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May 7, 2021

Honorable Michael Cinquanti, Mayor
Members of the Common Council
City of Amsterdam
City Hall, 61 Church Street
Amsterdam, NY 12010

Report Number: B21-5-5

Dear Mayor Cinquanti and Members of the Common Council:

Chapter 531 of the Laws of 2019 authorized the City of Amsterdam (City) to issue debt not to exceed \$8.3 million to liquidate the cumulative deficits in the City's general, transportation, sewer and recreation funds accumulated as of June 30, 2018. Additionally, Chapter 531 requires the City to submit to the State Comptroller, starting with the fiscal year during which it was authorized to issue the deficit obligations, and for each subsequent fiscal year during which the deficit obligations are outstanding, its proposed budget for the next succeeding fiscal year.

The proposed budget must be submitted no later than 30 days before the last date on which the budget must be finally adopted by the Common Council (Council). The State Comptroller must examine the proposed budget and make recommendations on the proposed budget as deemed appropriate. Recommendations, if any, are made after the examination of the City's revenue and expenditure estimates.

The 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 Council rejects must be explained in writing to our Office. The City may not issue bonds unless and until adjustments to the proposed budget consistent with any recommendations of the State Comptroller are made, or any recommendations that are rejected have been explained in writing to the State Comptroller.

Our Office has recently completed a review of the City's budget for the 2021-22 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 upcoming fiscal year:

- Are the significant revenue and expenditure projections in the City’s proposed budget reasonable?

Based on the results of our review, we found that certain significant expenditure projections in the 2021-22 proposed budget are not reasonable and other matters that require City officials’ attention. We also found that City officials did not implement all of the recommendations in our previous budget review letter¹ when preparing the 2021-22 proposed budget.

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. We also evaluated the amount of fund balance appropriated in the proposed budget to be used as a financing source and determined whether 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 2021-22 fiscal year consisted of the following:

- 2021-22 Proposed Budget
- Supplementary Information

The proposed budget submitted to our Office is summarized in Figures 1, 2 and 3.

Our review disclosed the following findings which should be reviewed by the Mayor and Council, with appropriate action taken as necessary in accordance with the requirements in Chapter 531.

Figure 1: 2021-22 Proposed Budget				
Fund	Appropriations and Provisions for Other Uses	Financing Sources		
		Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$19,024,039	\$13,371,053	\$0	\$5,652,986
Water	\$7,268,726	\$5,920,097	\$1,348,629	\$0
Sewer	\$5,369,011	\$5,369,011	\$0	\$0
Refuse	\$2,602,341	\$2,602,341	\$0	\$0
Recreation ^a	\$882,040	\$882,040	\$0	\$0

a) The recreation fund is used to account for the operations of the Amsterdam Municipal Golf Course.

