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April 27, 2022

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

Report Number: B22-5-3

Dear Mayor Cinquanti and Members of the Common Council:

Chapter 531 of the Laws of 2019 authorized the City of Amsterdam (City) to issue debt not to exceed \$8.3 million to liquidate the cumulative deficits in the City's general, transportation, sewer and recreation funds accumulated as of June 30, 2018. Additionally, Chapter 531 requires the City to submit to the State Comptroller, starting with the fiscal year during which it was authorized to issue the deficit obligations, and for each subsequent fiscal year during which the deficit obligations are outstanding, its proposed budget for the next succeeding fiscal year.

The proposed budget must be submitted no later than 30 days before the last date on which the budget must be finally adopted by the Common Council (Council). The State Comptroller must examine the proposed budget and make recommendations on the proposed budget as deemed appropriate. Recommendations, if any, are made after the examination of the City's revenue and expenditure estimates.

The 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 Council rejects must be explained in writing to our Office. The City may not issue bonds unless and until adjustments to the proposed budget consistent with any recommendations of the State Comptroller are made, or any recommendations that are rejected have been explained in writing to the State Comptroller.

Our Office has recently completed a review of the City's budget for the 2022-23 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 the upcoming fiscal year:

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

Based on the results of our review, we found that certain significant revenue and expenditure projections in the 2022-23 proposed budget are not reasonable and other matters that require City officials’ attention. We also found that City officials did not implement all of the recommendations in our previous budget review letter¹ when preparing the 2022-23 proposed budget.

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. We also evaluated the amount of fund balance appropriated in the proposed budget to be used as a financing source and determined whether 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.

The proposed budget package submitted for review for the 2022-23 fiscal year (summarized in Figures 1, 2 and 3) consisted of the following:

- Budget Message
- 2022-23 Proposed Budget
- Supplementary Information

Our review disclosed the following findings which should be reviewed by the Mayor and Council, with appropriate action taken as necessary in accordance with the requirements in Chapter 531.

Figure 1: 2022-23 Proposed Budget				
Fund	Appropriations and Provisions for Other Uses	Financing Sources		
		Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$18,689,000	\$12,897,427	\$0	\$5,791,573
Water	\$7,346,021	\$5,997,392	\$1,348,629	\$0
Sewer	\$5,523,105	\$5,523,105	\$0	\$0
Refuse	\$2,813,306	\$2,813,306	\$0	\$0
Recreation ^a	\$902,790	\$902,790	\$0	\$0

a) The recreation fund is used to account for the operations of the Amsterdam Municipal Golf Course.

