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June 23, 2009

Honorable Ann Thane, Mayor
Members of the Common Council
City of Amsterdam
City Hall, 61 Church Street
Amsterdam, NY 12010

Report Number: B5-9-19

Dear Mayor Thane and Members of the Common Council:

Our Office has recently completed an audit of the City of Amsterdam's (City) budget for the 2009-2010 fiscal year. The objective of the audit was to provide an independent evaluation of the tentative/proposed budget. Our audit addressed the following questions related to the City's budget for the 2009-2010 fiscal year:

- Are the significant revenue and expenditure projections in the City's proposed budget reasonable?

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), with the exception of reporting views of responsible officials. Officials' views 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions regarding the estimates in the proposed 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. We do not offer comments on public policy decisions, such as the type and level of services to be provided.

The tentative budget package submitted for audit for the fiscal year ended June 30, 2010 consisted of the following:

- 2009-10 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	\$13,273,514	\$8,895,196	\$0	\$4,378,318
Water	\$3,857,570	\$3,812,570	\$45,000	\$0
Sewer	\$3,941,837	\$3,941,837	\$0	\$0
Sanitation	\$1,919,886	\$1,827,135	\$92,751	\$0
Bus	\$614,214	\$614,214	\$0	\$0
Golf	\$657,768	\$617,450	\$40,318	\$0

The observations and recommendations resulting from our audit are, to a great extent, influenced by the quality and quantity of materials submitted, and by the time between submission and budget adoption. According to the City Charter, the Budget Review Board must adopt a proposed budget on or before May 1. However, the Board did not adopt the proposed budget until May 14, 2009, or two weeks late. The delay in providing our Office with the tentative budget package impeded our ability to review the City's 2009-10 tentative budget and provide City officials with the results of our review before the final budget was adopted on May 26, 2009.

Although our budget review focused on the City's 2009-10 budget, we also reviewed the City's recent results of operations and long-range financial plan. Because the City is limited to annual increases of no more than 3 percent in tax and user fees, its ability to finance its current and future operations and provide for long-term capital construction and asset replacement is restricted. City officials should put a realistic long-range financial plan in place and should continue to monitor the City's finances and make amendments when appropriate.

We found that the City's significant revenue and expenditure estimates may not be achievable. We estimate that the City's 2008-09 deficit will be \$860,000, almost seven times higher than the City's estimate of \$128,000. Further, the City's contingency account may not be adequate to provide the flexibility needed if sales tax revenues do not meet expectations. Given the restrictions imposed by the City's tax increase limitations, City officials need to monitor the budget closely and put a realistic long-term plan in place to guide future financial choices.

Operating Deficit

We determined that in all likelihood the City will realize a significantly greater operating deficit in the general fund for 2008-09 than originally estimated, resulting in a proportionate decrease to its unreserved unappropriated general fund balance. City officials estimated incurring an operating deficit of approximately \$128,000 for 2008-09; however, this estimate was based on total expenditures equaling the original budget estimate for appropriations, or \$12.9 million. We estimate that the City's expenditures will actually total \$13.6 million, an amount closer to the appropriations in the amended budget. This will result in an operating deficit of \$860,000. In part, the operating deficit is the result of a \$300,000 increase in interfund transfers for capital projects, a \$140,000 increase in police appropriations for personal service and equipment costs, and a \$129,000 increase in fire appropriations for various pieces of equipment. These appropriations were not provided for in the original adopted budget and were only included in the amended budget after appropriating unreserved fund balance. Furthermore, the City did not

account for these appropriation increases when projecting its unreserved unappropriated fund balance at June 30, 2009.

With a larger operating deficit, the unreserved, unappropriated general fund balance will be \$1.86 million instead of the \$2.47 million estimated by City officials. This larger than anticipated operating deficit and its negative effect on the general fund's unreserved unappropriated fund balance will further restrict the City's financial flexibility in future years. Due to the existing self-imposed tax limit and user fee limitations, City officials cannot readily plan for any significant fluctuations in its real property tax rate and user charges. If the City's assumptions of significant revenues and expenditures, as noted above, are incorrect for the upcoming fiscal year, additional appropriations of fund balance may be required in order to finance operations. The City should closely monitor its budget and long range financial plan to ensure that appropriate amendments are made on a timely basis and any other corrective action is taken as needed.

