



**THOMAS P. DINAPOLI**  
COMPTROLLER

STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**  
110 STATE STREET  
ALBANY, NEW YORK 12236

**STEVEN J. HANCOX**  
DEPUTY COMPTROLLER  
DIVISION OF LOCAL GOVERNMENT  
AND SCHOOL ACCOUNTABILITY  
Tel: (518) 474-4037 Fax: (518) 486-6479

April 15, 2010

Mayor M. Connie Castañeda  
Members of the Board of Trustees  
Village of Brockport  
49 State Street  
Brockport, NY 14220

Report Number: B2-10-10

Dear Mayor Castañeda and Members of the Village Board of Trustees:

Our Office has recently completed an audit of the Village's budget for the 2010-11 fiscal year. The objective of the audit was to provide an independent evaluation of the tentative/proposed budget. Our audit addressed the following question(s) related to the Village's budget for the 2010-11 fiscal year:

- Are the significant revenue and expenditure projections in the Village's tentative/proposed budget reasonable?

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), with the exception of reporting views of responsible officials. Officials' views were not solicited for this report due to the necessity of providing the Village with this time-sensitive information. However, the results of this audit have been discussed with Village officials and their comments have been considered in preparing this report. GAGAS requires 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions regarding the estimates in the tentative/proposed budget.

To accomplish our objectives in this audit, we requested your tentative/proposed budget along with other pertinent information. We analyzed the composition of revenues and expenditures in order to determine if the revenue and expenditure estimates are reasonable. We do not offer comments on public policy decisions, such as the type and level of services to be provided.

The tentative budget package submitted for audit for the fiscal year ended 2010-11 consisted of the 2010-11 tentative budget, which is summarized as follows:

<b>Fund</b>	<b>Appropriations and Provisions For Other Uses</b>	<b>Estimated Revenues</b>	<b>Appropriated Fund Balance</b>	<b>Real Property Taxes</b>
General	\$5,247,961	\$2,883,141	\$0	\$2,364,820
Water	\$945,700	\$945,700	\$0	\$0

The observations and recommendations resulting from our audit are, to a great extent, influenced by the quality and quantity of materials submitted, and the time between submission and budget adoption.

Given the Village's precarious fiscal condition, we caution Village officials that the proposed budget may not provide adequate resources to fully fund Village operations and to handle any unforeseen events that may occur. For example, the Village has experienced cash flow problems in the current fiscal year; given that the unreserved balance in the general fund is only about 2 percent of appropriations, it is likely that the Village will continue to have cash flow problems in 2010-11. The proposed budget includes an 11.8 percent property tax increase; however, the Board has reduced proposed tax increases in prior years without identifying alternate revenue sources or cost reductions – actions which aggravated the Village's deteriorating financial condition by consuming the fund balance. In addition, the proposed budget for 2010-11 underfunds retirement costs by \$106,000 compared to the estimated bill provided to the village, and underestimates police overtime costs by about \$86,000 compared to historical patterns. Village officials did not have plans in place to reduce actual costs to stay within these lowered budget provisions. Further, the proposed budget does not make any provision for pay raises that could result from ongoing negotiations, or for a contingency account that could help pay for such raises or for any unforeseen expenses.

Our audit disclosed the following findings which should be reviewed by the Board of Trustees (Board) for appropriate action. Good management practices require that Village officials take prompt action concerning our recommendations prior to adopting a budget for the ensuing year. We believe that prompt action by Village officials will help improve the Village's financial condition.

### **Financial Condition**

Due to inaccurate budget estimates, the Village's general fund and water fund balances have declined over the past three years, as noted in the following table.

<b>Unreserved, Unappropriated Fund Balance</b>	<b>2006- 07</b>	<b>2007- 08</b>	<b>2008-09</b>	<b>Percent of 2009-10 Appropriations</b>
General Fund	\$542,976	\$673,574	\$147,130	2.78%
Water Fund	\$235,316	\$157,639	-\$65,604	-6.00%

The Village has had difficulty generating sufficient cash flow to cover expenditures as they become due. In December 2009, the Village had to advance moneys temporarily from the general fund to the water fund to cover the payment for water purchased from the County. Furthermore, in recent months, the Village has projected that it will lack sufficient cash to pay all

bills for the fiscal year ended May 31, 2010, and the Board tentatively authorized the issuance of a budget note up to \$250,000 to meet its cash needs.