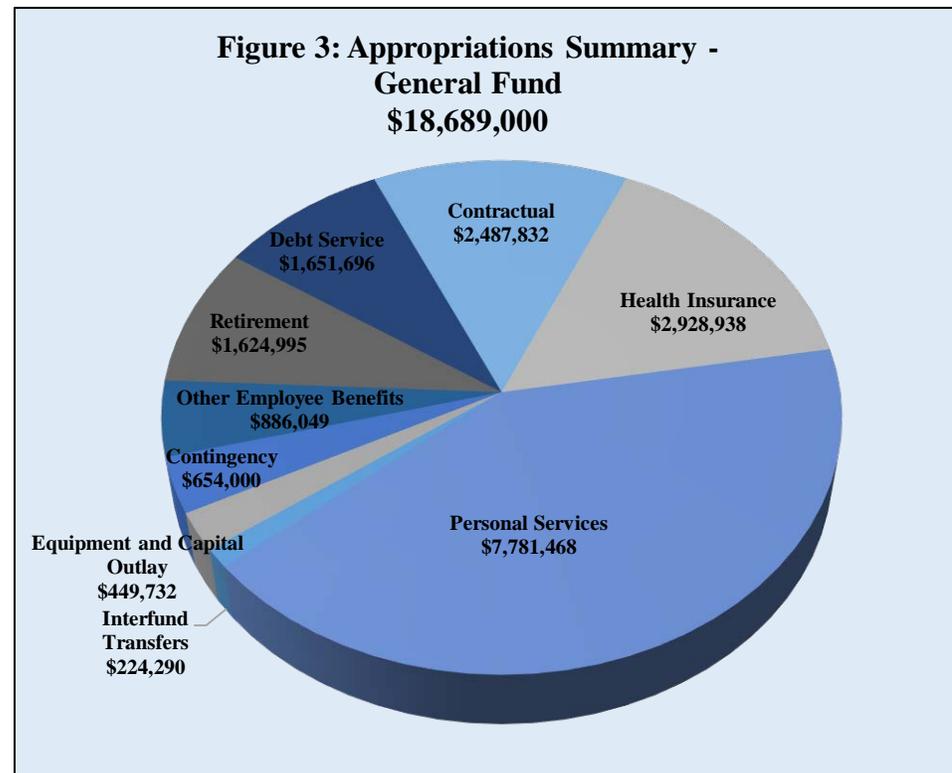
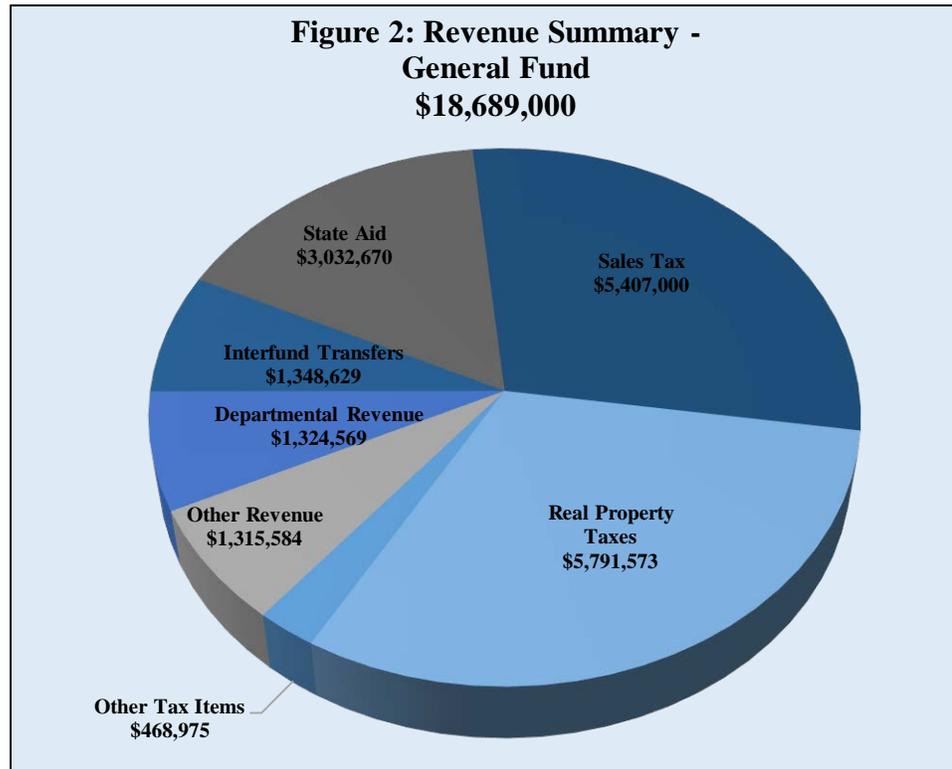
¹ <https://www.osc.state.ny.us/files/local-government/audits/2021/pdf/amsterdam-budget-review-b21-5-5.pdf>

Proposed Budget Submission

The City Charter (Charter) requires the Mayor to submit to the Council a proposed City operating budget for the ensuing fiscal year on or before the first day of April each year. The Mayor submitted the 2022-23 proposed budget to the Council on April 11, 2022, or 10 days after the Charter-established deadline.

