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September 30, 2026

Honorable Dr. Dorcey L. Applyrs
City of Albany
City Hall
24 Eagle Street
Albany, New York 12207

Report Number: B26-5-8

Dear Mayor Applyrs and Members of the Common Council:

Following City of Albany (City) officials' disclosure that the City experienced a major unplanned operating deficit during fiscal year 2025 and projected the City would face another unplanned operating deficit during fiscal year 2026, the Mayor and interested stakeholders, including Common Council members and taxpayers, requested our Office provide a review of the City's finances. The objective of our review was to provide an independent evaluation of the City's adopted budgets and to address the following question:

- Were the significant revenues and expenditures in the City's fiscal year 2025 and 2026 adopted budgets reasonable?

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 provide.

To accomplish our objective in this review, we:

- Requested the City's fiscal year 2025 and 2026 adopted budgets, salary schedules, debt payment schedules and other pertinent information.
- Identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases.
- Analyzed, verified and/or corroborated trend data and estimates, where appropriate.
- 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.
- Evaluated the amount of fund balance appropriated in the fiscal year 2025 and 2026 adopted budgets to use as a funding source and determined whether the amount of fund balance was available and sufficient for that purpose.

The City's former Budget Director, who was responsible, along with assistance from staff, for developing fiscal year 2025 and 2026 budgets resigned in March 2026, prior to the commencement of this review and was replaced by an Interim Budget Director.

Summary

Overall, we determined that significant revenue and expenditure estimates in the City's fiscal year 2025 and 2026 adopted budgets were not reasonable. City officials did not prepare budgets using realistic estimates based on historical trends, actual results and the most current and accurate information available. In addition, City officials relied on nonrecurring revenues to fund recurring expenditures.

Our review of the records and documentation provided by City officials indicates that:

- The City experienced an unplanned operating deficit of approximately \$25 million in fiscal year 2025, which significantly reduced available financial resources and limited the City's ability to fund amounts included in the 2026 adopted budget.
- The City's fiscal year 2026 adopted budget includes revenues that the City may not realize and appropriations that are underestimated. If current operating trends continue, we project the City will have a fiscal year-end deficit of approximately \$26 million.
- The City relied on temporary and other nonrecurring revenues to fund recurring operating expenditures. Continued reliance on these funding sources increases the risk of future budget gaps when the funding is reduced, discontinued or otherwise unavailable.

The City derives the majority of its revenue from real property taxes, sales tax and additional State aid, such as Capital City Funding and miscellaneous municipal assistance. A substantial portion of City expenditures include personal services and employee benefits. The City's fiscal year 2025 and 2026 adopted budgets are summarized in Figure 1.

Figure 1: Fiscal Year 2025 and 2026 Adopted Budgets

Fiscal Year	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
2025	\$221,709,865	\$158,728,865	\$0	\$62,981,000
2026	\$228,408,909	\$163,853,909	\$0	\$64,555,000

Revenues

Our review identified significant revenue estimates that were not based on reasonable amounts the City would receive. In some cases, estimates were not supported by historical trends, actual results or the most current information available. In particular, sales tax, traffic violation fines, payments in lieu of taxes (PILOTs), federal and State aid and interfund transfers were overestimated. These practices increase the risk that actual revenues will fall short of budget estimates and contribute to operating deficits.

The City's fiscal year 2025 and 2026 revenue estimates are summarized in Figures 2 and 3. Other revenue includes federal and State aid and various departmental revenues.