The Village's general fund had a reported unreserved fund balance of \$167,130 at May 31, 2009, with \$20,000 appropriated to fund the 2009-10 budget, leaving an unreserved, unappropriated fund balance of \$147,130; this equates to approximately 2.78 percent of 2009-10 appropriations of \$5,294,973. Based on available information for the 2009-10 fiscal year to date, we have projected a tentative operating deficit (expenditures exceeding revenues) of approximately \$54,000, which would further decrease the Village's general fund unreserved fund balance to approximately \$113,130, or 2.16 percent of appropriations in the tentative 2010-11 budget of \$5,247,961. The tentative budget does not include any appropriation of fund balance to reduce the 2010-11 tax levy.

Fund balances at these levels do not provide sufficient resources to meet cash flow needs to finance current operations. As a result, the Village is likely to experience cash flow problems in the coming year as well. State law allows villages to maintain a reasonable fund balance as insurance against unanticipated expenditures or revenue shortfalls, and the New York State Government Finance Officers' Association (GFOA) suggests that local government officials should try to maintain an unreserved fund balance of between 5 and 15 percent of total expenditures, depending on the Village's cash flow needs and the size of its budget.

### **Retirement Contributions**

The Village's tentative budget does not include sufficient funding for payments to the New York State and Local Retirement System (NYSLRS) and the New York State Police and Fire Retirement System (PFRS). In September 2009, the Village received estimates from the retirement systems for the amounts to be billed in November 2010, with payment due February 1, 2011. The cost estimates provided by the retirement system exceeded the Village's tentative budget<sup>1</sup> for retirement costs by \$106,421, as noted in the chart below.

	<b>PFRS</b>	<b>NYSLRS</b>	<b>TOTAL</b>
Estimated 2011 Bill from Retirement Systems	\$218,964	\$173,788	\$392,752
Village's 2010-11 Tentative Budget	\$173,825	\$112,506	\$286,331
Unfunded Retirement Costs	\$45,139	\$61,282	\$106,421

Village officials provided us with the salary and benefit schedules they used to support their estimated retirement costs. However, we found that current officials were not aware of, and did not use, the September 2009 estimated bill, but had used the lower contribution rates from the prior year's estimated bill instead. Further, it is important that Village officials fund retirement costs at the level stated in the estimated bill, at a minimum. The actual bill could be higher than the estimate if salaries increase between the time the estimate is prepared and the final bill is issued, or if overall retirement costs increase. For example, while the Village's 2009-10 budget

<sup>1</sup> The Village's NYSLRS budget actually includes \$73,506 in the general fund, and \$18,000 in the water fund; in addition, the Tri-Municipal Library is responsible for approximately \$21,000 of the estimated NYSLRS bill.

included sufficient appropriations to cover the estimated PFRS bill of \$155,209, the actual bill came in at \$189,681 (\$34,472 higher than estimated.)

**General Fund Police Overtime**

The police department’s collective bargaining agreement (CBA) provides that all police officers will work a regular schedule of four days on and two days off, and that each of the three eight-hour shifts per day must be covered by at least two officers. This contracted schedule consistently generates significant overtime needs throughout the year, in part to cover shifts when officers use contractually available leave time. The CBA further provides that police officers have the option to be compensated for overtime work at a rate of one and one-half times their regular rate, or to receive equivalent compensatory time off<sup>2</sup> to be used as leave days or cashed out at a later date. Village officials should carefully budget for overtime needs and compensatory time payouts (overtime) to avoid significant budget shortfalls during the year.

The Village has significantly under-budgeted appropriations for police overtime<sup>3</sup>. The table below shows actual costs for the last three completed years for overtime paid in regular paychecks, as well as compensatory time paid during those years.

	Actual 2006-07	Actual 2007-08	Actual 2008-09	Budget 2009-10	YTD 3/31/10	OSC Projected 2009-10	Tentative Budget 2010-11
<b>Total Paid Overtime and Comp Time</b>	\$176,974	\$193,632	\$153,178	\$50,000	\$167,093	\$211,000	\$100,000

Despite the overtime costs of more than \$150,000 for each of the last three fiscal years, the Village included only \$50,000 for police overtime in its adopted budget for the fiscal year ended May 31, 2010. As of March 31, 2010, the Village has made payments totaling \$77,057 for overtime and \$90,036 for compensatory time cashed out by employees. Based on current vacancies in the department and overtime costs in recent months, we project that overtime costs through May 31, 2010 will be approximately \$211,000.