The untimely submission of the proposed budget has reduced the Council's time to both review the proposed budget prior to the public hearing and prepare any necessary modifications to the proposed budget prior to adopting the budget.

As recommended in our previous budget review letter, the Mayor should ensure future proposed budgets are submitted to the Council on or before the deadline.



Revenues

Solid Waste Service Charges – The proposed refuse fund budget includes estimated revenues of approximately \$2.8 million for solid waste service charges.² The Controller estimated these revenues by multiplying 8,462 units by the proposed increased solid waste service charge of approximately \$330 per unit. However, the 2022 final assessment roll, which will be used by City officials to assess solid waste service charges to property owners in 2022-23, includes 8,138 units, or 324 units less than the amount used in the Controller’s estimate. Based on this, if the Council approves the proposed solid waste service charge increase, we project that the City would realize solid waste service charge revenues of approximately \$2.7 million in 2022-23, resulting in a revenue shortfall of approximately \$107,000.

This occurred because the Controller estimated revenues based on the number of units used by City officials to assess solid waste service charges to property owners in 2020-21. City officials should review this revenue estimate and make modifications to the budget as necessary.

Golf Course Fees – The proposed recreation fund budget includes estimated revenues of \$663,500 for golf course fees (including membership, green and other golf-related fees charged to customers at the City’s golf course), which is an increase of \$67,750 (11 percent) from the 2021-22 adopted budget. City officials increased the projected revenues based on the various increases in golf course fees from 2021 to 2022.³

However, due to the significance of these revenue estimates and external factors that can impact their realization (e.g., weather and participation levels), City officials should closely monitor these revenue estimates throughout 2022-23 and develop a plan to balance the budget in the event the revenue projections are not fully realized.

Interfund Transfers – As in recent years, the proposed general fund budget is not structurally balanced because the City is relying on a \$1,348,629 subsidy from the water fund through an interfund transfer to finance the general fund’s operations.⁴ We caution City officials that the general fund’s reliance on the water fund to cover operating expenses has and could continue to negatively impact the water fund’s financial condition.

In addition, as in recent years, the proposed recreation fund budget is not structurally balanced, and the recreation fund is projected to not be self-sufficient. Specifically, the City is relying on a \$224,290 subsidy from the general fund through an interfund transfer to finance the recreation fund’s operations.⁵

2 The City assesses annual solid waste service charges to owners of all properties using the City’s garbage collection service at a flat rate. For example, a single-family residential property would be assessed one service charge and a multi-family residential property would be assessed one service charge for each living unit.

3 Because the Council annually approves golf course fees to be charged for the calendar year, the fees do not change during a golf season. As a result, the fees approved for 2022 may change for the portion of the City’s 2022-23 fiscal year during 2023. The City had not approved golf course fees for 2023 as of the time of our review.

4 Prior adopted general fund budgets included interfund transfers from the water fund to be financed through the appropriation of fund balance in the amount of \$1.6 million in both 2018-19 and 2019-20, and \$1,348,629 in both 2020-21 and 2021-22.

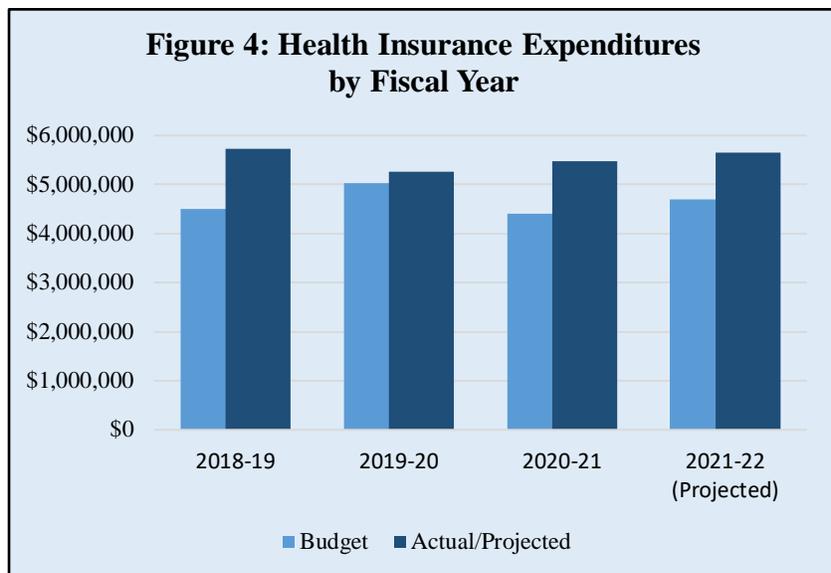
5 Prior adopted recreation fund budgets included interfund transfers of \$53,137 in 2017-18, \$37,695 in 2018-19, \$34,425 in 2019-20, \$114,821 in 2020-21 and \$264,372 in 2021-22.

