We would like to thank the Comptroller and his staff for agreeing to our request for a high level, “big picture”, policy review, designed to assess our belief that the City has been experiencing and continues to experience major STRUCTURAL financial distress. It was also our intent to obtain from the State Comptroller’s office specific new ideas and approaches to help deal with these structural challenges from both the revenue and expenditure sides of the ledger.

To date, what has been completed is the standard, first phase, boilerplate, staff audit, in a very compressed time frame, that centered around three very broad, relatively straight forward reoccurring themes:

1. The City, despite its long time commitment to multiyear budget forecasting and planning, should resume the annual exercise of completing a “5 year” planning form as recommended by the State Comptroller’ s office. The City has already taken the necessary steps to resume the completion of this form to augment its existing, comprehensive, multiyear planning efforts.

2. Funds budgeted for employee and retiree health care expenditures, which, for the past quarter century have been managed through a separate, dedicated, annually audited health care fund, need to once again be “comingled” and spent directly out of the General Fund. While perplexed by this suggestion, the City has already implemented this change in accordance with the wishes of the State Comptroller’s office.

3. Financial records at the BPU were insufficient and thereby could not be relied upon by the State Comptroller to determine whether the city’s water and electric profits could provide even greater financial assistance to the General Fund in the future. The City looks forward to working further with the State Comptroller’s office to rectify this situation and address this concern.

Once again, we appreciate the State Comptroller agreeing to our initial request for a high level and comprehensive examination, especially on such short notice and with an already heavy state wide work load. We truly do understand the additional stress that this can place on an already limited staff. We, however, are also looking forward to the rest of the process moving ahead and hopefully delivering the higher level ideas, best practices and recommendations that will help Jamestown to deal with its long standing structural financial challenges.

Office of the New York State Comptroller

Division of Local Government
& School Accountability

City of Jamestown

Financial Condition

Report of Examination

Period Covered:

January 1, 2012 — August 19, 2016

2016M-298

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

September 2016

Dear City Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and City Council governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the City of Jamestown, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

The City of Jamestown (City) is located in Chautauqua County and has a population of approximately 31,000. The City is governed by the City Charter (Charter), State statutes, and local laws and ordinances. The nine-member City Council (Council) is the City's legislative branch, which is composed of the President and eight other elected members.

The Mayor is the City's chief executive officer and administrative officer and is generally responsible for the administration and supervision of City affairs. The City Comptroller (Comptroller), in conjunction with the City's Director of Financial Services (Director), is responsible for supervising the City's fiscal affairs. The Charter outlines the powers and duties of the Council, Mayor, Comptroller and Director. The City's general fund budgeted appropriations for the 2016 fiscal year are approximately $35.1 million, which are funded primarily with revenues from real property taxes, sales tax and State aid.

In June 2016, the Mayor contacted our office to request an audit because he believed the City was experiencing fiscal problems. We conducted this audit as a result of the Mayor's request for assistance in reviewing the City's financial condition.

Scope and Objective

The objective of our audit was to review the City's financial condition for the period January 1, 2012 through August 19, 2016. Our audit addressed the following related question:

- Do City officials adopt realistic budgets that are structurally balanced, routinely monitor financial operations and take appropriate actions to maintain the City's fiscal stability?

Audit Results

From fiscal years 2012 through 2015, the City's financial condition has deteriorated. The City incurred operating deficits in 2012 through 2015 totaling $2.8 million. As a result, general fund balance decreased by approximately 58 percent, from $4.8 million to $2 million.

The City's financial condition has deteriorated over the past four years because City officials have not developed a multiyear financial plan and have adopted budgets that were not structurally balanced. In addition, the Mayor, Council and Director did not properly budget for, and the Mayor did not ensure that the Comptroller properly accounted for, health care expenditures.

The City's financial condition will continue to worsen during 2016; we estimate that the City will likely incur an operating deficit of at least $400,000. As a result, the City's general fund balance will continue to decline. We also estimate that the City will have less than $800,000 in spendable fund balance and minimal cash at the end of 2016. As a result, it will likely experience cash flow problems. Further, the Mayor, Council and City officials will need to close a budget gap of more than $2 million in 2017.

We reviewed the 2017 preliminary budget estimates for the general fund and found that appropriation estimates appear reasonable except for employee benefit costs, which appear overestimated by approximately $300,000 (2 percent). However, certain revenue estimates are of concern. The Mayor's preliminary budget estimates indicate that the projected budget gap would be addressed with a property tax increase of $2.6 million; however, the Mayor reports that the City is nearing its constitutional tax limit and is aware that the City cannot raise taxes enough to cover the entire budget gap.

Although the City's ability to raise property taxes is limited, it has the ability to share profits from its municipally-owned public utilities.[1] The Jamestown Board of Public Utilities (BPU) manages the City's public utilities. For the past few years, the BPU has provided the City with a profit-sharing payment of approximately $465,000 each year on average. However, these revenues were not included in the preliminary budget estimate for 2017. In accordance with the General Municipal Law,[2] the City is allowed to earn a fair return on its investment in the utilities and take a portion of the profits from its municipal utilities. Therefore, City officials should work with the BPU to ensure the applicable utilities share profits with the City and provide the City with a reasonable return on its investment.

Comments of City Officials

The results of our audit and recommendations have been discussed with City officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as indicated in Appendix A, City officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comments on issues City officials raised in their response.

[1] Applicable to electric and water public utilities.
[2] GML Section 94

Introduction

Background

The City of Jamestown (City) is located in Chautauqua County (County) and has a population of approximately 31,000. The City is governed by the City Charter (Charter), State statutes, and local laws and ordinances. The nine-member City Council (Council) is the City's legislative branch, which is composed of the President and eight other elected members. The Mayor is the City's chief executive officer and administrative officer and is generally responsible for the administration and supervision of City affairs. The City Comptroller (Comptroller), in conjunction with the City's Director of Financial Services (Director), is responsible for supervising the City's fiscal affairs. The Charter outlines the powers and duties of the Council, Mayor, Comptroller and Director.

The City employs approximately 400 full- and part-time employees who are assigned to various departments. These departments provide services including general government support, street maintenance, parks and recreation programs, and police and fire protection. The City's general fund budgeted appropriations for the 2016 fiscal year are approximately $35.1 million, which are funded primarily with revenues from real property taxes, sales tax and State aid.

The City also has five municipally-owned public utilities that provide electricity, water, wastewater, sanitation, and heating and cooling services to residents and businesses located both within and outside the City's boundaries.[3] The Jamestown Board of Public Utilities (BPU) was established in 1923 to guide the development of the City's electric and water services. The BPU is responsible for managing and controlling the utility operations. The BPU is composed of the Mayor (who is the President of the BPU), the City's Director of Public Works, two Council representatives and five community members appointed by the Mayor and approved by the Council. Although part of the City, the utilities are operated as separate and distinct units by the BPU and are not under the Council's direct control.[4] The BPU adopts separate annual budgets, supervises and manages the fiscal affairs of each utility and hires its own employees.

