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October 1, 2007

Honorable Ralph V. Suozzi, Mayor  
City of Glen Cove  
City Hall  
9-13 Glen Street  
Glen Cove, NY 11542

Report Number: B7-7-17

Dear Mayor Suozzi,

Pursuant to Chapter 337 of the Laws of 2007, the State Legislature authorized the City of Glen Cove to issue \$12.8 million in bonds to liquidate various fund deficits for the fiscal year ending December 31, 2006. Local Finance Law (LFL) requires all local governments that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller, each year during the period of probable usefulness, their proposed or preliminary budget. The LFL further provides that the State Comptroller shall examine such proposed budget and make recommendations as deemed appropriate no later than ten days before the date the governing board is scheduled to vote to adopt the budget or the last date on which the budget must be adopted, whichever is sooner. The City Council is scheduled to adopt the budget on October 10, 2007.

The State Comptroller's Office has recently completed an audit of the City's budget for the 2008 fiscal year. The objective of the audit was to provide an independent evaluation of the tentative budget. Our audit addressed the following question related to the City's budget for the 2008 fiscal year:

Are the City's revenue and expenditure projections in the proposed budget reasonable?

We conducted our audit in accordance with generally accepted government auditing standards with the exception of reporting views of responsible officials which were omitted from this report due to the necessity of providing the City with this time-sensitive information. Such standards require that we plan and perform our audit to adequately assess the estimates in the tentative budget. Further, those standards require that we understand the internal control

structure at the City and the City's compliance with those laws, rules and regulations that are relevant to preparing estimates for the tentative budget.

To accomplish our objectives in this audit, we requested your tentative budget along with other pertinent information. We analyzed the composition of revenues and expenditures in order to determine if the revenue and expenditure estimates are reasonable. It was not our intent to offer comments on public policy decisions, such as the type and level of services to be provided, and we do not offer such comments.

The tentative budget package for the fiscal year ended December 31, 2008 submitted for audit consisted of the following:

- 2008 Tentative Budget
- Draft of the 2006 CPA Report
- Supplementary Information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Real Property Taxes
General	\$34,787,306	\$9,777,826	\$25,009,480
Water	\$6,086,881	\$3,325,000	
Sewer	\$4,721,598	\$4,721,598	
Recreation and Golf	\$2,763,452	\$2,763,452	

The observations and recommendations resulting from our audit are, to a great extent, influenced by the quality and quantity of materials submitted, and the time between submission and budget adoption.

Our audit disclosed the following findings that 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 by City officials will help improve the City's financial condition.

Based on the results of our audit, we find that significant revenue and expenditure projections in the various funds' tentative budgets are not reasonable. We found police overtime in the general fund budget may be too low; the water fund budget is not balanced; appropriations for contractual services in the sewer fund budget may be too low; and estimated "miscellaneous revenues" included in the recreation and golf fund are without support.

Preliminary information indicates that the City ended 2006 with a combined accumulated deficit in its general, sewer, debt service, self insurance and recreational funds of nearly \$27.8 million, as follows:

Fund	Estimated Deficits as of December, 31, 2006
Sewer	\$16,027,056
General	\$6,178,886
Self-Insurance	\$2,696,867
Recreation	\$2,410,484
Debt Service	\$475,634
Total	\$27,788,927

Even if the \$12.2 million accumulated surplus in the water fund is applied to the overall deficit and the \$12.8 million of deficit financing authorized by the State Legislature<sup>1</sup> is borrowed, it will still leave the City with an unresolved deficit of \$2.8 million. We note that \$1.7 million of the deficit relates to the long term liabilities in the self insurance fund, which will be funded in future budgets. However, the City still needs to fund the remaining deficits of \$1.1 million. Moreover, our review disclosed the potential for an additional \$609,000 general fund operating deficit in 2007.

### **General Fund**

City officials project that they will complete the current fiscal year with a general fund operating surplus of \$176,579. The City's projection includes their projected shortfall in real property tax revenues and overtime costs that exceed budgeted appropriations. However, we project that the actual shortfall will be much higher for both of these accounts. Therefore, we believe that the City could potentially end the current fiscal year with a general fund operating deficit that may amount to \$609,000. City officials should amend the 2008 budget to address this potential operating deficit.

Real Property Taxes – City officials estimate that property tax collections for the 2007 fiscal year will be about \$137,000 less than budgeted. However, we project that the City's 2007 real property tax revenues will be approximately \$703,000 less than the originally estimated revenues of \$23.2 million. Our 2007 projection that they will only collect \$22.5 million is based on the percentage of total 2006 real property taxes recognized through July 2006 applied to real property taxes recognized through July 2007. For the 2008 year, City officials project revenue of \$25 million from real property taxes. Given the shortfall in 2007 collections, we suggest that City officials reassess this projection and make adjustments if warranted.

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<sup>1</sup> City officials have not provided us with the necessary information to certify their deficit as of December 31, 2006. Without that certification, the City cannot borrow the \$12.8 million that was authorized by the State Legislature to address the accumulated deficit.

Police Overtime – The City has consistently under-budgeted appropriations for police overtime. For example in both 2005 and 2006 the overtime budget was \$344,095. However, actual expenditures totaled \$679,904 and \$737,359 in 2005 and 2006, respectively. The 2007 budget included overtime appropriations of \$575,000. The City projects total expenditures to be \$679,400 by December 31, 2007, or \$104,400 over budget. However, we project these expenditures might total \$899,000, or \$324,000 more than budgeted.

