



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

December 7, 2016

Wayne Ashley, Mayor
Members of the City Council
City of Ogdensburg
330 Ford Street
Ogdensburg, NY 13669

Report Number: B3-16-20

Dear Mayor Ashley and Members of the City Council:

The State Comptroller's Office has completed a review of the City of Ogdensburg's (City) preliminary budget for the 2017 fiscal year. The objective of our review was to provide an independent evaluation of the preliminary budget. Our review addressed the following question related to the City's budget for the upcoming fiscal year:

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

To accomplish our objective in this review, we requested your preliminary 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 preliminary 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.

Background

City officials should strive to adopt structurally balanced budgets that provide for sufficient recurring revenues to finance recurring expenditures. Non-recurring revenues, such as appropriated fund balance,¹ may be used as a financing source in the budget. However, because non-recurring revenues are finite, they should not regularly be used to finance recurring expenditures. Between 2011 and 2016, City officials appropriated an average of \$348,592 of fund balance each year to finance appropriations in the general fund budgets. As a result, City officials estimate that the City will end 2016 with approximately \$299,000 of available fund balance remaining (2 percent of 2017 budget appropriations). With so little fund balance, City officials cannot rely on it to balance the budget and fund operating expenses.

The preliminary budget package submitted to our Office for review for the 2017 fiscal year consisted of the following:

- Budget Message
- 2017 Preliminary Budget
- Supplementary Information

The preliminary budget developed by the City Manager for 2017 included two options for consideration by the City Council: one that proposed borrowing \$1 million for general fund operating expenses and a tax rate increase of 10.55 percent, and another that did not include borrowing for operating expenses, but included a 31.8 percent tax rate increase. Neither option included the appropriation of fund balance. There is no statutory authority for the City to borrow for operating expenses, as offered in one preliminary budget option. The budget option with the 31.8 percent property tax increase would put the City at approximately 97.5 percent of its constitutional tax limit.

Prior to the completion of our review, the City Council adopted a resolution on November 28, 2016 to amend the 2017 preliminary budget. Most importantly, the amendments decreased the property tax levy by approximately \$527,000, which is a 20.6 percent decrease. This amended preliminary budget also did not include any borrowing for operating expenses.

¹A portion of the unrestricted fund balance estimated to be available at year-end can be designated (appropriated) to help finance a fund's operations for the subsequent year.

The results of our review and recommendations are based on the preliminary budget, submitted to our Office, adjusted to reflect the Council’s November 28 amendments. The revised preliminary budget is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$13,735,647	\$8,061,045	\$0	\$5,674,602
Water	\$2,469,990	\$2,173,206	\$296,784	\$0
Sewer	\$2,966,960	\$2,494,840	\$472,120	\$0

Budget Review Results

Although the significant revenue and expenditure projections in the preliminary budget are reasonable, we identified several concerns with the preliminary budget that City officials should address. First, the proposed tax levy of \$5,674,602 is projected to exhaust approximately 88.5 percent of the City’s constitutional tax limit. Also, the budget provides for a limited contingency equal to only 0.21 percent of general fund appropriations, and does not provide for a tax overlay. In addition, the general fund budget relies on a significant amount of interfund revenues from both the water and sewer funds. With limited ability to levy additional property taxes, and the need to increase contingency amounts and provide for a tax overlay in the budget, City officials may need to reduce expenditures or find additional recurring revenues to ensure that the City has available funding for unexpected events and that the necessary amount of property taxes will be collected in the coming year.

Our review disclosed the following findings which should be reviewed by the City 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.

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 City 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.² Based on the 2017 preliminary budget, we estimate the City will exhaust 88.5 percent of its taxing authority.³ The City’s ability to rely on real property taxes as an increased revenue source in the future is limited. If the City exceeds its tax limit, the State Comptroller is required

² 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.