City officials should closely monitor the recreation fund’s actual results of operations throughout 2022-23 and make any interfund transfers from the general fund to the recreation fund that are necessary to finance the recreation fund’s operations. However, City officials should also continue to evaluate and explore ways to make the recreation fund self-sufficient.

Appropriations

Health Insurance – The City pays predetermined premiums to an insurance provider for medical coverage for retirees and spouses age 65 or older. The City self-funds the remainder of its health insurance plan. Under this type of plan, the City pays for claims as they are presented, instead of paying predetermined premiums. As a result, health insurance expenditures can be unpredictable from year-to-year and the City is exposed to the risk of significant expenditures related to catastrophic claims.⁶

The proposed budget includes approximately \$5.1 million in health insurance appropriations, which the Controller told us he calculated by using a projection provided by the City’s insurance broker of anticipated costs less anticipated contributions from employees, retirees and surviving spouses of retirees. However, the City has historically underestimated health insurance expenditures (Figure 4).



In addition, we caution City officials that if the City incurs health insurance expenditures in 2022-23 similar to the average costs of more than \$5.5 million over the last four fiscal years,⁷ appropriations for health insurance could be underestimated by approximately \$450,000. Due to the significance and volatility of these appropriations, City officials should closely monitor these appropriations throughout 2022-23 and make modifications to the budget as necessary.

Debt Service – The City is required in 2022-23 to make debt service payments for principal and interest related to bond anticipation notes, serial bonds, statutory installment bonds and installment purchase debt. The proposed budget includes total debt service appropriations in the general, sewer and recreation funds that are underestimated (Figure 5).

⁶ The City has a stop-loss policy from an insurer to cover claims in excess of \$200,000.

⁷ The City incurred health insurance expenditures of approximately \$5.7 million in 2018-19, \$5.3 million 2019-20 and \$5.5 million in 2020-21, and we project that the City will incur health insurance expenditures of approximately \$5.7 million in 2021-22.

Figure 5: Debt Service Appropriations					
2022-23 Proposed Budget					
Fund	General	Water	Sewer	Refuse	Recreation
Principal	\$1,440,052	\$381,895	\$551,850	\$31,750	\$134,719
Interest	211,644	105,284	92,387	10,190	19,476
Office of the State Comptroller Estimate					
Fund	General	Water	Sewer	Refuse	Recreation
Principal	\$1,440,052	\$381,895	\$598,350	\$31,750	\$132,000
Interest	328,566	105,284	101,074	10,190	32,110
Variance Between 2022-23 Proposed Budget and OSC Estimate					
Fund	General	Water	Sewer	Refuse	Recreation
Principal	\$0	\$0	(\$46,500)	\$0	\$2,719
Interest	(116,922)	0	(8,687)	0	(12,634)
Total	(116,922)	\$0	(\$55,187)	\$0	(\$9,915)

These discrepancies occurred for various reasons. For example, the proposed sewer fund budget does not include an appropriation of \$46,500 for a principal payment on bond anticipation notes related to a sewer capital project that is owed in 2022-23. In addition, the proposed

recreation fund budget includes debt service appropriations totaling \$2,989 for installment purchase debt payments that are not due in 2022-23.

