Ann Thane, Mayor
City Hall
Amsterdam, New York 12010

January 10, 2012

Mayor Thane,

In a continuing effort to better understand the financial condition of the City, I reviewed some salient amounts contained in the City of Amsterdam Final Budget adopted May 31, 2011. I have prepared an analysis of my understanding concerning the 2% Property Tax Cap that was recently enacted by the NY State Legislature and the possible effects this legislation may have on the next budget cycle for the City.

The analysis merely deals with realities of what the 2% Property Tax Cap may produce. Specifically:

1. The cap being on the Tax Levy amount from the prior budget process.

2. There are specific exclusions for certain budgeted amounts allowed to exceed the 2% increase with their amounts allowed to be added in the form of an additional tax increase above and beyond their allowed 2% increase.

3. Any further increases beyond those allowed by the NY State Legislature 2% Property Tax Cap will require the municipality to enact specific legislation to allow for those increases.

4. No attempt was made to deal with the other City Funds, as they do not have a direct "tax levy" but may be influenced by or influence amounts in the General Fund. At some point their effects will need to be addressed.

My intentions are merely to gain a better understanding of the City's finances and the effects the 2% Property Tax Cap enacted by the NY State Legislature will have for the upcoming budget. Most of the information has come from conversations with others who have already enacted the provisions of the tax cap. Any help you may supply to better prepare for the next budget cycle, which hopefully will start with this letter, would be appreciated. Please feel free to share this letter and the attachment with the Council Members and others you feel necessary.

Respectfully,

David J. Dybas,
City of Amsterdam 4th Ward Alderman

ALL INFORMATION EXTRACTED FROM CITY OF AMSTERDAM
FINAL BUDGET ADOPTED MAY 31, 2011 FOR 2011-2012

--A--	--B--	--C--	--D--
GENERAL FUND	**2011-2012 AMOUNT**	**2012-2013 AMOUNT**	**2013-2014 AMOUNT**
APPROPRIATIONS	13,568,602		
REVENUES	9,169,719		
APPROPRIATED FUND BAL	0		
BUDGET LEVY	4,398,883		
OVERLAY	501,532		
TOTAL TAX LEVY	4,900,415	4,998,423	5,098,392
NYS IMPOSED 2% TAX LEVY INCREASE ALLOWED FOR THE NEXT YEAR	98,008	99,968	

1 GUESSING THAT RETIREMENT COSTS WILL ONLY INCREASE 10% FOR 2012-2013 WHICH AMOUNTS TO $152,058 AND RECOGNIZING $30,412 IS REQUIRED TO BE COVERED BY THE NYS IMPOSED 2% TAX LEVY, THE REMAINDER $121,646 IS PASSED ON TO THE TAXPAYERS TO FUND. RETIREMENT COSTS IN EXCESS OF 2% ARE ALLOWED TO BE PASSED ON TO THE TAX PAYERS. THEREFORE, $99,968 LESS $30,412 EQUALS $69,556 REMAINING OF NYS IMPOSED 2% TAX LEVY INCREASE ALLOWED FOR 2012-2013.

2 GUESSING THAT SALARY COSTS, EXCLUDING ALL OVERTIME, WILL ONLY INCREASE 2% FOR 2012-2013 WHICH AMOUNTS TO $82,575 INDICATES ONLY $69,556 CAN BE ALLOWED TO BE COVERED BY NYS IMPOSED 2% TAX LEVY INCREASE. THE REMAINING $13,019 IS EITHER CUT FROM OTHER PLACES IN THE GENERAL FUND OR WHATEVER.

