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November 20, 2013

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

Report Number: B6-13-21

Dear Mayor Kennedy and Members of the City Council:

Chapter 223 of the Laws of 2010 authorizes the City of Newburgh to issue debt totaling \$15 million to liquidate the accumulated deficit in the City's general fund as of December 31, 2010. Chapter 223 also requires the City to submit to the State Comptroller each year, starting with the fiscal year during which it was 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 the adoption of the budget or the last date on which the budget may be finally adopted, whichever is sooner. 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 2014 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 2014 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. In addition, we inquired and checked whether written recommendations from the prior year's budget review were implemented or resolved and, therefore, 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 ended 2014 consisted of the following:

- Cover Letter
- 2014 Proposed Budget
- Supplementary Information

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

Fund	Appropriation and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$45,192,622	\$24,769,058	\$561,000	\$19,862,564
Water	\$6,020,458	\$6,020,458	\$0	\$0
Sewer	\$5,756,508	\$5,756,508	\$0	\$0
Sanitation	\$3,271,700	\$3,271,700	\$0	\$0

Based on the results of our review, except for the matters described below, we found that the significant revenue and expenditure projections in the proposed budget are reasonable.

Our review disclosed the following findings which should be reviewed by City officials 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.

Estimated Revenues

General Fund – The proposed budget includes \$2 million of anticipated revenues from the sale of real property. We have not been provided documentation to verify the assessed values of the

properties or the required approval from the Environmental Protection Agency regarding the readiness of the properties for sale, specifically the largest property which is listed for sale at \$1 million. If all of these properties are not sold within the 2014 budget year, the City will experience a revenue shortfall of up to \$2 million, requiring the City Council to reduce appropriations, use fund balance or a combination of the two actions. In addition, since this is a one-time revenue source, City officials will have to find other revenue or reduce appropriations when they prepare the 2015 budget. We caution the City against reliance on this one-time revenue source in the budget.

Water and Sewer Funds – The proposed budget includes \$10.5 million of anticipated revenues for the water and sewer funds. We estimate that the City will incur revenue shortfalls in the water and sewer funds for 2013; however, the City planned for the 2013 shortfalls by appropriating fund balance. Based on this estimate of the current year's billings and no changes to the customer base or rates, the City may be overestimating water sales by approximately \$280,000 and sewer charges by approximately \$272,000 in the 2014 budget. The 2014 budget does not have any fund balance appropriated for any revenue shortfalls. If the City Council does not decrease appropriations, there may be a revenue shortfall of approximately \$552,000 in the 2014 fiscal year budget for these funds.

Fund Balance

The City may retain a reasonable portion of fund balance, referred to as unassigned fund balance, to use as a financial cushion in the event of unforeseen financial circumstances. A portion of the unassigned fund balance can be reserved to finance future costs for a variety of specified objects or purposes. It is also important that long-term plans be in place to ensure that moneys accumulated in operating funds are used for appropriate and authorized purposes. Therefore, it is important that the Council maintain a reasonable amount of fund balance and only use surplus fund balance as a funding source, when appropriate.

The City's 2014 budget includes an appropriation of \$561,000 of fund balance. City officials project that available fund balance on December 31, 2013 will be about \$4.8 million which includes the projected surplus of \$1,161,059 for the 2013 year. If the planned property sales do not occur and no other changes are made to the budget, City officials will have to use \$2 million of fund balance to cover the shortfall. Since the City is appropriating \$500,000 of fund balance, the City could face a potential budget deficit of at least \$2.5 million when it prepares its 2015 budget.

Tax Cap Compliance

The State Legislature 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 City's proposed budget complies with the tax levy limit because it includes a tax levy of \$19,862,564, which is same as the 2013 tax levy. In adopting the 2014 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.

The Board has the responsibility to initiate corrective action. Pursuant to Chapter 223 of the Laws of 2010, the Board must review the recommendations in this report and make adjustments to its proposed budget consistent with the recommendations contained in this report. In addition, pursuant to Section 35 of General Municipal Law, the Board 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 Board 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 a budget for the City. If you have any questions on the scope of our work, please feel free to contact Tenneh Blamah, Chief Examiner of the Newburgh office, at (845) 567-0858.

Sincerely,

Gabriel F. Deyo

cc: John Aber, City Comptroller
James Slaughter, Interim City Manager
Lorene Vitek, City Clerk
Hon. John A. DeFrancisco, NYS Senate, Finance Committee
Hon. Herman D. Farrell, Jr., NYS Assembly, Ways and Means Committee
Hon. Frank Skartados, NYS Assembly
Hon. William J. Larkin, Jr., NYS Senate
Robert L. Megna, Director, Division of the Budget
Tenneh Blamah, Chief Examiner