



THOMAS P. DINAPOLI
COMPTROLLER

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

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

March 12, 2014

The Honorable William Aiello
Members of the Common Council
City of Olean
101 East State Street
Olean, New York 14760-0668

Report Number: B1-14-1

Dear Mayor Aiello and Members of the Common Council:

Chapter 331 of the Laws of 2007 authorizes the City of Olean (City) to issue debt totaling \$4,300,000 to liquidate the accumulated deficit in the City's general, water and sewer funds as of May 31, 2007. 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 tentative or proposed budget for the next succeeding fiscal year. The City's deficit financing is required by the legislation to mature no later than September 2017.

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 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 estimates of revenues and expenditures of the City.

The Common 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 Common Council rejects must be explained in writing to our Office.

Our Office has recently completed a review of the City's budget for the 2014-15 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 2014-15 fiscal year:

- Are the significant revenue and expenditure projections in the City's proposed 2014-15 budget reasonable?

- Did the City take appropriate action to implement or resolve recommendations contained in our budget review report letter issued in March 2013?

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 estimates were 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. In addition, we inquired and evaluated whether written recommendations from our last 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 May 31, 2015 consisted of the following:

- Cover Letter
- 2014-15 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	\$16,369,023 ^a	\$9,370,565	\$0	\$6,998,458
Water	\$3,569,073	\$3,569,073	\$0	\$0
Sewer	\$3,452,788 ^b	\$3,452,788	\$0	\$0
Total	\$23,390,884	\$16,392,426	\$0	\$6,998,458

a This does not include approximately \$1.4 million for capital improvement projects that were requested by department heads and included in the City's Five Year Capital Plan.
b This does not include \$275,000 for capital improvement projects that were requested by department heads and included in the City's Five Year Capital Plan.

Based on the results of our review, except for the matters described below, we found that the significant revenue and expenditure projections in the proposed budget appear reasonable. Although the City has made significant progress in improving its financial condition, it did not completely implement recommendations contained in our budget review report letter issued in March 2013. The City's proposed budget complies with the property tax levy limit set by statute.

On May 31, 2013, the City’s audited financial statements reported that unrestricted, unappropriated fund balance in the general, water and sewer funds were 27 percent, 25 percent and 23 percent, respectively, of the following year’s appropriations.¹ The City also projects operating surpluses for all three funds for the current 2013-14 fiscal year.

Our review 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.

General Fund Appropriations

Street Maintenance - Budget summary schedules include a total for street maintenance of \$698,950 while supporting schedules total only \$648,950. We recommend that City officials investigate this \$50,000 difference and adjust the budget, if necessary.

Debt Service – While reviewing associated transfers to the debt service fund to make associated debt payments during the year, we noted errors in the debt schedule used. These errors included payment for equipment no longer being financed and erroneous allocations of debt payments between funds. The following schedule illustrates the effect of these errors:

Fund	Transfer Included in the 2014-15 Proposed Budget	2014-15 Transfer Needed	Variance
General Fund	\$634,282	\$609,198	\$25,084
Sewer Fund	\$842,288	\$876,000	(\$33,712)
Water Fund	\$1,040,805	\$1,040,805	\$0
TOTAL	\$2,517,375	\$2,526,003	(\$8,628)

We recommend that City officials adjust the budget to agree with the corrected debt schedule.

Personal Service Costs –Salary schedules should be prepared each year for all City employees and verified against negotiated contracts or resolutions of the Common Council to support personal service appropriations in the proposed budget. While a revenue² estimate was included in the proposed budget for court security, the budget failed to include \$46,000 in court security personal service costs. We recommend that City officials include this amount in the budget.

Water Fund – The 2014-15 budget estimate of \$3,569,073 for water fund revenue includes an anticipated increase in water rates of 4 percent, which equates to approximately \$136,000. This revenue estimate assumes the anticipated water rate increase is adopted by the Common Council. We recommend that the potential water rate increase be authorized by the Common Council prior to the adoption of the budget. If the water rate increase is not authorized, or is authorized at a different rate, the revenue estimate should be modified accordingly.

¹ Included appropriations for transfers to the debt service fund

² Court security costs are eligible for reimbursement by the New York State Office of Court Administration.

Sewer Fund – The 2014-15 budget estimate of \$3,452,788 for sewer fund revenue also includes an anticipated increase in rates of 3 percent. This revenue estimate is approximately \$33,000 less than the previous year’s budget and is more in line with current usage trends. We recommend that the potential sewer rate increase be authorized by the Common Council prior to the adoption of the budget. If the sewer rate increase is not authorized, or is authorized at a different rate, the revenue estimate should be modified accordingly.

Prior Recommendations – The City did not take appropriate action to implement all of the recommendations contained in our budget review report letter issued in March 2013. To increase budget transparency, we previously recommended that the \$450,000 budgeted as a transfer to the capital projects fund for the purchase of vehicles be included in department budgets. City officials still budgeted and transferred \$150,000 to the capital projects fund, thus decreasing the transparency of the overall budget. In addition, we also recommended that anticipated water and sewer rate increases included in the 2013-14 budget be adopted by the Common Council prior to the adoption of the budget. While the 2013-14 budget was adopted by the Common Council on April 9, 2013, the associated rate increases were not approved until two weeks later on April 23, 2013.

Tax Cap – The State Legislature enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a local government 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, and certain exclusions permitted by law, 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 proposed tax levy of \$6,998,458, which decreases the 2014-15 tax levy by approximately \$3,600. In adopting the 2014-15 budget, the Common Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the statutory limit.

As noted above, the Common Council 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 a budget for the City. If you have any questions on the scope of our work, please feel free to contact Christine M. Pinkoski, CPA, Principal Examiner of the Buffalo Regional Office, at (716) 847-3647.

Very truly yours,

Gabriel F. Deyo

cc: Fred Saradin, City of Olean Auditor and Budget Officer
Tiffany Lyman, Clerk of the Board
John A. DeFrancisco, Chair, Senate Finance Committee

Herman Farrell, Jr., Chair, Assembly Ways and Means Committee
Joe Giglio, NYS Assembly
Catherine M. Young, NYS Senate
Robert L. Megna, Director, Division of the Budget
Christine M. Pinkoski, Principal Examiner, Local Government and School Accountability