The BPU has an appointed General Manager responsible for the utilities' day-to-day operations and a Business Manager responsible for the financial operations and maintaining accounting records. The

[3] Heating and cooling services are only provided to residents and businesses located within City boundaries.

[4] The Charter provides that the City's utilities are under the full control and supervision of the BPU.

BPU's 2016 budget totaled $58.8 million and includes the following divisions: electric ($45 million), water ($5.5 million), wastewater ($5.3 million), solid waste/sanitation ($2 million) and heating/cooling ($1 million). All of these divisions are funded primarily through user charges.

In June 2016, the Mayor contacted our office to request an audit because he believed the City was experiencing fiscal problems. We conducted this audit as a result of the Mayor's request for assistance in reviewing the City's financial condition.

The City's economic drivers have posed many challenges in recent years. By most measures, the City continues to face a difficult environment within which to operate. The Jamestown area is an economic hub in Western New York for services and employment. Health care, government and manufacturing are important industrial sectors.

The City's labor force is shrinking. According to the New York State Department of Labor, the average size of the labor force for 2015 was 12,300, down 10.9 percent from 2010. The number of employed people also declined, but more slowly; 11,500 workers were reported in 2015, down 7.3 percent.[5]

Since 2010, the City's population has contracted 3.4 percent, compared with 2.2 percent growth statewide. The City's population has been declining since the 1950s, down 1.8 percent between 2000 and 2010.[6] During the same period, the County's population contracted 3.6 percent. This population loss likely negatively affects the City's property values and its associated tax base. These losses, however, are similar to those experienced by numerous cities in Upstate New York, particularly those with historically large manufacturing sectors.

A significant revenue source for the City comes from property taxes. The City's tax levy has increased by approximately $2.2 million (17 percent) between 2009 and 2015. However, slow-growing property values have constrained the City's ability to use this revenue source, as the City has reported that it has approached its Constitutional Tax Limit (CTL) in each of the last four years. The CTL, which is the maximum amount of real property tax that may be levied in any fiscal year, has been a longstanding concern for the City. The CTL is calculated at 2 percent of the City's five-year average of full valuation (with certain exclusions). Since 2009, the City's tax levy has generally

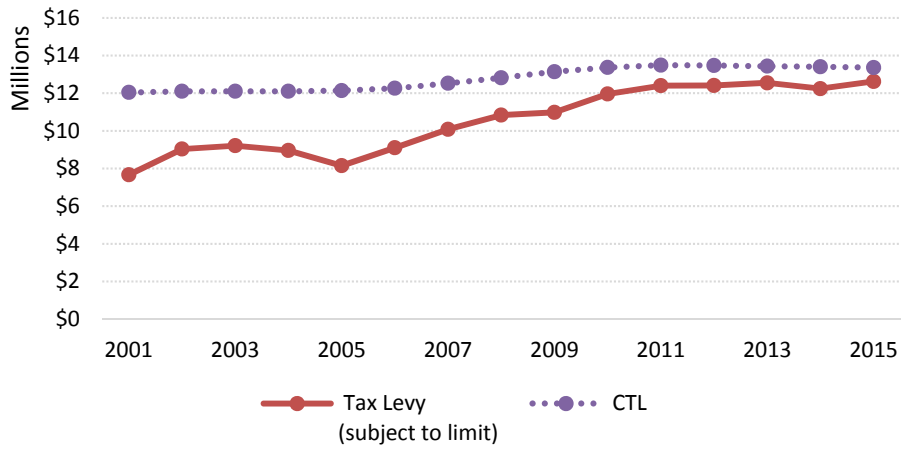
[5] New York State Department of Labor, Labor Area Unemployment Statistics Program, www.labor.ny.gov/stats/LSLAUS.shtm

[6] United States Census Bureau, 2010 Decennial Census, American Community Survey and Current Population Survey

grown faster than its CTL, increasing the percentage of the CTL it has exhausted (Figure 1).

Factors explaining this issue include both increased reliance on real property taxes and slow-growing property values. At fiscal years-ending 2015 and 2016, according to reports the City filed with our office, the City had exhausted 94.5 percent and 98.9 percent[7] of its CTL, respectively. Therefore, it has minimal flexibility to raise taxes going forward. The Mayor and Council increased the 2016 tax levy by almost $615,000 (4 percent), setting the levy at $15.7 million and overriding the real property tax cap.[8]

Figure 1: Tax Levy vs. CTL, 2001 - 2015



The potential for City revenue growth is limited. Real property taxes were $15.1 million in 2015 – rising 1 to 2 percent annually since 2010. Sales tax, which is shared by the County, has been flat at approximately $6 million. State aid ($6.65 million) has declined overall, primarily consisting of $4.57 million of Aid and Incentives for Municipalities (AIM, a program for which the State has not increased funding in several years and was reduced by $460,000 [9 percent] in 2009). The City applied for assistance to the New York State Financial Restructuring Board in 2015 and 2016, receiving grants in both years. These grants included $613,000 for lighting and fleet management in 2016, which is expected to result in potential annual savings of $102,000.

[7] The City's 2016 CTL filing was submitted in January 2016 and is under review by our office.

[8] With some exceptions, the State's property tax cap limits the amount local governments can increase property taxes to the lower of 2 percent or the rate of inflation. Local governments may exceed this cap, and those planning to do so may need to either pass a local law or resolution by at least a 60 percent vote of the governing board to override the tax cap. This cap is in addition to the CTL, which City officials cannot override.

The City has a relatively strong and improved debt position, having reduced debt outstanding by $6.5 million (14 percent) since 2010, to $38.8 million. The City has exhausted 35.4 percent of its debt limit. However, any issuance of debt would require annual debt service expenditures, putting further strain on the City's budget.

Furthermore, as pointed out in the Mayor's budget messages, the City also faces deferred maintenance of its infrastructure. This is a growing liability that is not recorded in the financial books and records. While an assessment of the impact of deferred maintenance was not within the scope of this audit, it is a real and growing concern.

Objective

The objective of our audit was to review the City's financial condition. Our audit addressed the following related question:

- Do City officials adopt realistic budgets that are structurally balanced, routinely monitor financial operations and take appropriate actions to maintain the City's fiscal stability?

Scope and Methodology

We reviewed the City's financial condition for the period January 1, 2012 through August 19, 2016. We extended our review back to 2009 to evaluate certain revenue and expenditure trends in more detail.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of City Officials and Corrective Action

The results of our audit and recommendations have been discussed with City officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as indicated in Appendix A, City officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comments on issues City officials raised in their response.

The Council has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Council to make this plan available for public review in the City Clerk's office.

Financial Condition

The Mayor, Council, Comptroller and Director have a shared responsibility for managing and maintaining the City's fiscal health. To do so, City officials must develop and adopt realistic and structurally balanced budgets that provide sufficient recurring revenues to finance recurring expenditures. Additionally, officials should actively monitor available fund balance and cash balances to ensure neither is depleted to dangerously low levels. This can be accomplished, in part, by creating a multiyear financial plan which, when updated and properly used, allows City officials to identify developing revenue and expenditure trends, set long-term priorities and goals, avoid potential large fluctuations in real property tax rates and assess the effect their decisions will have on fund balance levels.

