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October 31, 2018

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

Report Number: B18-5-8

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 not to exceed \$24,706,000 to liquidate the accumulated deficits in the City's general fund for the years ending December 31, 1993, 1994 and 1995. Local Finance Law Section 10.10(d) requires all municipalities 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 municipality is authorized to issue the deficit obligations, and for each subsequent fiscal year during which the deficit obligations are outstanding, their 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 such 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 2019 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 upcoming 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 2019 fiscal year consisted of the following:

- Cover Letter
- 2019 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	\$73,509,823	\$48,877,406	\$0	\$24,632,417
Water	\$16,939,000	\$13,309,000	\$3,630,000	\$0
Sewer	\$4,907,525	\$4,907,525	\$0	\$0
Refuse	\$4,199,943	\$4,199,943	\$0	\$0

Based on the results of our review, we found the significant revenue and expenditure projections in the proposed budget are reasonable. In addition, the City’s proposed real property tax levy complies with its tax levy limit. However, the Council has not yet approved the fees needed to realize the estimated revenues in the newly established refuse fund for solid waste management and bulk refuse collection fees. These fees are necessary to finance the City’s solid waste and recycling collection and disposal (waste and recycling) services. In addition, the minimal contingency appropriation in the proposed refuse fund budget provides the City with a limited amount of flexibility in the event of unforeseen circumstances that may require additional funds.

The City’s capital plan for the purchase of equipment and vehicles for the general and refuse funds also remains unfunded through the proposed budget and instead will be financed by issuing debt.

City officials should also consider the potential financial impact of the settlement of any of the City's five expired collective bargaining agreements (CBAs) in 2019.

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 Local Finance Law Section 10.10.

### **Refuse Fund**

The City has historically budgeted for its waste and recycling services in the general fund. The City's proposed budget includes a newly established refuse fund containing estimated revenues and appropriations related to these services.

Revenues – While the estimated revenues appear reasonable, the realization of these revenues is contingent upon the Council's approval of proposed legislation for modifications to the City's Code. For example, the proposed modifications include increasing the current solid waste management fee of \$160 per unit<sup>1</sup> to \$164 per unit. In addition, the proposed modifications include the establishment of a bulk refuse<sup>2</sup> collection fee of \$25 for the collection of up to two cubic yards and an additional tipping fee for items over the two cubic yards.<sup>3</sup> It is essential the Council make the appropriate modifications to the City Code prior to adopting the budget or fund through other revenue sources. If the fees are not authorized, or are authorized and approved at different rates, the refuse fund budget should be modified accordingly.

Contingency Account – Local governments use contingency accounts to provide funding for unexpected events. Although the City Charter does not specifically address budgeting for contingencies, 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 City's proposed refuse fund budget includes a \$4,079 contingency appropriation, or less than one-tenth of one percent of the total budgeted appropriations of \$4.2 million. This provides the City with minimal flexibility in the event of unforeseen circumstances that may require additional funds.

While revenues and appropriations appear reasonable, due to a lack of historical data on all estimated revenues and appropriations,<sup>4</sup> City officials should closely monitor the refuse fund throughout 2019 and make modifications as necessary.

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<sup>1</sup> The City's Code outlines that the current solid waste management fee will terminate at the end of the 2018 fiscal year.

<sup>2</sup> Large oversize wastes that require special handling for collection and include, but are not limited to, discarded household furniture, bedding and mattresses, washers, dryers, stoves, refrigerators, bathtubs, crates and tires.

<sup>3</sup> The City's proposed refuse fund budget includes estimated revenues of \$100,000 for bulk refuse collection charges. The estimated revenues were calculated based on the establishment of a \$25 fee and an estimate of the number of bulk collection services anticipated based upon requests for these services in 2018 through September 10, 2018. The calculation of estimated revenues does not include any revenues for potential tipping fees.

<sup>4</sup> The City historically financed its waste and recycling services through real property taxes and an annual recycling fee of \$29 per unit prior to 2018. In 2018, the City financed these services through solid waste management fees. In addition, the City historically budgeted appropriations for these services in a sanitation department, but the City's proposed refuse fund budget includes appropriations for these services allocated to four departments.