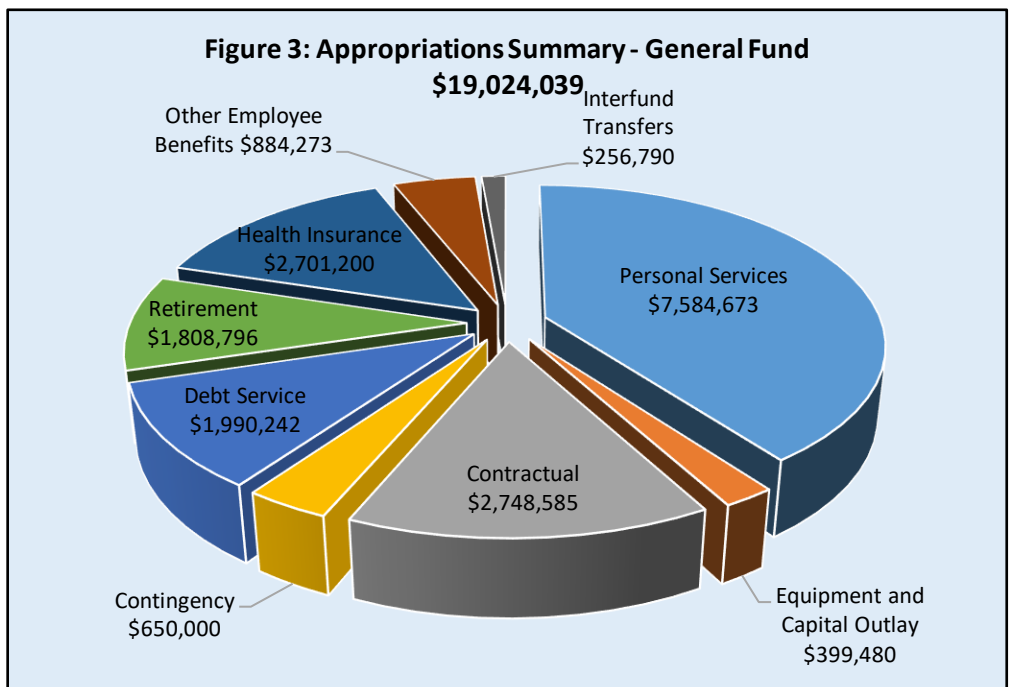
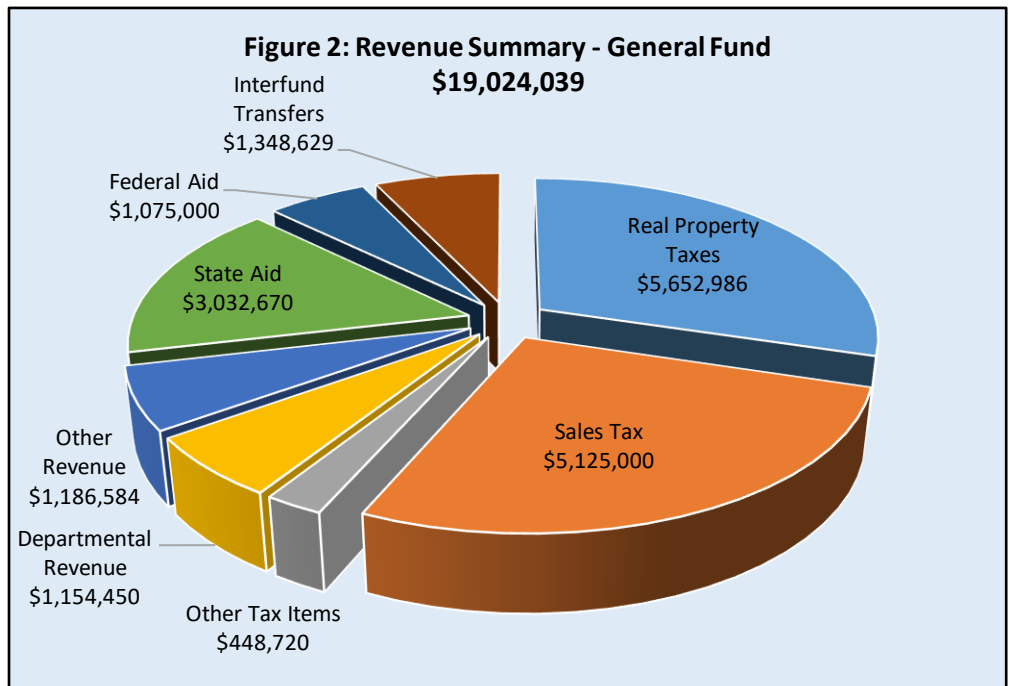
¹ <https://www.osc.state.ny.us/files/local-government/audits/pdf/amsterdam-br-20-5-8.pdf>

Proposed Budget Submission and Contents

The City Charter (Charter) requires the Mayor to submit to the Council a proposed City operating budget for the ensuing fiscal year on or before the first day of April each year. The Mayor submitted the 2021-22 proposed budget to the Council on April 23, 2021, or 22 days after the Charter-established deadline. The Mayor told us this occurred because he was waiting to receive additional information to finalize certain revenue and appropriation estimates.

The untimely submission of the proposed budget has significantly reduced the Council’s time to both review the proposed budget prior to the public hearing and prepare any necessary modifications to the proposed budget prior to adopting the budget. The Mayor should ensure future proposed budgets are submitted to the Council on or before the deadline.

The Charter also requires the proposed City operating budget to be in such form as the Controller may deem advisable and must show, in parallel columns, the following comparative information: the actual expenditures and revenues for the last completed fiscal year; the City operating budget as adopted and this budget as modified for the current fiscal year; estimates of appropriations and revenues for the ensuing fiscal year submitted by the heads of the various departments, other administrative units and authorized agencies; and the Mayor's recommendations and estimates as to expenditures and revenues for the ensuing fiscal year.



