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June 27, 2014

Gordon Jenkins, Mayor
Members of the Board of Trustees
2 Pleasant Street
Monticello, NY 12701

Report Number: B 4-14-15

Dear Mayor Jenkins and Members of the Board of Trustees:

Our Office has recently completed a review of the Village of Monticello's (Village) budget for the 2014-15 fiscal year. The objective of the review was to provide an independent evaluation of the tentative budget. Our review addressed the following question related to the Village's budget for the 2014-15 fiscal year:

- Are the significant revenue and expenditure projections in the Village's tentative budget reasonable?

To accomplish our objective in this review, we requested your tentative 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. We also evaluated the amount of fund balance appropriated in the tentative budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose.

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 tentative budget package submitted for review for the fiscal year ended 2014-15 consisted of the following:

- 2014-15 Tentative Budget
- Supplementary Information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$6,916,227	\$2,043,417	\$0	\$4,872,810
Sanitation	\$1,870,116	\$1,645,116	\$225,000	\$0
Water	\$1,720,840	\$1,670,840	\$50,000	\$0
Sewer	\$1,660,493	\$1,610,493	\$50,000	\$0

Based on the results of our review, except for the matters described below, we found that most of the significant revenue and expenditure projections in the tentative budget for the general, sanitation, water and sewer funds are reasonable. The tentative budget did not include a tax overlay or provisions for potential salary increases from contract settlements. In addition, the tentative budget includes revenue that is not achievable. These issues could cause the Village to become fiscally stressed or require them to increase taxes.

Tax Overlay

It is important for Village officials to make necessary adjustments to the levy each year to ensure that the full amount budgeted for property tax revenue is collected, especially when they are responsible to enforce unpaid amounts. These adjustments are known as a tax overlay, which is the amount of taxes estimated to be uncollected and unavailable to finance budgetary appropriations. Adding the tax overlay to the original calculated amount that is needed to operate the Village determines the actual amount of the current year's tax levy.

Based on the condition of the previous years' financial records and the recent change in Treasurers, we could not determine the collection rate for the Village. If, for example, the Village's collection rate was 95 percent, approximately \$244,000 should be budgeted for the tax overlay. The tentative budget, however, does not include a tax overlay, which could create a shortfall in the 2014-15 fiscal year.

Additionally, the tentative budget includes a revenue estimate of \$200,000 for collection of past due amounts. Although the Village has collected some past due amounts from prior years, these amounts are not guaranteed as future collections and the Village did not have adequate records to establish the collection rates on prior taxes to show the reasonableness of this amount.

General Fund Salaries

The tentative budget does not include any additional appropriations for the anticipated settlement of the police union contract, which expired July 31, 2013, or any other employee union contract, which all expire on July 31, 2014. These contract settlements could possibly include an increase to personal service salaries¹ as well as potential liabilities for payments to cover retroactive

¹ An increase in salaries would also have a resulting increase in retirement and social security expenditures.

salaries from the negotiated contracts. The Board should consider providing adequate resources to cover potential anticipated salary increases.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 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 tax levy by more than 2 percent or the rate of inflation, whichever is less,² unless the governing board adopts a local law to override the tax levy limitation.

The Village's tentative budget complies with the tax levy limit because it includes a tax levy of \$4,872,810, which is within the limits established by law. However, based on the need for a tax overlay (as noted previously), the Village may need to find other financing sources or adopt an override to remain compliant. In adopting the 2014-15 budget, the Board should be mindful of the legal requirement to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it adopts a local law to override the cap.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, the Board 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 Board to make this plan available for public review in the Village 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 Village. If you have any questions on the scope of our work, please feel free to contact Todd Eames, Chief Examiner of the Binghamton Regional Office, at (607) 721-8306.

Sincerely,

Gabriel Deyo

cc: Lilu Li, Treasurer
Ray Nargizian, Budget Officer
Janine Gandy, Clerk

² Our office has previously determined that the rate of inflation applicable to villages with a fiscal year beginning August 1, 2014, is 1.46 percent. Therefore, the property tax levy is capped at 1.46 percent.