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April 15, 2014

Daniel J. Ratner Sr., Mayor
Members of Board of Trustees
167 North Main Street
Liberty, NY 12754

Report Number: B4-14-9

Dear Mayor Ratner and Members of the Board of Trustees:

Our Office has recently completed a review of the Village of Liberty's (Village) budget for the 2014-15 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's budget for the 2014-15 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 fiscal year ending May 31, 2015 consisted of the following:

- 2014-15 Proposed Budgets
- Supplementary Information

The proposed 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	\$3,701,026	\$624,206	\$91,104	\$2,985,716
Water	\$942,732	\$778,680	\$50,000	\$0
Sewer	\$997,311	\$938,202	\$21,463	\$0
Sanitation	\$820,391	\$820,391	\$0	\$0

Based on the results of our review, except for the matters described below, we found that the significant revenue and expenditure projections in the proposed budget are reasonable. The proposed budgets did not include a tax overlay or provisions for infrastructure needs. Additionally, there are budget gaps in the water and sewer funds which are planned to be funded by rate increases that have not yet been adopted. Further, the sewer rent revenue in the proposed budget has been increased without any justification to support the increase. These issues could cause the Village to become fiscally stressed or require them to increase taxes.

Our review disclosed the following findings which should be reviewed by the Board for appropriate action. Good management practices require that Village officials take prompt action concerning our recommendations. We believe that prompt action by Village officials will help improve the Village's financial condition.

Tax Overlay

It is important for Village officials to make necessary adjustments to the levy each year to ensure that the full property tax levy 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. The Village's collection rate over the last five years was 86 percent; therefore, approximately \$400,000 should be budgeted for this tax overlay. The proposed budget does not include a tax overlay, which could create a shortfall in the 2014-15 fiscal year. Although the Village has collected some past due amounts from prior years, these amounts are not guaranteed as future collections. Village officials should include a tax overlay in the budget they adopt.

Infrastructure Needs

The proposed budgeted amount for maintenance of streets is budgeted to be less than the average actual amount for the past five years.¹ The Mayor stated that they have shifted from contracting for street maintenance to doing more work in-house, which may contribute to the lower budgeted amount. However, the Department of Public Works Supervisor stated that they only use the Consolidated Local Street and Highway Improvement Program (CHIPs) reimbursements to repair the roads and infrastructure. Postponing critical infrastructure maintenance could result in large tax increases if Village officials are forced into emergency and/or significant repairs. Village officials should develop comprehensive, multiyear capital plans to project capital needs and financing sources over a three-to-five year period to better budget for and/or seek out other financing sources for these infrastructure needs.

Water and Sewer Charges

The proposed budgets for both the water and sewer funds are not balanced, with estimated revenues being less than appropriations by \$114,052² and \$37,646,³ respectively. The Clerk/Treasurer told us the Board plans on raising the water and sewer rates to close these budget gaps, but the Board has yet to approve any rate increases. Based on Village calculations, the water rent rate would have to be increased by 11.9 percent for users within the Village boundaries and 28 percent for users outside of the Village boundaries and the sewer rent rate would have to be increased by 4.5 percent in order to balance these budgets.

In addition to the \$37,646 for the proposed sewer rent increase, the sewer fund has an overestimation of sewer rent totaling \$46,000 because the budgeted sewer rent revenue is significantly higher than our projection for the current year without any justification for the higher consumption generating the increased revenue. If the budgeted sewer rent revenue was closer aligned with our projections, the budget gap (deficit) could be increased by an additional \$46,000. To achieve the budgeted amount, sewer rents would require an additional increase in rates of 5.5 percent.

If the Board intends to raise rates to balance the budgets, we recommend the Board approve these rate increases prior to adopting the budget and update the budgeted sewer rents revenue amount to be consistent with current year usage adjusted for the change in rates.

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 is 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 tax 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.

¹ These five years included actual expenditures for maintenance of streets for fiscal years 2009-10 through 2012-13 and projected expenditures for fiscal year 2013-14.

² \$942,732 total appropriations less \$778,680 for estimated revenues less \$50,000 of appropriated fund balance

³ \$997,311 total appropriations less \$938,202 for estimated revenues less \$21,463 of appropriated fund balance

The Village's proposed budget complies with the tax levy limit because it includes a tax levy of \$2,985,716, which increases the 2014-15 tax levy by 1.46 percent over the 2013-14 tax levy of \$2,942,717. 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 Clerk-Treasurer'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 F. Deyo

cc: Judy Zurawski, Clerk/Treasurer