Figure 2: Fiscal Year 2025 Adopted Budget Summary – Revenue

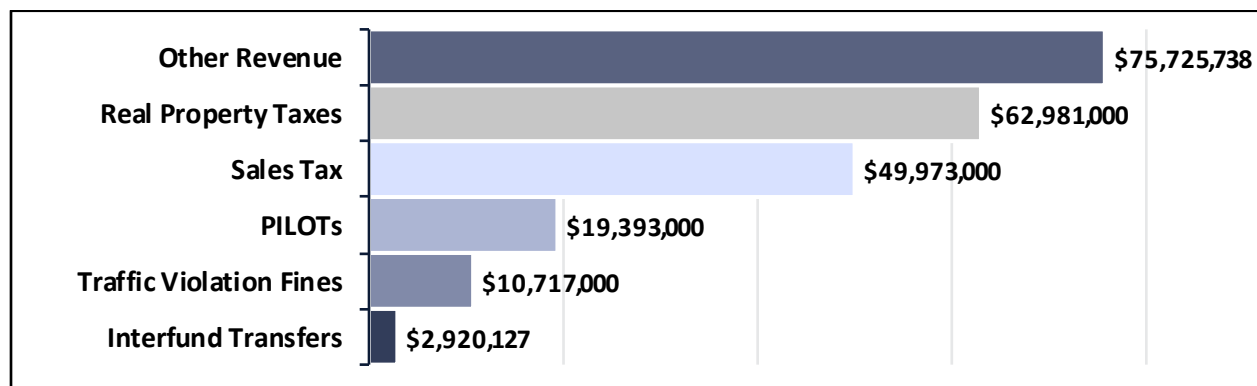
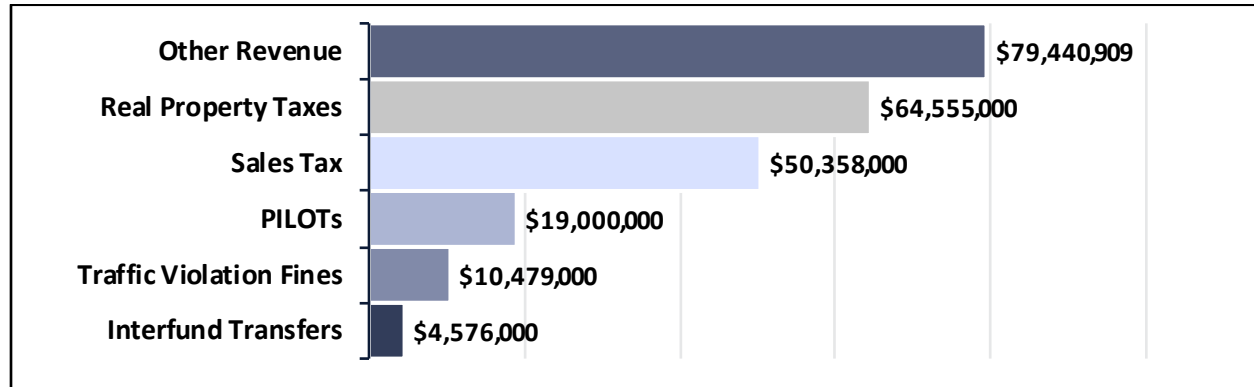


Figure 3: Fiscal Year 2026 Adopted Budget Summary – Revenue



Sales Tax – The City’s 2025 adopted budget included estimated sales tax revenue of \$50 million. However, the City received \$47.3 million, or \$2.7 million less than projected. The 2026 adopted budget included estimated sales tax revenue of \$50.4 million, an increase from the 2025 adopted budget. Based on historical trends and local sales tax data, we project the City will receive \$48.1 million in 2026, resulting in a revenue shortfall of \$2.2 million.

Our review indicated that City officials based the revenue estimates primarily on amounts budgeted in the prior year rather than actual revenue trends and, as a result, overestimated sales tax revenue. Using actual results and current sales tax data when developing revenue estimates would help City officials establish more realistic budget projections and reduce the potential for recurring revenue shortfalls.

Traffic Violation Fines – The City’s 2025 adopted budget included estimated revenue of \$10.7 million for traffic violation fines (parking violation fines, red light cameras, handicapped parking tickets, boot charges, etc.). However, the City received \$8.2 million, or \$2.5 million less than projected. The 2025 estimated revenue increased significantly from prior years following the implementation of a new speed enforcement program in school zones.

When developing the 2025 adopted budget, City officials relied on third-party vendor data to estimate the program’s potential revenue earnings. Despite the revenue shortfall in 2025, the 2026 adopted budget included estimated revenue of \$10.5 million for traffic violation fines. Based on 2025 actual results, we project the City will receive \$7.6 million in 2026, resulting in a potential revenue shortfall of \$2.9 million.

City officials should monitor revenue collected throughout the remainder of the fiscal year. When developing future budgets, officials should use reliable and representative comparative data, including actual revenue trends, to support revenue estimates and reduce the potential for revenue shortfalls.