The City incurred operating deficits in fiscal years 2012 through 2015 totaling $2.8 million. As a result, general fund balance[9] decreased by approximately 58 percent, from $4.8 million to $2 million.[10] The City's financial condition has deteriorated over the past four years because City officials have adopted budgets that were not structurally balanced. In addition, the Mayor, Council and Director did not properly budget for, and the Mayor did not ensure that the Comptroller properly accounted for, health care expenditures.

The City's financial condition will continue to decline during 2016 because the adopted budget is again not structurally balanced. We estimate that the City will likely incur an operating deficit of at least $400,000 unless significant and immediate spending changes are implemented. As a result, the City will have less than $800,000 in spendable fund balance remaining as of December 31, 2016. We also estimate that the City will have minimal cash at the end of 2016 and will likely be experiencing cash flow problems as a result.

We also reviewed the 2017 preliminary budget estimates and determined that the City is likely to have a budget gap of more than $2 million. City officials will have to take meaningful steps to reduce expenditures or obtain additional revenues.

Despite the City's deteriorating financial condition, City officials have not developed a multiyear financial plan that would aid in planning and managing the City's finances and operations, nor have officials

[9] Fund balance totals for the general fund have been adjusted to include the portion of fund balance improperly reported in the trust and agency fund.

[10] Approximately $837,000 at the end of 2015 was considered nonspendable fund balance. It consists of inventory and prepaid expenditures, which cannot be liquidated for purposes such as cash flow or balancing the budget.

developed a multiyear capital plan. A multiyear financial plan could help officials develop more structurally balanced budgets and work towards rebuilding fund balance levels and restoring the City's long-term fiscal health.

Budgeting and Fund Balance

A structurally balanced budget ensures that appropriations are funded with recurring revenues and that fund balance serves as a financial cushion for unexpected events and maintaining cash flow. To maintain the City's fiscal stability, it is important for City officials to adopt realistic budgets that are structurally balanced. City officials must also ensure that the level of fund balance maintained is sufficient to provide adequate cash flow and hedge against unanticipated expenditures and revenue shortfalls.

A continuous decline in fund balance indicates a deteriorating financial condition. While fund balance can be appropriated in the budget to help finance operations, consistently doing so – instead of planning to use recurring revenue sources – can deplete fund balance to levels that are not sufficient for contingencies and cash flow, as is the City's current situation.

The City derives the majority of its general fund revenues from real property taxes, sales tax and State aid. AIM was reduced in 2009.[11] The City's AIM was reduced by approximately $460,000 (9 percent) and has remained at this amount ever since. Over the same period, general fund expenditures have increased by more than $5 million (17 percent). Although sales tax revenues have remained fairly consistent, even increasing by $700,000 (13 percent), as revenue from State aid decreased and expenditures increased, the City relied on increases in real property taxes to finance operations. Specifically, between 2009 and 2015, the tax levy has increased by approximately $2.2 million (17 percent). However, the annual tax levy increases were not sufficient to balance the increased expenditures and a structural budget deficit remained.

The City's general fund annual budget gap averaged more than $615,000 each year from 2012 through 2015. The City funded these structural deficits by relying on fund balance. This approach has negatively affected the general fund's financial condition and, given the current balance, cannot continue.

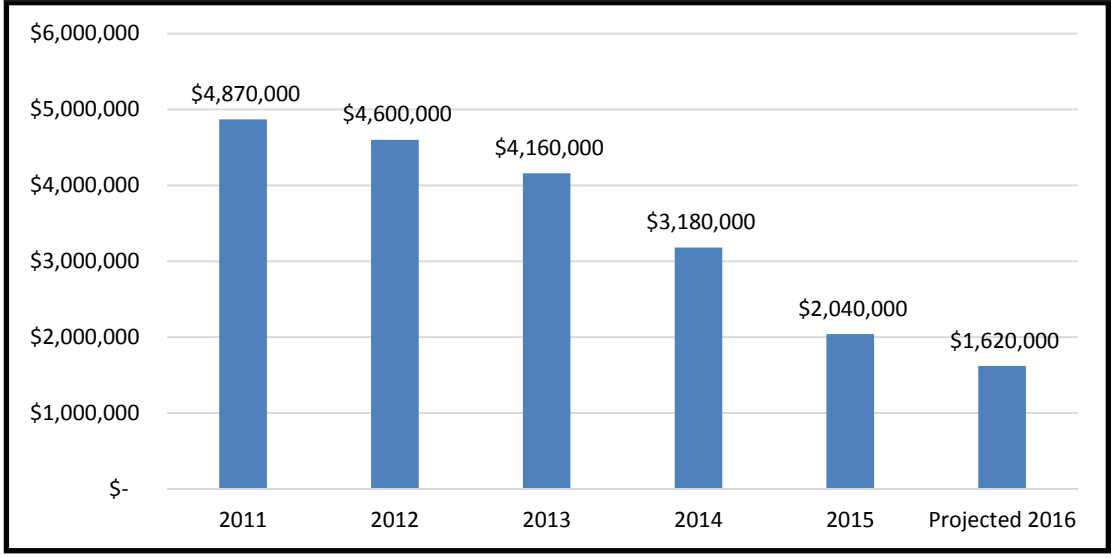
The City began 2012 with more than $4.8 million in general fund balance[12] but ended 2015 with approximately $2 million in fund

[11] Aid to some municipalities was reduced by 2 percent, but municipalities like the City that were less reliant on State aid received larger reductions of 5 percent.

[12] Fund balance totals for the general fund have been adjusted to include the portion of fund balance improperly reported in the trust and agency fund.

balance (Figure 2). Therefore, over this four-year period, general fund balance decreased by about $2.8 million (58 percent). However, approximately $800,000 of the $2 million in fund balance at the end of 2015 was considered nonspendable[13] and could not be used to provide cash flow or to help balance the City's budget. Consequently, the City had only approximately $1.2 million in available general fund balance.

Figure 2: Ending Fund Balance



In part, City officials have used fund balance to help finance expenditures increasing faster than revenues. Almost half of the rising expenditures were for the cost of health care benefits. The Comptroller told us that, for many years, he had transferred a portion of the general fund's operating surpluses[14] to the trust and agency fund to set aside funds for future health care costs.[15] At the beginning of 2012, the City had approximately $1.8 million set aside for health care costs in the trust and agency fund. The City used more than $830,000 of these funds to pay for health care expenditures from 2013 through 2015.

However, the Mayor, Council and Director did not properly budget for these health care costs. Further, the Mayor did not ensure that the Comptroller properly recorded health care expenditures, which were accounted for inaccurately and inconsistently. From fiscal years 2012 through 2015, general fund appropriations for health care costs were underestimated by nearly $1.1 million (5 percent) and related

[13] The nonspendable fund balance consists of inventory and prepaid expenditures, which cannot be liquidated for purposes such as cash flow or balancing the budget.

