

# City of Norwich

## Capital Planning

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**AUGUST 2019**

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
**Thomas P. DiNapoli, State Comptroller**

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# Report Highlights

## City of Norwich

### Audit Objective

Determine whether City officials are properly planning for capital needs.

### Key Findings

- Officials did not develop a capital plan or accurate and complete inventories of vehicles and equipment.
- The City has approximately \$1.8 million in capital needs that will impact its financial condition.

### Key Recommendations

- Develop a multiyear capital plan to ensure that financial resources are available to replace capital assets in a timely manner.
- Create inventory lists of capital assets and maintenance and replacement schedules.

City officials disagreed with certain aspects of our findings and recommendations, but indicated they have initiated corrective action. Appendix B includes our comments on issues raised in the City's response letter.

### Background

The City of Norwich (City) is located in Chenango County. The Common Council (Council) is composed of six Aldermen that are responsible for overseeing the City's operations and finances. The Mayor serves as the Chief Executive Officer and is responsible for the day to day operations. The Director of Finance serves as the Chief Fiscal Officer and is responsible for the general financial management of the City, and preparing the budget.

Department heads, such as the Fire Chief, Police Chief and Superintendent of Public Works (Superintendent), are responsible for daily and long term management of their respective departments.

#### Quick Facts

Population	7,190
Vehicles and Heavy Equipment	74
2019 Total Appropriations	\$12.3 million

### Audit Period

January 1, 2017 – December 31, 2018. We extended our scope back to January 1, 2012 to analyze financial trends.

# Capital Planning

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## Why is Capital Planning Important?

A well-structured capital plan enables officials to identify capital needs and the means of financing those needs. The City Charter<sup>1</sup> states that it is the duty of department heads to develop and update a capital expenditures plan for their respective departments. The council should work with department heads to establish goals and criteria that are incorporated into a formal policy adopted by the council. Ideally, a capital plan identifies all capital and major equipment needs, and incorporates a process for prioritizing and financing projects. It can also help the City spread the costs of providing capital improvements over time, thereby creating more future financial flexibility without overburdening residents or disrupting vital services. Capital needs are typically financed using reserve funds, available fund balance, grants or other financing options. Officials should monitor and update the capital plan on an ongoing basis to ensure that decisions are made using the most accurate information available.

## Officials Did Not Properly Plan for Capital Needs

In May 2014, officials adopted a comprehensive plan<sup>2</sup> which included an action item to develop a capital asset management plan, as well as budget appropriately and establish reserves for scheduled asset replacement costs. However, they still have not developed a multi-year capital plan. At the beginning of our audit, officials were unable to provide us with an accurate and complete inventory of capital assets, and they did not have any formal replacement plans in place. During the course of our audit, officials began to develop capital inventory lists. The current Superintendent started in August 2018 and indicated that he has not had time to develop a capital plan.

Nearly 88 percent (21 of 24) of the heavy equipment and 58 percent (29 of 50) of the vehicles are past their recommended useful life.<sup>3</sup> For example, heavy equipment assets are on average 17 years past their recommended useful life, while vehicles are on average six years past their recommended useful life. The Highway department has the most vehicles (15) past their recommended useful life. Additionally, we observed vehicles and equipment with extensive rust damage. For example, one vehicle had an old street sign in use as its floorboard due to the rust corrosion.

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1 City of Norwich Charter, Section 130-a

2 <https://ecode360.com/documents/NO0235/public/158166376.pdf>

3 Useful life of vehicles and equipment were based on Department of Transportation 2014 publication for Consolidated Local Street and Highway Improvement Program reimbursements. Local Finance Law Article 2, Title 1, section 11, subsections 27 and 27-a was used to determine useful life for fire and ambulance vehicles. The Superintendent and Fire Chief agreed these estimations were reasonable for audit purposes.

Because of past financial condition concerns, officials indicated that they have been unable to replace capital assets appropriately. Officials spent a total of approximately \$439,000 on capital assets and equipment from 2014 to 2016; in 2017, they spent approximately \$626,000, a 43 percent increase from the prior three years combined.

While the recommended useful life may not always be an accurate indication of how long a particular vehicle or piece of equipment will last, officials should consider this information when developing a multiyear capital plan. In conjunction with department heads, we identified critical capital assets that may need to be replaced or repaired in the next five years based on their useful life, current condition and/or previous replacement trends totaling approximately \$1.8 million.