PILOTs – The City’s 2025 adopted budget included estimated revenue of \$19.4 million for PILOTs. The City received \$17.4 million, or \$2 million less than projected. The 2026 adopted budget included estimated revenue of \$19 million for PILOTs, a decrease from the 2025 adopted budget. Based on PILOT agreements and schedules and other information provided by the Treasurer’s office, we project the City will receive \$17.9 million in 2026, resulting in a revenue shortfall of \$1.1 million.

Because PILOT agreements and schedules exist outlining payments to be billed, City officials should use information available in the Treasurer’s office when developing future budgets.

Federal and State Aid – The 2025 and 2026 adopted budgets included grant revenue that the City was not eligible for or did not receive. For example, the 2025 and 2026 adopted budgets included \$1.2 and \$1.5 million, respectively, from the Federal Emergency Management Agency (FEMA). The City received \$220,448 in 2025 and, as of the time of our review, had not received and is not expected to receive this aid in 2026. This revenue included \$1.2 million in each year projected for a Staffing For Adequate Fire and Emergency Response (SAFER) grant that the City was not eligible for.¹ As a result, the City faces a revenue shortfall of at least \$1.2 million in 2026.

City officials should consider the availability and timing of grant funding and be mindful of the potential impact of not fully realizing these revenues when developing future budgets.

Other State Aid – The 2025 and 2026 adopted budgets included additional State aid totaling \$21.5 million and \$25.1 million, respectively. Specifically, the adopted budgets included:

- Capital City Funding assistance totaling \$20 million and \$20.7 million in 2025 and 2026, respectively.
- Temporary Municipal Assistance totaling \$1.5 million and \$4.4 million in 2025 and 2026, respectively.

In addition, City officials amended the 2026 adopted budget to include \$20 million in miscellaneous municipal assistance to address the City's budget gap. This aid was provided through the State's 2026-27 enacted budget and is planned to continue through State fiscal year 2028-29, aligning with the City's 2028 fiscal year.

Although this State aid provides significant financial support, the City continues to face budget gaps and the funding is not guaranteed beyond the periods currently authorized. Reliance on this aid to fund recurring operating expenditures increases the risk of future budget gaps if the funding is reduced or discontinued. City officials should consider the temporary nature of this funding when developing future budgets and identify sustainable funding sources for recurring expenditures.

Interfund Transfers – City officials budgeted a \$2.9 million interfund transfer from the debt service fund to the general fund to offset long-term debt principal payments in 2025. However, \$9.3 million was transferred, or \$6.4 million more than budgeted. City officials told us they increased the transfer to help offset the unplanned operating deficit recognized in 2025. As a result, the debt service fund's fund balance was significantly reduced leaving \$2.1 million available for the transfer to the general fund in 2026, compared with the \$4.6 million budgeted. Therefore, the City faces a projected \$2.5 million revenue shortfall in 2026.

To help ensure future City budgets are realistic and balanced, City officials should use actual historical trends and the most current information available when estimating significant revenues, including interfund transfers.

Appropriations

Our review identified significant appropriations that were not based on reasonable estimates. In particular, appropriations for police overtime and retiree health insurance were underestimated. In addition, the City provided limited funding for contingencies and did not adequately consider the potential financial impact of unsettled collective bargaining agreements. These practices increase the risk that actual expenditures will exceed budgeted appropriations and contribute to operating deficits.

The City's 2025 and 2026 appropriations are summarized in Figures 4 and 5.

¹ Aid received in 2025 was related to prior year eligibility.

