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April 7, 2016

Hon. Wayne J. Hall Sr., Mayor  
Members of the Board of Trustees  
Village of Hempstead  
99 Nichols Court  
Hempstead, New York 11550

Report Number: B7-16-4

Dear Mayor Hall and Members of the Board:

Chapter 642 of the Laws of 2006 authorizes the Village of Hempstead (Village) to issue debt totaling \$4.2 million to liquidate the accumulated deficit in the Village's general and water funds as of May 31, 2005. 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 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 Village.

The Village Board, 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 Village's budget for the 2016-17 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following question related to the Village budget for the upcoming fiscal year:

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

To accomplish our objective 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. We also evaluated the amount of fund balance appropriated in the proposed 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 proposed budget package submitted for review for the 2016-17 fiscal year consisted of the following:

- 2016-17 Proposed Budget
- Supplementary Information

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

<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenues</b>	<b>Appropriated Fund Balance</b>	<b>Real Property Taxes</b>
General	\$78,109,106	\$14,361,217	\$1,037,818	\$62,710,071
Water	\$8,361,789	\$8,361,789		
Library	\$3,260,364	\$3,260,364		
Debt Service	\$5,848,870	\$5,848,870		
Self-Insurance	\$4,002,840	\$4,002,840		

Based on the results of our review, we found that the significant revenue and expenditure projections in the proposed budget are reasonable.

### **Constitutional Tax Limit**

The Constitutional Tax Limit is the maximum amount of real property tax that may be levied in any fiscal year. The amount of real property taxes that the Village can raise each year to finance its budget is limited by the State Constitution to 2 percent of its five-year average full property value.<sup>1</sup> Based on the 2016-17 proposed budget, the Village will have exhausted 94.4 percent of its

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<sup>1</sup> The State Constitution and related statutes allow for taxes in the amount of certain appropriations to be excluded when determining the amount of levy that must be below the tax limit. This tax levy amount (total levy minus exclusions) is often referred to as taxes subject to the limit.

taxing authority. The Village's ability to rely on real property taxes as an increased revenue source in the future is limited. If the Village exceeds its tax limit, the State Comptroller is required to withhold State aid in an amount equal to the tax limit exceeded. We caution the Village that if property values do not increase, the ability to increase taxes may be reduced in the future.

### **Tax Stabilization Reserve Fund**

The Village has previously established a tax stabilization reserve to finance certain unanticipated revenue losses or unanticipated expenditures and to lessen or prevent projected increases in excess of 2.5 percent of the real property tax levy. Generally, the reserve may be used only upon recommendation of the chief executive officer and resolution adopted by at least a two-thirds vote of the governing board.

The Village's proposed budget for the 2016-17 fiscal year includes \$500,000 from the tax stabilization reserve that will be used to lessen the real property tax levy. Since the Board has not yet adopted a resolution to use the reserve, it must do so before it adopts the proposed budget.

### **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 in the Village beginning in the 2012-13 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,<sup>2</sup> whichever is less, unless the governing board adopts a local law to override the tax levy limitation.

The Village's proposed budget complies with the tax levy limit because it includes a tax levy of \$62,710,071, which does not increase the 2016-17 tax levy over the 2015-16 tax levy. In adopting the 2016-17 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.

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

We hope this information is helpful to you as you adopt the upcoming budget for the Village. If you have any questions on the scope of our work, please contact Mr. Ira McCracken, Chief Examiner of our Hauppauge Office, at (631) 952-6534.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

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<sup>2</sup> Our Office has previously determined that the rate of inflation applicable to villages with a fiscal year beginning June 1, 2016 is no greater than 0.12 percent.

cc: Raymond Calame, Village Treasurer/Comptroller  
Patricia Perez, Village Clerk  
Hon. Catharine M. Young, Chair, Senate Finance Committee  
Hon. Herman D. Farrell, Chair, Assembly Ways and Means Committee  
Hon. Earlene Hooper, NYS Assembly  
Hon. Kemp Hannon, NYS Senate  
Robert F. Mujica, Jr., Budget Director, Division of the Budget  
Andrew A. SanFilippo, Executive Deputy Comptroller  
Ira McCracken, Chief Examiner