The proposed budget does not contain the actual expenditures and revenues for the last completed fiscal year or the budget as modified for the current fiscal year, as required by the Charter. The proposed budget's absence of required comparative information limits the Council's access to critical information and ability to make informed financial decisions during the budget process. City officials should ensure the proposed budget is updated to include all comparative information required by the Charter.

Revenues

Federal Aid – The proposed general fund budget includes estimated revenues of \$975,000 for Federal aid anticipated to be received by the City through the Federal American Rescue Plan Act (Act) of 2021. The Act will provide substantial aid to local governments in the upcoming fiscal year. At this time, the timing of the receipt of funds from the Act is uncertain. Once received, the funds will come with restrictions on what they can be used for. City officials should be mindful of these restrictions as they budget and plan for the use of the funds.

Interfund Transfers – As in recent years, the proposed general fund budget is not structurally balanced because the City is relying on a \$1,348,629 subsidy from the water fund through an interfund transfer to finance the general fund's operations.² The general fund's continued reliance on the water fund to cover operating expenses has and could continue to negatively impact the water fund's financial condition. We caution City officials that the water fund's continued appropriation of fund balance to finance interfund transfers to the general fund could eventually result in the unhealthy depletion of the water fund's fund balance.

In addition, as in recent years, the proposed recreation fund budget is not structurally balanced, and the recreation fund is projected to not be self-sufficient. Specifically, the City is relying on a \$256,790 subsidy from the general fund through an interfund transfer to finance the recreation fund's operations.³

City officials should closely monitor the recreation fund's actual results of operations throughout 2021-22 and make any interfund transfers from the general fund to the recreation fund that are necessary to finance the recreation fund's operations. However, City officials should also continue to evaluate and explore ways to make the recreation fund self-sufficient.

Appropriations

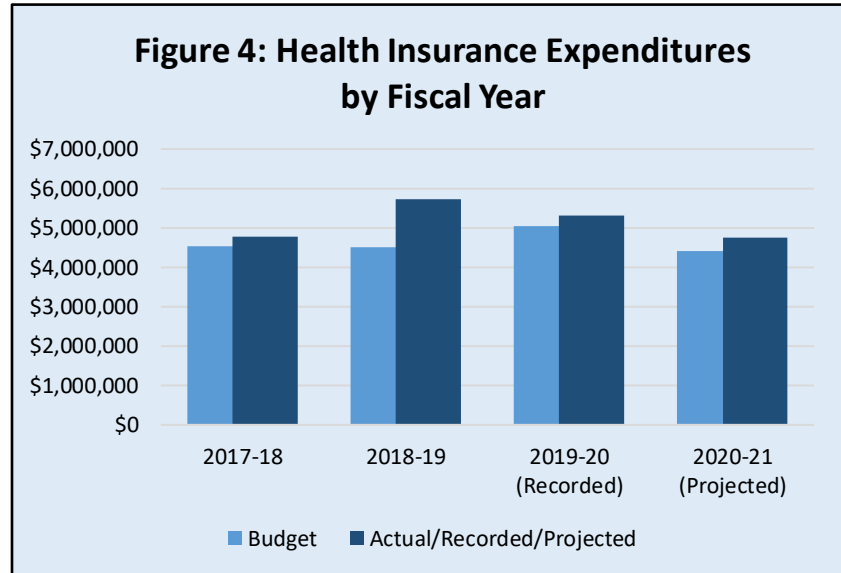
Health Insurance – The City pays predetermined premiums to an insurance provider for medical coverage for retirees and spouses age 65 or older. The City self-funds the remainder of its health insurance plan. Under this type of plan, the City pays for claims as they are presented, instead of paying predetermined premiums. As a result, health insurance expenditures can be unpredictable

² Prior adopted general fund budgets included interfund transfers from the water fund to be financed through the appropriation of fund balance in the amount of \$1.6 million in both 2018-19 and 2019-20, and \$1,348,629 in 2020-21.

³ Prior adopted recreation fund budgets included interfund transfers of \$65,700 in 2016-17, \$53,137 in 2017-18, \$37,695 in 2018-19, \$34,425 in 2019-20 and \$114,821 in 2020-21.

from year-to-year and the City is exposed to the risk of significant expenditures related to catastrophic claims.⁴

The proposed budget includes approximately \$4.7 million in health insurance appropriations, which the Controller told us he calculated by using a projection provided by the City's insurance broker of anticipated costs less anticipated contributions from employees and surviving spouses of retirees. However, the City has historically underestimated health insurance expenditures (Figure 4).