3 *GUESSING THAT ALL OTHER COSTS AMOUNTING TO $7,919,277 WHICH EXCLUDES BOTH SALARY AND RETIREMENT COST FOR 2012-2013 WERE TO INCREASE BY THE FOLLOWING PERCENTAGES RESULTING IN EACH INCREASED BUDGET AMOUNT TO EITHER CUT FROM OTHER PLACES IN THE GENERAL FUND OR WHATEVER*-----

@ 1.0%	79,193
@ 1.5%	118,789
@ 2.0%	158,386
@ 2.5%	197,982
@ 3.0%	237,578
@ 3.5%	277,175

4 *GUESSING THAT ALL REVENUES AMOUNTING TO $9,169,719 WERE TO DECREASE BY THE FOLLOWING PERCENTAGES RESULTING IN EACH DECREASED BUDGET REVENUE AMOUNTS FORCING EITHER FURTHER COST CUTING IN THE GENERAL FUND OR WHATEVER-----*

@ 1.0%	91,697
@ 1.5%	137,546
@ 2.0%	183,394
@ 2.5%	229,243
@ 3.0%	275,092
@ 3.5%	320,940

5 *GUESSING THAT THERE MAY BE A RANGE OF $13,019 (NO. 2 ABOVE) TO $598,075 (NOS. 3 & 4 WORST CASE SCENARIO OF 3.5% ABOVE) COMBINED $601,094 OF TOTAL BUDGET CUTS OR WHATEVER IN THE GENERAL FUND IT APPEARS THE TAX RATE WILL BE INCREASED BY THE NYS IMPOSED 2% TAX LEVY ALLOWED INCREASE OF $98,008 PLUS $121,646 RETIREMENT COST (NO.1 ABOVE) YIELDING A TOTAL ALLOWED INCREASE OF $219,654. THIS AMOUNT ADDED TO THE 2011-2012 TAX LEVY EQUALS $5,120,069. GUESSING THAT THERE WILL BE NO SIGNIFICANT CHANGE IN ASSESSED VALUE ($330,009,000) NOR DEBT $1,318,824 THE TAX RATE APPEARS TO BE, $11.52 PER THOUSAND ($5,120,069 LESS DEBT OF $1,318,324 YIELDING $3,801,745 DIVIDED BY $330,009) PLUS DEBT OF $4.00 PER THOUSAND FOR A TOTAL TAX RATE OF $15.52 THE PERCENTAGE INCREASE FOR THE 2012-2013 BUDGET WOULD THEN AMOUNT TO 4.5% OVER 2011-2012.*

6 *GUESSING THAT A 4.5% TAX INCREASE IN THE GENERAL FUND IS A BEST CASE SCENARIO AND PROBABLY MEANS POSSIBLY IGNORING THE REALITIES OF INCREASING COSTS AND GUESSING THAT FUTURE FISCAL CONDITIONS MAY WORSEN WOULD STARTING THE 2012-2013 BUDGET PROCESS BEGIN WITH THE NEXT COMMON COUNCIL MEETING? PLEASE!!!*

Monitoring Fiscal Operations

Once the financial course has been set through the adoption of key policies and plans, board members have the equally important task of keeping local government operations on course. This oversight responsibility requires continued diligence. Governing board members should compare actual results to plans, policies, and directives. The board's concerns and decisions should be communicated to appropriate senior management and department heads so that they can make adjustments and corrections as needed.

Governing board members should compare actual results to plans, policies, and directives.

The following sections outline periodic reports, including an illustrative example of a budgetary status report and other special purpose reports, all of which can be used as key measures in focusing monitoring activities and conveying information to the appropriate officials and to the public.

Interim Reports

Interim (periodic) reports can be designed to fulfill a number of management information needs. Each adopted policy can and should address the timing and content of periodic reports so board members can exercise proper fiscal oversight. The governing board should consult with senior management and department heads, when necessary, to determine what information they need and when they need it so that they can effectively meet their responsibilities. It is essential that the governing board receives regular financial reports from the CFO, treasurer, or business manager to fulfill its responsibility of monitoring financial operations. Generally, corrective action is easier to initiate when the need is identified early. Interim reports should provide the board with timely information on such issues as: financial position, results of operations, budget status, policy compliance, service or project costs, performance measures, and legal compliance matters.

For illustrative purposes, a discussion of the commonly used and widely accepted budgetary status report follows. Brief descriptions of other possible special purpose reports are included at the end of this section.

