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October 13, 2017

Honorable Reginald Spinello, Mayor  
Members of the City Council  
City of Glen Cove  
City Hall  
9 Glen Street  
Glen Cove, NY 11542

Report Number: B17-7-12

Dear Mayor Spinello and Members of the City Council:

Chapter 337 of the Laws of 2007 authorized the City of Glen Cove (City) to issue debt totaling \$12.8 million with a period of probable usefulness set at 10 years to liquidate various accumulated fund deficits for the fiscal year ending December 31, 2006. 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 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 City Council is scheduled to adopt the budget on October 24, 2017. 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 City's estimates of revenues and expenditures.

The City Council, 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 City's budget for the 2018 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following questions related to the City's budget for the 2018 fiscal year:

- Are the significant revenue and expenditure projections in the City’s proposed budget reasonable?
- Did the City take appropriate action to implement or resolve recommendations contained in the budget review report issued in October 2016?

To accomplish our objectives 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. 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 proposed budget package submitted for review for the fiscal year ended 2018 consisted of the following:

- 2018 Proposed Budget
- 2016 Independent Auditor’s Report
- Supplementary Information

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

<b>Fund</b>	<b>Appropriations and Other Financing Uses</b>	<b>Estimated Revenues and Other Financing Sources</b>	<b>Real Property Taxes</b>
General	\$45,251,583	\$15,086,331	\$30,165,252
Water	\$3,328,474	\$3,328,474	-
Golf and Recreation	\$3,534,231	\$3,534,231	-

For the 2017 fiscal year, City officials are projecting an operating surplus totaling \$3.26 million in the general fund, a \$38,615 surplus in the water fund and a \$36,751 surplus in the golf and recreation fund. They project an unassigned fund balance surplus totaling approximately \$960,241 in the general fund and unassigned fund balance deficits of \$141,641 in the water fund and \$369,649 in the golf and recreation fund. Therefore, these three funds are projected to have a combined unassigned fund surplus of \$448,951 by 2017 year end. This is a significant improvement from the previous year.

Based on the results of our review, except for matters described in this letter, we found that the significant revenues and expenditure projections in the 2018 proposed budget are reasonable. The 2018 proposed budget contains some financial risks that the City Council should consider when adopting the 2018 budget.

We also found that City officials did not fully implement the recommendations in our prior budget review letter, issued on October 14, 2016. At that time, we recommended that City officials curtail the use of debt and non-recurring revenue as a financing source to cover recurring operating expenditures. The City's 2018 proposed budget indicates decreased use of debt to finance routine operations.

Our review disclosed the following findings which should be reviewed by the City Council for appropriate action.

### **General Fund**

Building Permit Fees – For 2018, the City has budgeted \$1.96 million for building permit revenues, an increase of \$53,000 over the 2017 estimate. However, of the \$1.9 million in building permit revenues in the City's 2017 budget, only \$157,000 has been realized to date. The expected increase in 2018 is associated with expected additional commercial and residential building permit applications, as well as those related to the waterfront property development and the downtown revitalization program. We caution officials that even if these revenues are realized, the City should not use nonrecurring revenues to fund routine operations.

Termination Payments – The City estimates \$675,000 in termination payments for 2018 including \$625,127 for employees retiring from the Police Department. The City included budgeted appropriations for these expenditures and intends to use appropriated general fund balance to cover these costs. We caution the City that fund balance is a financing source that may not be available in the future and may result in the need for future tax increases or borrowing to make up the shortfall.

### **Water Fund**

The water fund reported an unassigned fund balance deficit of \$180,256 as of December 31, 2016. For 2017, the City projects an operating surplus of \$38,615 that will decrease the unassigned fund balance deficit to \$141,641. City officials should continue to monitor the financial position of the water fund and implement a financial plan that provides for the gradual elimination of the fund deficit.

### **Golf and Recreation Fund**

The golf and recreation fund reported an unassigned fund balance deficit of \$406,400 as of December 31, 2016. For 2017, the City projects an operating surplus of \$36,751 that will decrease the unassigned fund balance deficit to \$369,649. City officials should continue to monitor the financial position of the golf and recreation fund to ensure that it generates a fair

return on operations, and should implement a financial plan that provides for the gradual elimination of the fund deficit.

### **Tax Cap Compliance**

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 (Law) 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 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.

The City's proposed budget complies with the tax levy limit because it includes a 2018 tax levy of \$30,165,252 that is within the limits established by Law. In adopting the 2018 budget, the City Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated limit.

### **Prior Budget Review Recommendations**

During this budget review we assessed the extent to which City officials acted to implement the recommendations contained in our prior budget review letter, which was issued on October 14, 2016. City officials did not fully implement our recommendations.

Tax Certiorari – The City did not modify its 2017 budget, which did not include an appropriation for tax certiorari costs. The City has paid \$438,110 for tax certiorari costs through September 2017 from the general fund without relying on new debt. City officials have budgeted an appropriation of \$350,000 in the 2018 proposed budget based on their review of pending court cases, and stated that they do not intend to issued debt to finance 2018 payments.

Building Permits – The City did not modify its 2017 budget, which relied on \$1.9 million in revenue from building permits. The City has collected \$157,012 as of September 2017. Officials told us they expect to realize the bulk of this revenue by the end of the year, just as they did in 2016, when the majority of the building permit revenues were realized in the last quarter of the fiscal year. However, if the remainder of the permits are not issued, the City will have a significant shortfall.

Waterfront Development – The City and its Community Development Agency (CDA) have been engaged in the sale and development of waterfront property along Glen Cove Creek. The sale of land concluded in November 2016, and the City received \$4.0 million in 2016, which was \$500,000 more than the \$3.5 million budgeted. In 2017, the City received \$7.1 million, which was \$3.2 million more than the \$3.9 million budgeted in 2017. The City did not budget additional revenue for this in 2018.

As noted previously, the Board has the responsibility to initiate corrective action to address the recommendations in this report. 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 City. If you have any questions on the scope of our work, please feel free to contact Ira McCracken, Chief Examiner of the Hauppauge Regional Office, at (631) 952-6534.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

cc: Sandra Clarson, City Controller  
Joseph Capobianco, City Council  
Nicholas DiLeo, Jr., City Council  
Pamela D. Panzenbeck, City Council  
Efraim Spagnoletti, City Council  
Timothy Tenke, City Council  
Roderick Watson, City Council  
Tina Pemberton, City Clerk  
Hon. Catharine Young, Chair, Senate Finance Committee  
Hon. Helene E. Weinstein, Chair, Assembly Ways and Means Committee  
Hon. Carl Marcellino, NYS Senate  
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