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November 8, 2018

The Honorable David R. Wohleben
Members of the Common Council
City of Lockport
Lockport Municipal Building
One Locks Plaza
Lockport, NY 14094

Report Number: B18-1-10

Dear Mayor Wohleben 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, sewer and refuse funds as of December 31, 2013.

The Act requires the City 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 the next succeeding fiscal year. The Act requires that the submission of the proposed budget be made to our Office no later than thirty 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 City's revenue and expenditure estimates. 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 2019 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?

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 2019 fiscal year consisted of the following:

- 2019 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	\$24,954,463 ^a	\$12,282,543	\$0	\$12,648,846
Water	\$4,304,100	\$4,304,100	\$0	0
Sewer	\$4,182,903	\$4,182,903	\$0	0
Refuse	\$1,307,820	\$1,307,820	\$0	0
Total	\$34,749,286	\$22,077,366	\$0	\$12,648,846
(a) This amount is based on the detail schedules in the proposed budget because we identified errors in the summary documentation.				

During our initial review of the 2019 proposed budget we identified errors in general fund appropriations that resulted in a budget shortfall of \$23,074. After we informed the Mayor, he told us they subsequently increased the proposed real property tax levy to \$12,671,920. He also indicated that the Common Council was alerted to this error and the increase in the proposed tax levy. City officials should ensure that the proposed budget is mathematically accurate before presenting it to the Common Council.

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 also discussed minor budget deficiencies we noted during our review with City officials. As noted, the Act requires the Common Council to review our recommendations and make adjustments to the proposed budget consistent with our recommendations. We believe that prompt action by City officials will help improve the City's financial condition.

Fund Balance

Fund balance represents the cumulative residual resources from prior fiscal years' operations that may be appropriated in the annual budget to reduce the tax levy. The City did not appropriate any fund balance as a financing source in the 2019 general, water, sewer or refuse fund budgets.

The City's audited financial statements reported that as of December 31, 2017, unrestricted fund balance in the general, water, sewer and refuse funds were approximately 15.7 percent, 31.7 percent, 21.6 percent, and 27.1 percent, respectively, of the following year's budgeted appropriations. For 2018, the City projects operating surpluses in the general, water and refuse funds and expects the sewer fund to have an operating loss. The 2019 proposed budget includes a planned increase in sewer rents which may eliminate future operating losses.

City officials may retain a reasonable amount of unrestricted fund balance for each fund, consistent with prudent budgeting practices, necessary to ensure orderly financial operations and the continued provision of services. City officials should assess what is reasonable for their particular situation considering various factors such as the timing of receipts and disbursements and the volatility of revenues and expenditures. Because fund balance is affected by the results of operations, it may not be available on a recurring basis and should be used cautiously. We note that effective long-range planning, the creation and planned use of reserves, and contingency appropriations in the annual budget may offset the amount of unrestricted fund balance the City would need to accumulate.

The City's fund balance policy states that unrestricted fund balance in the general fund should, at a minimum, total 17 percent of the following year's budgeted appropriations. City officials estimate unrestricted fund balance in the general fund will total \$4.4 million as of December 31, 2018, which is 17.6 percent of 2019 general fund appropriations included in the proposed budget. The projected unrestricted fund balance likely will meet the City's fund balance policy minimum amount.

In addition, the City's fund balance policy states that the water, sewer and refuse funds should maintain unrestricted fund balance at a level needed to maintain positive cash balances throughout the year. City officials did not provide evidence that they prepared cash flow estimates for 2019, which would have allowed them to determine if unrestricted fund balance levels in these three funds were adequate. City officials should prepare and analyze 2019 cash flow projections to determine if unrestricted fund balance is adequate for the water, sewer and refuse funds.

Contingency

Contingency accounts are used by local governments as a means of providing funding for unexpected events and uncertainties. Two collective bargaining agreements (CBAs) with various City employees have expired and are currently being renegotiated. If either of these contracts are settled in 2019, it is possible that appropriations will be needed to fund salary increases. Furthermore, 36 City employees are retirement eligible, and if they choose to retire in 2019 will

be due buyouts averaging \$24,000¹ per retiree, totaling up to \$864,000. Currently, the City included \$500,000 in the 2019 proposed general fund budget and \$20,000 in the proposed water fund budget to fund buyouts for approximately 16 employees who may retire in 2019 and five buyout installment payments from prior year retirements. No retiree buyout provisions were included in the sewer fund.

The City's fund balance policy states that the general fund budget requires a contingency account of at least 1.25 percent of appropriations. The City's proposed budget includes a general fund contingency appropriation totaling \$375,000, which exceeds the 1.25 percent threshold. The proposed budget contains a water fund contingency appropriation of \$100,000 (2.3 percent of appropriations) and no contingency appropriation for the sewer fund. The Common Council needs to consider whether the contingency appropriations are adequate if CBAs are approved and unanticipated retirements occur.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on local governments, which was effective beginning in the 2012 fiscal year. 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 adopts a local law to override the tax levy limit. The tax levy limit for 2019 is 2 percent.

The proposed budget includes a tax levy of \$12,671,920 which is the maximum levy that the City can impose without the Common Council needing to override the tax levy limit. In adopting the 2019 budget, the Common 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 obtains the proper approval to override the tax levy limit.

In accordance with the Act, the Common Council has the responsibility to make adjustments in the proposed budget consistent with 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 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.

Very truly yours,

Gabriel F. Deyo
Deputy Comptroller

¹ Based on historical data.

cc: Sue A. Mawhiney, City of Lockport Treasurer
Scott A. Schrader, Finance Director
Richelle J. Pasceri, City of Lockport Clerk
City of Lockport Common Council
Hon. Catharine Young, Chair, Senate Finance Committee
Hon. Helene E. Weinstein, Chair, Assembly Ways and Means Committee
Hon. Michael J. Norris, State Assembly Representative
Hon. Robert G. Ortt, State Senate Representative
Robert F. Mujica Jr., Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Jeffrey D. Mazula, Chief Examiner