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October 14, 2016

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

Report Number: B7-16-12

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 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 25, 2016. 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 City Council rejects must be explained in writing to our Office.

Our Office has recently completed a review of the City's budget for the 2017 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 2017 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 2015?

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 estimate was 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 2017 consisted of the following:

- 2017 Proposed Budget
- 2015 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	$47,143,169	$17,350,328	$29,792,841
Water	$3,358,086	$3,358,086	
Golf and Recreation	$3,557,939	$3,557,939	

For the 2016 fiscal year, City officials are projecting an operating surplus totaling $990,296[1] in the general fund and a $54,816 deficit in the water fund. City officials project there will be unassigned fund balance deficits totaling approximately $3.2 million in the general fund, $392,460 in the water fund and $439,296 in the golf and recreation fund. As of December 31, 2016, these three funds are expected to have a combined unassigned fund deficit of more than $4 million. Although this is an improvement from the previous year, we remain concerned that the City continues to have a significant combined unassigned fund balance deficit nine years after authorization to issue deficit financing.

[1] The surplus is dependent on the City realizing nonrecurring revenue of $3.5 million from the sale of property and $1.3 million from building permit fees.

The 2017 proposed budget contains significant financial risks that the City Council should consider when adopting the 2017 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 nonrecurring revenues that may not materialize in 2017 is imprudent.

We also found that City officials did not fully implement the recommendation in our prior budget review letter, issued on October 16, 2015. At that time, we recommended that City officials curtail the use of debt as a financing source to cover recurring operating expenditures such as tax certiorari payments.

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 approximately $3.9 million in revenue identified as "Contribution from CDA" in the 2017 proposed budget from the sale of waterfront property. This $3.9 million is in addition to the $3.5 million included in the 2016 budget. In 2015, City officials provided us with a 2012 amendment to the 2003 sales contract. However, the document 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. At that time, City officials indicated that revenue from the sale would be realized as certain legal hurdles were overcome. To date, the sale has not occurred and the City has not realized the $3.5 million estimated revenue.

City officials provided a letter from the developer which indicates their intent to close on the sale of property in November 2016 and complete the payment in full, at that time. However, the letter also indicates that there is no legal obligation to close on the sale by November 2016 and that unforeseen circumstances could cause delays in closing. Additionally, there is no written agreement between the City and the CDA indicating when the CDA will make the $3.5 million payment the City is expecting by the end of this year or the $3.9 million projected for 2017. Nevertheless, even 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 2017 budget.

In addition, for 2017 the City has budgeted $1.9 million for building permit revenues, an increase of $520,536 over the 2016 estimate. This increase is associated with building permit applications that are part of the waterfront property development. If these permits are not issued, the City will have a shortfall of almost $1.9 million. This is in addition to the $1.4 million in building permit revenue estimated in the City's 2016 budget related to the sale of the same waterfront development, which the City has still not yet realized. The letter from the developer, mentioned previously, also states that the developer anticipates paying building permit fees prior to the end of 2016. Although no amount is included in the letter, the City estimates that the amount will be almost $1.3 million.

In total, the City has projected $4.8 million in revenues for 2016 and estimated $5.5 million in revenues for 2017 associated with this sale and development project. It is not fiscally responsible to use $10.3 million in nonrecurring 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 nonrecurring 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 2017 proposed budget contains no appropriations for the payment of tax certiorari refunds, which have averaged about $923,000 over the last five years. City officials told us they again intend to use debt to finance 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.

Termination Payments – City officials estimate $1.2 million in termination payments for 2017, including $1.1 million for employees retiring from the Police Department. However, only $607,992 is included in the 2017 budget for this expenditure. City officials explained that there is a verbal agreement between the City and the employees retiring from the Police Department for payment of half of the costs in 2017 and the balance in 2018, so they have only included $571,492 of the $1.1 million in the 2017 appropriations. Since there is no formal agreement between the City and the employees, the City should budget for the total estimated termination costs in its annual appropriations.

Water Fund

The water fund reported an unassigned fund balance deficit of $337,664 as of December 31, 2015. The City projects an operating deficit of $54,816 that will increase the unassigned fund balance deficit to $392,460. 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 $439,296 as of December 31, 2015. The City projects a net-zero operating result, thus no change in the fund balance is projected this year. 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.

Prior Budget Review Recommendations

During this budget review we assessed the extent to which City officials acted to implement the recommendation contained in our budget review letter issued in October 2015. City officials did not implement our recommendation.

Tax Certiorari – The City did not modify its 2016 budget to reduce reliance on the issuance of debt to fund tax certiorari costs. City officials budgeted $315,000 for tax certiorari costs in 2016, but project the City will actually incur $910,000 in tax certiorari costs and will issue debt for the $595,000 difference.

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 $29,792,841 that maintains the 2017 tax levy within the limits established by Law. In adopting the 2017 budget, the City Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated limit.

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: Jeffrey Nogid, City Controller
Joseph Capobianco, City Council
Nicholas DiLeo Jr., City Council
Pamela D. Panzenbeck, City Council
Efraim Spagnoletti, City Council
Timothy Tenke, City Council
Roderick Watson, City Council
Tina Pemberton, City Clerk

Hon. Catharine Young, Chair, Senate Finance Committee
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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