Figure 4: Fiscal Year 2025 Adopted Budget Summary – Appropriations

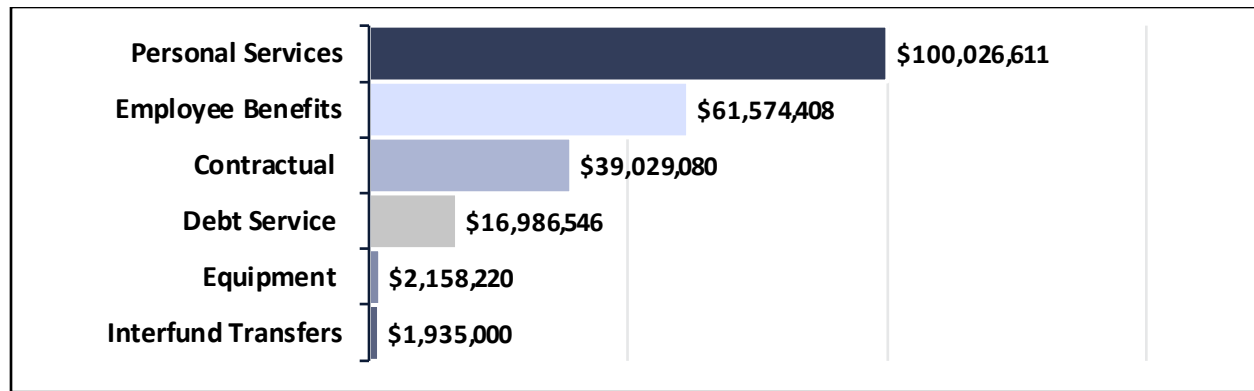
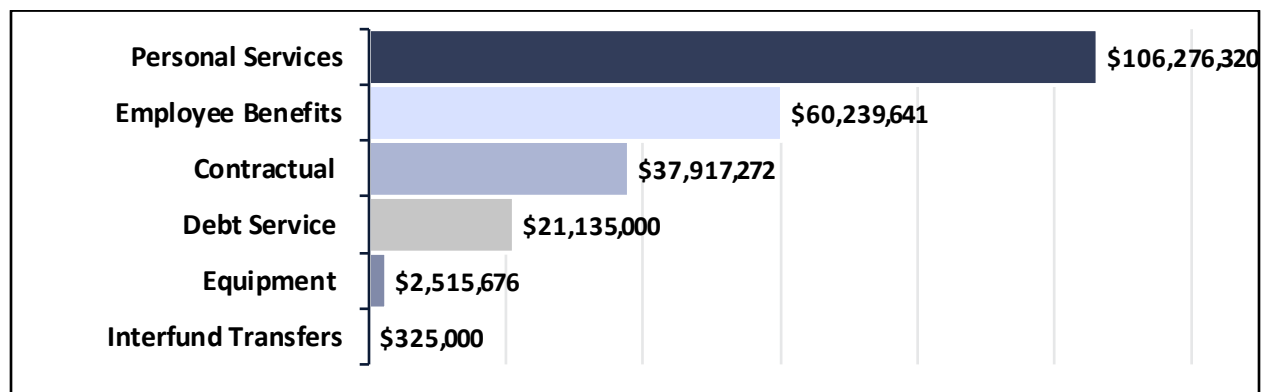


Figure 5: Fiscal Year 2026 Adopted Budget Summary – Appropriations



Police Overtime – The City’s 2025 adopted budget included \$9 million for non-reimbursable police overtime. However, actual expenditures totaled \$12.6 million, or \$3.6 million more than budgeted. The 2026 adopted budget included \$9.5 million for non-reimbursable police overtime. Based on historical police overtime trends, we project the City will spend \$13.4 million in 2026, resulting in underestimated appropriations of \$3.9 million.

Retiree Health Insurance – The City’s 2025 adopted budget included \$11 million for retiree health insurance. However, actual expenditures totaled \$13.5 million, or \$2.5 million more than budgeted. The 2026 adopted budget included \$12 million for retiree health insurance. Based on historical trends, we project the City will spend \$14.4 million in 2026, resulting in underestimated appropriations of \$2.4 million.

The Interim Budget Director told us that the City’s insurance broker provided projections of anticipated costs to the former Budget Director during the development of the 2025 and 2026 adopted budgets. However, these projections were not provided during our review.

Because the City self-funds health insurance for individuals under 65 and actual costs can vary from year to year, City officials should use available cost projections and other current information, as well as historical trends, when estimating future health insurance appropriations. Underestimating costs exposes the City to the risk of significant expenditures related to catastrophic claims.²

Contingency Account – Local governments use contingency accounts to provide funding for unexpected expenditures. The amount needed for contingency depends on the level of uncertainty associated with budget estimates and economic conditions. The City’s 2025 and 2026 adopted budgets each included a \$100,000 contingency appropriation, which was less

² The City has a stop-loss policy to cover claims above \$250,000.

than one percent of total budgeted appropriations and provided minimal flexibility to address unforeseen expenditures.

