action concerning our recommendations. We believe that prompt action by City officials will help improve the City's financial condition.

General Fund

Tax Certiorari – The City's proposed budget does not provide an appropriation for the payment of tax certiorari refunds. In the past three years, the City paid an average of $681,000 per year for certiorari settlements, funded primarily by issuing debt. City officials have indicated their intention to borrow the entire amount of 2014 tax certiorari settlements. The continued practice of using debt to pay for these operating costs is imprudent. Tax certiorari claims are a routine cost of doing business. City officials should treat tax certiorari costs as routine expenditures and pay them from annual appropriations.

Revenue Estimates – We caution that the 2014 proposed budget includes overstated revenue estimates that could further increase the general fund deficit.

The City included estimated revenue of $755,000 for repayment of an EFC loan by the City's Industrial Development Agency (IDA) and Community Development Agency (CDA). The City provided us with a letter of intent received from the IDA/CDA, dated September 19, 2013, indicating that the IDA/CDA intends to pay the City $755,000 "upon the closing of the sale of the waterfront property which is anticipated in November or December 2014." We caution the City Council that this revenue is contingent upon events that may or may not happen timely or as planned. Should the CDA/IDA fail to provide the City with the funds for the EFC loan repayment, the City's general fund would be responsible for the payments.

The City's proposed budget also includes estimated revenue of $250,000 from the sale of City property. However, City officials could not provide documentation to show that this revenue is realizable in 2014. The City should avoid using one-shot non-recurring revenues to fund recurring operation expenditures, even in those instances when this revenue is attainable in the coming year. City officials should instead budget and use one-time revenues to reduce the general fund deficit or fund one-time expenditures, such as the purchase of equipment or construction of capital assets.

The 2014 proposed budget also includes estimated revenues from building permit fees of $375,000 despite a declining trend experienced from this revenue source. For example, the City realized $304,000 during the 2012 fiscal year and projects revenues of $320,000 for the 2013 fiscal year, which is $55,000 less than the amount budgeted for the 2014 fiscal year. The City Council should re-evaluate the reasonableness of the 2014 revenue.

Budget Presentation - The City's debt service fund requirements for 2014 total $9,801,782, of which $8,838,175 represents the general fund's share. However, the 2014 proposed general fund budget includes an appropriation for debt service requirements, as a transfer to debt service fund, of only $6,856,319. The City's proposed budget plans to finance the difference of $1,981,856 from other revenue sources as follows:

Financing Sources	Amount
Special Transfer from Water Fund	$786,931
Repayment of EFC Loan	$755,000
Transfer from Capital Projects Fund[1]	$50,000
Transfer from Golf and Recreation Fund	$66,000
Transfer from Water Fund in Excess of Debt Service Requirements	$90,925
Interest on Investments	$3,000
Fund Balance Appropriated in Debt Service Fund	$230,000
Total Financing from Other Sources	$1,981,856

Under fund accounting, revenues and expenditures are budgeted, accounted for, and reported at the fund level. Generally, when one fund subsidizes the operations of another fund, the fund making the subsidy must budget an appropriation as a transfer to the recipient fund. The general fund should have budgeted and recognized the financing of $1,698,856[2] as a transfer from the originating funds or other revenue sources. By omitting the $1,698,856 appropriation for debt service requirements and the related subsidies as estimated revenue, the proposed general fund budget would be misstated because it does not reflect all financial activities attributable to that

[1] Unexpended debt proceeds for completed capital projects can be transferred to the debt service fund and applied to reduce the debt service requirements of the fund for which such obligation were initially issued.
[2] $1,981,856 less $230,000 appropriated fund balance, $3,000 interest on investments, and $50,000 transfer from capital projects

fund. The City Council should ensure that all fund activities are budgeted, accounted for, and reported in the proper fund.

The City should develop a viable financial plan that is sustainable for the long term, gradually decreases the unassigned fund balance deficit, and is less reliant on the issuance of debt and one-time revenues to resolve systemic structural imbalances in its budget. In addition, the City should strive to present budgets that appropriately attribute interfund transfers in the correct fund.

