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November 12, 2015

Honorable Judy Kennedy, Mayor
Members of the City Council
City of Newburgh
83 Broadway
Newburgh, NY 12550

Report Number: B6-15-24

Dear Mayor Kennedy and Members of the City Council:

Chapter 223 of the Laws of 2010 authorized the City of Newburgh to issue debt totaling \$15 million to liquidate the accumulated deficit in the District's general fund as of December 31, 2010. New York State Local Finance Law Section 10.10 requires all local governments that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year, starting with the fiscal year during which the local government is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, its proposed budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on its adoption or the last date on which the budget may be finally adopted, whichever is earlier. The State Comptroller must examine the proposed budget and make recommendations for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the City.

The City Council, no later than five days prior to the adoption of the budget, must review all recommendations made by the State Comptroller and make adjustments to its proposed budget consistent with the recommendations contained in this report.

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 the 2016 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 estimate was 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 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.

The proposed budget package submitted for review for the fiscal year ended 2016 consisted of the following:

- Cover letter
- 2016 Proposed budget
- Supplementary information

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

Figure 1: Proposed Budget Summary				
Fund	Appropriation and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$43,216,587	\$23,360,587	\$736,000	\$19,120,000
Water	\$6,089,085	\$6,089,085	\$0	\$0
Sewer	\$5,664,250	\$5,664,250	\$0	\$0
Sanitation	\$3,291,748	\$3,238,700	\$53,048	\$0

Based on the results of our review, we found that the significant revenue and expenditure projections in the proposed budget are reasonable, except for appropriations for retirement, contingency appropriations, an allowance for uncollectible taxes and the potential impact of settlements of expired collective bargaining agreements.

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.

Retirement Appropriation

The City's 2016 proposed budget contains \$2,614,384 for payments due the New York State Police and Fire Retirement System (PFRS). However, the City received the 2016 annual invoice for PFRS payments on October 28, 2015 and the amount due is \$2,963,157. Therefore, the City has underestimated pension costs by \$348,773. Since City officials know the amount due, we recommend that City officials should adjust the retirement appropriation to reflect actual pension costs.

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 proposed budget includes a \$250,000 contingency appropriation, an amount that represents only 0.6 percent of total anticipated general fund expenditures. In reviewing the adequacy of contingency appropriations, it is important that the City Council prudently consider current economic conditions and uncertainties and the need to provide adequate funding for any significant unforeseen costs.

Over the past several years, the City has consistently budgeted minimal amounts for contingencies. We caution the City against including an insufficient amount in the contingency appropriation, because it will provide the City with only minimal flexibility to address revenue shortfalls or unforeseen expenditures.

Tax Overlay

The City has not made an allowance for uncollectible taxes in the 2016 proposed budget. The average annual amount allocated to uncollected taxes from fiscal years 2011 through 2014 was approximately \$1 million. City officials said that, in the past, they included an appropriation for uncollectible taxes in the budget to cover these shortfalls; however, the City no longer does this. Rather, City officials closely monitor expenditures on a monthly basis and, if necessary, apply spending freezes to ensure the budget is not overspent. Since the average amount of uncollected taxes is approximately \$1 million, we recommend that City officials consider including an appropriation for uncollectible taxes in the budget or increase the contingency appropriation to cover any shortfalls.

Collective Bargaining Agreements

The City's contracts with the Patrolmen's Benevolent Association and the Police Superior Officer Association unions have expired and the City is currently negotiating with the respective bargaining units for new contracts. The City faces potential increased salary costs when these contracts are settled. We recommend that City officials consider the potential financial impacts of contract settlements when finalizing the 2016 budget.

Tax Cap Compliance

Chapter 97 of the Laws of 2011 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 City's proposed budget complies with the tax levy limit because it includes a tax levy of \$19,120,000, which decreases the 2016 tax levy by 1.76 percent over the 2015 tax levy of \$19,462,564. In adopting the 2016 budget, the City 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 adopts a local law to override the cap.

As noted previously, the City Council has the responsibility to initiate corrective action to address the recommendations in this report. In addition, pursuant to Section 35 of New York State General Municipal Law, the City 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 City 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.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt the City's budget. If you have any questions on the scope of our work, please feel free to contact Ms. Tenneh Blamah, Chief Examiner of the Newburgh office, at (845) 567-0858.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Michael G. Ciaravino, City Manager
John Aber, City Comptroller
Lorene Vitek, City Clerk
Hon. John A. DeFrancisco, Chair, NYS Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, NYS Assembly Ways and Means Committee
Hon. Frank Skartados, NYS Assembly
Hon. William J. Larkin, Jr., NYS Senate
Mary Beth LaBate, Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Tenneh Blamah, Chief Examiner