



City of Binghamton

City Operations

Report of Examination

Period Covered:

January 1, 2014 — May 21, 2015

2015M-280



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 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 Binghamton, entitled City Operations. 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 Binghamton (City) has approximately 47,000 residents and is located within Broome County in the Southern Tier region of New York State. The seven-member Common Council (Council) is the City's legislative branch. The Mayor is the City's chief executive officer and the City Comptroller is the chief fiscal officer. The New York State Second Class Cities Law governs City operations by outlining the powers and duties of City management, including those of the Mayor and City Comptroller.

The City's 2015 general fund budget totaled \$64.7 million and was funded primarily by real property taxes, sales taxes and State aid. The City provides the following services to its residents: general government support, police and fire protection, street maintenance, parks and recreation programs, and water, sewer and refuse service. In addition, the City owns various parking facilities.

Scope and Objectives

The objectives of our audit were to assess the City's operations for cost saving and revenue enhancement opportunities for the period January 1, 2014 to May 21, 2015. We expanded our scope back to January 1, 1995 to assess trends in fund balances, budgets, revenues and expenditures. Our audit focused on the areas we identified with potential cost saving and revenue enhancement opportunities and included debt issuance, refuse operations and fees, building permit fees, gross receipts taxes, sewer rates, parking operations and health insurance costs. Our audit addressed the following related questions:

- Did Council and City officials ensure that City expenditures were at the lowest cost to taxpayers?
- Are there opportunities for Council and City officials to improve the operations for non-property tax services?

Audit Results

While Council and City officials have taken certain steps to improve the City's operations and reduce its related costs, they did not ensure all City operations were functioning at the lowest cost to taxpayers. We compared the City's operational results to those of four other similar cities – Niagara Falls, Utica, Troy and Schenectady (Four Cities) – for the period January 1, 2012 through December 31, 2014. We found that the City had the highest total debt and health insurance expenditures per capita (with the exception of Schenectady in 2012 for health insurance) as compared to the Four Cities. During this period, the City's debt expenditures as compared to its revenues were also higher than the Four Cities (with the exception of Utica in 2012). The City's employee contribution rates for health insurance are

similar to those of the Four Cities.¹ We were unable to compare refuse costs because the City reported expenditures in multiple funds, one of the Four Cities (Utica) contracted out for refuse services and the other three cities did not record refuse activity in a separate refuse fund.

As of December 31, 2014, the City had exhausted 91 percent of its constitutional tax limit² and had 11 bonds outstanding totaling \$86.2 million. Over the last 20 years, the City has spent an average of \$6.3 million per year on serial bond principal and interest debt payments. Moreover, over the past three years, the City has paid a total of almost \$9.7 million in interest for their bonds. We found that the Council and City officials were using debt to pay for items that normally are paid for by annual budget appropriations. For example, the City's debt includes the financing of the purchase of 49 items that cost \$100,000 or less, with an overall total value of \$2.3 million. The continued use of debt may require an increase in future real property taxes for the payment of principal and interest.

Although we found that refuse expenditures exceeded revenues and health insurance expenditures were increasing, City officials were taking steps to address these issues. We found that the City's current refuse routes and load capacities were generally efficient, with certain exceptions of which City officials were aware. However, in 2014, the refuse fund's revenues per capita were only \$19.52, while the respective expenditures per capita were \$51.36. Therefore, City officials need to make changes to the refuse collection operations. In order to reduce operational costs, City officials are considering eliminating the night shift. They estimate that this would result in approximately \$191,000 of productivity cost savings by reallocating staff to other City functions and an additional \$5,000 in utility cost savings. However, with all other factors remaining constant, this would reduce expenditures per capita to \$47.22, and refuse expenditures would still exceed the respective revenues by \$1.3 million.

The City's health insurance costs increased by approximately \$1 million, or 12.2 percent, from 2012 to 2014. City officials found that 20 percent of the City's health insurance claims came from 2 percent of the members. Further, an emergency room visit costs the City over \$2,000 while a visit to a walk-in clinic costs the City under \$100. City officials are in the early stages of educating employees regarding the cost of the choices they make. In addition, City officials have taken action to require new employees to join a specific, lower-cost health insurance plan. We found that the City's employee health insurance contribution rates for police and fire personnel, who represent 46 percent of all City employees, were similar to, or in some cases higher than, the employee health insurance contribution rates for police and fire personnel in the Four Cities.