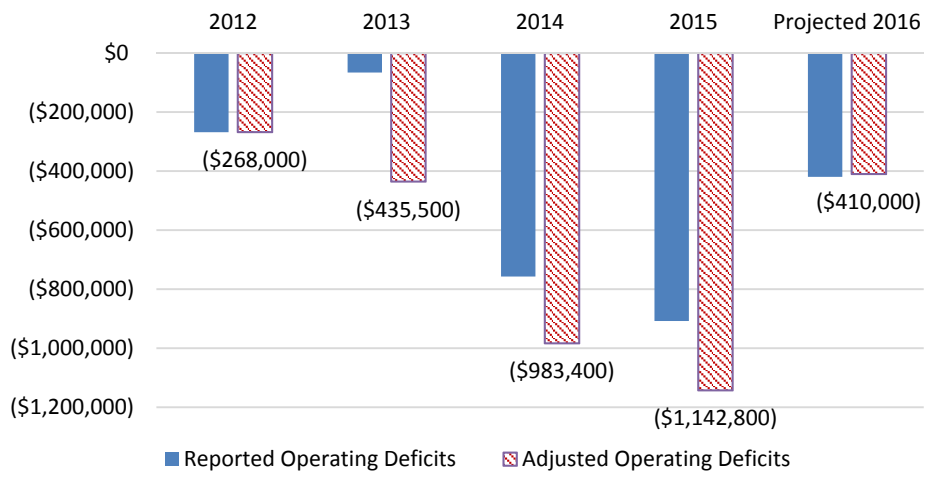
[14] The Comptroller stated that he would transfer funds to the trust and agency fund when actual health care claims were less than appropriations.

[15] The City has no authority to establish a reserve fund for health care costs. However, the propriety of this arrangement is outside the scope of this audit.

expenditures were understated in the general fund by more than $830,000. As a result, general fund operating results were misstated and the City's true financial condition was not readily apparent.

For example, in 2013 the Comptroller understated health care expenditures in the general fund by $370,000 because certain health care claims that should have been recorded in the general fund were paid directly from the trust and agency fund. The City reported an operating deficit of $65,000 in 2013, but the actual operating deficit was more than $435,000 once general fund health care expenditures were restated. The Comptroller also understated health care expenditures in this manner by $227,000 in 2014 and $235,000 in 2015. As a result, the general fund's operating results were misstated and smaller operating deficits were reported (Figure 3). Had the Comptroller properly accounted for health care expenditures, the City's fiscal problems may have become apparent sooner.

Figure 3: Operating Deficits



The Mayor and Comptroller provided us with multiple, and at times varying, explanations regarding how they budgeted for and accounted for health care activity. The lack of consistency and transparency in the City's accounting and budgeting practices made assessing the City's financial condition a difficult task. We could not effectively assess the City's financial condition by using the financial statements that the Comptroller prepared. Furthermore, the amount reserved in the trust and agency fund for health care costs was not included on the financial reports provided to the Council.

The Council President and Finance Committee Chairperson told us that the Council knew money had been set aside in the trust and agency fund, but the Council did not know the purpose for setting aside the funds in this manner or how and when the funds could be used. Further, the City's audited financial statements did not disclose

the true nature of these funds as general fund surplus but instead incorrectly indicated that funds belonged to a third-party and were being held by the City in a fiduciary capacity.

This incorrect and inconsistent accounting treatment not only clouds the City's financial condition but also makes year-to-year comparisons and budgetary projections difficult.

2016 Outlook

As of July 2016, the Comptroller anticipated that the City would incur an operating deficit of about $410,000 for 2016. Total appropriations for 2016 are $464,000 (1 percent) less than the prior year's expenditures. Although the Mayor and Council increased the 2016 tax levy by almost $615,000 (4 percent), they still needed to appropriate approximately $409,000 from fund balance to balance the budget. The City has expended $15.9 million (45 percent) of its $35.1 million general fund budget as of July 6, 2016. Positively, it appears that expenditures will be less than estimated mainly because health care costs have been about 20 percent less than anticipated so far in 2016.

Based on the adopted budget, current year-to-date revenues and expenditures, and historical revenue and expenditure trends, we estimate that the City will likely incur an operating deficit of at least $400,000. As a result, the City will have less than $800,000 in spendable fund balance remaining as of December 31, 2016.

Now, with fund balance almost depleted, the City has limited options available to fund any increases in operating costs. If the Mayor and Council choose to further increase property taxes, it could require an override of the property tax cap. Further, at the end of 2015, the City reported that it had exhausted 94.5 percent of its constitutional CTL, leaving the City with a margin of less than $740,000 to raise taxes going forward. The City increased its 2016 tax levy by $615,000 and reported that it will exhaust 98.9 percent of its CTL, leaving it with a margin of less than $160,000 to increase taxes in 2017.

2017 Preliminary Budget Estimates

The Charter requires that the Mayor present the Executive Operating Budget to the Council by October 8. We reviewed the 2017 preliminary budget estimates for the general fund, which include total appropriations of $36.7 million. Appropriations are expected to increase by approximately $1.6 million (5 percent). This includes increases of $975,000 in health care costs, $430,000 in salaries and $130,000 in various contractual costs. It also includes a savings of approximately $130,000 in debt service costs. Overall, appropriation estimates appear reasonable except for employee benefit costs, which appear overestimated by approximately $300,000 (2 percent).

Sales tax revenues are anticipated to be $6 million, approximately the same as 2016 revenues, which is reasonable. A real property tax increase of approximately $2.6 million (16.8 percent) would be needed to balance the budget. However, the City has reported that it exhausted 98.9 percent of its 2016 CTL; therefore, it has minimal flexibility to raise taxes going forward and will need to identify new recurring revenue sources or use a combination of increased recurring revenues and decreased recurring expenditures to close the budget gap.

Public Utilities

Although the City's ability to raise property taxes is limited, it has the ability to share profits from its municipally-owned public utilities.[16] The utilities provide electricity, water, wastewater, sanitation, and heating and cooling services to residents and businesses located both within and outside the City's boundaries.[17] The BPU is responsible for managing and controlling the utility operations.

Profit-sharing Payments − From fiscal years 2012 through 2014, the BPU has provided the City with a profit-sharing payment from the electric and water utilities of approximately $465,000 each year on average. The payments are made pursuant to the General Municipal Law (GML) and provide the City with a return on its investment in the utilities. However, these payments were not included in the 2017 preliminary budget estimates. The Mayor, who also serves as the BPU President, told us that other BPU members and some customers have challenged the equity of these payments; therefore, they were not included in the preliminary budget estimates.

In accordance with GML, the City is allowed to earn from the operation of its electric and water utilities a "fair return" on the value of the property used and useful in the electric service, over and above the costs of operation and necessary and proper reserves. The statute goes on to provide that "profits" resulting from the operation of the electric utility may be used for municipal purposes or consumer refunds.[18] Although the BPU's financial operations were outside the scope of this audit, we attempted to assess the utilities' overall fiscal health to evaluate their ability to continue providing the City with profit-sharing payments. However, the BPU's former fiscal officer had destroyed certain financial records that should have been maintained. The current records contained numerous discrepancies and could not be proven reliable.

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[16] Applicable to electric and water public utilities.

[17] Heating and cooling services are only provided to residents and businesses located within City boundaries.