Budgetary status reports also have a predictive value. The board and others can use these reports to analyze current (year-to-date) trends and predict end-of-the-year financial outcomes. Understanding future outcomes can be particularly useful when preparing the ensuing year's budget. To enhance the forecasting value of these reports, the budget officer and department heads should identify the causes of current negative trends and then make realistic assumptions regarding future activity. When this type of analysis is prepared, it should be communicated to the governing board so that it may take appropriate action.

An example of a budgetary status report follows. Reports similar to this one, but with sufficiently detailed categories of revenues and expenditures and consistent with any legal requirements, should be prepared for the general fund and any other major operating funds. Most computerized financial management systems will automatically produce a budget-to-actual report as frequently as needed.

Budgetary status reports also have a predictive value. The board and others can use these reports to analyze current (year-to-date) trends and predict end-of-the-year financial outcomes.

Column A - Classification - List revenue and expenditure items by functional areas. (Additional detail can be added based on the needs of a local government.)

Column B - Prior Year Actual – Obtain total amounts from the AUD (Annual Update Document) filed with the State Comptroller, independent audit report, or the unit's accounting records.

Column C - Current Budget as Amended – Obtain from current general and subsidiary ledgers. These totals should include any adopted budgetary amendments.

Column D - Actual To-Date – Obtain from current general and subsidiary ledgers.

Column E - Current Variance – Calculate and record over- and underestimates for the current period (Column D minus Column C).

Column F - Annual Projections – Estimate by taking actual to-date results and projecting them out for the remaining months. As the year progresses, estimates should become more reliable. Historical trends are useful in formulating these projections.

Column G - Projected Variances - Record over- and underestimates projected for the entire year (Column F minus Column C).

Local governments that utilize encumbrance accounting should include an additional column for encumbrances that have been approved and are outstanding at the date of the report.

In the above budget-to-actual report, the board typically should take the following immediate actions:

1. The board should request information about the original budget estimate for Sales Tax, since the unit is halfway through the fiscal year and has only received $100,000 (Column D) of the budgeted $270,000. If it is determined that the aid will not be received, the budget should be amended, due to the revenue shortfall.
2. The board should determine whether the budget has been amended, due to the over expenditure of $6,000 in the Economic Assistance appropriation code (Column E). If the budget has not been amended, the board should determine why established controls did not prevent the over expenditure of this appropriation. Unless the over expenditure is a classification or an accounting error, a budget amendment will be necessary.

The board should then look at the yearly projections in Column G. The main concerns would be:

1. Public Safety is projected to be over expended by $15,000. The board should make the department head aware of the projection and ask that he/she monitor the budget on a monthly basis and report back to the board.
2. Transportation, Economic Assistance, Employee Benefits, and Home and Community Services are each projected to be over expended at year-end. The board should discuss the projected negative variances with department heads and seek solutions for lowering costs before accounts become overdrawn.

Issuing budget notes – Generally a local government may authorize the issuance of budget notes pursuant to the Local Finance Law to finance increases in appropriations and supplemental appropriations.[10] There are two types of budget notes. One type, which may be characterized as an "emergency budget note," may be issued in any fiscal year to finance any unforeseeable public emergency in that year, such as storm, flood, or other unusual peril to lives and property. An emergency budget note may be issued in any amount determined necessary by the board to deal with the particular emergency. The other type of budget note, which may be characterized as a "deficiency budget note," may be issued for an expenditure for which an insufficient provision or no provision was made in the annual budget. In general, the amount of deficiency budget notes issued during a fiscal year may not exceed five percent of the local government's annual budget for that year. An example of the use of a deficiency budget note would be to fund the payment of an insurance premium where the amount to be paid exceeds the appropriation available to pay for it.

In general, the amount of deficiency budget notes issued during a fiscal year may not exceed five percent of the local government's annual budget for that year.

In cases where it is projected that there might be a significant revenue shortfall within the annual budget, total appropriations may need to be reduced. An example might be where a major revenue source such as sales tax is anticipated to fall significantly short of what was estimated, and the projected shortfall may cause insufficient overall resources being available to pay for costs incurred. The board may need to reduce overall appropriations and restrict spending to help mitigate the impact of the revenue shortfall. See Appendix A for further reference materials.

[10] Local Finance Law Section 29.00