Contingency Appropriation

Contingency accounts are used by local governments to provide funding for unexpected events. The City's newly adopted budget includes a \$303,505 contingency appropriation, an amount representing approximately 2.3 percent of the total anticipated general fund appropriations. The proposed contingency appropriation is significantly lower than the \$400,000 included in the original draft of the 2009-10 budget. Considering the volatility surrounding certain revenues and expenditures, the City should pay particular attention to monitoring the balance in this account to ensure that sufficient funding is available for potential contingencies. The City Charter does not address budgeting for contingencies. New York State statutes for other classes of local government set the maximum for such accounts at 10 percent of the general fund budget (excluding debt service and judgments). If the City observed such a limit, the contingency appropriation could be as high as \$1.3 million. Due to the uncertainty of the City's sales tax revenues, the City should consider increasing the contingency appropriation to a level that would provide the City with financial flexibility in the event that the City has to deal with revenue shortfalls or insufficient appropriations. Given that the current year's operating deficit will be about \$730,000 more than officials anticipated, a contingency appropriation of \$750,000 would be a more conservative approach.

Sales Tax Estimate

Considering the current economic conditions, specific steps should be taken to "hedge" against potential shortfalls of certain revenues included in the 2009-10 budget. For example, although the City may not realize the full \$3.5 million in sales tax revenue it had expected to receive from Montgomery County for the current year because of the economic downturn, the City has estimated sales tax distributions for 2009-10 at \$3.9 million, which represents about 29 percent of anticipated general fund expenditures. This estimate may be too high.

The increased revenue estimate is the result of new distribution agreement with Montgomery County. Beginning in 2009-10, the City will enter into a new 20-year agreement with the County that will produce a small increase in the City's share of sales tax revenue the County collects. The City currently receives 10 percent of the last 1 percent of tax collected. Under the new agreement, the City's share will increase to 18 percent of the last 1 percent collected. In view of this change, the City budgeted for an 11.43 percent increase in sales tax revenues.

However, according to information provided by Montgomery County during our review, sales tax revenues during the County's first quarter ending March 31, 2009, were down approximately 6 percent from the same time period last year. The County Treasurer estimates that sales tax revenues for the second quarter ending June 30, 2009 will also be down about 6 percent from the same quarter in 2008.

During 2008, the County reported collecting a total of \$25.5 million in sales tax revenue. Under the old distribution agreement, the City's share would be \$3.5 million; under the new agreement taking effect on July 1, 2009, the City's share would increase to \$4 million. Assuming economic conditions had remained constant, the City's estimate of \$3.9 million would appear reasonable. However, given current unfavorable economic conditions, a decrease in the price of gasoline from record highs (and resulting record-high gasoline sales tax revenues) in 2008, and the decrease in sales tax revenues reported at the County for the first and second quarters of 2009, the estimate does not appear reasonable. As such, the City should closely monitor the revenues realized during the year and be prepared to take appropriate action in the event that actual revenues are falling short of estimates.

City officials should have monthly budget comparison reports prepared and should review them to ensure that sufficient funds are available to finance ongoing operations. City officials should closely monitor all City revenues and expenses, including sales tax revenues, and make adjustments as necessary.

The Common Council has the responsibility to initiate corrective action. Pursuant to Section 35 of 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 90 days. We encourage the Board 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, please refer to the attached documents.

We hope that this information is useful as you prepare to implement your adopted budget. If you have any questions on the scope of our work, please feel free to contact Karl M. Smoczynski at (518) 793-0057.

Very truly yours,

Steven J. Hancox
Deputy Comptroller

cc: Heather Reynicke, City Controller
Joseph Isabel, Deputy Mayor
Ann Phelps, Deputy Controller
Susan Alibozek, City Clerk