[18] GML Section 94

The electric utility's rates are regulated by the New York State Public Service Commission (PSC). In 2015, the BPU requested the PSC's approval to increase electric rates. The PSC granted approval for a rate increase in February 2016. As part of its order approving the rate increase, the PSC noted the electric utility's "currently strong financial condition," and stated that "we do not have any concerns over the recent level of [the utility's] contributions [to the City].[19] The PSC also stated that, as the electric utility's sole investor, "the City of Jamestown is entitled to the return earned on that investment."[20] In our view, these statements suggest that the recent amounts of the electric utility's profit-sharing payments to the City are sustainable (assuming no material negative change in the utility's financial condition) and that the City is entitled to those payments. The City should work with the BPU to continue the profit-sharing payments.

City officials should continue to work with the BPU to establish adequate controls over financial records and to assess each utility's financial position. City officials should also continue to work with the BPU to ensure the applicable utilities provide the City with a reasonable return on the City's investment.

Administrative Cost Allocation − The City provides various administrative services to the BPU and is reimbursed $12,000 annually. Although a lesser amount ($6,400)[21] is stipulated in the Charter, the City did not use a cost allocation method to determine a reasonable and equitable basis for charging the BPU for the services it provides. The City Treasurer's Office collects utility payments, reconciles daily collections, reviews suspended utility accounts, performs tax certificate searches for unpaid taxes and assessments, and prepares annual financial reports. The Comptroller prepares and files quarterly payroll reports with federal and State agencies, prepares debt schedules for constitutional debt limit reporting, prepares monthly bank reconciliations and processes wire transfers between BPU bank accounts.

We calculated the approximate dollar value of the services provided using salary and benefit information and the approximate time spent by City employees performing services for the BPU. If the City chose a similar approach, the annual cost could be approximately $36,000, or about triple the amount currently being charged. City officials

[19] PSC Rate Case 15-E-0184, p 15-16

[20] *Id.* at p 16

[21] The Charter states that the BPU shall pay $6,400 annually into the City's general fund to reimburse the City for collecting the revenues accruing to the City's public utility systems. Current City officials could not explain when or why the amount changed to $12,000 annually. However, the services being provided seem to be additional services outside the revenue collection function and might serve as justification for the BPU's $12,000 payment.

should periodically evaluate the cost of services the City provides to the BPU to ensure the annual fee reasonably relates to the cost of providing those services.

Financial Reports

The Mayor and Council need complete, accurate and timely financial information to effectively monitor the City's operations and financial condition. The Charter requires the Comptroller to submit annual financial reports to the Mayor and quarterly financial reports to the Council. The quarterly reports should include comparisons of actual revenues and expenditures with the amounts estimated in the annual budget for each operating fund.

Although the Comptroller provided the Mayor and Council with the required financial reports, the reports were not accurate because health care expenditures were understated. Further, the Council was not provided with financial reports indicating that there was general fund money being retained in the trust and agency fund. The Comptroller stated that his reports will typically contain information about health care expenditures starting in the middle of the fiscal year through year-end. However, the information provided mainly consists of whether health care expenditures will be within budget for the year and does not include any discussion of the health care funds retained in or paid directly out of the trust and agency fund.

The Comptroller also indicated that these funds were kept separate from the general fund so that the Council would not opt to use them as a way to lower taxes and further decrease fund balance and to prevent the unions from being aware of the cash on hand. By not providing the Council with complete financial information relating to health care cost resources and expenditures, the Council was not fully aware of the City's true financial position.

Multiyear Planning

Multiyear financial planning is a tool City officials can use to improve the budget development process. Comprehensive multiyear financial planning should consider operating and capital needs and financing sources over an extended period. Planning on a multiyear basis enables officials to identify developing revenue and expenditure trends, establish long-term priorities and goals, and consider the impact of one-time financing sources or other short-term budgeting decisions on future fiscal years. Any long-term financial plan must be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

City officials did not develop a multiyear financial or capital plan. Had such plans been developed, the Mayor and Council would have had a valuable resource that would have allowed them to make

more informed financial decisions. This may have prevented the City's declining fiscal health. Going forward, developing a financial plan would be a useful tool for the Mayor and Council to ensure that recurring revenue sources are sufficient to finance anticipated recurring expenditures. This will help to maintain a reasonable level of unrestricted fund balance at year end and to develop a plan for building fund balance up. In addition, a capital plan identifying capital needs with time schedules and the method of financing each improvement or capital expenditure would aid City officials with assessing the impact future capital expenditures will have on subsequent years' operating budgets.

Because City officials did not develop a multiyear financial and capital plan, it may lead to the further depletion of fund balance and undesirable constraints on the City's financial flexibility in future years.

Recommendations

The Mayor, Council and City officials should:

1. Adopt structurally balanced budgets that include realistic estimates and fund recurring expenditures with recurring revenues.

2. Closely monitor the City's finances, including available fund balance and cash balances, to prevent further decline in financial condition.

3. Modify revenue and expenditure estimates in the 2017 preliminary budget prior to adoption.

4. Work with the BPU to establish adequate internal controls over financial operations and records.

5. Reassess the amount of administrative support being provided to the BPU and develop a reasonable cost allocation method to ensure annual charges are adequate to reimburse the City for the cost of providing such services.

6. Develop and regularly update a comprehensive written multiyear financial and capital plan that includes realistic measures for rebuilding fund balance levels, addressing capital needs and restoring the City's long-term fiscal health.

The Comptroller should:

7. Correct the accounting records to ensure health care costs and fund balance are properly recorded and reported in the general fund.

8. Ensure that reports provided to the Council are comprehensive and complete and provide an accurate presentation of the City's financial condition.

APPENDIX A

RESPONSE FROM CITY OFFICIALS

The City officials' response to this audit can be found on the following pages.

Please note that the City officials' response letter refers to page numbers that appeared in the draft report. The page numbers have changed during the formatting of this final report.

CITY OF JAMESTOWN

OFFICE OF THE MAYOR www.jamestownny.net SAMUEL TERESI

September 26, 2016

Honorable Thomas P. DiNapoli
New York State Comptroller
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Comments on Draft Examination
City of Jamestown Financial Condition
Period covered: January 1, 2013 – August 12, 2016

Dear Comptroller DiNapoli:

On behalf of our colleagues on the Jamestown City Council and the residents of New York's Pearl City, we would like to thank you for your willingness to undertake this examination of the City of Jamestown's financial status. As covered in greater detail at the outset of this process, our objectives in requesting this technical assistance effort were as follows:

A) To obtain an independent analysis and evaluation of our assessment that the City is presently experiencing severe, structural financial distress, with little remaining opportunities to significantly address the situation on either the expenditure or revenue sides of the ledger.

B) Utilizing the vast experience and tremendous professional capacity of OSC, secure any and all insights and best practices recommendations regarding additional restructuring, expenditure reduction, and revenue enhancement efforts that may change the current financial trajectory of our City.

We would also like to take this opportunity to thank the staff assigned to this examination for their courteous, thorough and always professional approach to this undertaking. We also are acutely aware of the extremely tight time frame that was granted for this review, while

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understanding and appreciating how last minute additions to an already burdensome work load can place additional stress on the staff and management involved with the process.