City officials must take action to control expenditures, where possible, and consider operational changes to certain non-property tax services. We identified a number of opportunities that could help improve the City's fiscal health. Specifically, we identified opportunities for City officials to consider for sewer and refuse operations, building permits, parking ramps and, potentially, gross receipts tax revenues.

The sewer fund's revenues are not sufficient to cover operational expenditures. As of December 31, 2014, the sewer fund's unrestricted fund balance was in a deficit of almost \$4.5 million – approximately 46 percent of the 2015 sewer fund budget. This deficit fund balance equates to \$282 per City property. City officials have increased the sewer rate by 6.5 percent for 2016 to \$5.05 (per 100 cubic feet of

¹ See Health Insurance Costs section for comparison information.

² The constitutional tax limit is the maximum amount of real property taxes that may be levied in any fiscal year. This limit is separate from the other tax levy limit referred to as the Real Property Tax Cap.

water used). However, even with this increase there may not be sufficient funds to cover operations, let alone address the accumulated deficit. City officials need to monitor the sewer fund's revenues and expenditures closely to eliminate the deficit fund balance.

The gross revenues earned in 2014 from fees charged for the City-required garbage bags totaled approximately \$828,000, or almost 90 percent of the refuse fund's operational revenues, and did not cover the cost of refuse operations. During 2014, garbage bag fees generated approximately \$660,000 in net revenue towards the almost \$2.4 million total cost of refuse operations. We compared the City's refuse revenues per capita to other comparable cities³ and found that these cities' revenues per capita were more than four and one quarter times, or about \$3.1 million, higher than the City in 2014. These cities charged revenues totaling \$85 per capita, versus \$20 per capita for the City. Moreover, we contacted local third-party vendors and determined the average cost for the lowest-priced residential garbage collection service was \$263 per household per year, or approximately \$132 per capita.

We found that opportunities exist for the City to evaluate the charges for building permit fees. City officials were unable to determine when the current building permit fee structure was established or the last time building permit fees were increased. Due to the City's fee structure, the City charges significantly less for building permit fees as compared to the Four Cities whether it is a small or large project. For example, the City's fee is \$500 for a \$100,000 project and \$4,000 for a \$5 million project. In comparison, the Four Cities charged \$550 to \$2,020 for a \$100,000 project and \$10,350 to \$100,020 for a \$5 million project. In addition, the City's maximum building permit fee is \$5,000⁴ for any project. In September 2015, the City Comptroller and Building Department Supervisor proposed to the Council an increase of the maximum fee from \$5,000 to \$25,000. If the maximum fee in place from 2012 through 2014 was \$25,000, City officials could have collected an additional \$83,000 in building permit fees.

Opportunities also exist for the City to evaluate parking ramp operations. Over the last three years, parking garage expenditures exceeded revenues by approximately \$120,000. Moreover, the vendor's parking ramp software reported 14,000 outstanding parking tickets for the Collier Street parking ramp⁵ during our audit period. Using an average daily parking rate of \$3.50, this equates to approximately \$49,000 in potentially lost revenues for this parking ramp. Moreover, a local retailer has a parking agreement with the City for \$25,000 per year to allow their customers to park in the Water Street parking garage for a maximum of three hours per visit without being charged. However, in 2014, this retailer's customers used approximately 143,000 total hours which, at \$1 per hour, equates to a value of \$118,000. City officials said that due to the increased use of the Water Street parking ramp, they are planning to have an automated system installed next year. The City's contract with the local retailer runs through April 2018 when City officials said they would reconsider the terms as they did not realize the City's true cost of the contract's terms.

The City's gross receipts tax revenues⁶ decreased by approximately \$60,000, or 12.8 percent, from 2012 through 2014. Moreover, when compared to the Four Cities, the City had the lowest gross receipts

³ For refuse revenue comparisons, we compared the City to other upstate cities with a population of at least 30,000, refuse revenues totaling at least \$500,000 and refuse revenues per capita of at least \$10.50. These cities included Buffalo, Rochester, Albany, Schenectady, Rome, Poughkeepsie and Jamestown.

⁴ For projects valued in excess of \$5 million, the City's maximum building permit fee is \$5,000.