The City's Charter does not establish a minimum or a maximum amount for contingency appropriations. However, 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).

Given the budgetary uncertainties identified in our review, City officials should consider whether the contingency appropriation provides sufficient flexibility to address reasonable unforeseen expenditures when developing future budgets.

Collective Bargaining Agreements – Of the City's 12 collective bargaining agreements (CBAs), four were set to expire in fiscal year 2025 or 2026 and one that expired in fiscal year 2023 was settled in fiscal year 2025 (Figure 6). The expiring CBAs cover the salaries and wages of approximately 418 City employees.

Figure 6: CBA Expiration Dates

Bargaining Unit	CBA Expiration Date
New York State Law Enforcement Officers Union (Communications Unit)	12/31/23
The Albany Blue Collar Workers Union	12/31/24
Civil Service Employees Association, Inc. (Building and Regulatory Compliance)	12/31/24
International Brotherhood of Teamsters	12/31/25
International Union of Operating Engineers	12/31/25

City officials did not consider the potential financial impact of settling these CBAs when developing the 2025 and 2026 budgets.

City officials should closely monitor related appropriations as agreements are negotiated and settled and consider the potential financial impact of unsettled CBAs when developing future budgets.

Nonrecurring Funding Sources

A structurally balanced budget uses recurring revenues, such as real property taxes, to fund recurring expenditures, such as salaries and benefits. Nonrecurring revenues, such as temporary aid and fund balance are generally more appropriate for one-time or nonrecurring expenditures. Using nonrecurring revenues to fund recurring expenditures can create future budget gaps when those revenues are no longer available and the recurring expenditures continue.

American Rescue Plan Act (ARPA) – The City received \$80.7 million in temporary funding through ARPA during fiscal years 2021 and 2022. City officials used ARPA funding for certain general fund payroll expenditures. For example, in August of 2022, City officials allocated \$7.1 million to fire department personal services and continued using ARPA funding for personal services until the funding was exhausted.

City officials' use of temporary ARPA funding to fund recurring personal service costs contributed to budget shortfalls.

City officials also designated \$25 million in ARPA funds for the Albany for All Incentive.³ The 2025 and 2026 adopted budgets included appropriations of \$2 million and \$1 million, respectively, for this initiative, with corresponding ARPA revenue estimates. However, as of December 2024, the City had expended the entire \$80.7 million ARPA funding, leaving no ARPA funding available to fund these appropriations.

³ The Albany for All Incentive was created with the intent to provide funding to individuals or organizations for local projects and programs that would support the City's recovery efforts related to the COVID-19 pandemic.

City officials should develop future budgets using realistic estimates based on actual historical trends and the most current and accurate information available and avoid relying on nonrecurring revenues to fund recurring expenditures. Doing so will help the City develop structurally balanced budgets and reduce the risk of future budget gaps.

Recommendations

City officials and the Common Council should:

1. Develop a plan to achieve and maintain structurally balanced budgets by identifying sustainable funding sources for recurring expenditures and discontinuing the practice of relying on nonrecurring revenues to fund recurring expenditures.
2. Develop annual budgets using realistic estimates based on historical trends, actual results, current information and other relevant supporting documentation and consider known or reasonably anticipated costs.
3. Closely monitor actual revenues and expenditures against budget estimates throughout the fiscal year and make timely budget modifications when necessary to address projected shortfalls and help maintain a balanced budget.
4. Maintain documentation supporting significant revenue and appropriation estimates, including the assumptions, calculations and other information used to develop these estimates.

We hope that this information is useful as you develop the 2027 budget for the City. If you have any questions on the scope of our work, please feel free to contact Gary Gifford, Chief of Municipal Audits of the Glens Falls Regional Office, at (518) 793-0057.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller

cc: Hon. Kelly Kimbrough, Common Council President
Hon. Meghan Keegan, Finance Committee Chair
Darius Shahinfar, Treasurer
Kathryn Fitzpatrick, Interim Budget Director
Shaniqua Jackson, City Clerk
Gary Gifford, LGSA Regional Chief of Municipal Audits