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March 12, 2015

The Honorable William Aiello  
Members of the Common Council  
City of Olean  
101 East State Street  
Olean, New York 14760-0668

Report Number: B1-15-2

Dear Mayor Aiello and Members of the Common Council:

Chapter 331 of the Laws of 2007 authorizes the City of Olean (City) to issue debt totaling \$4,300,000 to liquidate the accumulated deficit in the City's general, water and sewer funds as of May 31, 2007. 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, their tentative or proposed budget for the next succeeding fiscal year. The City's deficit financing is required by the legislation to mature no later than September 2017.

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 Common 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 Common Council rejects must be explained in writing to our Office.

Our Office has recently completed a review of the City's proposed budget for the 2015-16 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following questions related to the City's budget for upcoming fiscal year:

- Are the significant revenue and expenditure projections in the City's proposed 2015-16 budget reasonable?

- Did the City take appropriate action to implement or resolve recommendations contained in our budget review report letter issued in March 2014?

To accomplish our objectives 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 if the amount of fund balance was available and sufficient for that purpose. In addition, we inquired and evaluated whether written recommendations from our last budget review were implemented or resolved and incorporated as part of the current year's budget.

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 ending May 31, 2016 consisted of the following:

- Cover Letter<sup>1</sup>
- 2015-16 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	\$16,669,339 <sup>a</sup>	\$9,282,340	\$300,000	\$7,086,999
Water	\$3,668,808	\$3,668,808	\$0	\$0
Sewer	\$3,584,314	\$3,584,314	\$0	\$0
<b>Total</b>	<b>\$23,922,461</b>	<b>\$16,535,462</b>	<b>\$300,000</b>	<b>\$7,086,999</b>

<sup>a</sup> This amount does not include approximately \$626,000 included in the Department of Public Works' vehicle replacement plan submitted to the Mayor and 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 and that the City has made significant progress in improving its financial condition. The City's proposed budget complies with the property tax levy limit set by statute.

<sup>1</sup> A cover letter was not originally included with the proposed budget as was in years past, but was supplied by the Mayor after we questioned if one was created.

As of May 31, 2014, the City's audited financial statements reported that unrestricted, unappropriated fund balances in the general, water and sewer funds were 19 percent, 23 percent, and 22 percent, respectively, of the following year's appropriations.<sup>2</sup> The City also projects operating surpluses for all three funds for the 2014-15 fiscal year.

Our review disclosed the following findings which should be reviewed by the Common Council for appropriate action. City officials should take prompt action concerning our recommendations.

## **Transfers**

Capital Projects Fund – The proposed budget includes \$175,000<sup>3</sup> transferred from the water and sewer funds to the capital projects fund for various projects.<sup>4</sup> These projects will be funded by the respective operating fund resources, without the issuance of debt. To increase budget transparency, we recommend that this \$175,000 instead be included in the respective department budgets in the associated operating funds. Further, while the City has developed and adopted a comprehensive multiyear capital plan (Plan) as recommended in previous budget review letters, it was not updated and used in conjunction with the preparation of the proposed budget.<sup>5</sup> We recommend that City officials review and update the Plan periodically and the Common Council adopt the updated Plan to ensure appropriate long-term financial decision making.

Debt Service Fund – While reviewing proposed transfers to the debt service fund to make associated debt payments during the ensuing year, we noted that the general fund budget does not include an interest payment of \$56,703 due on a bond anticipation note issued in 2014-15. We recommend that City officials adjust the budget to agree with the debt schedule.

## **Proposed Rate Increases**

Water Fund – The budget estimate of \$3,668,808 for water fund revenue includes an anticipated increase in the water rate of 2 percent, which equates to approximately \$71,000. This revenue estimate assumes the anticipated water rate increase is adopted by the Common Council. We recommend that if the potential water rate increase is authorized by the Common Council, that it be done before the adoption of the final budget and within time frames<sup>6</sup> needed to support the estimated revenues within the budget. If the proposed water rate increase is not authorized, or is authorized at a different rate, the revenue estimate should be modified accordingly.

Sewer Fund – The budget estimate of \$3,584,314 for sewer fund revenue includes an anticipated increase in the sewer rate of 3 percent. This revenue estimate is approximately \$95,000 higher than the previous year's budget and aligns closer with historic trends. This revenue estimate assumes

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<sup>2</sup> Including appropriations for transfers to the debt service fund.

<sup>3</sup> Proposed transfer includes \$65,000 from the water fund and \$110,000 from the sewer fund.

<sup>4</sup> These projects include: painting, pump repairs and replacements, road repairs, access ladder replacement, wet well replacement and roof repairs/replacement.

<sup>5</sup> According to an updated, unapproved version of the Plan supplied by the Director of Public Works, the City's anticipated capital needs total approximately \$6 million. The Mayor has included in his proposed budget a total of \$600,000 (or 10 percent) of this anticipated need. As part of the budget process, City officials held a meeting with department heads on February 26, 2015 to discuss capital needs not included in the proposed budget and potential sources of financing these needs.

<sup>6</sup> Given the current billing cycle of the water and sewer department, any anticipated rate increases would have to be approved at least one billing quarter prior to the adoption of the budget to coincide with estimated revenues.

the anticipated sewer rate increase is adopted by the Common Council. We recommend that if the potential sewer rate increase is authorized by the Common Council, that it be done before the adoption of the final budget and within time frames<sup>7</sup> needed to support estimated revenues within the budget. If the proposed sewer rate increase is not authorized, or is authorized at a different rate, the revenue estimate should be modified accordingly.

## **Tax Cap**

The State Legislature enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a local government from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, 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 proposed tax levy of \$7,086,999, which decreases the 2015-16 tax levy by approximately \$9,700. In adopting the 2015-16 budget, the Common Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the statutory limit.

As noted previously, 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 Elizabeth Ryba, Principal Examiner of the Buffalo Regional Office, at (716) 847-3647.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

cc: Fred Saradin, Auditor and Budget Officer, City of Olean  
Tiffany Lyman, Common Council Clerk  
Hon. John A. DeFrancisco, Chair, Senate Finance Committee  
Hon. Herman Farrell, Jr., Chair, Assembly Ways and Means Committee  
Hon. Joe Giglio, NYS Assembly  
Hon. Catherine M. Young, NYS Senate  
Mary Beth Labate, Director, Division of the Budget  
Andrew A SanFilippo, Executive Deputy Comptroller, Division of Local Government and School Accountability  
Jeffrey Mazula, Chief Examiner, Division of Local Government and School Accountability

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<sup>7</sup> Ibid.