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October 16, 2014

Honorable Reginald Spinello, Mayor
Members of the City Council
City of Glen Cove
City Hall
9 Glen Street
Glen Cove, NY 11542

Report Number: B7-14-16

Dear Mayor Spinello 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. New York State 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 its adoption or the last date on which the budget may be finally adopted, whichever is earlier. The City Council is scheduled to adopt the budget on October 28, 2014. 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 City's estimates of revenues and expenditures.

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 2015 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 2015 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 2013?

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 to assess whether the estimates were realistic and reasonable. In addition, we inquired and checked 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 2015 consisted of the following:

- 2015 Proposed Budget
- 2013 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	$42,604,307 [a, b]	$12,441,802	$30,162,505
Water	$3,219,028	$3,219,028	-
Golf and Recreation	$3,088,202 [a]	$3,088,202	-

[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 golf and recreation fund
[c] Includes interfund transfers

The City's financial outlook, as projected by the City, has not improved in 2014 as a result of inaccurate revenue and expenditure estimates in the 2014 budget. City officials are projecting operating deficits for the 2014 fiscal year totaling $269,904 in the general fund and $5,582 in water fund. An operating surplus of $8,762 is projected for the golf and recreation fund. As a result, as of December 31, 2014 these three funds are expected to have a combined deficit of over $4.9

million. This includes a $3.9 million deficit in the general fund, a $523,679 deficit in the water fund and a $528,603 deficit in the golf and recreation fund.

The 2015 proposed budget contains significant financial risks that the City Council should consider when adopting the 2015 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 15, 2013. At that time, we recommended that City officials slow or curtail the use debt as a financing source to cover recurring operating expenditures such as 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 items 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 such prompt action will help improve the City's financial condition.

General Fund

Issuing Debt for Operating Expenditures – Over a three-year period, the City has issued over $7.3 million in debt to cover recurring operating costs. Since 2012, the City has issued $1.5 million in debt to fund current expenditures for tax certiorari judgments and $5.8 million to fund the current expenditures for termination payments. The City plans to continue this approach in 2015 and estimates that it will borrow at least $1.1 million to fund termination payments and tax certiorari costs. Considering that the general fund operating expenditures have averaged approximately $42.5 million per year since 2012 and the proposed 2015 budget is $42.6 million, the reliance on $8.4 million in debt to cover operating expenditures during this period is not fiscally prudent. Unless actions are taken by the City to slow or curtail their dependency on debt to finance recurring operating costs, the City will continue to accumulate more debt and exacerbate the City's ability to become fiscally solvent. The continued reliance on proceeds of long-term debt to finance recurring operating expenditures will diminish the City's ability to finance needed services in future budgets because the City will have to devote more of its limited resources to repay the principal and interest on this debt.

Termination Payments – The City's proposed budget contains an appropriation of $100,000 for termination payments. However, City officials informed us that they anticipate separation costs of $510,000 during 2015. The City intends to borrow the remaining $410,000 to cover the cost of these payments during 2015. Although the State Legislature amended the Local Finance Law (LFL) in 2012 and authorized the City to finance termination payments with proceeds of long-term debt, payable over 10 years, this practice will saddle future taxpayers with the repayment of past service costs, with interest, for which they received no benefit.

Tax Certiorari – The 2015 proposed budget contains an insufficient appropriation of $100,000 for the payment of tax certiorari refunds which have averaged $814,000 over the last three years. City officials have indicated their intention to use debt to finance the balance of 2015 tax certiorari settlements above the existing appropriation. The continued practice of using debt to pay for these operating costs is imprudent. Tax certiorari claims are a routine cost of doing business. As such, City officials should treat tax certiorari costs as routine expenditures and pay them from annual appropriations.

Revenue Estimates – The City's proposed budget includes estimated revenue of $410,000 from the sale of City property. During last year's budget review, officials estimated revenues of $250,000 from the sale of City property without any documentation supporting this estimate. City officials informed us during our current review that the City will not realize this revenue in 2014. Officials have budgeted for the sale of this property in the 2015 budget and have increased the revenue estimate to $410,000. However, once again, City officials could not provide documentation to show that this revenue is realizable in 2015.