**Figure 1: Identified Capital Costs**

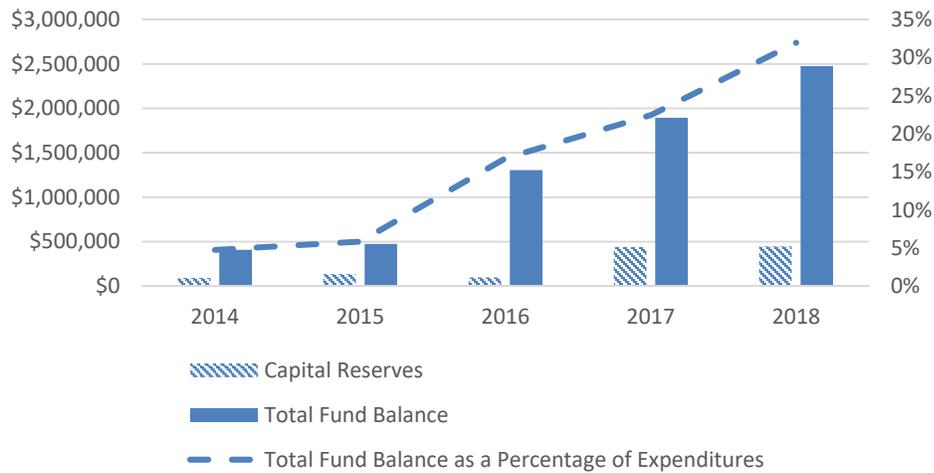
Department	Items	Estimated Cost
<b>Highway</b>	Salt truck, tractor, street sweeper, plow truck	\$402,301
<b>Fire</b>	Pumper truck	\$315,000
<b>EMS</b>	Two ambulances	\$298,200
<b>Police</b>	Two patrol vehicles	\$91,484
<b>Court</b>	Replace roof	\$26,250
<b>General Fund Department Totals</b>		<b>\$1,133,235</b>
<b>Sewer</b>	Digester and screw pump repairs	\$660,000
<b>Total</b>		<b>\$1,793,235</b>

Furthermore, there are other capital repair and replacement needs in the City:

- The sewer collection system needs repairs. Officials estimated that this project will cost \$3.2 million, of which the City has been awarded an \$824,000 grant to assist with the costs.
- The fire hall roof needs to be replaced, and the highway garage roof needs repairs.
- There are water mains that are more than 100 years old, which is the typical recommended useful life. We were unable to estimate costs of all capital needs because officials are not aware of the breadth of deterioration nor have they attempted to quantify the scope of needs.

### **There are Insufficient Funds to Finance Capital Needs**

From 2014 to 2018, the City’s financial condition has improved. Furthermore, officials started budgeting to fund capital reserves for fiscal years 2017 and 2018, which helped increase total fund balance.

**FIGURE 2****General Fund Balance Trend**

As of 2018, general fund total fund balance was approximately \$2.5 million which is an increase of more than \$2 million (504 percent) since 2014. As of December 31, 2018, the capital reserves totaled approximately \$447,000. While we commend officials on their work towards increasing total fund balance to a reasonable level, it is not adequate by itself to finance current and future capital needs.

**Figure 3: General Fund Capital Reserve Account Balances**

Account	December 31, 2018 Balance	Estimated Cost of Needs	Reserve as Percentage of Needs
<b>Police Equipment</b>	\$68,700	\$91,484	75%
<b>Ambulance Equipment</b>	\$58,473	\$298,200	20%
<b>Fire Equipment</b>	\$51,484	\$315,000	16%
<b>Municipal Buildings</b>	\$116,268	\$26,250	443%
<b>Highway Equipment</b>	\$43,152	\$402,301	11%
<b>Other six capital reserves</b>	\$109,000	N/A	N/A
<b>Total</b>	<b>\$447,077</b>	<b>\$1,133,235</b>	<b>39%</b>

If officials use reserves and available fund balance to pay for the \$1.1 million estimated capital needs, total fund balance would be reduced to \$1.3 million. This level may not be reasonable to mitigate the potential financial impact of future major, nonrecurring or unforeseen expenditures.

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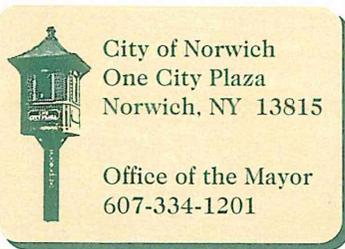
Although the water and sewer funds have reasonable fund balances as of December 31, 2018 to finance currently identified costs, the Superintendent has not had time to identify and gather estimates for all capital needs.

Officials will need to have a capital plan, including replacement schedules and funding plans, to be able to determine the City's future capital needs and ensure that the financial resources are available to meet those needs.

### **What Do We Recommend?**

1. The Council should work with department heads to develop a multiyear capital plan to ensure that financial resources are available to replace capital assets in a timely manner.
2. Department heads should create inventory lists of their capital assets as well as maintenance and replacement schedules.