⁵ As of November 2015, the Collier Street parking ramp closed due to structural issues. The City plans to demolish the ramp.

⁶ New York State General City Law authorizes cities to impose a gross receipts tax on the sale of utility services. The tax can be equal to 1 percent of the gross operating income of utilities operating within City boundaries with gross operating income in excess of \$500 for 12 months ending May 31.

tax revenues per capita at \$8.65, while the average of the Four Cities was \$15.45 per capita. The gross receipts tax revenue decrease was mainly due to a significant decrease in gross receipts tax revenues reported by a utility company in 2013. However, this utility company's website reported an overall increase in sales in 2013. City officials should verify that the City is receiving the correct amount of gross receipts tax revenue from the utility company.

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. City officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment to an issue raised in the City's response letter.

Introduction

Background

The City of Binghamton (City) has approximately 47,000 residents and is located within Broome County (County) in the Southern Tier region of New York State. The seven-member Common Council (Council) is the City's legislative branch. The Mayor is the City's chief executive officer and the City Comptroller is the chief fiscal officer. The New York State Second Class Cities Law governs City operations by outlining the powers and duties of City management, including those of the Mayor and City Comptroller. The Mayor is responsible for supervising, directing and controlling the administration of all City departments. The City Comptroller is responsible for the City's finances by overseeing all accounting and budget preparations, securing bonds and notes to provide additional funding and reviewing health insurance costs and negotiating reasonable health insurance rates from the City's insurance carrier. In March 2015, the Mayor formally requested assistance from our Office to examine the City's fiscal state and to identify opportunities for improved cash management practices, cost-containing measures, shared services and economic improvement strategies.

The 2015 general fund budget totaled approximately \$64.7 million and was funded primarily by real property taxes, sales taxes and State aid. Over the last 20 years, general fund revenues and expenditures, including transfers, have increased by \$25.8 million and \$25.9 million, respectively.

As of December 31, 2014, the City had exhausted 91 percent of its constitutional tax limit (CTL)⁷ and had 11 bonds outstanding totaling \$86.2 million, as indicated in Figure 1 and Figure 2.

⁷ The CTL is the maximum amount of real property taxes that may be levied in any fiscal year. This limit is separate from the other tax levy limit referred to as the Real Property Tax Cap.

Figure 1: Full Value Tax Rate (Per \$1,000 Full Valuation) and Percent of CTL Exhausted