The City's 2008 budget again increases appropriations to \$750,000 for police overtime. However, we believe this estimate may be insufficient to fund police overtime, given the history of actual expenditures. Unless the City takes definite steps to decrease the police overtime, we recommend the City Council increase these appropriations in the 2008 budget.

## **Water Fund**

In 2007, the City lost a manufacturing plant that significantly contributed to the water and sewer fund revenues. For example, of the \$3.7 million in water revenues collected in 2006, the City received a total of \$778,734, or 21 percent, from this customer. As a result, the City projects that the 2007 revenues in the water fund will be approximately \$700,000 less than the \$4.1 million estimated revenues for 2007. Overall, the City projects that the water fund will have an operating deficit of \$620,535 in 2007. We recommend that City officials take immediate steps to begin to eliminate or reduce this projected deficit.

We note that in the 2008 water fund budget, the City has appropriately budgeted \$3.3 million in revenues, or \$800,000 less than 2007 estimated revenues. However, this budget includes \$6.1 million in appropriations, or \$2.8 million more than estimated revenues, resulting in an unbalanced budget. The 2008 water fund appropriations include \$3.5 million to be transferred as a subsidy to the sewer fund. However, City officials indicated to us that they did not think they were actually going to have to make this fund transfer because Nassau County is interested in acquiring the City's sewer treatment plant. If this happens, the water fund will not have to subsidize the sewer fund. City officials provided us with a letter from the Nassau County Department of Public Works indicating that this event will take place by January 1, 2008. However, the letter also states that the formal agreement will not be approved until the Nassau County Legislative meeting scheduled for November 19, 2007. Given the significant fiscal stress facing the City, we believe that the City's budget must be based on known events or must have provisions to deal with contingent events. Therefore, since there is no specific agreement with Nassau County to acquire the City's sewer treatment plant, we recommend that the City Council adopt a balanced water fund budget or have a contingency plan for dealing with the issue of the anticipated transfer does not occur..

In addition, we caution City officials about appropriating fund balance from the water fund to balance the sewer fund budget. The fund balance that the water fund has accumulated in previous years will likely be needed to fund the deficits as of December 31, 2006 in various City funds that exceed the \$12.8 million deficit financing authorization by \$14 million. In addition, with the

loss of the large customer, it is unlikely that the water fund will generate the same surpluses as it has in the past.

## **Sewer Fund**

The sewer fund receives more than 50 percent of its revenues from the water fund. As previously mentioned, the City lost a manufacturing plant that significantly contributed to its sewer and water fund revenues. With the loss of this customer it is uncertain that the water fund will be able to continue to sustain the sewer fund. City officials project an operating deficit for 2007 of \$953,534. In addition, since sewer revenues are based on water usage, sewer revenues are also expected to decrease. Therefore, if the transfer of the sewer treatment plan to the County does not occur, the City will be facing increased fiscal pressures.

Revenues - The sewer fund collected \$1.3 million in revenues in 2006. Of those revenues, \$578,673, or 44 percent, came from the lost customer. The City projects it will receive \$423,594 less in sewer fund revenues than budgeted in 2007. For 2008, the City has reduced estimated sewer revenues to \$1.2 million.

Contractual Services – During the past four years, expenditures for contractual services have increased each year by a minimum of 7 percent. In 2006, the City over-expended contractual services by \$530,000. The City projects that the 2007 contractual services budget of \$2.8 million will be over-expended by \$300,000. However, we project the over-expenditure will likely be almost \$603,000.

The City's 2008 budget for contractual expenditures totals \$3.3 million. This may not be sufficient based on historical trends. We recommend City officials consider increasing appropriations for contractual services.

## **Recreation and Golf Fund**

The 2008 budget includes estimated revenues from "miscellaneous revenues" of \$146,000. City officials did not provide us with any support for why they expect to collect these revenues. We recommend the City Council not include these estimated revenues in the 2008 budget until they are properly supported.

Pursuant to Chapter 33 of the Laws of 2007, the City Council shall review the recommendations in this report and make adjustments to its proposed budget. The LFL also provides that, no later than five days prior to the adoption of the budget, the governing board review any such recommendations and may make adjustments to its proposed budget consistent with any recommendations made by the State Comptroller. In addition, any recommendations that the Council rejects shall be explained in writing to the State Comptroller.

The City Council has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the City 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 a budget for your City. If you have any questions on the scope of our work, please feel free to contact Richard Rennard, Chief Examiner, at 631-952-6534.

Very truly yours,

Steven J. Hancox  
Deputy Comptroller  
Division of Local Government and  
School Accountability

cc: Joseph Gioino, Councilman  
Anthony P. Jimenez, Councilman  
Joan Meehan, Councilwoman  
Nicholas Dileo, Councilman  
Michael Norman, Councilman  
Timothy Tenke, Councilman  
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Sal Lombardi, CPA, City Controller  
Hon. Carl Marcellino, Senator  
Hon. Charles D. Lavine, Assemblyman  
Hon. Owen H. Johnson, Chair, Senate Finance Committee  
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