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November 4, 2014

Mr. Eugene Pigford, Supervisor
Members of the Town Board
Town of Sidney
21 Liberty St
Sidney, NY 13838

Report Number: B4-14-19

Dear Supervisor Pigford and Members of the Town Board:

Chapter 109 of the Laws of 2006 authorizes the Town of Sidney (Town) to issue debt totaling \$2.5 million to liquidate a portion of the cumulative deficit incurred by the Town due to expenses related to the Town-owned hospital for the fiscal year that ended December 31, 2005. 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 preliminary budget for the next succeeding fiscal year.

The preliminary budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on its adoption of the budget or the last date on which the budget may be finally adopted, whichever is earlier. The State Comptroller must examine the preliminary budget and make recommendations for any changes that are needed to bring the preliminary budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the Town.

The Town Board (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 preliminary 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 Town's preliminary budget for the 2015 fiscal year. The objective of the review was to provide an independent evaluation of the preliminary budget. Our review addressed the following questions related to the Town's budget for the 2015 fiscal year:

- Are the significant revenue and expenditure projections in the Town’s preliminary budget reasonable?
- Did the Town take appropriate action to implement or resolve recommendations contained in the budget review report issued in November 2013?

To accomplish our objectives in this review, we requested your preliminary 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 preliminary 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 preliminary budget package submitted for review for the fiscal year ending December 31, 2015 consisted of the following:

- 2015 Preliminary budget
- Supplementary information

The preliminary 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 (Town-Wide)	\$944,555	\$260,500	\$60,000	\$624,055
General (Town Outside-Village)	\$18,416	\$5,056	\$1,280	\$12,080
Highway (Town-Wide)	\$357,387	\$27,000	\$0	\$330,387
Highway (Town Outside-Village)	\$316,697	\$40,000	\$0	\$276,697
Hospital Fund	\$590,862	\$462,000	\$128,862	\$0
Fire Protection Districts	\$59,654	\$0	\$0	\$59,654
Lighting District	\$4,000	\$0	\$0	\$4,000
Consolidated Health	\$6,000	\$2,600	\$0	\$3,400

Based on the results of our review, we found that generally the significant revenue and expenditure projections in the preliminary budget are reasonable. However, we found that the Town's projections for rental income in the Hospital Fund were not based on amounts expected to be received according to current lease agreements. The Town did not budget for an additional \$95,000 in nonrecurring rental income, but did include \$30,000 of lease payments for which no lease agreement exists. As a result, the Town underestimated rental revenue by a total of \$65,000.

In addition, the Town is currently reporting accounts payable in the Hospital Fund related to the hospital which closed in 2005. While the Hospital Fund is primarily responsible for the \$1.9 million payable, the fund has only approximately \$535,000 in current resources available to liquidate the liability. Because the Town has been reporting the same liability for several years without any changes, we recommend that Town officials determine if these payables are legitimate liabilities and, if not, remove them from the balance sheet.

The Town's total current resources are approximately \$1.6 million. Therefore, the full liquidation of the Hospital Fund liability would have a significant impact on the Town's real property tax levy, or the current level of services that it provides. Although we have reported this issue to the Town in prior budget review letters,¹ Town officials have not taken corrective action.

If the \$1.9 million liability balance is still valid, then Town officials are appropriating \$128,862 of fund balance that is unavailable. The Hospital Fund would report an estimated fund balance deficit of approximately \$1.4 million. The Board should not appropriate fund balance that does not exist.

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.

The Town's preliminary budget complies with the tax levy limit because it includes a tax levy of \$1,310,274, which is within the limits established by law. In adopting the 2015 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.

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. In addition, 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.

¹ The Town of Sidney 2014 Budget Review (B4-13-19), Town of Sidney 2013 Budget Review (B4-12-19) and Town of Sidney 2012 Budget Review (B4-11-19)

We encourage the Board to make this plan available for public review in the Town Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

We hope that this information is useful as you adopt the upcoming budget for the Town. 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,

Gabriel F. Deyo

cc: Gretchen Gage, Bookkeeper
Lisa French, Town Clerk
Hon. John A. DeFrancisco, NYS Senate, Finance Committee
Hon. Herman D. Farrell, Jr., NYS Assembly, Ways and Means Committee
Hon. Clifford W. Crouch, NYS Assembly
Hon. James L. Seward, NYS Senate
Robert L. Megna, Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
H. Todd Eames, Chief Examiner