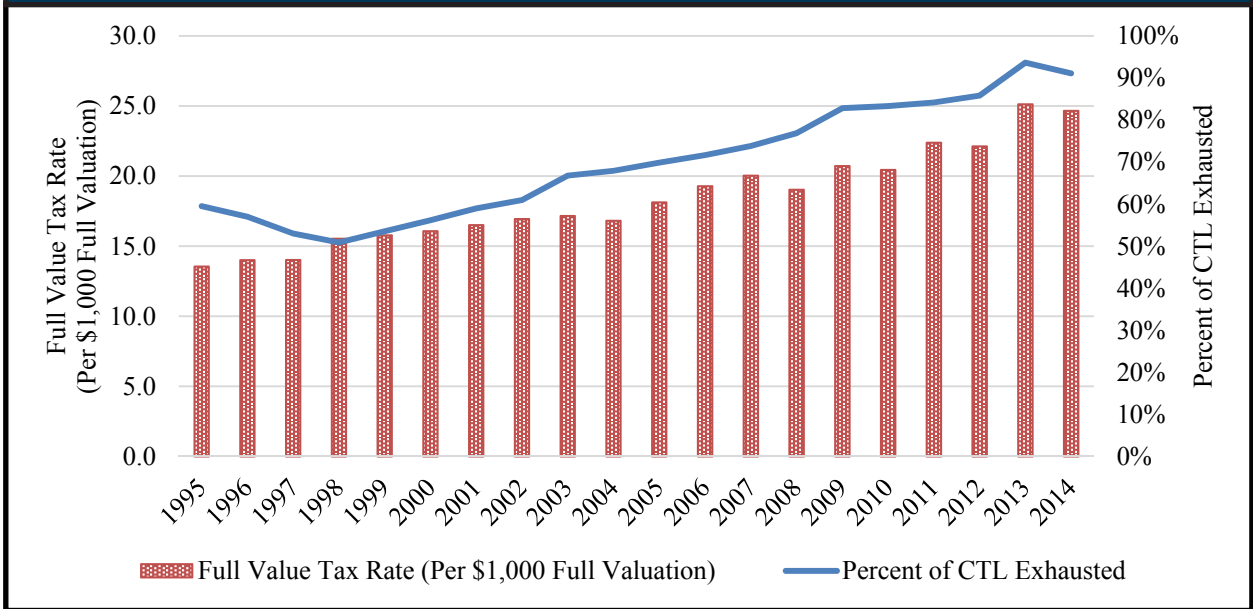


Figure 2: Total Debt Outstanding

Year Issued	Original Amount	Amount Outstanding December 31, 2014
2005 (Refund) ^a	\$12,200,000	\$3,450,000
2007	\$23,532,157	\$1,850,000 ^b
2012	\$13,095,060	\$12,020,000
2012 (Refund) ^c	\$11,905,000	\$11,630,000
2014	\$9,885,000	\$9,885,000
2014 (Refund) ^d	\$17,645,000	\$17,645,000
EFC 2005 JT Sewer ^e	\$20,276,000	\$14,425,000
EFC 2010 C Sewer ^e	\$5,309,412	\$4,500,000
EFC 2011 A Sewer ^e	\$1,730,000	\$995,000
EFC 2011 Water	\$8,700,000	\$6,015,000
EFC 2012 Sewer ^e	\$4,105,000	\$3,770,000
Totals	\$128,382,629	\$86,185,000

^a The 1999 bond was refunded in 2005 for \$12.2 million and then again after our scope period, in 2015, for \$2.4 million with three years left.

^b This portion represents part of the 2007 bond that was not refunded in 2014 but will be paid off in 2016.

^c The 2012 refund was the refunding of the 2004 and 2005 bonds.

^d The 2007 bond was partially refunded in 2014 and was broken out into two bonds: Series A for \$16,680,000 for tax exempt and Series B for \$965,000 for taxable due to the parking ramps.

^e The four New York State Environmental Facilities Corporation (EFC) Sewer bonds, which represent 27.5 percent of the City's total outstanding debt as of December 31, 2014, are related to the Binghamton-Johnson City Joint Sewage Treatment Plant (JTSP). The JTSP is governed by a Joint Sewage Board separate from the Council.

The City's refuse fund budget totaled approximately \$3.8 million in 2015, which was a \$2.7 million increase⁸ from the 2014 budget. Refuse fund revenues are primarily generated from the sale of City garbage bags. The City charges various fees for small, medium and large bags.⁹

The Department of Building Construction, Zoning and Code Enforcement (Building Department), which is overseen by the Building Department Supervisor, is responsible for issuing building permits to ensure structures within the City are code compliant. In 2014, the City generated \$60,500 from building permit fees.

The City owns three parking garages (ramps) – Collier Street,¹⁰ Water Street and State Street – of which the daily operations are contracted to an outside vendor who is responsible for collecting and depositing cash collections into City bank accounts. The parking ramp fund budget for 2015 was approximately \$1 million and was funded primarily from daily and monthly parking fees.

The City Comptroller is responsible for monitoring and analyzing gross receipts tax revenues. In 2014, the City's gross receipts tax revenues totaled approximately \$410,000.

We compared City operations to the operations of four cities across the State – Niagara Falls, Utica, Troy and Schenectady (Four Cities) – which have similar populations, revenue and expenditures patterns and a college within its limits. See footnote 21 for refuse revenue comparisons.

Objectives

The objectives of our audit were to assess the City's operations for costs savings and revenue enhancement opportunities. Our audit addressed the following related questions:

- Did Council and City officials ensure that City expenditures were at the lowest cost to taxpayers?
- Are there opportunities for Council and City officials to improve the operations for non-property tax services?

Scope and Methodology

We examined certain departments' operations related to cost savings and revenue enhancement opportunities for the period January 1,

⁸ This increase was mainly attributed to a reclassification of personal service and employee benefits for refuse operations that were previously included in the general fund budget.

⁹ Garbage bag fees were instituted in 1991 and were last increased in December 2010.

¹⁰ As of November 2015, the Collier Street parking ramp closed due to structural issues. The City plans to demolish the ramp.