The proposed budget also does not include adequate debt service appropriations in the general, sewer and recreation funds for the anticipated interest payments owed on bond anticipation notes in 2022-23. For example, the proposed budget includes appropriations totaling \$60,442⁸ for an interest payment on bond anticipation notes related to the City's deficit financing, which is the same amount that is owed in interest on bond anticipation notes for the same purpose in 2021-22. The \$60,442 in interest owed on the bond anticipation notes in 2021-22 is based on the notes bearing interest at 1 percent when they were issued in June 2021. However, due to current economic conditions, the City's most recent issuance of bond anticipation notes in April 2022 resulted in those notes bearing interest at 3.25 percent. Based on this, City officials now project owing \$178,079⁹ for an interest payment on bond anticipation notes related to the City's deficit financing in 2022-23, or \$117,637¹⁰ more than the corresponding appropriations included in the proposed budget.

This occurred even though our two previous budget review letters recommended that City officials should ensure future budgets include debt service appropriations in each fund that agree with debt service schedules and supporting documentation of the amounts owed. City officials should review these appropriations and make modifications as necessary to ensure adequate debt service appropriations are available in the general, sewer and recreation funds for all required debt service payments.

Social Security and Medicare Taxes – The City's share of the Social Security tax is 6.2 percent of wages up to \$147,000 for 2022 and is 1.45 percent of wages for the Medicare tax, or generally a combined 7.65 percent of all wages. The proposed budget includes total appropriations of \$861,135 for Social Security and Medicare taxes, which the Controller calculated by multiplying

8 The \$60,442 consists of \$48,989 in the general fund, \$4,604 in the sewer fund and \$6,849 in the recreation fund.

9 The \$178,079 projection is based on the anticipated amount of principal that will be paid down on the current notes when they mature on June 23, 2022 and the new notes bearing interest at 3.25 percent when they are issued in June 2022.

10 The \$117,637 consists of \$96,045 in the general fund, \$8,687 in the sewer fund and \$12,905 in the recreation fund.

\$11,256,669 in budgeted appropriations for salaries and overtime by 7.65 percent. However, the Controller's calculation excluded \$1,006,217 in additional budgeted appropriations for other payroll payments (e.g., longevity pay, out of title pay, on-call pay, unused leave time and health insurance buy outs) for which the City is required to pay Social Security and Medicare taxes. Based on this, we project that Social Security and Medicare taxes have been underestimated by \$76,976.¹¹

This occurred even though our two previous budget review letters recommended that City officials should ensure budgeted appropriations for Social Security and Medicare taxes are based on all payroll payments projected to be made by the City. City officials should review these appropriations and make modifications as necessary.

Allocation of Appropriations – The proposed budget includes the allocation of certain appropriations for personal services, contractual expenditures and employee benefits between the operating funds using various allocation methods. The City has historically used the same allocation methods each year in its budget.¹² However, City officials could not provide us with support for all of the allocation methods, such as the direct relationship between the services to be provided to the funds and the appropriations allocated to them. This continues even though our two previous budget review letters recommended that City officials should develop an allocation plan based on detailed analysis.

Due to the City's lack of detailed analysis for determining the actual amount and cost of services provided to each fund, we could not determine the amount of appropriations that should have been allocated to each fund. In addition, we question the equity of some of the City's allocations in the proposed budget.

