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February 9, 2017

Robert G. Rolison, Mayor
Members of the Common Council
City of Poughkeepsie
62 Civic Center Plaza
Poughkeepsie, NY 12601

Report Number: B6-17-1

Dear Mayor Rolison and Members of the Common Council:

Our Office has recently completed a review of the City of Poughkeepsie (City) adopted budget for the 2017 fiscal year, at the Mayor's request. The objective of the review was to provide an independent evaluation of the adopted budget. Our review addressed the following question related to the City budget for the 2017 fiscal year:

- Are the significant revenue and expenditure projections in the City's adopted budget reasonable?

To accomplish our objective, we reviewed your adopted 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 estimate was realistic and reasonable. We also evaluated the amount of fund balance deficit repayment, and determined if the repayment was 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 City's adopted budget for the 2017 fiscal year is summarized as follows:

Table 1: Fiscal Year 2017 Adopted Budget				
Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Real Property Taxes ^a
General	\$49,571,320	\$27,188,968	\$0	\$22,382,352
Transportation	\$1,014,927	\$1,014,927	\$0	
Sanitation	\$2,718,980	\$2,718,980	\$0	
Water	\$5,620,535	\$5,620,535	\$0	
Sewer	\$4,619,792	\$4,619,792	\$0	
Total	\$63,545,554	\$41,163,202	\$0	\$22,382,352
^a The budgeted amount of real property taxes is \$825,000 less than the taxes levied, which total \$23,207,352.				

We identified revenue and expenditure projections in the adopted budget that are not reasonable and could result in an increase in the City’s accumulated deficit. We urge City officials to take prompt action to bring the City’s budget into balance to improve its financial condition.

Operating Deficit

The City has had a general fund balance deficit since 2011. Year-end deficits ranged from \$10 million on December 31, 2011 to \$13.1 million on December 31, 2015. ¹ This occurred because the City experienced three operating deficits during the period from 2011 through 2015, which increased the general fund balance deficit.

The City’s 2017 budget increased real property taxes by 16.5 percent. The budgeted real property tax of \$22,382,352 does not include an additional \$825,000 that was levied. ² The Commissioner of Finance told us that the \$825,000 added to the tax levy represents a provision for uncollected taxes of \$600,000 and a deficit reduction of \$225,000. The deficit reduction allocation was not clearly identified in the budget. Further, this amount is less than 2 percent of the reported general fund deficit. If the City were to rely solely on this nominal amount in future budgets, it would take more than 50 years to eliminate the general fund deficit.

We encourage City officials to develop and implement an effective long-range financial plan to eliminate the general fund deficit and to clearly identify any allocated deficit reduction amounts in the budget to better inform residents.

Budget Transparency

Our review of the 2017 adopted budget showed several appropriation amounts, such as health insurance, New York State Employees’ Retirement System (ERS) payments and debt service

¹ The amount of the general fund deficit as of December 31, 2016 was not determined at the time we did this review because the City was still closing its books and complete financial information was not available.
² The additional \$825,000 was mentioned on the budget summary page but not reflected in the budgeted revenues.

payments, are nearly \$2.4 million higher than required. If the adopted budget included appropriation amounts that more accurately reflected the true needs for these accounts, City officials could have budgeted some or all of these excess appropriations to reduce the accumulated general fund deficit. As shown in Table 2, this would have been a more effective use of revenue and would have provided better transparency to City residents.

Table 2: Overbudgeted Items Fiscal Year 2017 Adopted Budget				
	Health Insurance	ERS	Debt Service	Total
OSC Estimate ^a	\$7,510,165	\$1,649,163	\$6,434,854	\$15,594,182
Budgeted Appropriations	\$ 7,979,500	\$2,270,550	\$7,704,962	\$17,955,012
Total Overbudgeted	\$469,335	\$621,387	\$1,270,108	\$ 2,360,830
^a The health insurance estimate is based on the actual bill received in 2017. The ERS estimate reflects the estimated bill received from ERS. The debt service estimate is based on the City's payment schedule.				

Sale of Real Property

The City's 2016 adopted budget included estimated revenues of \$550,000 from the sale of property. However, the property did not sell, and therefore the City incurred a revenue shortfall of \$550,000 in 2016. The 2017 budget includes \$600,000 in revenue from the sale of the same property. The Commissioner of Finance told us he is confident that the sale will be finalized this year. Revenue from the sale of property is non-recurring (one-shot) revenue that will be received in one year, but will not likely recur in the following year. This type of revenue should not be used to fund recurring operating expenditures, but rather to reduce debt or to fund non-recurring expenditures, such as the purchase of equipment or construction of capital assets.

We advise the City to avoid budgeting one-time revenues as a source of income to finance recurring expenditures.

City Overhead – Charges to Other Funds

The City appropriated \$1,617,746 in the 2017 budget for overhead services that the general fund provides to the various City funds. However, there is no documentation to support these allocations. Therefore, there is no assurance that the amount appropriated is accurate.

City officials should not include appropriations for overhead services to other City departments without adequate documentation that these allocations are appropriate.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 which established a tax levy limit on all local governments, which was effective beginning in the 2012 fiscal year. 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 adopts a local law to override the tax levy limitation.

The City complied with the law by adopting a local law to override the tax cap. The City's adopted budget overrode the tax levy limit because it includes a tax levy of \$23,207,352, which is an increase of approximately \$3.3 million, or 16.5 percent, of the 2016 tax levy of \$19,919,106.

The City Council has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, the City 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 City 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.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Deborah McDonnell, City Administrator
Marc Nelson, Commissioner of Finance
Deanne Flynn, City Chamberlain
Andrew A. SanFilippo, Executive Deputy Comptroller
Tenneh Blamah, Chief Examiner