## Equipment and Vehicles

The City's capital plan in the proposed budget includes the purchase of equipment and vehicles for the general fund totaling \$3,249,000 and for the refuse fund totaling \$355,000.<sup>5</sup> Although the City's proposed general fund budget includes appropriations for the purchase of equipment of \$142,500, these appropriations do not correspond to the expenditures included in the City's general fund capital plan. In addition, the City's proposed refuse fund budget does not include appropriations for equipment and capital outlay. Consequently, all of the City's 2019 capital plan for the purchase of equipment and vehicles for the general and refuse funds remains unfunded through the proposed budget.

In recent years, the City began financing general fund equipment and vehicle purchases by issuing debt,<sup>6</sup> rather than by including financing sources in the budget. The City's capital plan outlines and City officials told us that any general and refuse fund expenditures that are incurred for the purchase of equipment and vehicles by the City in 2019 that are not currently financed through the proposed budget will again be financed by issuing debt.

We encourage City officials to identify current financing sources for the purchase of equipment and vehicles and to include these financing sources in the general and refuse funds' budgets instead of continually relying on the issuance of debt to finance these purchases.

## Collective Bargaining Agreements

As of the time of our review, five of the City's six CBAs have expired, which cover the salaries and wages of approximately 450 City employees. The City faces potential significant increased salary and wage costs when these agreements are settled.

<b>CBA Expiration Dates</b>	
<b>Bargaining Unit</b>	<b>CBA Expiration Date</b>
Uniformed Fire Chiefs Association	12/31/2010
Uniformed Firefighters Association	12/31/2016
Troy Police Benevolent and Protective Association, Inc.	12/31/2017
Command Officers Association of Troy	12/31/2017
Civil Service Employees Association	12/31/2017

The 2019 proposed budget includes a contingency appropriation of \$953,205 in the general fund and \$4,079 in the refuse fund. The contingency appropriations provide some financial flexibility in the general fund and minimal in the refuse fund related to any settlements. City officials should consider the potential financial impact in the event that any of the CBAs are settled in 2019.

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<sup>5</sup> The City's capital plan in the proposed budget also includes the purchase of vehicles for the water fund totaling \$240,000, which is financed in the proposed budget through an interfund transfer from the water fund to the capital projects fund.

<sup>6</sup> The City issued bond anticipation notes in 2014, 2015, 2016, 2017 and 2018 for the purchase of equipment and/or vehicles totaling \$1,083,000, \$825,000, \$375,000, \$370,000 and \$642,695, respectively.

## Tax Cap Compliance

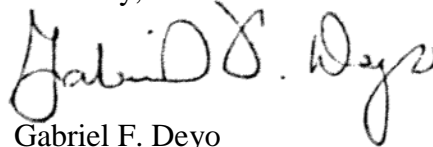
The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on local governments, which was effective beginning in the 2012 fiscal year. The law generally precludes local governments from adopting a budget that requires a tax levy that exceeds the prior 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 to override the tax levy limit.

The City's proposed budget complies with the tax levy limit because it includes a tax levy of \$25,276,845,<sup>7</sup> which increases the 2019 tax levy by 2.05 percent over the 2018 tax levy of \$24,768,214.<sup>8</sup> In adopting the 2019 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.

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 Jeffrey Leonard, Chief Examiner of the Glens Falls Regional Office, at (518) 793-0057.

Sincerely,



Gabriel F. Deyo  
Deputy Comptroller

cc: Andrew Piotrowski, Deputy City Comptroller  
Mara Drogan, City Clerk  
Troy Supervisory Board Members  
Hon. Catharine Young, Chair, NYS Senate Finance Committee  
Hon. Helene E. Weinstein, Chair, NYS Assembly Ways and Means Committee  
Hon. Jake Ashby, 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

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<sup>7</sup> 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.

<sup>8</sup> This amount includes the City's actual 2018 tax levy, the Troy Business Improvement District tax levy and total omitted taxes.