Again, thank you for your willingness to assist us with this critical undertaking. We truly do look forward to building on the work completed to date and the next steps in this technical assistance effort.

Sincerely,

Samuel Teresi
Mayor

Gregory P. Rabb
City Council President

cc: City Council Members
Board of Public Utilities Members
James N. Olson, Director of Financial Services/City Clerk
Joseph Bellitto, City Comptroller
David Leathers, General Manager, Board of Public Utilities

Observations and Comments

City of Jamestown Financial Condition
Draft Report of Examination
1/1/13 – 8/19/16

September 26, 2016

Note: Exhibits 1 – 9 referenced in the responses below may be viewed and downloaded in PDF format via the following link: http://www.jamestownny.net/osc.pdf .

1. Page 4: Executive Summary/Audit Results
Paragraph 6

Topic: "The Mayor, Council and Director did not properly budget for and the Comptroller did not properly account for health care expenditures."

Comments: **As discussed with OSC staff throughout the examination process, after years of significant recovery and improvement in the City's financial condition from the low point of the late 1990's/early 2000's (i.e. 2000 Fund Balance (-) $1,371,007; 2010 Fund Balance + $3,439,116… see Exhibit 1), the post Great Recession period has proven challenging and even devastating from an expense, and particularly, a revenue standpoint. As will be covered in greater depth in subsequent comments, precisely forecasting illnesses, claims and disbursements associated with an all-encompassing, self-funded and administered health care plan, can be difficult to say the least. The City, with the assistance of its third party plan administrator and its insurance industry consultant, has and will continue to do its best forecasting expenses for the coming year, thereby establishing premium rates, member contributions and budget allocations that are based on actual industry costs, collective bargaining agreement provisions and recent claims history.**

2. Page 5: Paragraphs 2 and 3

Topic: Ability to raise property taxes beyond the Constitutional Tax Limit.

Comments: **The City has been and remains acutely aware of its eroding and tenuous financial position and its dangerous proximity to its Constitutional Tax Limit. As covered in detail during the September 12, 2016 exit conference with OSC staff, this is precisely the reason for:**

1. Previous employment reduction, restructuring and cost cutting efforts

2. The City's early and voluntary enrollment in the State's Financial Restructuring Board Program

3. Numerous public pronouncements (see Exhibit 2)

4. The June 2016 request to the State Comptroller to undertake this technical assistance examination.

The City fully realizes that "taxing its way" out of the current situation is not desirable, acceptable to its taxpayers, nor a legally available option.

See Note 1 Page 30

As indicated in Exhibit 3 and also discussed at the exit conference, the current, working, snapshot in time version of the 2017 City Budget (which will be formally released on October 11, 2016) clearly does NOT call for addressing the projected $1,031,925 gap with a Tax Increase of $2.6 million. In fact, this most recent working draft clearly states that a tax increase of this amount is not possible, since only $150,000 in "cap room" is projected to be available for the 2017 fiscal year.

3. Page 6: Background, Paragraph 3

Topic: Board of Public Utilities Structure

Comments: **As previously clarified with OSC staff, the nine (9) members of this City Government Board have been delegated authority over most utility matters, except for the following, which, in accordance with the City Charter have been reserved for and must be acted upon jointly by the City Council and Mayor:**

1. **Sale of Real Property Assets.**
2. **Divestiture and sale of any of the utility divisions. (Also requires a Public Referendum of City voters).**
3. **Borrowing money.**
4. **Intermunicipal agreements to provide utility services outside of the City.**
5. **Furthermore, the City Charter requires that the City's General Fund cover, on an annual basis, all deficits for any of its municipally owned utility assets.**
6. **Finally, via the passage of a local law and charter amendment by the City Council and the Mayor, the Board may be abolished, with all utility matters brought back under the day-to-day control of the legislative branch and Mayor… as is typically the structure in most other municipalities with public utilities.**

4. Page 7: Paragraph 5

Topic: Factors and conditions contributing to the City's fiscal distress.

Comments: **As outlined in greater detail in of the City's February 12, 2014, Financial Restructuring Board application (see Exhibit 4), numerous factors, above and beyond those mentioned in the draft OSC examination report, have contributed to the City's diminished fiscal condition. Included are the following:**

1. **A declining regional economy, which, due in large part to the lack of a major university or four-year college, has struggled to successfully diversify and transition from its declining manufacturing base. Additionally, the Jamestown area has endured one of the lowest per capita income levels and one of the highest urban poverty rates of any region in the Empire State.**

2. **The challenges of servicing, maintaining and replacing an aging, decaying, and long-neglected infrastructure that was originally developed to support and be sustained by a larger population and tax base.**

3. **The crushing burden of monumental mandated services (led by state labor laws and retirement expenses), coupled with the elimination of Federal Revenue Sharing, declining AIM (a running loss of $3,109,293 since 2010… see Exhibit 5), slashed CDBG assistance, and flat revenues from sales taxes and fees.**

4. **The adverse impact of previously negotiated and Tri Borough protected collective bargaining agreements, which are no longer affordable in the modern day context.**

5. **Contractually negotiated and/or PERB ordered "minimum staffing" mandates, which apply to the vast majority of the City's work force (Police, Fire, DPW, Parks).**

6. **A series of misguided, previously enacted intermunicipal utility agreements that, over the years, have helped to unleash explosive suburban residential and commercial development at the expense of the City's struggling business districts, aging residential neighborhoods, and declining tax base.**

7. **Unbearable, legally-protected legacy costs provided for through previously negotiated CBA's. Specifically, lifelong healthcare benefits that were granted to all City government retirees back in 1986, are now threatening the financial solvency of the entire operation.**

Despite all of those challenges, during the past 16 years, City officials have been doing anything but staying put, and have made significant strides on a number of fronts, including but not limited to:

1. **The implementation of 78 internal restructuring initiatives that are now saving City taxpayers $5.6 million on an annual, reoccurring basis (see Exhibit 6).**

2. **The transfer or regionalization of 29 services and programs that previously were the exclusive responsibility and domain of the City Government (see Exhibit 7).**

3. **Negotiated higher employee/retiree contribution rates to somewhat offset the taxpayer funding of the high-priced, self-funded health care program.**

4. **A 20% reduction in the total City work force and a 58% reduction in appointed city officers (see Exhibit 8).**

Had all of these items not been pursued and achieved during the past 16 years, arguably, the City would have reached insolvency well before this point in time.

5. Page 10: Second Paragraph

Topic: "The Mayor, Council and Director did not properly budget for and the Mayor did not insure that the Comptroller properly accounted for health care expenditures."

