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March 18, 2013

The Honorable Linda L. Witte  
Members of the Common Council  
City of Olean  
101 East State Street  
Olean, New York 14760-0668

Report Number: B1-13-2

Dear Mayor Witte 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. 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 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 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 budget for the 2013-14 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 the 2013-14 fiscal year:

- Are the significant revenue and expenditure projections in the City's proposed 2013-14 budget reasonable?

- Did the City take appropriate action to implement or resolve recommendations contained in our budget review report letter issued in March 2012?

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 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 May 31, 2014 consisted of the following:

- Cover Letter
- 2013-14 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	\$17,407,866	\$9,454,285	\$950,000	\$7,003,581
Water <sup>a</sup>	\$3,652,958	\$3,588,500	\$64,458	\$0
Sewer	\$3,537,401	\$3,460,895	\$76,506	\$0
Total	\$24,598,225	\$16,503,680	\$1,090,964	\$7,003,581
(a) Includes \$32,500 in mathematical errors which overstated appropriations and appropriated fund balance.				

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. The City has made good progress in improving its financial condition and implemented or resolved recommendations contained in our budget review report letter issued in March 2012. The City's proposed budget complies with the property tax levy limit set by statute.

At May 31, 2012, the City's audited financial statements reported that unrestricted, unappropriated fund balance in the general, water and sewer funds were 35 percent, 22 percent, and 21 percent, respectively, of the following year's appropriations.<sup>1</sup> The City also projects operating surpluses for all three funds for the current 2012-13 fiscal year.

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.

Appropriated Fund Balance – Fund balance represents monies left over from previous years' operations that may be appropriated in the ensuing year's budget to reduce the tax levy. Because fund balance is affected by the results of the City's financial operations, it may not be available on a recurring basis and should be used cautiously. At May 31, 2012, the City reported unrestricted, unappropriated fund balance in the general fund of approximately \$5.7 million. Projections provided by City officials estimate this amount will increase to approximately \$6.4 million as a result of operations for the 2012-13 fiscal year. While the 2012-13 general fund budget didn't appropriate any fund balance, the proposed 2013-14 budget includes the use of approximately \$950,000. City officials indicated that the \$950,000 appropriation of fund balance will be used to fund work on the Bradner Tunnel (\$345,000) and Chestnut Street Extension (\$150,000),<sup>2</sup> as well as a transfer to the capital projects fund for vehicle/equipment replacement (\$450,000).

With respect to the \$450,000 for vehicles and equipment, these acquisitions are expected to be made in the 2013-14 fiscal year, paid entirely with general fund resources and without the issuance of debt. Therefore, we recommend that appropriations be included in the respective equipment line items for each department in the general fund budget, rather than transferring the funds to the capital projects account. Furthermore, we found that one vehicle, estimated to cost \$20,000, was recorded both in the intended transfer to capital projects and the respective department's equipment line item. The \$450,000 total to be appropriated from fund balance should be reduced to \$430,000 to eliminate this duplication.

Water Fund – The 2013-14 budget estimate of \$3,553,500 for water fund revenue includes an anticipated increase in water rates of 7 percent, which equates to approximately \$233,000. This revenue estimate assumes the anticipated water rate increase is adopted by the Common Council. We recommend that the potential water rate increase be authorized by the Common Council prior to the adoption of the budget. If the water rate increase is not authorized, or is authorized at a different rate, the revenue estimate should be modified accordingly.

Sewer Fund – The 2013-14 budget estimate of \$3,185,895 for sewer fund revenue also includes an anticipated increase in rates of 5 percent. This revenue estimate is approximately \$8,000 less than the previous year's budget and is more in line with current usage trends. We recommend that the potential sewer rate increase be authorized by the Common Council prior to the adoption of the budget. If the sewer rate increase is not authorized, or is authorized at a different rate, the revenue estimate should be modified accordingly.

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<sup>1</sup> Including appropriations for transfers to the debt service fund and capital projects fund

<sup>2</sup> The Bradner Tunnel and Chestnut Street Extension appropriations were included in the general fund budget within the Transportation function.

Prior Recommendations – The City took appropriate action to implement or resolve recommendations contained in our budget review report letter issued in March 2012. The City appropriately adjusted revenue and expenditure estimates following our recommendations.

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,<sup>3</sup> 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 \$7,003,581, which decreases the 2013-14 tax levy by approximately 1.6 percent relative to the 2012-13 tax levy of \$7,116,673. In adopting the 2013-14 budget, the Common Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the statutory limit.

The Common Council has the responsibility to initiate corrective action. Pursuant to Section 10.10 of Local Finance Law, the Common Council shall review the recommendations in this report and may make adjustments to its proposed budget. The Common Council must explain in writing to our office any recommendations that it has rejected.

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 Robert E. Meller, Chief Examiner of the Buffalo Regional Office, at (716) 847-3647.

Very truly yours,

Steven J. Hancox  
Deputy Comptroller

cc: Fred Saradin, City of Olean Auditor and Budget Officer  
Kelly Sweet, Clerk of the Board  
John A. DeFrancisco, Chair, Senate Finance Committee  
Herman Farrell, Jr., Chair, Assembly Ways and Means Committee  
Joe Giglio, NYS Assembly  
Catherine M. Young, NYS Senate  
Robert L. Megna, Director, Division of the Budget  
Robert E. Meller, Chief Examiner, Local Government and School Accountability

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<sup>3</sup> Our Office has previously determined that the rate of inflation applicable to cities with a fiscal year beginning June 1, 2013 is greater than 2 percent. Therefore, the property tax levy is capped at 2 percent.