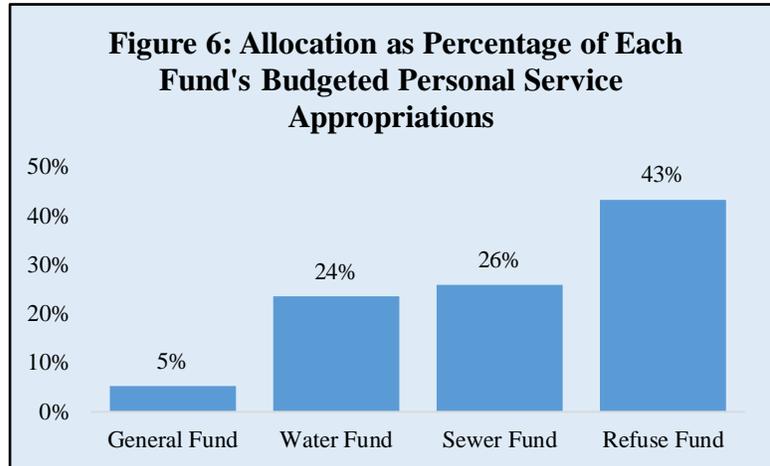
For example, appropriations for personal services for 13 of the City's departments¹³ totaling approximately \$1.7 million are allocated in the proposed budget between the general, water, sewer and refuse funds in equal allocations of 25 percent, or approximately \$415,000 each. The Controller told us this is done to allocate administrative costs between the funds. However, this is not an adequate method of allocation because it assumes that each of these departments will provide equal amounts of services to each of the funds. In addition, based on the functions performed by each of these departments, we question whether they are all providing services to support the City's water, sewer and refuse operations.

11 The \$76,976 was calculated by multiplying the additional budgeted appropriations for personal services of \$1,006,217 by 7.65 percent. The \$76,976 underestimation of appropriations consists of \$63,670 in the general fund, \$6,396 in the water fund, \$5,170 in the sewer fund, \$1,358 in the refuse fund and \$382 in the recreation fund.

12 The allocation methods used in the budget are also used to record expenditures incurred during the fiscal year to the operating funds.

13 The 13 departments include the Council, Mayor's office, Controller's office, Assessor's office, City Clerk's office, Corporation Counsel, Civil Service, Employee Relations, City Hall maintenance, Animal Control Officer, Code Enforcement office, Engineer's office and Community and Economic Development office.

The approximate \$415,000 allocation to the water, sewer and refuse funds represents a significant percentage of each fund's total budgeted appropriations for personal services, or approximately 24 percent, 26 percent and 43 percent, respectively (Figure 6). The allocation to the general fund represents approximately 5 percent of the general fund's total budgeted appropriations for personal services.



Contractual appropriations for the same 13 departments totaling more than \$300,000 are also allocated in the proposed budget between the operating funds.¹⁴ However, the City does not use the same allocation method that is used for personal services appropriations. The allocation consists of each fund's total budgeted appropriations as a percentage of the total budgeted appropriations for all funds, rounded to a whole percent.¹⁵ In addition, other miscellaneous contractual appropriations (e.g., postage and City Hall utilities) totaling more than \$650,000 are allocated in the proposed budget in the same manner.¹⁶

Appropriations for personal services for 24 employees in the Department of Public Works totaling more than \$1.1 million are also allocated in the proposed budget between the general, water, sewer and/or refuse funds in various percentages.¹⁷ The Controller told us this is done because these employees perform work for multiple funds. However, City officials do not maintain records of the actual work performed by these employees to support these allocations.

Most of the budgeted appropriations for employee benefits (e.g., New York State and Local Employees' Retirement System contributions and non-police and fire department workers' compensation) are allocated to the operating funds based on the budgeted appropriations for personal services. As a result, the manner in which the City allocates appropriations for personal services to the operating funds also directly impacts the allocation of appropriations for employee benefits.

Without allocation methods that are supported, certain funds may assume an inequitable burden for costs that do not apply to their operations. This could result in taxpayers or ratepayers being

¹⁴ Ten of the 13 departments' contractual appropriations are allocated between the general, water, sewer and refuse funds, but contractual appropriations for the Corporation Counsel, Civil Service and Employee Relations departments are also allocated to the recreation fund.

¹⁵ The calculated percentages were not all rounded to the nearest whole percent. For example, for allocations between the general, water, sewer and refuse funds, the Controller rounded the water fund's allocation from 21.37 percent down to 20 percent and the general fund's allocation from 54.37 percent up to 56 percent.