In addition, we caution City officials that if the City incurs health insurance expenditures in 2021-22 similar to the average costs of approximately \$5.1 million over the last four fiscal years,⁵ appropriations for health insurance could be underestimated by approximately \$400,000. Due to the significance and volatility of these appropriations, City officials should closely monitor these appropriations throughout 2021-22 and make modifications to the budget as necessary.

Debt Service – The City is required in 2021-22 to make debt service payments for principal and interest related to bond anticipation notes, serial bonds and installment purchase debt. The proposed budget includes total debt service appropriations in each of the operating funds that are either underestimated or overestimated (Figure 5).

⁴ The City has a stop-loss policy from an insurer to cover claims in excess of \$200,000.

⁵ The City incurred health insurance expenditures of approximately \$4.8 million in 2017-18 and \$5.7 million in 2018-19, recorded incurring health insurance expenditures of approximately \$5.3 million in 2019-20, and we project that the City will incur health insurance expenditures of approximately \$4.8 million in 2020-21.

Figure 5: Debt Service Appropriations					
2021-22 Proposed Budget					
Fund	General	Water	Sewer	Refuse	Recreation
Principal	\$1,676,622	\$313,596	\$656,548	\$47,250	\$132,340
Interest	\$313,620	\$67,158	\$133,999	\$18,723	\$26,839
Office of the State Comptroller Estimate					
Fund	General	Water	Sewer	Refuse	Recreation
Principal	\$1,776,517	\$313,596	\$646,163	\$47,250	\$135,583
Interest	\$332,915	\$67,814	\$138,543	\$18,885	\$27,256
Variance Between 2021-22 Proposed Budget and OSC Estimate					
Fund	General	Water	Sewer	Refuse	Recreation
Principal	(\$99,895)	\$0	\$10,385	\$0	(\$3,243)
Interest	(19,295)	(656)	(4,544)	(162)	(417)
Total	(\$119,190)	(\$656)	\$5,841	(\$162)	(\$3,660)

These discrepancies occurred for various reasons. For example, the proposed budget does not include debt service appropriations totaling \$60,672 in the general fund and \$55,569 in the sewer fund for serial bond payments owed. Similarly, the proposed budget does not include debt service appropriations totaling

\$47,861 in the general fund and \$3,660 in the recreation fund for installment purchase debt payments owed. In addition, interest payments on serial bonds are not allocated to the correct operating funds.

This occurred even though our previous budget review letter recommended that City officials should ensure future budgets include debt service appropriations in each fund that agree with debt service schedules and supporting documentation of the amounts owed. City officials should review these appropriations and make modifications as necessary to ensure debt service appropriations are available in each fund for all required debt service payments.

Social Security and Medicare Taxes – The City’s share of the Social Security tax is 6.2 percent of wages to a certain limit⁶ and is 1.45 percent of wages for the Medicare tax, or generally a combined 7.65 percent of all wages. The proposed budget includes total appropriations of \$841,594 for Social Security and Medicare taxes, which the Controller calculated by multiplying \$11,001,232 in budgeted appropriations for salaries and overtime by 7.65 percent. However, the Controller’s calculation excluded \$1,013,423 in additional budgeted appropriations for other payroll payments (e.g., longevity pay, out of title pay, on-call pay, unused leave time and health insurance buy outs) for which the City is required to pay Social Security and Medicare taxes. Based on this, we project that Social Security and Medicare taxes have been underestimated by \$77,527.⁷

This occurred even though our previous budget review letter recommended that City officials should ensure future budgets include budgeted appropriations for Social Security and Medicare taxes based on all payroll payments projected to be made by the City. City officials should review these appropriations and make modifications as necessary.

