



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

November 3, 2016

Honorable Wm. Patrick Madden, Mayor
Members of the City Council
City of Troy
City Hall
Troy, NY 12180

Report Number: B5-16-15

Dear Mayor Madden and Members of the City Council:

Chapter 721 of the Laws of 1994, as amended, authorized the City of Troy (City) to issue debt totaling \$21,630,000 to liquidate cumulative deficits in the City's general fund for the years ending December 31, 1993, 1994 and 1995. 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 budget must be submitted no later than 30 days before the date scheduled for the City Council's (Council) 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 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.

Our Office has recently completed a review of the City's budget for the 2017 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 proposed City budget for the 2017 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 estimates were realistic and 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 be provided.

The proposed budget package submitted for review for the fiscal year ending 2017 consisted of the following:

- Cover letter
- 2017 Proposed budget
- Supplementary information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Real Property Taxes
General	\$72,381,477	\$45,846,818	\$26,534,659
Water	\$13,154,00	\$13,154,000	\$0
Sewer	\$4,296,702	\$4,296,702	\$0

Based on the results of our review, we found the significant revenue and expenditure projections to be reasonable. For example, the proposed budget discontinues the City’s practice of including estimated revenue for the sale of real property and includes a realistic estimate for sales tax revenue based on historical trends. In addition, appropriations for retirement system contributions are realistic and based on estimates from the New York State and Local Retirement System. However, the proposed budget provides only minimal funding for capital expenditures, and the City has not fully funded its 2017 capital plan. City officials should also be cognizant of the potential financial impact of the settlement of any of the City’s six expired collective bargaining agreements (CBAs) in 2017.

Furthermore, we found that the City’s proposed real property tax levy is not in compliance with its tax levy limit and, as of the date of this letter, the Council has not adopted a local law to override the limit. Should the City not take action to adopt a tax cap override or make cuts to the budget, it will be left with an unbalanced 2017 budget that will not have sufficient revenues to fund

operations. If this occurs, the City risks triggering a reimposition of the emergency period under the City of Troy Supervisory Board Act.

Our review disclosed the following findings which should be reviewed by the Mayor and Council for appropriate action. Good management practices require that City officials take prompt action concerning our recommendations.

Capital Expenditures

The City's capital plan that is included in the proposed budget includes capital expenditures for the general fund totaling \$2,033,695. However, the City's proposed general fund budget includes an interfund transfer to the capital projects fund of only \$370,000 to finance capital expenditures that are included in the capital plan.¹ In addition, although the City's proposed general fund budget includes appropriations for equipment and capital outlay of \$44,500, none of these appropriations correspond to the capital expenditures included in the City's general fund capital plan. Consequently, approximately \$1.7 million (82 percent) of the City's 2017 general fund capital plan remains unfunded. In recent years, the City began financing general fund capital expenditures by issuing debt,² rather than by including financing sources in the budget. City officials told us that any general fund capital expenditures that are incurred by the City in 2017 that are not currently financed through the proposed budget will again be financed by issuing debt.

The City's capital plan that is included in the proposed budget includes capital expenditures for the water fund totaling \$970,000. Although the City's proposed water fund budget includes appropriations for equipment and capital outlay of \$40,256, none of these appropriations correspond to the capital expenditures included in the City's water fund capital plan. Consequently, all of the City's 2017 water fund capital plan remains unfunded. In recent years, the Council has amended the water fund budget during the fiscal year to appropriate fund balance and make interfund transfers to the capital projects fund³ to finance water fund capital expenditures. We encourage City officials to identify financing sources for capital expenditures and to include these financing sources in their operating budgets.

In previous budget review letters, we have expressed concern that the City was not including funding for capital expenditures in its adopted budgets and was deferring capital costs. We continue to be concerned that the City is deferring capital expenditures that it will be forced to incur in the future, possibly at a higher cost, at a time when the City may be inadequately prepared to fund such costs.

¹ The City's proposed general fund budget also includes an interfund transfer to the capital projects fund of \$950,000 to finance the City's 2017 street paving program, but these capital expenditures are not included in the City's capital plan.