¹⁶ The allocations of the contractual appropriations totaling approximately \$975,000 consisted of approximately \$546,000 to the general fund, \$191,000 to the water fund, \$161,000 to the sewer fund, \$68,000 to the refuse fund and \$9,000 to the recreation fund.

¹⁷ The allocations consisted of approximately \$501,000 to the general fund, \$108,000 to the water fund, \$328,000 to the sewer fund and \$195,000 to the refuse fund.

inequitably charged for the actual services provided by each fund. City officials should develop an allocation plan based on detailed analysis that ensures costs allocated to each fund are directly related to its operations.

Contingency Accounts – Local governments use contingency accounts as a budgetary means to provide funding for unexpected events. The amount needed for contingency depends on the amount of uncertainty with budgeted amounts and economic conditions. Given the findings noted in this report, the City should use contingency accounts to offset some of this risk. The Charter authorizes the inclusion of contingency appropriations in each fund but does not establish a maximum amount. New York State statutes generally set the maximum for such accounts at 10 percent of a fund’s budget (excluding appropriations for debt service and judgments), which can serve as a general guideline for the City.

The recreation fund budget includes a \$10,000 contingency appropriation, or approximately 1 percent of the total budgeted appropriations of \$902,790. This provides the City with minimal flexibility in the event of unforeseen circumstances that may require additional funds in the recreation fund.

Collective Bargaining Agreements

As of the time of our review, five of the City’s seven collective bargaining agreements (CBAs) had expired and the other two CBAs are set to expire at the end of 2021-22 (Figure 7). The CBAs cover the salaries and wages of approximately 170 City employees. The City faces potential increased salary and wage costs when these agreements are settled.

The proposed budget includes a contingency appropriation of \$654,000 in the general fund, \$700,000 in the water fund, \$672,000 in the sewer fund, \$113,060 in the refuse fund and \$10,000 in the recreation fund. The contingency appropriations provide some financial flexibility in the general, water, sewer and refuse funds and minimal flexibility in the recreation fund related to any settlements. City officials should consider the potential financial impact in the event that any of the CBAs are settled in 2022-23.

Figure 7: CBA Expiration Dates	
Bargaining Unit	CBA Expiration Date
Amsterdam Police Superior Officers Association, Inc.	6/30/17
American Federation of State, County and Municipal Employees	6/30/21
Civil Service Employees Association (Wastewater Facility)	6/30/21
Civil Service Employees Association (City Hall)	6/30/21
United Public Service Employees Union	6/30/21
Amsterdam Professional Firefighters Union	6/30/22
Amsterdam Police Benevolent Association, Inc.	6/30/22

Tax Cap Compliance

General Municipal Law Section 3-c establishes a tax levy limit on local governments. The law generally 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 first adopts a local law to override the tax levy limit.

The City's proposed budget includes a tax levy of \$6,219,084,¹⁸ which is within the limit. In adopting the 2022-23 budget, the Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it properly overrides the tax levy limit.

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 Gary G. Gifford, Chief Examiner of the Glens Falls Regional Office, at (518) 793-0057.

Sincerely,

Elliott Auerbach
Deputy Comptroller

cc: Matthew A. Agresta, City Controller
Stefanie Lenkowicz, City Clerk
Hon. Andrea Stewart-Cousins, NYS Senate Majority Leader
Hon. Carl E. Heastie, NYS Assembly Speaker
Hon. Liz Krueger, Chair, NYS Senate Finance Committee
Hon. Helene E. Weinstein, Chair, NYS Assembly Ways and Means Committee
Hon. Angelo Santabarbara, NYS Assembly
Hon. Michelle Hinchey, NYS Senate
Robert F. Mujica Jr., Director, Division of the Budget
Gary G. Gifford, Regional Chief Examiner

¹⁸ This amount includes the City's proposed budget tax levy, overlay and pro rata taxes.