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November 4, 2016

The Honorable Anne E. McCaffrey
Members of the Common Council
City of Lockport
Lockport Municipal Building
One Locks Plaza
Lockport, NY 14094

Report Number: B1-16-16

Dear Mayor McCaffrey and Members of the Common Council:

Pursuant to Chapter 332 of the Laws of 2014, as amended by Chapter 147 of the Laws of 2015 (the "Act"), the New York State Legislature authorized the City of Lockport (City) to issue debt to liquidate the accumulated deficits in the City's general, water and sewer funds as of December 31, 2013.

The Act requires the Mayor to submit to the State Comptroller each year, beginning January 1, 2015, and for each subsequent fiscal year during which the debt incurred to finance the deficit is outstanding, the proposed budget for next succeeding fiscal year. The Act requires that the submission of the proposed budget be made to our Office no later than 30 days before the last date on which the budget must be finally adopted.

The Act further provides that the State Comptroller must examine the proposed budget and make recommendations as deemed appropriate to the Common Council no later than 10 days before the last date on which the budget must be adopted. 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 the State Comptroller's recommendations and make adjustments to its proposed budget consistent with any recommendations made by the State Comptroller.

Our Office has recently completed a review of the City's proposed budget for the 2017 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 City's budget for 2017:

- Are the significant revenue and expenditure projections in the City'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 estimates were realistic and reasonable.

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 December 31, 2017 consisted of the following:

- 2017 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	\$24,198,471	\$11,889,629	\$0	\$12,308,842
Water	\$4,473,539	\$4,473,539	\$0	\$0
Sewer	\$4,172,660	\$4,172,660	\$0	\$0
Refuse	\$1,289,000	\$1,289,000	\$0	\$0
Total	\$34,133,670	\$21,824,828	\$0	\$12,308,842

Based on the results of our review, except for the matters described in this letter, we found that the significant revenue and expenditure projections in the proposed budget appear reasonable. Our review disclosed the following findings which should be reviewed by the Common Council for appropriate action. We discussed minor budget deficiencies we noted during our review with City officials. 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

Contingency accounts are used by local governments as a means of providing funding for unexpected events and uncertainties. This can be particularly important in cases, such as the City, where there are four collective bargaining agreements with various City employees that have expired and are currently being renegotiated. If any of these contracts are settled in 2017, it is likely that appropriations will be needed to fund salary increases. Furthermore, 51 City employees

are retirement eligible and, if they choose to retire in 2017, will be due buyouts averaging \$25,000¹ per retiree, totaling up to \$1.3 million. Currently, the City included approximately \$626,000 in the proposed general fund budget to fund buyouts for approximately 25 employees who may retire in 2017. No retiree buyout provisions were included in the water or sewer funds.

Although the City Charter does not specifically address budgeting for contingencies, other classes of local government are allowed by law to set the maximum dollar amount for contingency accounts at 10 percent of the fund's budget, which can serve as a general guideline for the City. The City's proposed budget includes contingency appropriations totaling \$310,000,² an amount that represents 1 percent of total anticipated general and water fund expenditures. In reviewing the adequacy of contingency appropriations, it is important that the Common Council prudently consider current economic conditions and uncertainties and the need to provide adequate funding for any significant unforeseen costs. The Common Council should consider increasing the contingency appropriations in the adopted budget.

Tax Overlay

It is important for City officials to make necessary adjustments to the tax levy each year to ensure that the full property tax levy is collected, especially when they are responsible to enforce unpaid amounts. These adjustments are known as a tax overlay, which is the amount of taxes estimated to be uncollected and unavailable to finance budgetary appropriations. Adding the tax overlay to the original calculated amount that is needed to operate the City determines the actual amount of the current year's tax levy. The proposed budget does not include a tax overlay, which could create a shortfall in 2017. While the City's collection rate over the last five years was 96 percent, there is a risk that payment of prior year delinquent taxes will fall short, as these amounts are not guaranteed as future collections. The Common Council should include a tax overlay in the adopted budget.

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 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 tax levy limit for 2017 is 0.68 percent.

The Common Council will have to adopt the proposed local law to override the tax levy limit in 2017. This local law allows the proposed budget to include a tax levy of \$12,308,842, which increases the 2017 tax levy by 3.24 percent over the 2016 tax levy of \$11,923,026.

The Common Council has the responsibility to initiate corrective action to address the recommendations in this report.

¹ Based on historical data.

² \$250,000 in the general fund and \$60,000 in the water fund.

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

We hope that this information is useful as you adopt the upcoming budget for the City. If you have any questions on the scope of our work, please feel free to contact Jeffrey D. Mazula, Chief Examiner of the Buffalo Regional Office, at (716) 847-3647.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Sue A. Mawhiney, City of Lockport Treasurer
Scott A. Schrader, City of Lockport Finance Director
Richelle J. Pasceri, City of Lockport Clerk
City of Lockport Common Council
Hon. Catharine Young, NYS Senate, Finance Committee
Hon. Herman Farrell, Jr., NYS Assembly, Ways and Means Committee
Hon. Jane Corwin, NYS Assembly
Hon. Robert G. Ortt, NYS Senate
Robert F. Mujica, Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Jeffrey D. Mazula, Chief Examiner