² The City issued bond anticipation notes in 2014, 2015 and 2016 for the purchase of vehicles and/or equipment totaling \$1,083,000, \$825,000 and \$375,000, respectively.

³ The Council amended the 2013, 2014 and 2016 water fund budgets to make interfund transfers to the capital projects fund totaling \$4,360,000, \$1,640,000 and \$1,880,000, respectively.

Collective Bargaining Agreements

As of the time of our review, all six of the City's CBAs have expired⁴ and the 2017 proposed budget does not contain provisions for any potential increased costs associated with settling these CBAs in 2017. The expired CBAs cover the salaries and wages of approximately 500 City employees. The City faces potential significant increased salary and wage costs when these agreements are settled. City officials should be cognizant of the potential financial impact of the settlement of the expired CBAs and be prepared to provide for funding in the event that any are settled in 2017.

Bargaining Unit	CBA Expiration Date
Uniformed Fire Chiefs Association	12/31/2010
Civil Service Employees Association	12/31/2011
Troy Police Benevolent and Protective Association, Inc.	12/31/2012
Command Officers Association of Troy	12/31/2012
Uniformed Firefighters Association	12/31/2012
United Public Service Employees Union	12/31/2014

Tax Cap Compliance/Supervisory Board Act

General Municipal Law Section 3-c, enacted by Chapter 97 of the Laws of 2011 established a tax levy limit on local governments, which was effective beginning in the 2012 fiscal year. Generally, 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 first adopts a local law by at least 60 percent vote to override the tax levy limitation.

The City's proposed budget is not within the tax levy limit because it includes a tax levy of \$27,506,693,⁵ which, at the time of our review, exceeds the tax levy limit allowed by law by \$5,819,667. In adopting the 2017 budget, the Council should be mindful of the legal requirement to maintain the tax levy to no more than the tax levy limit as permitted by law, unless it adopts a local law to override the cap.

As of the date of this letter, the City Council had not adopted a local law to override the tax cap and had not made modifications to the Mayor's proposed budget to reduce the tax levy to a level within the City's tax levy limit. Without taking action to adopt a tax cap override or making cuts to the budget, the City will be left with an unbalanced 2017 budget that will not have sufficient revenues to fund operations. If this occurs, the City risks triggering the reimposition of the

⁴ The Council is scheduled to vote on the approval of a CBA for the Uniformed Firefighters Association in November 2016, which will cover the period January 1, 2013 through December 31, 2016. The City's proposed general fund budget includes increased appropriations for personal services related to the potential settlement of this CBA. However, even if the Council approves the CBA, as of January 1, 2017, the approved CBA will have expired.

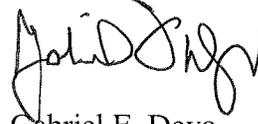
⁵ This amount includes the City's proposed budget tax levy and omitted taxes as well as a projected tax levy for the Troy Business Improvement District.

emergency period under the City of Troy Supervisory Board Act.⁶ During an emergency period, certain additional oversight powers and duties are granted to the Supervisory Board in accordance with the Supervisory Board Act.

As noted previously, the Council has the responsibility to initiate corrective action to address the recommendations in this report. In addition, pursuant to Section 35 of New York State General Municipal Law, the Council 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 Council 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 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 Jeffrey Leonard, Chief Examiner of the Glens Falls Regional Office, at (518) 793-0057.

Very truly yours,



Gabriel F. Deyo
Deputy Comptroller

cc: Andrew Piotrowski, Deputy City Comptroller
Patricia O'Brien, City Clerk
Troy Supervisory Board Members
Hon. Catharine Young, Chair, NYS Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, NYS Assembly Ways and Means Committee
Hon. Steven F. McLaughlin, NYS Assembly
Hon. John T. McDonald III, NYS Assembly
Hon. Neil D. Breslin, NYS Senate
Hon. Kathleen A. Marchione, NYS Senate
Robert F. Mujica Jr., Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Jeffrey Leonard, Regional Chief Examiner

⁶ Laws of 1994, Chapter 721 as amended by, among other laws, Laws of 1995, Chapter 187