2014 through May 21, 2015. We expanded our scope back to January 1, 1995 to trend fund balances, budgets, revenues and expenditures. Our audit focused on the costs of debt issuance, refuse collection and health insurance and the operations of other non-property tax services.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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. City officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the City's response letter.

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.

City Expenditures

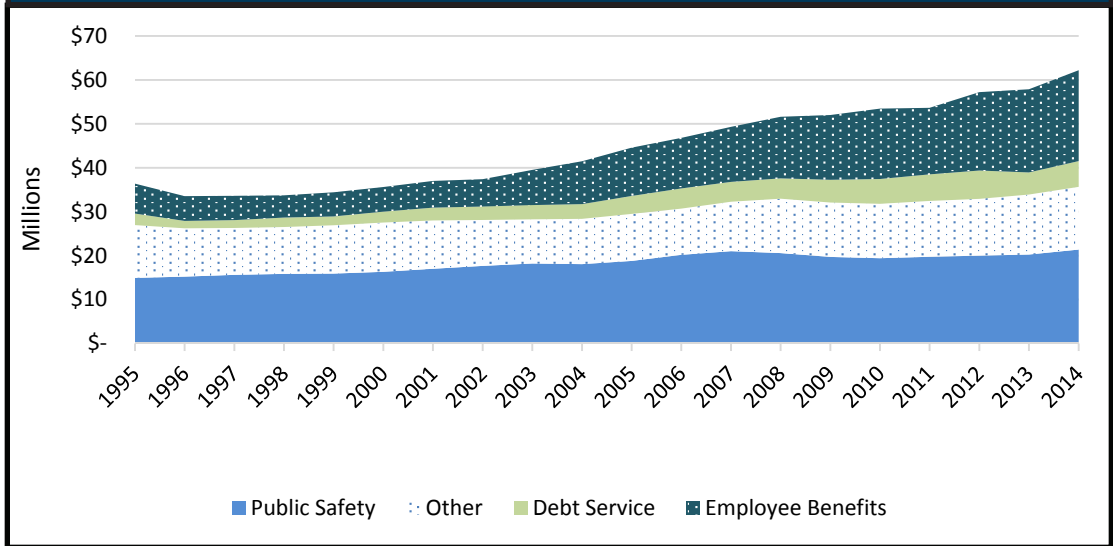
Council and City officials should ensure City operations and functions are operating at the lowest possible cost to taxpayers. To do so, Council and City officials should avoid unnecessary expenditures when possible, such as long-term debt interest costs, and choose the lowest cost option for purchases of the same quality. When certain expenditures continue to increase, it is imperative for City officials to review the causes behind such increases in order to develop a plan to control expenditures, when possible. For proper equity among City residents, fee-based services provided by the City should be self-funding (i.e., revenues earned by these services should cover the costs to provide the services).

While Council and City officials have taken certain steps to improve the City's operations and reduce its related costs, they did not ensure that all City operations were functioning at the lowest cost to taxpayers. Refuse expenditures consistently exceeded revenues and health insurance expenditures have increased. Furthermore, through 2014, the City's outstanding debt included payments for items that are beyond their useful lives. City officials were aware of these issues and are developing plans to reduce these expenditures.

Debt service and employee benefit expenditures are the City's two fastest growing categorical expenditures, with health insurance expenditures being the driving factor behind employee benefits. In the general fund, health insurance expenditures as a percentage of personal service expenditures have more than doubled between 1995 and 2014.¹¹

¹¹ According to the City Comptroller, from 2011 through 2013, the health insurance expenditures were inflated by approximately \$1.8 million. This was a result of the full amount of the City's and employees' contributions being placed in a trust account and not used to reduce the health insurance cost. In 2014, this was corrected.

Figure 3: Expenditures by Category



We compared the City’s expenditures to those of the Four Cities for the period January 1, 2012 through December 31, 2014. We found that the City had the highest total debt and health insurance expenditures per capita (with the exception of Schenectady in 2012 for health insurance). During this period, the City’s debt expenditures as compared to its revenues were also higher than the Four Cities (with the exception of Utica in 2012).