Water Fund

The water fund reported an unassigned fund balance deficit of $550,317 as of December 31, 2012. The City projects an operating surplus of $67,075 this year that will decrease the deficit to $483,242. However, the proposed budget for 2014 includes an appropriation for utilities which appears understated by almost $40,000, which would add to the deficit. City officials should continue to monitor the financial position of the water fund to ensure that the unassigned fund balance deficit is gradually eliminated and that the water fund continues to generate a fair return from its operations.

Golf and Recreation Fund

The golf and recreation fund reported an unassigned fund balance deficit of $575,559 as of December 31, 2012. The City projects the deficit will increase by $93,308 as of December 31, 2013, mainly because golf fund revenues were overestimated in the 2013 adopted budget. Because the proposed 2014 budget does not address this deficit, the City Council should develop and implement a financial plan that provides for a self-sufficient golf course operation and the gradual elimination of the fund deficit.

Tax Cap Compliance

The State Legislature enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments, effective beginning in the 2012 fiscal year. The law precludes local governments from adopting a budget that requires a tax levy that exceeds the prior year's levy by more than 2 percent or the rate of inflation, whichever is less, unless the governing board adopts a local law to override the tax levy limitation.

The City's proposed budget complies with the tax levy limit because it includes a tax levy of $29,675,317, which increases the 2014 tax levy by 1.32 percent over the 2013 tax levy of $29,288,960. In adopting the 2014 budget, the City Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the allowable limit.

Prior Budget Review Recommendations

During this budget review, we also assessed the extent to which City officials acted to implement the recommendations contained in our prior budget review letter, which was issued on October 16, 2012. City officials did not fully implement our recommendations.

Debt as Financing Source – We cautioned the City Council against using debt to finance termination payments and tax certiorari costs. Although the City appropriately paid tax certiorari judgments from budget appropriations during 2013, it chose to finance termination payments with long-term debt.

Termination Payments - The City Council did not address our recommendation to adjust recurring budget problems regarding termination payments. The City has made separation payments totaling $430,250 to date in 2013. City officials have advised us that termination payments could reach as high as $650,000 by year end. In October 2013, the City Council announced its intention to borrow $650,000 to cover the entirety of separation payments incurred in 2013.

Tax Certiorari – The City Council modified its appropriation for tax certiorari payments from $220,000 to $415,000 for the 2013 fiscal year. The City is projecting tax certiorari payments in 2013 of $415,300.

Revenue Estimates – The City Council did not modify its revenue estimates for the repayment of an EFC loan by the IDA/CDA. However, the City received a $250,000 check from the IDA/CDA, dated September 24, 2013, as partial repayment of the EFC loan. The IDA/CDA indicated that it will make another $250,000 payment to the City in December 2013.

In addition, the City Council continues to subsidize the general fund with an additional transfer in excess of the water fund's obligation. Also, although the City Council reduced its estimated revenue for disposal of recyclable materials from $130,000 to $105,000, only $21,029 was realized by June 2013 and $80,000 is projected from this revenue source by year end, resulting in a negative variance of $25,000.

Budget Presentation – The City Council was advised to modify its 2013 budget so the presentation of subsidies to the general fund for use in debt service were transparently reflected in the general fund's budget. The City Council had not implemented this recommendation prior to the adoption of last year's budget. In addition, despite our recommendation, the City continues to budget for general fund subsidies in this fashion.

The City Council has the responsibility to initiate corrective action. Pursuant to Section 10.10 of Local Finance Law, the Council shall review the recommendations in this report and may make adjustments to its proposed budget. The Council must explain in writing to our office any recommendations that it has rejected. In addition, pursuant to Section 35 of General Municipal Law, the Council should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. We encourage the Council to make this plan available for public review in the City Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt a budget for the City. If you have any questions on the scope of our work, please feel free to contact Ira McCracken, Chief Examiner of our Long Island Office, at (631) 952-6534.

Very truly yours,

Andrew A. SanFilippo
Executive Deputy Comptroller
Office of State and Local Government
Accountability

cc: Sal Lombardi, City Comptroller
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