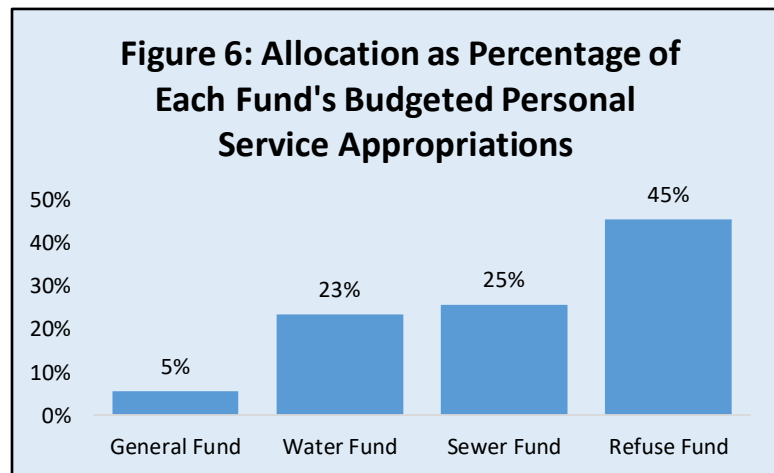
⁶ Wages up to \$142,800 for 2021

⁷ The \$77,527 was calculated by multiplying the additional budgeted appropriations for personal services of \$1,013,423 by 7.65 percent. The \$77,527 underestimation of appropriations consists of \$61,511 in the general fund, \$8,949 in the water fund, \$5,176 in the sewer fund, \$1,432 in the refuse fund and \$459 in the recreation fund.

Allocation of Appropriations – The proposed budget includes the allocation of certain appropriations for personal services, contractual expenditures and employee benefits between the operating funds using various allocation methods. The City has historically used the same allocation methods each year in its budget.⁸ However, City officials could not provide us with support for all of the allocation methods, such as the direct relationship between the services to be provided to the funds and the appropriations allocated to them. This continues even though our previous budget review letter recommended that City officials should develop an allocation plan based on detailed analysis.

Due to the City’s lack of detailed analysis for determining the actual amount and cost of services provided to each fund, we could not determine the amount of appropriations that should have been allocated to each fund. In addition, we question the equity of some of the City’s allocations in the proposed budget.

For example, appropriations for personal services for 13 of the City’s departments⁹ totaling approximately \$1.6 million are allocated in the proposed budget between the general, water, sewer and refuse funds in equal allocations of 25 percent, or approximately \$400,000 each. The Controller told us this is done to allocate administrative costs between the funds. However, this is not an adequate method of allocation because it assumes that each of these departments will provide equal amounts of services to each of the funds. In addition, based on the functions performed by each of these departments, we question whether they are all providing services to support the City’s water, sewer and refuse operations. The approximate \$400,000 allocation to the water, sewer and refuse funds represents a significant percentage of each fund’s total budgeted appropriations for personal services, or approximately 23 percent, 25 percent and 45 percent, respectively (Figure 6).¹⁰



Contractual appropriations for the same 13 departments totaling more than \$300,000 are also allocated in the proposed budget between the operating funds.¹¹ However, the City does not use

⁸ The allocation methods used in the budget are also used to record expenditures incurred during the fiscal year to the operating funds.

⁹ The 13 departments include the Council, Mayor's office, Controller's office, Assessor's office, City Clerk's office, Corporation Counsel, Civil Service, Employee Relations, City Hall maintenance, Animal Control Officer, Code Enforcement office, Engineer's office and Community and Economic Development office.

¹⁰ The allocation to the general fund represents approximately 5 percent of the general fund’s total budgeted appropriations for personal services.

¹¹ Ten of the 13 departments’ contractual appropriations are allocated between the general, water, sewer and refuse funds, but contractual appropriations for the Corporation Counsel, Civil Service and Employee Relations departments are also allocated to the recreation fund.

the same allocation method that is used for personal services appropriations. The allocation consists of each fund's total budgeted appropriations as a percentage of the total budgeted appropriations for all funds, rounded to a whole percent.¹² In addition, other miscellaneous contractual appropriations (e.g., postage and City Hall utilities) totaling more than \$525,000 are allocated in the proposed budget in the same manner.¹³

Appropriations for personal services for 23 employees in the Department of Public Works totaling approximately \$1.1 million are also allocated in the proposed budget between the general, water, sewer and/or refuse funds in various percentages.¹⁴ The Controller told us this is done because these employees perform work for multiple funds. However, City officials do not maintain records of the actual work performed by these employees to support these allocations.

Most of the budgeted appropriations for employee benefits (e.g., New York State and Local Employees' Retirement System contributions and non-police and fire department workers' compensation) are allocated to the operating funds based on the budgeted appropriations for personal services. As a result, the manner in which the City allocates appropriations for personal services to the operating funds also directly impacts the allocation of appropriations for employee benefits.