Figure 4: Debt Expenditures per Capita

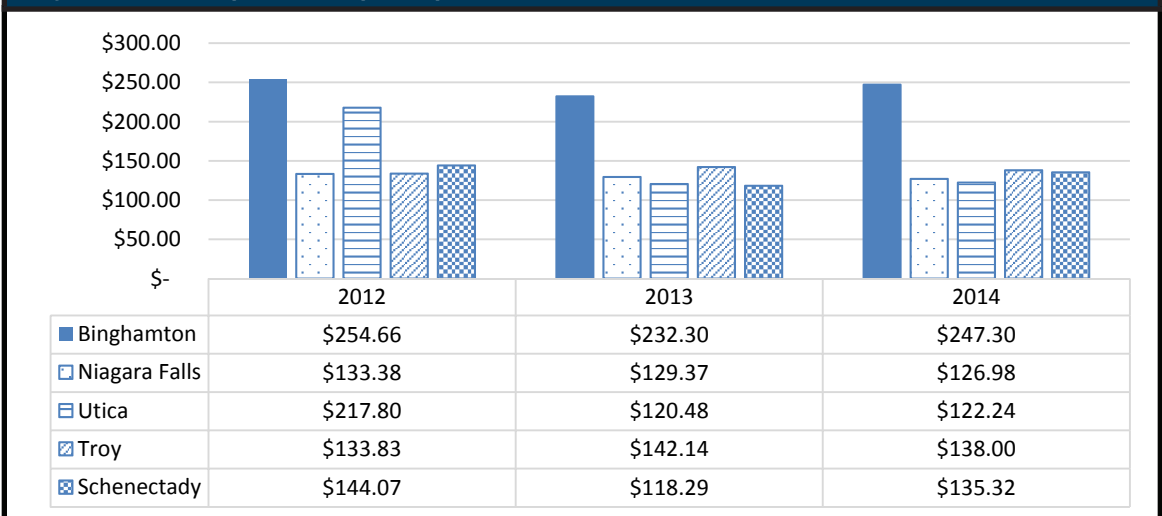


Figure 5: Debt Expenditures as Percentage of Total Revenue

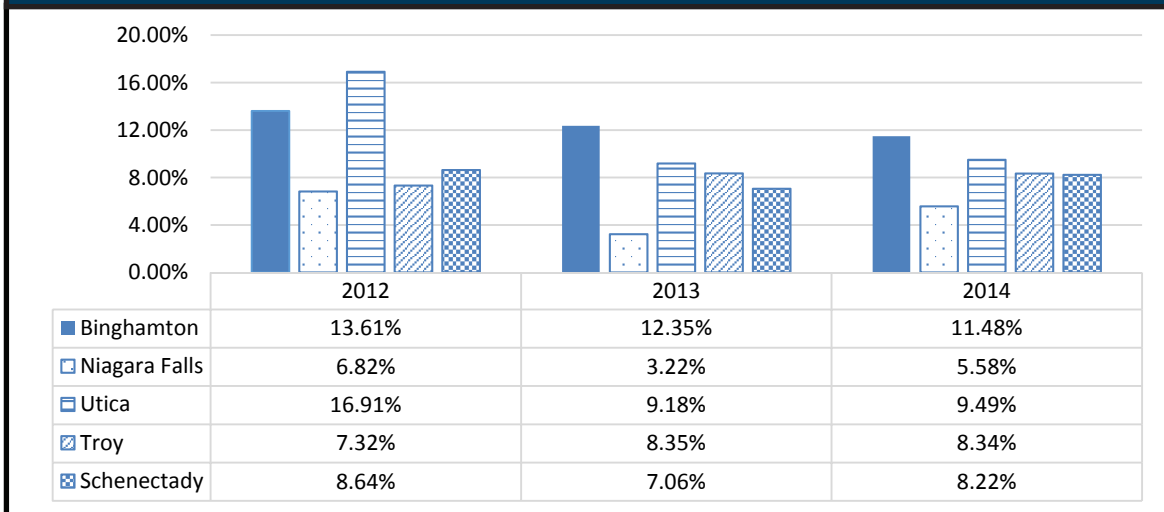
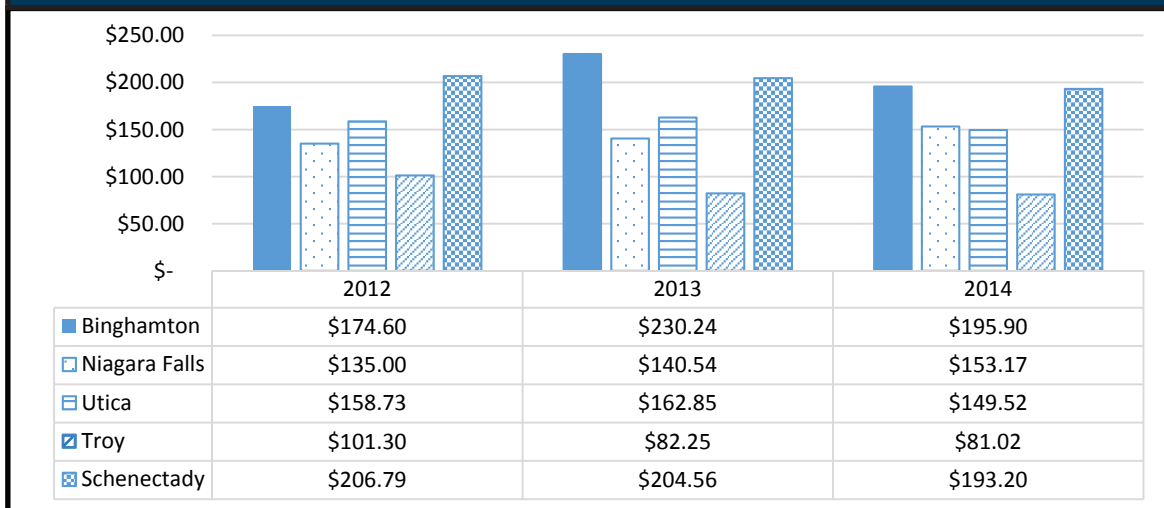


