



ALAN G. HEVESI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

MARK P. PATTISON
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT SERVICES
AND ECONOMIC DEVELOPMENT
Tel: (518) 474-4037 Fax: (518) 486-6479

Report No. B5-06-11

May 25, 2006

Honorable Joseph R. Emanuele, Mayor
And Members of the Common Council
City of Amsterdam
61 Church Street
Amsterdam, New York

Dear Mayor Emanuele and Members of the Common Council:

Our office recently completed an audit of the City of Amsterdam's (City) budget for the 2006-07 fiscal year. The objective of the audit was to provide an independent evaluation of the proposed budget. Our audit addressed the following questions related to the City's budget for the 2006-07 fiscal year:

- Are the City's revenue and expenditure projections in the proposed budget reasonable?
- Is the City's budget structurally balanced so that recurring costs are financed with recurring revenues?

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) with the exception of reporting views of responsible officials which were not solicited for this report due to the necessity of providing the City with this time-sensitive information. However, the results of this audit have been discussed with City officials and their comments have been considered in preparing this report. GAGAS requires that we plan and perform our audit to adequately assess the estimates in the tentative budget. Further, those standards require that we understand the City's management controls and those laws, rules and regulations that are relevant to preparing estimates for the tentative budget.

To accomplish our objectives in this audit, we requested your proposed budget along with other pertinent information. We analyzed the composition of revenues and expenditures in order to determine if the revenue and expenditure estimates are reasonable and if the budget is structurally balanced so that recurring costs are financed with recurring revenues. It was not our intent and we do not offer comments on public policy decisions, such as, the type and level of services to be provided.

The proposed budget package for the fiscal year ended June 30, 2007, submitted for audit consisted of the following:

- 2006-07 Tentative Budget
- Supplemental Information

The tentative budget submitted to our office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance and Reserves	Real Property Taxes
General	\$12,069,936	\$7,466,630	\$150,000	\$4,453,306
Water	\$ 3,529,289	\$3,525,505	\$3,784	\$0
Sewer	\$3,746,892	\$3,746,892	\$0	\$0
Sanitation	\$1,735,080	\$1,720,580	\$14,500	\$0
Bus	\$612,169	\$612,169	\$0	\$0
Golf	\$550,462	\$545,000	\$5,462	\$0

The observations and recommendations resulting from our audit are, to a great extent, influenced by the quality and quantity of materials submitted, and the time between submission and budget adoption.

Based on the results of our audit, except as noted below, we found the significant revenue and expenditure estimates in the proposed budget to be reasonable and the City's budget structurally balanced. However, our audit disclosed the following findings which should be reviewed by the Common Council for appropriate action.

Good management practices require that City officials take prompt action concerning our recommendations. We believe that prompt action by City officials will help improve the City's financial condition.

Contingency Account

Contingency accounts are utilized by local governments as a means of providing funding for unexpected events. The City's tentative 2006-07 budget has reduced the proposed contingency to less than 50 percent of the prior year's amount. The 2006-07 proposed budget includes a \$150,000 contingency appropriation, or approximately 1.2 percent of the total anticipated general fund appropriations. Considering the uncertainty surrounding certain of the City's revenues and expenditures we question the sufficiency of the contingency account. For example, City officials increased the fuel appropriations in the 2006-07 budget by approximately 24 percent which seems like a reasonable estimate. However, based on market volatility the budgeted amounts should be continuously monitored throughout the year to ensure sufficient funds are available. Health insurance is another cost that has been increasing significantly over the past several years. Any unplanned increase in fuel costs or health insurance expense could quickly exhaust the relatively small amount budgeted for contingencies.

City Officials should provide more flexibility in the budget by increasing the provision for contingencies. At a minimum, the budget should include as much for unexpected expenditures as was provided in the prior year's budget.

Long-Term Financial Outlook

Real property taxes are the single largest source of revenue for most localities in New York State. Generally, pursuant to the State Constitution Article VIII Section 10(c), a city such as Amsterdam with a population of less than 125,000 has a tax limit restricted to 2 percent of the average full valuation of taxable real property, with certain exclusions for appropriations such as long-term debt. In 1989, City voters approved a local law reducing the City's tax limit from 2 percent to 1 percent. We note that the City's tentative budget for 2006-07 results in a tax levy in an amount equal to 99.54 percent of the City's current self-imposed tax limit.

Furthermore, in November 2004, voters approved a local law that limits increases in the City tax rate and user fees to no more than 3 percent per year, excluding amounts raised to pay annual debt service costs. This places further constraints on the amount of real property taxes and user fees the City can impose.

These tax and user fee restrictions place strict limits on the City's ability to finance its current and future operations and to provide for long-term capital construction and asset replacement. If the City is unable to increase its tax base and customer bases for various user services or increase other revenues, the City may be unable to sustain the current level of services being provided to its citizens. Even normally expected cost increases can create serious budget difficulties if there is no corresponding growth in revenues. In fact, the City's own multi-year financial plan clearly illustrates that the City faces a declining financial condition.

The Aid and Incentives to Municipalities (AIM) program was enacted in the 2005-06 State budget. The AIM program combined local unrestricted aid categories into a new funding. In addition to streamlining the aid process, the program also provided additional funding to cities if they comply with certain financial planning and accountability requirements. One of the requirements for a City participating in the program is preparation of a multi-year financial plan of projected financial activity.

In compliance with the AIM program, the City of Amsterdam prepared a multi-year financial plan addressing its 2005-06 through 2009-10 fiscal years. The resulting projections clearly indicate that starting with the 2005-06 fiscal year the City will incur a series of annual operating deficits in both the general and water funds if City officials take no corrective actions. Based on the City's projections the two funds will have operating deficits as follows:

Fiscal Year Ending	Projected Operating Deficits		
	General Fund	Water Fund	Total
2005-06	\$400,307	\$ 31,832	\$ 432,139
2006-07	330,468	260,522	590,990
2007-08	451,745	244,920	696,665
2008-09	580,173	433,781	1,013,954
2009-10	716,488	417,229	1,133,717
Total	\$2,479,181	\$1,388,284	\$3,867,465

It is imperative that City officials address the projected operating deficits noted in the multi-year financial plan. The magnitude of the projected deficits, if left unattended, could result in the inability of the City to provide basic core service to its residents in the future.

The Common Council has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Common Council should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within ninety days. We encourage the Common Council to make this plan available for public review in the City clerk's office. For guidance in preparing your plan of action and filing this report refer to the attached documents. We also request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt a budget for your City. If you have any questions on the scope of our work, please contact the Glens Falls Regional Office at (518) 793-0057.

Sincerely,

Karl M. Smoczynski
Chief Examiner of Municipal Affairs

KMS:MDC:cac

Attachment

cc: Lawrence Mazur, City Controller
Jane DiCaprio, City Clerk
Joseph Isabel, Council Member
Anthony Pallotta, Council Member
Vincenzo Nicosia, Council Member
William Wills, Council Member
Richard Leggiero, Council Member