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November 4, 2015

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

Report Number: B1-15-20

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 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 ten 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. Any recommendations that the Common Council rejects must be explained in writing to our Office.

Our Office has recently completed a review of the City's budget for the 2016 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 2016:

- 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, 2016 consisted of the following:

- 2016 Proposed Budget
- Supplementary Information

The proposed budget submitted to our Office is summarized as follows:

<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenues</b>	<b>Appropriated Fund Balance</b>	<b>Real Property Taxes</b>
General	\$23,298,854	\$11,375,828	\$0	\$11,923,026
Water	\$4,399,000	\$4,399,000	\$0	\$0
Sewer	\$3,900,160	\$3,900,160	\$0	\$0
Refuse	\$1,297,000	\$1,297,000	\$0	\$0
<b>Total</b>	<b>\$32,895,014</b>	<b>\$20,971,988</b>	<b>\$0</b>	<b>\$11,923,026</b>

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. 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. This can be particularly important in certain situations, such as the City, where there is minimal fund balance to provide for unanticipated events or known potential changes to costs exist, such as settling pending union contracts. 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 budget, which can serve as a general guideline for the City. The City’s proposed budget includes

contingency appropriations totaling \$305,828,<sup>1</sup> 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 a significant increase in its provision for contingencies.

### **Collective Bargaining Agreements**

The City has three different contracts with various employee unions which have expired (Figure 1) and is currently negotiating with the respective bargaining units for new contracts. Without current employee contracts in place, the City faces potential increased costs when these contracts are settled. We recommend that the Common Council consider the potential financial impacts of contract settlements when adopting the final budget and provide for anticipated costs in the budget.

<b>Figure 1: Union Contract Expiration Dates</b>	
<b>Union</b>	<b>Contract Expiration Date</b>
CSEA	12/31/2014
AFSME	12/31/2012
Fire Department	12/31/2012

### **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 2016. 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.

### **General Fund**

The proposed budget includes overtime appropriations for police totaling \$200,000. This amount is less than the \$338,526 expended for the first nine months of the current year. In addition, annual overtime costs averaged \$452,000 for the last two completed years. City officials have indicated that their intention is to hire three new officers and to strictly enforce a cap of two officers on leave for each squad to reduce overtime.<sup>2</sup> However, when compared with actual costs from prior years, the overtime appropriation for 2016 could be easily exceeded. The Common Council should ensure this appropriation is reasonable when adopting the final budget.

<sup>1</sup> This is \$255,828 for the general fund and \$50,000 for the water fund. Amounts budgeted for contingency appropriations totaled \$200,000 in 2015 and \$208,250 in 2014.

<sup>2</sup> In 2016 there will be four squads consisting of eight officers and a six-officer minimum.

## **Water Fund**

The proposed budget includes revenue estimates for metered water sales of \$4.2 million. The water rent revenue estimate in the 2016 budget considers a proposed 10 percent increase in metered water rates, which the Common Council has not yet authorized. However, when compared with actual revenue from water rents in 2014 and 2015,<sup>3</sup> this estimate could be overstated by approximately \$400,000, even after considering a 10 percent increase in rates. Even if the proposed rate increase is authorized and made in a timely manner, the total amount of revenues included in the proposed budget may not be realized, thereby having a negative effect on the water fund's financial condition in 2016. The Common Council should approve the 10 percent increase in rents before acting on this budget and address the remaining overestimation of rents when adopting the final 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 2016 is 0.73 percent.

The Common Council will have to adopt the proposed local law to override the tax levy limit in 2016. This local law allows the proposed budget to include a tax levy of \$11,923,026, which increases the 2016 tax levy by 1.81 percent over the 2015 tax levy of \$11,770,556.

The Common Council has the responsibility to initiate corrective action to address 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

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<sup>3</sup> In 2014, revenue from water rents was estimated at \$3.9 million in the adopted budget, but the City only realized \$3.3 million in actual revenue, which resulted in a \$600,000 revenue shortfall. While the water fund reported a \$294,770 operating loss in 2014, we noted that expenditures were less than budgeted appropriations, which reduced the impact of the negative revenue variance. We do not expect the City to realize significant favorable water fund expenditure variances in 2015 or 2016.

cc: Michael White, City of Lockport Treasurer  
Scott A. Schrader, Finance Director  
Richelle J. Pasceri, City of Lockport Clerk  
City of Lockport Common Council  
Hon. John A. DeFrancisco, Chair, NYS Senate Finance Committee  
Hon. Herman Farrell, Jr., Chair, NYS Assembly Ways and Means Committee  
Hon. Jane Corwin, NYS Assembly  
Hon. Robert G. Ortt, NYS Senate  
Mary Beth Labate, Director, Division of the Budget  
Andrew A. SanFilippo, Executive Deputy Comptroller  
Jeffrey D. Mazula, Chief Examiner