Figure 6: Health Insurance Expenditures per Capita



The City’s employee contribution rates for health insurance are similar to those of the Four Cities.¹² We were unable to compare refuse costs because the City reported expenditures in multiple funds, one of the Four Cities (Utica) contracted out for refuse services and the other three Cities did not record refuse activity in a separate refuse fund.

Use of Debt

Issuing debt allows localities to provide vital capital infrastructure and equipment that they might not otherwise be able to afford through annual budget appropriations. However, when governments rely on debt for operations, the long-term interest costs will impact current and future operating budgets by limiting financial flexibility and the ability to finance essential future operations. The debt used to finance the purchase of assets should not have a payback period longer than the useful lives of the assets purchased. Instead, current

¹² See Health Insurance Costs section for comparison information.

appropriations should be used to finance assets with shorter useful lives. New York State Local Finance Law sets forth the “periods of probable usefulness (PPUs)” of the various objects or purposes for which bonds may be issued. These PPU’s, which may or may not coincide with the actual expected useful life of a capital asset, are the maximum periods over which a capital asset (or other object or purpose) may be financed by the issuance of bonds.

Over the last 20 years, the City has spent an average of \$6.3 million per year on serial bond principal and interest debt payments. Over the past three years, the City has paid a total of almost \$9.7 million in interest for their bonds. In 2014, the City’s total debt principal and interest expenditures per capita were \$247.30, or 11.5 percent of the City’s total revenues.

Since at least 1999, the City issued debt to finance the purchase of items that are normally purchased with annual budget appropriations. The City’s debt includes financing the purchase of 49 items that cost \$100,000 or less, with an overall total value of \$2.3 million. We selected the 10 oldest items¹³ on the debt schedules that were \$100,000 or less, with values totaling approximately \$401,000 for review. City officials could not locate any of these items and, therefore, they could not verify that the items were still City-owned or in service. We reviewed an additional 10 items and determined nine, totaling approximately \$450,000, were already (or projected to be) beyond their useful life, by an average of 6.6 years, prior to the bond being paid off, in violation of Local Finance Law and sound business practices.

While all debt issued was properly approved and supported, current City officials were not employed or in office at the time of issuance. Therefore, we could not determine why City officials used long-term financing to pay for these items. Current City officials speculated that using debt was a way to avoid increasing real property taxes.

Issuing debt and paying interest for assets and other purchases beyond their useful lives will result in taxpayers paying for items for which they are no longer receiving benefits. Further, while issuing debt may reduce the need for real property taxes in a given year, the continued use of debt compounds the obligation of future real property tax revenues for the payment of principal and interest. For example, although analyzing the interest portion of the City’s current debt would be impracticable, if City officials issued a 30-year, \$2.3 million bond (similar to the 49 items that each cost \$100,000 or less) at 3 percent interest, this would equate to over \$1.1 million in interest payments over the life of the bond. The City would pay over \$1 million to finance purchases that are normally made using budgeted appropriations.

