

**CITY OF BUFFALO**  
**DEPARTMENT OF AUDIT & CONTROL**



**BUDGET RESPONSE**  
**2016-2017 FISCAL YEAR**  
**&**  
**2017-2020 FOUR YEAR FINANCIAL PLAN**

**MARK J.F. SCHROEDER**  
**COMPTROLLER**

**ANNE FORTI-SCIARRINO, CPA**  
**FIRST DEPUTY COMPTROLLER**

**MAY 10, 2016**

# Charter of the City of Buffalo

## § 20-7 Comptroller's Assessment of Accuracy of Revenue and Expenditure Assessments.

[Amended 10-2-2012 by L.L. No. 1-2012, effective 10-2-2012]

*“On or before the tenth day of May, the Comptroller shall submit to the council an assessment of the accuracy of the revenue and expenditure estimates of the budget and the four-year financial plan the mayor submits to the council. The comptroller shall opine on the sufficiency of the financial plan and whether it contains sufficient data to support the outcomes projected.”*

### Introduction

Pursuant to the City Charter, and the Comptroller’s role as the City’s chief fiscal officer, I hereby submit this assessment of the Mayor’s recommended budget for the fiscal year 2016-2017, as well as the four-year financial plan for fiscal years ending 2017-2020.

The City has made some progress on moving toward a more structurally balanced budget, mostly by reducing some major expenses. However, more work needs to be done, as the 2016-2017 budget relies on the use of \$10.6 million in reserves to balance the budget. While it is encouraging that the City is gradually reducing its reliance on reserves, any fund balance draw is less than optimal.

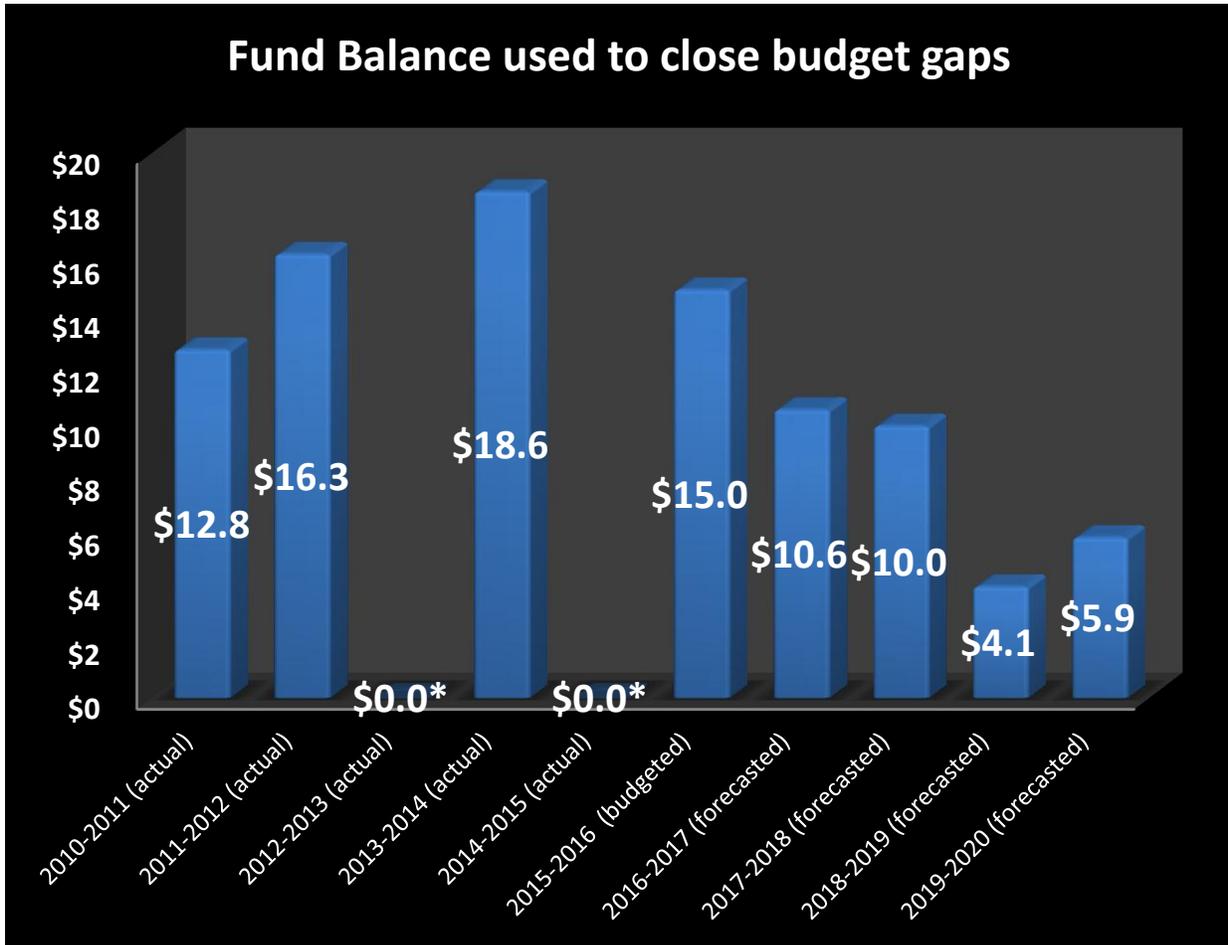
Revenue estimates appear to be fairly reasonable, with the exception of \$8 million in real estate sales that seems overly optimistic when considering past results. Expense estimates for salaries are likely to be higher than actual results, due to approximately 10% of budgeted positions remaining unfilled. However, any positive budget variance gained from this discrepancy could be mitigated by overtime expenses, which have been consistently tracking over budget in recent years.