Additionally, the proposed budget contains $950,000 in estimated revenues associated with the settlement of legal proceedings. City officials are unable to provide any documentation supporting this estimate. The City should avoid using one-shot non-recurring revenues to fund recurring operational 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 2015 proposed budget also includes estimated revenues from building permit fees of $325,000 despite experiencing a declining trend from this revenue source. During the preceding three years, building permit revenue averaged only $277,000, with the most recent completed year, 2013, only providing $203,000 in permit revenue. City officials project that the City will only realize $200,000 in 2014. The City Council should re-evaluate the reasonableness of the 2015 revenue.

Estimated Appropriations – The proposed budget contains an insufficient appropriation of $200,000 for the payment of legal fees. The City has averaged $369,000 in legal fees during the preceding three years. City officials informed us that they expect reduced legal costs due to the settlement of legal proceedings (discussed previously in "Revenue Estimates"). However, officials were unable to provide documentation supporting this reduced appropriation.

Budget Presentation – The City's debt service fund requirements for 2015 total $9,381,343, of which $8,416,483 represents the general fund's share. However, the 2015 proposed general fund budget includes an appropriation for debt service requirements, as a transfer to debt service fund, of only $7,918,983. The City's proposed budget plans to finance the difference of $497,500 from other revenue sources as follows:

Financing Sources	Amount
Transfer from Capital Projects Fund[1]	$293,500
Transfer from Golf and Recreation Fund	$66,000
Transfer from Water Fund in Excess of Debt Service Requirements	$135,000
Interest on Investments	$3,000
Total Financing from Other Sources	$497,500

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 $201,000[2] as a transfer from the originating funds or other revenue sources. By omitting the $201,000 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 fund. The City Council should ensure that all fund activities are budgeted, accounted for and reported in the proper fund.

City officials 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 the budget. In addition, officials 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 $518,097 as of December 31, 2013. The City projects an operating deficit of $5,582 that will increase the deficit to $523,679. The proposed budget for 2015 includes an appropriation for utilities which appears understated by more than $27,000, which would add to the deficit. City officials should implement a financial plan that provides for gradual elimination of the fund deficit.

Golf and Recreation Fund

The golf and recreation fund reported an unassigned fund balance deficit of $537,365 as of December 31, 2013. The City projects a small operating surplus that will decrease the unassigned fund balance deficit to $528,603. City officials should continue to monitor the financial position of the golf and recreation fund to ensure that the fund generates a fair return from its operations.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 (Law) that established a tax levy limit on all local governments, which was effective beginning in the 2012 fiscal year. The law precludes local governments from adopting a budget that requires a tax levy

[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 obligations were initially issued.

[2] $497,500 less $3,000 interest on investment and the $293,500 transfer from capital projects

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 $30,162,505 which increases the 2015 tax levy within the limits established by Law. In adopting the 2015 budget, the City Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated 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 15, 2013. City officials did not fully implement our recommendations.

Tax Certiorari – The City Council did not modify its 2014 budget to appropriate an amount for tax certiorari payments. The City is projecting tax certiorari costs in 2014 of $900,000 and intends to issue debt for the entire amount.

Revenue Estimates – The City Council did not modify its revenue estimates for the repayment of an Environmental Facilities Corporation loan by the City's Industrial Development Agency (IDA) and Community Development Agency (CDA). During our last review, City officials indicated that they would receive the payment by December 2013. City officials now indicate that the IDA/CDA will repay the loan in November 2014.

In addition, the City did not modify its estimate of $250,000 for the sale of real property and according to City officials, will not realize this revenue during 2014. The City also did not modify its estimate of $375,000 for building permits. City officials project that the City will only realize $200,000 for building permits in 2014.

Budget Presentation – The City Council was advised to modify its 2014 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 similar fashion.

The City Council has the responsibility to initiate corrective action to address the recommendations in this report. In addition, pursuant to Section 35 of New York State 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 City 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 the upcoming budget for the City. If you have any questions, please feel free to contact Ira McCracken, Chief Examiner of our Long Island Office, at (631) 952-6534.

Very truly yours,

Gabriel F. Deyo

cc: Sal Lombardi, City Comptroller
Michael Familietti, City Council
Anthony Gallo, Jr., City Council
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Hon. Herman D. Farrell Jr., Chair, Assembly Ways and Means Committee
Hon. Carl Marcellino, NYS Senate
Hon. Charles D. Lavine, NYS Assembly
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