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April 14, 2017

John R. Bertoni, Mayor
Members of the Board of Trustees
1009 East Main Street
Endicott, New York 13760

Report Number: B17-4-7

Dear Mayor Bertoni and Members of the Board of Trustees:

Chapter 91 of the Laws of 2004 authorizes the Village of Endicott (Village) to issue debt not to exceed \$2 million to liquidate the accumulated deficit in the Village's general fund as of May 31, 2004. New York State Local Finance Law Section 10.10 requires municipalities and school districts 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 tentative budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the Board of Trustees' (Board) 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 tentative budget and make recommendations for any changes as appropriate. Recommendations, if any, are made after the examination into the Village's estimates of revenues and expenditures.

The 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 tentative budget consistent with those recommendations contained in this report. All recommendations that the Board rejects must be explained in writing to our Office.

Our Office has recently completed a review of the Village's budget for the 2017-18 fiscal year. The objective of the review was to provide an independent evaluation of the tentative budget. Our review addressed the following questions related to the Village's budget for the upcoming fiscal year:

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

- Did the Village take appropriate action to implement or resolve recommendations contained in the budget review report issued in April 2016?

To accomplish our objectives 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. 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 tentative budget package submitted for review for the fiscal year ending May 31, 2018 consisted of the following:

- 2017-18 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 Use of Fund Balance	Real Property Taxes
General	\$14,749,982	\$6,063,931	\$100,000	\$8,586,051
Electric	\$3,784,750	\$3,641,113	\$143,637	\$0
Water	\$3,897,898	\$3,697,898	\$0	\$0
Sewer	\$3,779,363	\$3,563,500	\$0	\$0
Library ^a	\$1,060,277	\$1,050,277	\$10,000	\$0
Parking	\$32,250	\$32,250	\$0	\$0

^aThe Library is run by a separate Board of Trustees and is therefore outside the scope of this review.

Based on the results of our review, except for the matters described in this letter, we found that the significant revenue and expenditure projections in the tentative budget for the general, electric and parking funds are reasonable. Based on our review, we make the following recommendations. The recommendations must be reviewed by the Board, with appropriate action taken as necessary in accordance with the requirements in Local Finance Law Section 10.10 as described above.

The water and sewer funds' tentative budgets are not balanced and include a deficit of \$200,000 in the water fund (5.4 percent of the fund's estimated revenues) and \$215,863 in the sewer fund (6.1 percent of the fund's estimated revenues). Village officials told us these deficits are the amounts for which the water and sewer rates need to be increased, which they intend to do in May 2017. We recommend the Board address the rate changes and balance the budget before adoption to avoid budgeting appropriations without sufficient financing sources. We had a similar finding in last year's budget review; because the Board adjusted the rate structure in both funds after the budget was adopted, the funds are not projected to incur deficits for the current fiscal year.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on local governments and school districts, which was effective beginning in the 2012 fiscal year. The law generally precludes a local government from adopting a budget with a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation,¹ whichever is less, and certain exclusions permitted by law, unless the Board adopts a local law to override the tax levy limit.

At the time of our review, the Village's tentative budget exceeded the tax levy limit because it included a tax levy of \$8,586,051, which exceeds the Village's tax levy limit by \$470,040. Village officials were aware that the tentative budget was not in compliance with the tax levy limit and told us they planned to adopt a local law to override the tax levy limit in 2017-18. We recommend the Board take necessary actions, such as decreasing expenditure estimates or passing an override local law, to avoid adopting a budget that is not in compliance with the law; otherwise, the Board would be required to place the excess amount in a reserve.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of New York State 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 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 H. Todd Eames, Chief Examiner of the Binghamton Regional Office, at (607) 721-8306.

Sincerely,

Andrew A. SanFilippo
Executive Deputy Comptroller

¹ Our Office has proposed a rate of inflation applicable to villages with a fiscal year beginning June 1, 2017 at 1.15 percent. Therefore, the property tax levy is capped at 1.15 percent.

cc: Anthony Bates, Clerk-Treasurer
Hon. Catharine Young, Chair, NYS Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, NYS Assembly Ways and Means Committee
Hon. Donna Lupardo, NYS Assembly
Hon. Frederick Akshar, NYS Senate
Robert Mujica, Jr., Director, Division of the Budget
Gabriel F. Deyo, Deputy Comptroller
H. Todd Eames, Chief Examiner