Without allocation methods that are supported, certain funds may assume an inequitable burden for costs that do not apply to their operations. This could result in taxpayers or ratepayers being inequitably charged for the actual services provided by each fund. City officials should develop an allocation plan based on detailed analysis that ensures costs allocated to each fund are directly related to its operations.

Contingency Accounts – Local governments use contingency accounts as a budgetary means to provide funding for unexpected events. The amount needed for contingency depends on the amount of uncertainty with budgeted amounts and economic conditions. Given the findings noted in this report, the City should use contingency accounts to offset some of this risk. The Charter authorizes the inclusion of contingency appropriations in each fund but does not establish a maximum amount. New York State statutes generally set the maximum for such accounts at 10 percent of a fund's budget (excluding appropriations for debt service and judgments), which can serve as a general guideline for the City.

The refuse fund budget includes a \$13,060 contingency appropriation, or approximately 0.5 percent of the total budgeted appropriations of approximately \$2.6 million. In addition, the recreation fund budget includes a \$10,000 contingency appropriation, or approximately 1 percent of the total budgeted appropriations of \$882,040. This provides the City with minimal flexibility

¹² The calculated percentages were not all rounded to the nearest whole percent. For example, for allocations between the general, water, sewer and refuse funds, the Controller rounded the water fund's allocation from 21.21 percent down to 20 percent and the sewer fund's allocation from 15.67 percent up to 17 percent.

¹³ The allocations of the contractual appropriations totaling approximately \$844,000 consisted of approximately \$468,000 to the general fund, \$167,000 to the water fund, \$141,000 to the sewer fund, \$60,000 to the refuse fund and \$8,000 to the recreation fund.

¹⁴ The allocations consisted of approximately \$542,000 to the general fund, \$66,000 to the water fund, \$332,000 to the sewer fund and \$151,000 to the refuse fund.

in the event of unforeseen circumstances that may require additional funds in the refuse and recreation funds.¹⁵

Collective Bargaining Agreements

As of the time of our review, one of the City’s seven collective bargaining agreements (CBAs) has expired and another four CBAs are set to expire at the end of 2020-21 (Figure 7). The CBAs cover the salaries and wages of approximately 100 City employees. The City faces potential increased salary and wage costs when these agreements are settled.

The proposed budget includes a contingency appropriation of \$650,000 in the general fund, \$700,000 in the water fund, \$360,000 in the sewer fund, \$13,060 in the refuse fund and \$10,000 in the recreation fund. The contingency appropriations provide some financial flexibility in the general, water and sewer funds and minimal flexibility in the refuse and recreation funds related to any settlements. City officials should consider the potential financial impact in the event that any of the CBAs are settled in 2021-22.

Figure 7: CBA Expiration Dates	
Bargaining Unit	CBA Expiration Date
Amsterdam Police Superior Officers Association, Inc.	6/30/17
American Federation of State, County and Municipal Employees	6/30/21
Civil Service Employees Association (Wastewater Facility)	6/30/21
Civil Service Employees Association (City Hall)	6/30/21
United Public Service Employees Union	6/30/21

Tax Cap Compliance

General Municipal Law Section 3-c establishes a tax levy limit on local governments. The law generally precludes local governments from adopting a budget with 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 first adopts a local law to override the tax levy limit.

The City’s proposed budget includes a tax levy of \$6,059,017¹⁶ which is within the limit. In adopting the 2021-22 budget, the 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 properly overrides the tax levy limit.

¹⁵ The proposed budget includes a contingency appropriation of \$650,000 in the general fund, \$700,000 in the water fund and \$360,000 in the sewer fund.

¹⁶ This amount includes the City’s proposed budget tax levy, overlay and pro rata taxes.

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 Gary G. Gifford, Chief Examiner of the Glens Falls Regional Office, at (518) 793-0057.

Sincerely,

Elliott Auerbach
Deputy Comptroller

cc: Matthew A. Agresta, City Controller
Stefanie Lenkowicz, City Clerk
Hon. Andrea Stewart-Cousins, NYS Senate Majority Leader
Hon. Carl E. Heastie, NYS Assembly Speaker
Hon. Liz Krueger, Chair, NYS Senate Finance Committee
Hon. Helene E. Weinstein, Chair, NYS Assembly Ways and Means Committee
Hon. Angelo Santabarbara, NYS Assembly
Hon. Michelle Hinchey, NYS Senate
Robert F. Mujica Jr., Director, Division of the Budget
Gary G. Gifford, Regional Chief Examiner