Comments: **See the comments to Topic #1.**

6. Page 10: Last Paragraph

Topic: "Despite the City's deteriorating condition, City officials have not developed a multi-year financial plan…"

Comments: **It is true that the last multi-year financial statement submitted to OSC covered the period of 2011-2013. However, as covered in great detail during the exit conference with OSC staff on September 12, 2016, it should also be noted for the record that the City has invested and continues to invest a significant level of energy and effort with a multiyear approach to developing budgets. This has included looking beyond the current fiscal year and identifying challenges, threats and changes in 1) the economy, 2) federal and state policies that have an impact on the local budget situation and 3) indicators and changes on both the expenditure and revenue sides of the City Budget.**

Had this not been the case, the previously described restructuring and employment reduction efforts, the City's voluntary and early enrollment in the State's Financial Restructuring Board program, and the most recent request to the Office of the State Comptroller for this technical assistance examination would have never occurred. A review of the Mayor's annual budget messages along with local news media accounts of the City's budget process will also help to illustrate that City officials have and continue to take this "long view" approach to budgeting.

While the City believes the completion of OSC's five-year budgeting form would have never anticipated the national explosion in health care costs, nor predicted the level of illness/claims by the 1,230 people in the self-insured plan, steps have already been taken to supplement the City's current financial forecasting efforts and resume the process of annually completing the multi-year financial and capital planning exercise suggested by OSC.

7. Page 12: Second Paragraph

Topic: Estimation of health care expenses.

Comments: **As covered in both the comments to Topic #1 and in detail throughout the September 12, 2016 exit conference with OSC staff, the City has provided for several decades now, comprehensive health care, eye care, dental, and prescription benefits to its employees, retirees, and dependents via a self-funded and managed insurance program.**

Over the years, experience has revealed that some things in life, despite following best practices, are not always precisely predictable. A good example of that are health care expenses associated with routine, chronic and catastrophic illnesses/injuries sustained by 1,230 individuals who range in age from prenatal stages of life to 103.

The City, with the assistance of its third party plan administrator and its insurance industry consultant will continue to do its best to accurately forecast illnesses, related costs, and revenues moving forward.

8. Page 13: Paragraphs 2 and 3

Topic: Health care budgeting/and expenditures.

Comments: **During the examination process, OSC staff have clearly and appropriately noted that budgeted health care funds and payments, in accordance with Generally Accepted Accounting Procedures, should remain in and be made directly from the General Fund… and should no longer be expended from a dedicated and separately tracked health care account.**

In accordance with this directive, the City has already discontinued this 25-year practice which, incidentally, was established to insure that the comingling of health care resources with other General Fund revenues, would not compromise the integrity of the City's self-funded health care program.

Had the City realized that this procedure was in conflict with state accounting desires, the practice would have been discontinued years ago.

It is also noteworthy that the City's practice to segregate the expenditure and tracking of health care resources has occurred over the years with the knowledge and under the scrutiny of three separate external auditors, as well as the Office of the State Comptroller. As noted during the September 12, 2016 exit conference, OSC actually oversaw and monitored the City's budget and expenditure process for a period of 10 years following the closure/sale of the former Jamestown General Hospital and the refinancing of its outstanding debt. Not once during that decade long period, as well as in subsequent reviews by OSC staff and others, was this procedure noted or questioned. Again, had it been, the

See Note 2 Page 30

City would have immediately discontinued this approach at the time. See Exhibit 9 for a copy of the 1999 budget review letter.

Again, the City has already incorporated this suggested change and is now expending and tracking all health care transactions, per the desire of OSC, directly out of the General Fund.

9. Page 13: Paragraph 2

Topic: "We could not effectively assess the City's financial condition by using the financial statements the Comptroller prepared."

Comments:

1. The City Comptroller provided per the request of OSC, detailed spreadsheets for any and all requested items, including funded health care plans from 2012 to the present. This specifically included health care claims information and all associated administration expenses. If additional information is required or needed in a different format than what was supplied, the City remains ready, willing, and able to provide it at the direction of OSC.

See Note 3 Page 30

2. As foot noted in the draft OSC examination report, the City Comptroller only transferred resources to the healthcare account to the maximum amount allowed in the City's General Fund health care account line item, as formally authorized by City Council action.

3. Information was supplied to OSC that addressed budget health care accounts for each employee/retiree, the exact amount paid by the City on behalf of each employee/retiree and the related costs for plan administration for each budget year.

4. Please review again comments associated with Topic #8 and Exhibit 9.

10. Page 13: Paragraph 3

Topic: City Council knowledge of Health Care Account expenditures.

Comments:

The two City Council members listed in the report actually did, in fact, note that they were well aware of the City's long standing practice of expending and tracking health care payments out of this separate fund. They also acknowledged however, that during their very brief conversations with OSC staff, they could not instantly recall, without referring to their budget files, the exact amount of the funds expended out of this account on an annual basis.

See Note 4 Page 30

11. Pages 14, 15, 16:

Topic: Board of Public Utilities Profits and Records.

Comments:

1. The City is certainly concerned about OSC's comments regarding utility financial records that "contained numerous discrepancies and could not be proven reliable." As such, the City would be interested in participating in a more detailed review and discussion of this matter with all necessary and appropriate City officials involved with the process.

Specifically, the City would appreciate the opportunity to obtain more detailed information and insight as to exactly which financial records have not been maintained properly, were found to be missing, or destroyed by former City BPU staff members and officers. As was also noted by BPU staff, the brief discussions about this matter with OSC took place in the

midst of a very intensive employee transition period, following the departure of the BPU's 30-plus year Business Manager and longtime financial assistant.

As part of such a process, the City would be willing to work with OSC staff to obtain any "missing records" through a more detailed review of the City financial archives and/or undertake an effort to access the desired information through other available means… such as the BPU's external auditor, Freed Maxick. Additionally, if deemed helpful, the City is willing to provide copies of bank records for specific transactions directly from the involved financial institutions.

Again, the City stands ready, willing and able to work with OSC to address these concerns and to move forward.

2. As discussed in detail during the exit conference on September 12, 2016, and as outlined in Exhibit 3, there has been no electric or water division profits programmed as revenue sources in the early drafts of the 2017 General Fund Budget. As also discussed, this has been based largely on:

> **A) Reduced revenue and profit projections for the 2016 fiscal year, attributed to depressed sales from a local economy still experiencing severe distress**
>
> **B) Suppression of electric profits from increased transmission and congestion fees imposed on off-system sales, and**
>
> **C) The adverse impact on electric division profits from the most recent PSC rate case decision, which mandated the payment of customer rebates once off system profits reach a specific level.**

3. The City has already taken steps to insure that the decertification, destruction, and disposal of utility financial records will, from this point forward, be in accordance with the State's Records Management Law. Furthermore, this process will now be under the <u>direct</u> supervision and approval of the City's trained, certified, and duly appointed Records Management Office (the Director of Financial Services/City Clerk).

12. Page 16: <u>Paragraphs 4 and 5</u>

Topic: Financial Reports: Health Care Expenditures

Comments: **See comments to Topics: #1, 5, 7, 8, 9 and 10.**

Furthermore, as discussed in detail during the September 12, 2016 exit conference, the establishment of the City's dedicated health care account was initiated following the demise of the former Jamestown General Hospital during the late 1980's. In the period following the hospital's closure, the City found itself in severe fiscal distress. With the impacts from a major national recession, reduced revenues, mounting demands on City services, along with growing federal and state mandates, cash flow within the General Fund was under continual siege at that time. Funding allocated to pay health care claims and related expenses was often diverted to cover other "more imminent and demanding" General Fund obligations. Employees and retirees were often the target of threatening collection notices and legal actions related to unpaid bills to health care providers.