Despite a new refuse contract that will yield savings for the Solid Waste Enterprise Fund, it will once again be subsidized by a transfer from the General Fund in the amount of \$3.2 million. Conversely, the \$6 million surplus in the parking enterprise fund will be “swept” into the General Fund, despite the need for capital improvements to parking ramps that will instead be financed by borrowing, leading to unnecessary interest costs.

Once again, the four-year financial plan does not contain the sufficient data to support the outcomes projected. The level of detail that is provided for 2016-2017 in the four-year plan should be replicated for the subsequent three years.

## Fund Balance

The City has been tapping into its reserves for an average of more than \$10 million annually since 2010-2011. The average would have actually been larger without certain one-time revenues that eliminated the need for fund balance draws that were budgeted for in 2012-2013 (\$15.6 million) and 2014-2015 (\$27.5 million). These one-time revenues included casino revenue, revenues resulting from the settlement of collective bargaining agreements, and non-recurring state aid payments.



*\*Although a \$15.6 million and \$27.5 million fund balance draw were budgeted for 2012-2013, and 2014-2015 respectively, unanticipated, non-recurring revenues in that year eliminated the need to use fund balance.*

The three major rating agencies, Moody’s, Fitch, and Standard & Poor’s, have grown increasingly concerned about the use of reserves to balance the budget. As you can see from the bar graph above, the City continues planning to use fund balance over the next four years. The continued use of reserves, even with lesser amounts in the out years, could potentially lead to a downgrade, especially if the total fund balance falls below the City’s self-imposed minimum of \$100 million.

## **Revenues**

The administration has estimated that revenues in fiscal year 2015-2016 will fall short of budget estimates by approximately \$12 million. The recommended budget for 2016-2017 appears to be budgeting high on the same line items that are expected to fall short in the current fiscal year.

For instance, \$4.2 million in revenue is budgeted for traffic violations revenue as a result of the City's newly-acquired ability to adjudicate its own tickets, which took effect July 1, 2015. Revenue generated from traffic violations was initially far below expectations in the current fiscal year, but is slowly increasing. But even when only taking into account recent activity, we are not confident that \$4.2 million will be realized in 2016-2017. Additionally, the City continues to budget high on items such as parking tag fines and towing, storage, and parking meter fees.

Perhaps the largest questionable revenue item is land sales. Over the past three fiscal years, the City has budgeted to sell land for more than \$15.5 million, while only realizing \$2.6 million in revenue from sales during that span. The 2016-2017 recommended budget includes land sales at more than \$8 million, but given the recent activity of city-owned land sales, we expect actual revenue to fall well short of that mark.

In an effort to ensure the City is receiving all revenue that it is due, this office is currently conducting audits on the revenues generated from the Gross Receipts Tax and Cable Franchise Fees.

## **Expenses**

Expenses are budgeted to increase over last year's budget by less than 1%. Although the settled union contracts will result in an approximate increase in salary expense of 2%, approximately \$4 million, there will be an expected offsetting savings as a result of the City's shift to a self-insured health insurance model. Additionally, it's expected that approximately 35 firefighters will retire, which should result in a savings of approximately \$1 million, due to lower salaries for new hires.

Other than the cost of employee salaries, many other expense lines within services and supplies have been decreased from the prior year. A significant item within supplies is the budgeted expense for gasoline, which was decreased approximately \$500,000. This and other supply line estimates that were decreased should fall more in line with actual expenditures, based on prior results.

The state retirement system has benefited from favorable stock market conditions over the past several years, which have reduced the City's state pension fund contributions. The current market is seeing more volatility, which could potentially increase future required contributions.

The City largest expense is wages for its employees, so any efficiency that can be gained in payroll processing would be invaluable. One of the most significant recommendations this office has made, as a result of several payroll audits, is the implementation of an automated time-keeping system. The current system of paper timesheets is antiquated, inaccurate, and inefficient, leaving the City susceptible to fraud and abuse. To our knowledge, no funding for a new timekeeping system has been included in the 2016-2017 budget or the four-year plan.

The City's largest non-personnel related expense is electricity and street lights, at approximately \$16 million annually. This office has conducted an audit of these accounts that has already resulted in a more than \$1 million refund from the City's electricity provider, with additional refunds expected as a result of the audit.

### **Enterprise Funds**

The City's independent external auditors, Drescher & Malecki, have identified the yearly deficit in the Solid Waste Enterprise Fund as a "significant deficiency." While the new refuse contract will yield savings in this fund, it has not reduced the \$3.2 million that has been annually transferred in from the General Fund since 2011 (transfers of \$2 million and \$2.5 million occurred in 2009 and 2010, respectively). The Solid Waste Enterprise Fund, which was intended to be self-sufficient, also owes the General Fund \$17.4 million despite these annual transfers. In order to eliminate this "significant deficiency," the City must develop a plan to make the Solid Waste Enterprise Fund self-sufficient and repay the \$17.4 million to the General Fund.

Over the past five years, the Parking Enterprise Fund has transferred \$30.6 million to the General Fund. Add to that figure the \$13 million slated to be transferred for the current fiscal year and 2016-2017, as well as the \$3.3 million in revenue from the lease of the Ellicott Street Parking Garage that is expected in the next fiscal year, the Parking Enterprise Fund will have transferred \$46.9 million into the General Fund. Those funds should have been used to make capital improvements to existing parking ramps, or build new ones. Instead, the City has just borrowed \$4 million by selling bonds for capital improvements to parking ramps, resulting in unnecessary interest costs and an additional debt burden.

### **Conclusion**

The 2016-2017 recommended budget appears fairly stated from an overall perspective, but more work should be done to truly achieve a structurally balanced budget that accurately states revenues and expenses, while eliminating the City's reliance on fund balance. Also, in order to give a clearer picture of the City's financial future, a far more detailed four-year plan is essential.