# Appendix A: Response From City Officials



July 26, 2019

City of Norwich Capital Planning – Report of Examination 2019M-88

As a result of the OSC Audit conducted to determine whether City officials are properly planning for capital needs, the City offers the following response:

#### Key Findings:

- Officials did not develop a capital plan or accurate and complete inventories of vehicles and equipment
- The City has approximately \$1.8 Million in capital needs that will impact its financial condition

#### City's Response:

In September 2015, the OSC had designated the City of Norwich "susceptible to fiscal stress". This designation was received due to the prior administration's fiscal habits with yearly expenses exceeding revenues at alarming rates resulting in a low fund equity in the General Fund.

By the 2<sup>nd</sup> Quarter of 2017, the City of Norwich had no designation by OSC due in large part to a new administration with fiscal habits of curtailing expenses, "Needs Not Wants", implemented City-wide.

Although no formal capital plan was in place for 1/1/17 to 12/31/18 per OSC, the City was and continues to be on track to identify and replace capital assets (vehicles, equipment, etc.) Our primary goal was to rebuild/reestablish fund balances and allocate monies for reserve accounts. This was all done with the intention of creating a capital plan for city departments; however, we needed capital in order to have a legitimate plan.

The City's position is that the OSC Audit identifies capital "needs" of \$1.8 Million (Figure 1 from OSC Report) and the City's review of the capital needs identified as presented by OSC shows an overstatement of approximately \$543,000. Our data comes from Capital Equipment lists provided in recent months by our department heads.

See  
Note 1  
Page 8

As stated, the City has identified replacement needs from Capital Equipment lists provided by department heads with \$1.3 Million in estimated costs not \$1.8 Million as shown by OSC. Also, most of the replacements of vehicles and/or equipment are identified for 2020 and beyond. The City's position of \$1.3 Million in the fund balance following the capital needs expenditures identified by OSC may not

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be considered an optimum level; however, it is considered a reasonable amount and clearly demonstrates a dramatic improvement in the City's overall financial sustainability under this administration.

The City would like to clarify that the \$660,000 identified for Digester and Screw Pumps Repairs would come from the Sewer Reserves Account not the General Fund and the Sewer Reserves Account would not be severely impacted by this necessary, planned replacement (repair).

In past years, the combined Fund Balance and Reserves totaled \$500,000 or less and to have \$1.3 Million Fund Balance after the noted replacements in 2020 is not only reasonable but it is a significant improvement from past practices.

The City holds the position that OSC basing equipment replacement needs on "NYS DOT useful life schedule" does not accurately reflect the actual useful life (hours, mileage, etc.) for the equipment and vehicles utilized in the City of Norwich's 2 square mile radius plus travel to and from our water filtration and wastewater plants located in the Town of Norwich.

See Note 2 Page 8
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The City of Norwich has prepared budgets under this administration allocating 10% of total budget for the General Fund Balance account. Presently, with an annual budget of approximately \$8 Million, it averages approximately \$800,000 each budget year.

The City of Norwich implemented in its 2017 budget preparation under the current administration, the practice of allocating monies for our Capital Reserves – a practice that had been omitted in prior years budgets. The rebuilding of the City's Reserves is now allowing the Reserve Accounts to be available for future capital planning as well as emergency needs – this practice should be viewed as a positive action (proactive not reactive) for the City of Norwich's fiscal position.

The City of Norwich will provide a separate Corrective Action Plan as required.

In conclusion, the City of Norwich welcomed the OSC to conduct their examination and it has been deemed a valuable resource and a positive experience for the City of Norwich.

Respectfully submitted,

Christine A. Carnrike  
Mayor – City of Norwich

## Appendix B: OSC Comments on the City's Response

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### Note 1

Capital equipment lists referenced here were not provided to us until after our exit discussion and only include replacement plans for 2020, while our estimates include replacement needs within the next 5 years, according to department heads.

### Note 2

We acknowledged in the report that useful life may not always be an accurate indication of how long equipment will last. However, officials have not developed their own criteria to determine useful life, which is why it is important to have a capital plan.

## Appendix C: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective<sup>4</sup> and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Council members and department heads to gain an understanding of the City's financial condition, capital planning and capital asset needs.
- We corroborated insurance policy records with examiner observation of the vehicles and equipment to determine whether the records were accurate and complete. We then compared those assets to the NYS DOT transportation equipment life schedule and NYS Finance Law to determine remaining useful life.
- We reviewed the City's financial records to analyze trends and determine whether the City had sufficient fund balance to address future capital needs.
- We reviewed estimates obtained by officials and historical costs for known capital needs for the City and compared them with current reserve amounts to determine the City's ability to replace these capital assets.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Council to make the CAP available for public review in the Clerk's office.

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<sup>4</sup> We also issued a separate audit report, *City of Norwich – Emergency Medical Services Billing (2019M-112)*.

## Appendix D: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

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