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October 16, 2015

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

Report Number: B7-15-17

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 next 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 27, 2015. 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 governing board rejects must be explained in writing to our Office.

Our Office has recently completed a review of the City's budget for the 2016 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's budget for the 2016 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 2014?

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 determined 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 2016 fiscal year consisted of the following:

- 2016 Proposed budget
- 2014 Independent auditors 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	Real Property Taxes
General	\$45,892,651	\$16,540,098	\$29,352,553
Water	\$3,319,000	\$3,319,000	\$0
Golf and Recreation	\$3,440,767	\$3,440,767	\$0

City officials are projecting operating surpluses for the 2015 fiscal year totaling \$469,078¹ in the general fund and \$150,449 in the water fund. Officials are projecting a \$172,691 operating deficit in the golf and recreation fund. The City projects that it will have unassigned fund balance deficits totaling approximately \$4 million in the general fund, \$516,476 in the water fund and \$740,254 in the golf and recreation fund. As of December 31, 2015, these three funds are expected to have a

¹ The surplus is dependent on the City realizing revenue from the sale of property totaling \$410,000. As of October 14, 2015, permits and/or approvals that must be obtained prior to sale have not been obtained.

combined unassigned fund balance deficit of almost \$5.3 million. We are concerned that the City continues to have a combined unassigned fund balance deficit eight years after receiving authorization to issue deficit financing.

The 2016 proposed budget contains significant financial risks that the City Council should consider when adopting the 2016 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 a significant amount of operating expenditures with one-shot revenues that may not materialize in 2016 is imprudent.

We also found that City officials did not fully implement the recommendations in our prior budget review letter, issued on October 16, 2014. At that time, we recommended that City officials curtail the use of debt as a financing source to cover recurring operating expenditures such as termination 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 will help improve the City's financial condition.

General Fund

Waterfront Development – The City and its Community Development Agency (CDA) have been engaged in an effort to sell and develop a plot of waterfront property along Glen Cove Creek. The City has included \$3.5 million in revenue identified as “Contribution from CDA” in the 2016 proposed budget from the sale of waterfront property. City officials were unable to provide any definitive documentation showing that the sale will take place during the upcoming year, and the receipt of this revenue is highly speculative. City officials provided us with a 2012 amendment to the 2003 sales contract which does not provide a specific date for the sale of this property, and it is the fourth contractual amendment for the sale of this property. Regardless, if these revenues are realized, the City should avoid using nonrecurring revenues, such as proceeds from the sale of real property, to fund recurring operating expenditures. The City Council should review this revenue and determine whether it is prudent to include it in the 2016 budget.

In addition, for 2016 the City has increased its estimate for building permits revenue by \$1.1 million. This increase is associated with two building permit applications that are part of this waterfront property development. If these permits are not issued, the City will have a \$1.1 million revenue shortfall.

In total, the City has estimated \$4.6 million in revenues associated with this sale and development project without assurances that the land will sell in the 2016 fiscal year. As noted above, it is not fiscally prudent to use the \$4.6 million in one-shot revenues to fund routine operating expenditures. This funding source will not be available in subsequent years and may result in the need for future tax increases to make up the shortfall. City officials should use one-shot revenues to pay down

debt, reduce the general fund deficit or fund one-time expenditures, such as the purchase of equipment or construction of capital assets.

Tax Certiorari – The 2016 proposed budget contains an insufficient appropriation of \$315,000 for the payment of tax certiorari refunds, which have averaged \$848,000 over the last four years. City officials told us they intend to use debt to finance the balance of 2016 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. City officials should treat tax certiorari costs as routine expenditures and pay them from annual appropriations.

Water Fund

The water fund reported an unassigned fund balance deficit of \$666,925 as of December 31, 2014. The City projects an operating surplus of \$150,449 that will decrease the unassigned fund balance deficit to \$516,476. City officials should continue to monitor the financial position of the water fund and implement a financial plan that provides for the gradual elimination of the fund deficit.

Golf and Recreation Fund

The golf and recreation fund reported an unassigned fund balance deficit of \$567,563 as of December 31, 2014. The City projects an operating deficit of \$172,691 that will increase the unassigned fund balance deficit to \$740,254. City officials should continue to monitor the financial position of the golf and recreation fund to ensure the fund generates a fair return on operations. City officials should implement a financial plan that provides for the gradual elimination of the fund deficit.

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 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 \$29,352,553 that maintains the 2016 tax levy within the limits established by Law. In adopting the 2016 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 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, 2014. City officials did not fully implement our recommendations.

Issuing Debt for Operating Expenditures – The City did not modify its 2015 budget to reduce its reliance on the issuance of debt to fund tax certiorari and termination costs. For example, despite budgeting \$100,000 for tax certiorari costs in 2015, the City projects it will incur \$910,000 in tax certiorari costs and will issue debt for the \$810,000 difference. In addition, the City did not modify its 2015 budget to appropriate the full amount expected for termination payments. In 2015, the City budgeted \$100,000 for police termination costs, yet it incurred \$508,753, resulting in \$408,753 of termination costs that were financed with the issuance of debt.

Revenue Estimates – The City did not modify its revenue estimate of \$410,000 for the sale of City property. City officials provided us with a contract for the sale of this property dated August 2015. However, the contract does not specify a date for the closing of the sale of the property. Instead, the contract specifies that the closing will take place within 45 days after the purchaser has obtained a specific permit. Because the permit has not been obtained, the City has no assurance that it will realize the sale of this land before December 31, 2015.

Budget Presentation – The City Council was advised to modify its 2015 budget to ensure that all fund activities are budgeted and accounted for and reported in the proper fund, particularly when one fund is subsidizing the debt of another. Officials did not implement this recommendation prior to the adoption of last year’s budget. However, the City’s 2016 proposed budget relies significantly less on debt service subsidies. We encourage City officials to continue working to eliminate this method of budgeting for debt service.

As noted previously, the Board has the responsibility to initiate corrective action to address the recommendations in this report. 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 on the scope of our work, please feel free to contact Ira McCracken, Chief Examiner of the Hauppauge Regional Office, at (631) 952-6534.

Very truly yours,

Gabriel F. Deyo
Deputy Comptroller

cc: Sal Lombardi, City Comptroller
Michael Familietti, City Council
Anthony Gallo, Jr., City Council
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Timothy Tenke, City Council
Joseph Capobianco, City Council
Tina Pemberton, City Clerk
Mary Beth Labate, NYS Division of the Budget

Hon. John A. DeFrancisco, Chair, NYS Senate Finance Committee
Hon. Herman D. Farrell Jr., Chair, NYS Assembly Ways and Means Committee
Hon. Carl Marcellino, NYS Senate
Hon. Charles D. Lavine, NYS Assembly
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