It was in the early 1990's that the dedicated health care fund in question was established to protect the integrity of the resources budgeted for health care purposes (as well as employee/retiree premium contributions). By all accounts, this procedure over the years has worked well, as the problems of the past are all but a forgotten memory. As indicated to OSC staff, this, and this alone, was the motivation and purpose behind the dedicated health care fund procedure, not the comments reported in paragraph 5 on page 16 of the draft report.

See Note 5 Page 30

As indicated in the comments to Topics #1, 5 and 8, the City has already incorporated the suggested change by OSC and is now expending resources and tracking all health care transactions out of the General Fund again.

13. Pages 17 and 18:

Topic: Recommendations

Comments:

1. As outlined in the comments to Topic #'s 1 and 4, the City remains committed to developing lean, balanced, and legal budgets based upon real and reoccurring revenues. This clearly is a concept that the current administration and recent City Council's have some knowledge and experience with. See Exhibit 1 for a chart outlining annual revenues, expenditures, surpluses/deficits, and related impacts on the General Fund balance for the period 2000 – present.

As may be seen, after the implementation of numerous internal restructuring efforts, regionalization and consolidation initiatives, and retooled financial practices, the City achieved 10 consecutive, audited, surplus budgets from FY 2001 through FY 2010. This eliminated an audited $1,371,007 NEGATIVE fund balance that existed at the conclusion of FY 2000 and built an audited $ 3,439,116 POSITIVE accumulated fund balance by the end of FY 2010.

As covered in detail during the exit conference, the devastating impacts of the Great Recession of 2008 – 2010; the loss of CDBG, AIM and sales tax revenues; the growing adverse effect of unfunded mandates; and the full impact of the long-ago negotiated legacy health care benefits for all City retirees; have thwarted the City's ability to replicate the performance and successes of recent years… and have necessitated the repeated recent invasions of the aforementioned positive fund balance.

The City remains hopeful, however, that with the continuing guidance and assistance of OSC and others, the necessary answers and remedies to the current financial dilemma can be identified and implemented.

2. See item 1 above.

3. See the comments associated with Topic #2 earlier in this report.

4. See the comments associated with Topic #11 earlier in this report.

5. Administration staff are currently in the process of assessing the net impact of pursuing an increase in this charge to the Board of Public Utilities and will be discussing it at length with City Council members as part of the upcoming 2017 budget process.

6. See the comments associated with Topic #3 earlier in this report.

7. See the comments associated with Topics #1, 5, 7, 8, 9, 10 and 12 earlier in this report.

8. The City administration remains committed to this goal and will continue to seek methods, with hopefully the further input and advice of OSC, to make continual improvement on this front.

Note: Exhibits 1 – 9 referenced above may be viewed or downloaded in PDF format via the following link: http://www.jamestownny.net/osc.pdf .

APPENDIX B

OSC COMMENTS ON THE CITY'S RESPONSE

Note 1

We recognize that City officials were continuing to revise the preliminary budget estimates while we were conducting the audit. However, the 2017 budget document provided to us indicated that the tax levy estimate is $2.6 million higher than the previous year.

Note 2

The objective and scope of each OSC audit is unique and does not entail a comprehensive review of a local government's operations or the recording of all financial activity. For example, our last audit of the City in 2013 was limited to procurement and cash receipts and would not have included a review of the trust and agency fund. As such, OSC did not become aware of the City's accounting for health care expenditures and its use of the trust and agency fund until we conducted this audit.

Note 3

The financial reports prepared for the Council and available to the public did not include a proper accounting for health care expenditures and, as such, did not provide a true depiction of the City's overall financial health. Further, the Comptroller provided us with the information we requested. However, he also provided us with varying responses pertaining to how he accounted and budgeted for health care costs using the trust and agency fund.

Note 4

We scheduled meetings with the Council President and Finance Committee Chair in advance. These meetings were not intended to ascertain if City officials knew the exact amount of money being held in the trust and agency fund, but rather to assess if they were aware of the money in the trust and agency fund and how it was being used.

Note 5

On multiple occasions, including during the exit discussion, City officials told us that these funds were intentionally segregated so that the Council would not use these funds to lower property taxes.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the City's financial condition for the period January 1, 2012 through August 19, 2016. To gain an understanding of certain revenue and expenditure trends, we extended our review back to 2009.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We reviewed the Charter, Administrative Code, and any policies and procedures for information relevant to financial and budgeting activities, fund balance management and multiyear financial planning, including determining the fiscal responsibilities of City officials and committees or subcommittees of the Council in this regard.

- We interviewed appropriate City officials to gain an understanding of the City's financial condition and to determine what processes are in place for fiscal monitoring, budgeting, fund balance management, multiyear financial planning and financial oversight.

- We reviewed minutes from Council, finance and budget committee meetings and interviewed Council members to determine and evaluate how the Council provides financial oversight, including determining what financial information is presented to the Council.

- We reviewed the City's accounting records for governmental operating funds to assess if they were accurate by verifying that balance sheet accounts (significant current assets and liabilities) were properly recorded and supported and that revenues and expenditures were supported and recorded in the proper fund.

- We analyzed changes in fund balance within the governmental operating funds as a result of operations. For any funds in fiscal decline, we identified factors contributing to the decline.

- We analyzed cash flow and documented factors impacting cash flow. We assessed the City's ability to liquidate current liabilities from available cash by comparing cash on hand at the end of the year in relation to current liabilities.

- We analyzed actual revenue and expenditure trends and projected 2016 and 2017 operating results using historical trends and other pertinent information provided by City officials.

- We compared budget estimates to actual results to determine if revenue and appropriation estimates were reasonable.

- We analyzed significant budget-to-actual variances and interviewed City officials to determine the methods and rationale used to develop estimates. We reviewed relevant supporting documentation for any estimates that appeared to be unreasonable or inaccurate.

- We reviewed significant budget adjustments/modifications/transfers and interviewed officials to determine the cause for any significant modifications.

- We compared budget estimates to historical data (actual revenue and expenditure trends) and supporting documentation to determine if estimates were reasonable and the budgets were structurally balanced.

- We reviewed real property tax levy documentation and analyzed changes in the tax levy to ensure they appeared reasonable and sufficient to support the adopted budgets.

- We reviewed the Charter and Administrative Code as it pertains to the City's public utilities and relevant laws and regulations. This helped us to gain an understanding of the relationship between the City and the BPU, the authority to operate and maintain public utilities, and the governing structure of the municipally-owned utilities.

- We interviewed appropriate City and BPU officials to gain an understanding of the BPU's financial operations and management, relevant policies and procedures, and relationship with the City.

- We attempted to review the BPU's accounting records to analyze changes in fund balance as a result of operations, and analyze cash flow and actual revenue and expenditure trends to determine the current financial position of each utility. Based on the missing records and the condition of the records remaining, we could not base any reliance on these records.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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APPENDIX E

OFFICE OF THE STATE COMPTROLLER DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
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