³ The City Comptroller had not filed the City’s constitutional tax limit form for 2017 at the time of our budget review. The City’s constitutional tax margin (the difference between the tax limit and taxes subject to the limit) is still subject to change.

to withhold State aid in an amount equal to the tax limit exceeded. We caution the City that if property values do not increase, the ability to increase taxes may be reduced in the future.

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 budget 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 City's preliminary budget does not include a tax overlay. City officials told us that, due to the City's high collection rate, a tax overlay had not been necessary in the past. However, with the possibility of a significant tax rate increase, property tax collections may not meet historical rates and could create a shortfall in 2017. The City Council should consider including a tax overlay in the adopted budget.

Contingency

Contingency accounts are used by local governments as a means of providing funding for unexpected events. Although the City Charter does not specifically address budgeting for contingencies, New York State statutes for certain other classes of local government set the maximum dollar amount for these accounts at 10 percent of the general fund budget (excluding appropriations for debt service), which can serve as a general guideline for the City. The City's preliminary budget includes a \$28,147 contingency appropriation, an amount that represents 0.21 percent of total anticipated general fund expenditures.

In reviewing the adequacy of contingency appropriations, it is important that the City Council consider current economic conditions and the potential need to fund significant unforeseen costs. This is particularly important because the City has limited fund balance available to provide resources to fund unforeseen expenses, such as costs associated with adverse weather events, unexpected machinery breakdowns, unplanned overtime, litigation costs and increases in health care, fuel and utility costs. The City Council should consider increasing the contingency appropriation in the adopted budget.

Interfund Revenues

The City's preliminary budget includes \$968,655 of interfund revenues in the general fund supported by appropriations in both the water and sewer funds. In large part,⁴ these revenues are reimbursements from the water and sewer funds, to the general fund, to offset the cost of services provided to the water and sewer funds. While it is important for City officials to ensure that the general fund be reimbursed for water and sewer related expenses, the amount of these reimbursements has increased significantly over the past four years. Budgeted interfund revenues increased approximately 131 percent, from \$419,517 in 2014 to \$968,655 in 2017.

⁴ The general fund budget includes \$603,578 in interfund revenues from the water fund and \$365,077 from the sewer fund. Out of the \$603,578 labeled as interfund revenue from the water fund, \$250,000 is an outright transfer from the water fund to the general fund.

Because estimated water and sewer revenues in the preliminary budget are not enough to cover the cost of appropriations in the water and sewer funds, the preliminary budget includes the appropriation of \$296,784 of fund balance in the water fund and \$472,120 of fund balance in the sewer fund. Based on year-end fund balance estimates we received from City officials,⁵ the City is projected to end 2016 with an available fund balance of \$608,873 in the water fund and \$1,333,892 in the sewer fund. The preliminary budget calls for appropriating 49 percent of the water fund's estimated available fund balance and 35 percent of the sewer fund's estimated available fund balance.

We caution City officials as to the use of fund balance to fund recurring water and sewer expenses. City officials should closely monitor the financial position of the water and sewer funds to ensure service rates are sufficient to support the cost of ongoing operations and fund balance is not gradually depleted over time.

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 with 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.

On October 11, 2016, the City Council adopted a local law to override the tax levy limit in 2017. Therefore, the City's preliminary budget is in compliance with the tax cap law.

The City Council has the responsibility to initiate corrective action. Pursuant to Section 35 of New York State General Municipal Law, the 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 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, please refer to the attached documents.

⁵ City officials' estimated total 2016 year-end balances for the water and sewer funds. To calculate estimated available balances at year-end, we reduced officials' estimates by the portion of fund balance reported as not in spendable form on the City's 2015 Annual Update Document filed with our Office.

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 City budget. If you have any questions on the scope of our work, please feel free to contact Rebecca Wilcox, Chief Examiner of the Syracuse Regional Office, at (315) 428-4192.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Sarah Purday, City Manager
Tim Johnson, City Comptroller
Kathleen Bouchard, Clerk of the City Council
Andrew A. SanFilippo, Executive Deputy Comptroller
Rebecca Wilcox, Chief Examiner, Syracuse Regional Office