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April 10, 2015

Hon. Wayne J. Hall Sr., Mayor
Members of the Board of Trustees
Village of Hempstead
99 Nichols Court
Hempstead, New York 11550

Report Number: B7-15-7

Dear Mayor Hall and Members of the Board:

Chapter 646 of the Laws of 2006 authorizes the Village of Hempstead (Village) to issue debt totaling \$4.2 million to liquidate the accumulated deficit in the Village's general and water funds as of May 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 proposed budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on the adoption of the budget or the last date on which the budget may be finally adopted, whichever is sooner. 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 Village's estimates of revenues and expenditures.

The Village 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 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 Village's budget for the 2015-16 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 budget for the 2015-16 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 ended 2015-16 consisted of the following:

- 2015-16 Proposed Budget
- 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	\$81,769,882	\$14,199,387	\$3,173,020	\$64,397,475
Water	\$8,471,719	\$8,321,719	\$150,000	
Library	\$3,226,184	\$3,226,184		
Debt Service	\$5,599,913	\$5,599,913		
Self Insurance	\$3,962,426	\$3,962,426		

Based on the results of our review, we found that the significant revenue and expenditure projections in the proposed budget are reasonable.

Constitutional Tax Limit

The Constitutional Tax Limit is the maximum amount of real property tax that may be levied in any fiscal year. The amount of real property taxes that the Village can raise each year to finance its budget is limited by the State Constitution to 2 percent of its five-year average full property value.¹ Based on the 2015-16 proposed budget, the Village will have exhausted 91.32 percent of

¹ The State Constitution and related statutes allow for taxes in the amount of certain appropriations to be excluded when determining the amount of levy that must be below the tax limit. This tax levy amount (total levy minus exclusions) is often referred to as taxes subject to the limit.

its taxing authority. The Village's ability to rely on real property taxes as an increased revenue source in the future is limited. If the Village exceeds its tax limit, the State Comptroller is required to withhold State aid in an amount equal to the tax limit exceeded. We caution the Village that if property values do not increase, the ability to increase taxes may be reduced in the future.

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 was effective in the Village beginning with the 2012-13 fiscal year. The Law precludes local governments from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less,² unless the governing board adopts a local law to override the tax levy limitation.

The Village's proposed budget includes a tax levy of \$64,397,475, which exceeds the allowable tax levy limit. Therefore, to comply with the Law, the Board must amend the proposed budget or adopt a local law overriding the tax levy limit before it adopts the proposed budget.

Tax Stabilization Reserve Fund

The Village has previously established a tax stabilization reserve to finance certain unanticipated revenue losses or unanticipated expenditures, and to lessen or prevent projected increases in excess of 2.5 percent of the real property tax levy. Generally, the reserve may be used only upon recommendation of the chief executive officer and resolution adopted by at least two-thirds vote of the governing board.

The Village's proposed budget for the 2015-16 fiscal year includes the use of \$500,000 from the tax stabilization reserve to lessen the real property tax levy. Since the Board has not yet adopted a resolution to use the reserve, it must do so before it adopts the proposed budget.

We request that you provide us with a copy of the adopted budget.

We hope this information is helpful to you as you adopt a budget for the Village. If you have any questions on the scope of our work, please contact Mr. Ira McCracken, Chief Examiner of our Hauppauge Office, at (631) 952-6534.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

² Our Office has previously determined that the rate of inflation applicable to villages with a fiscal year beginning June 1, 2015 is no greater than 1.68 percent.

cc: Raymond Calame, Village Treasurer/Comptroller
Patricia Perez, Village Clerk
Hon. John A DeFrancisco, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Chair, Assembly Ways and Means Committee
Hon. Earlene Hooper, NYS Assembly
Hon. Kemp Hannon, NYS Senate
Mary Beth Labate, Budget Director, Division of Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Ira McCracken, Chief Examiner, Hauppauge Regional Office