Village officials included only \$100,000 for police overtime in the tentative 2010-11 budget. The Police Chief told us that he felt the \$100,000 estimate should be sufficient if all officers remain healthy and no unforeseen overtime events occur, but acknowledged that it is only intended to cover overtime paid in regular paychecks. He said they do not typically budget an amount for cash payments for compensatory time, because it is difficult to anticipate how much compensatory time officers will cash out each year. Since the total of overtime payments and cash payments for compensatory time averaged \$183,696 over the last four years, we recommend that the Village increase its police overtime budget for the 2010-11 fiscal year.

<sup>2</sup> Employees may accumulate a maximum of 160 hours of compensatory time, and may convert such time to cash payment upon request.

<sup>3</sup> As all compensatory time is generated by overtime earned, we are referring to both overtime and compensatory time payments as Overtime.

## **Collective Bargaining Agreements**

The collective bargaining agreements between the Village and its two unions representing the public works (DPW) and police department employees will expire on May 31, 2010. The 2010-11 tentative budget does not include any provision for pay raises for employees represented by these unions. Therefore, with a minimal available fund balance and no provision for contingencies, as described below, the Village may lack available resources to finance any pay raises that result from ongoing negotiations.

## **Contingency Appropriation**

Contingency accounts are used by local governments<sup>4</sup> as a means of providing funding for unexpected events. The Village has not included a contingency appropriation in its 2010-11 tentative budget. It is important that the Board consider the general economic conditions and the potential need to fund significant unforeseen costs. This account is particularly important because the Village has been faced with ongoing cash flow concerns, and is anticipating that the general fund will begin the year with minimal fund balance. Therefore, the Village will likely have insufficient resources to fund any pay raises that result from ongoing negotiations or unforeseen expenses, such as costs associated with adverse weather events, unexpected machinery breakdowns, unplanned overtime, litigation costs, and increases in health insurance, fuel and utility costs. Considering the lack of fund balance to act as a cushion, we recommend that the Village include a contingency appropriation in its adopted 2010-11 budget. A contingency account of 5 percent of appropriations (\$250,000) would give the Village some flexibility in dealing with unexpected events. Any amounts not needed during the current year would help to rebuild the general fund balance.

## **Estimated General Fund Revenues**

Based on the results of our audit, the significant revenue estimates in the proposed budget appear to be reasonable. However, the Village should closely and continually monitor the revenues, particularly revenues such as sales tax<sup>5</sup> and mortgage tax, which are particularly volatile in our current economic environment, to be in a better position to make budget revisions during the year as necessary.

## **Estimated Water Fund Revenues**

The Village erroneously adopted a water fund budget for the 2009-10 fiscal year that was unbalanced by nearly \$185,000. The subsequent need to appropriate fund balance in that amount, which exceeded the fund balance actually available, resulted in a deficit unreserved, unappropriated fund balance of \$65,604. In addition, the water fund experienced operating

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<sup>4</sup> As authorized by Village Law Section 5-506, the Village may include a Contingency account, in the general fund only, limited to 10% of appropriations less judgments and claims and debt service (or \$503,871 based on the Village's tentative budget for the 2010-11 fiscal year).

<sup>5</sup> We estimate the Village will receive almost 6 percent less in sales tax during the 2009-10 fiscal year than it did in 2008-09 (based on actual amounts received to date and an estimate for the final quarter). Sales tax collections are largely a function of sales activity driven by economic factors such as personal income and employment. Both of these factors are expected to remain weak in 2010.

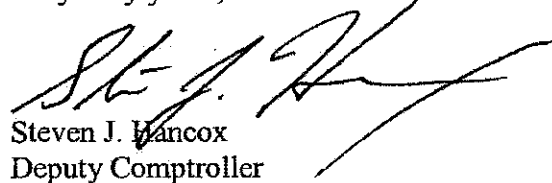
deficits in excess of \$26,000 and \$105,000 for the years ended May 31, 2008 and 2009, respectively. These deficits contributed to the decline in fund balance. The Village adopted a 26 percent increase in water rates effective January 1, 2010.<sup>6</sup> As a result of the rate increase and other unexpended appropriations, the Village expects to report a positive unreserved, unappropriated fund balance at May 31, 2010. The Village's tentative budget for the 2010-11 fiscal year appears reasonable

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. We encourage the Board to make this plan available for public review in the Village Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt a budget for the Village. If you have any questions on the scope of our work, please feel free to contact Edward V. Grant, Jr., Chief Examiner of the Rochester Regional Office, at 585-454-2460.

Very truly yours,



Steven J. Hancox  
Deputy Comptroller

cc: Village Trustees  
Mary Beth Lovejoy, Interim Treasurer  
Leslie Morelli, Village Clerk

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<sup>6</sup> The most recent prior increase in water rates was January 1, 2005.