¹³ These items were included on debt schedules with dates ranging from 1997 to 1999.

Refuse Operations

Cities providing refuse collection should periodically evaluate these services to determine if opportunities for cost savings exist, such as the efficiencies of routes and load capacities, in order to work towards the operations being self-funding. The majority of the City's refuse collections are on a four-day rotation from Tuesday to Friday with each day designated to a specific section or zone of the City. Each zone is broken out into four routes operated by a truck with a three-person crew. City-wide yard waste is picked up every Monday from March through November. In addition, there is also a night shift¹⁴ that handles follow-up investigations of daytime sanitation violations and collections of the tidy-can¹⁵ refuse as well as smaller miscellaneous pickups on Friday and Saturday nights. In 2014, the refuse fund's revenues per capita were \$19.52, while the respective expenditures per capita were \$51.36.

City officials continually evaluate refuse services to ensure efficient operations. We reviewed the efficiency of the City's routes and load capacities and found that they were generally efficient, with certain exceptions of which City officials were aware. For example, there were slight variances in the routes. Wednesday trips have the highest average tonnage collected while Monday trips to the landfill were at significantly less volume. City officials have a plan to address these exceptions.

City officials told us the average volume for Monday trips is less because the smaller miscellaneous refuse collections from Friday and Saturday must be taken to the landfill on Monday mornings prior to collecting yard waste. City officials plan to eliminate the weekend collections and reallocate them to other lower capacity days during the week. City officials are also considering eliminating the night shift, which they estimate would result in approximately \$191,000 of productivity cost savings by reallocating staff to other City functions and an additional \$5,000 in utility cost savings. However, with all other factors remaining constant, this would reduce expenditures per capita to \$47.22, and refuse expenditures would still exceed the respective revenues by \$1.3 million.

Health Insurance Costs

It is important for local governments to continuously monitor health insurance costs to make sure they are in the best interest of City taxpayers. Health insurance costs are composed primarily of two cost categories: experience, which is the dollar amount of claims filed by the insured, and administration, which is the dollar amount

¹⁴ The night shift is composed of five employees and one supervisor working Tuesday through Saturday from 6:00 p.m. to 2:30 a.m.

¹⁵ Tidy cans are public garbage receptacles placed throughout the City's heavy volume areas.

to administer the health insurance program (generally through a third party).

Health insurance costs increased by approximately \$1 million, or 12.2 percent, from 2012 to 2014. City officials have analyzed health insurance expenditures to determine the causes of these increasing costs and found that 20 percent of the City’s health insurance claims came from 2 percent of the members. Further, the type of care chosen (i.e., emergency room visit or walk-in clinic visit) by the covered individuals can significantly impact the cost of the care. For example, an emergency room visit costs the City over \$2,000 while a visit to a walk-in clinic costs the City under \$100. City officials are in the early stages of educating employees regarding the cost of the choices they make. In addition, City officials have taken action to require new employees to join a specific health insurance plan with a lower net cost to the City.

The City’s Attorney told us that negotiations for employee health insurance contributions for police and fire personnel, which make up 46 percent of the City’s current employees, are typically decided through binding arbitration,¹⁶ which is out of the City’s control, and are a major cause of the high health insurance costs. We found that the employee health insurance contribution rates for these employees were similar to, or in some cases higher than, the employee health insurance contribution rates for police and fire personnel in the Four Cities.

Figure 7: Employee Health Insurance Contribution Rates for Police and Fire

City	Police	Fire
Binghamton	15% - 25%	15% - 25%
Niagara Falls - Hired as of 11/1/05 for first year only	25%	No Fire Services
Niagara Falls - After 1 year of service	0%	
Utica	10% - 20%	No Fire Services
Troy	15%	15%
Schenectady ^a	0% - 50%	5% - 20%

^a The City of Schenectady's contribution rates vary based on the employee's year of employment. For example, a police officer hired after January 1, 1995 contributes 50 percent for the first year with a 10 percent reduction for each subsequent year of employment until the sixth year, in which the employee contributes 0 percent.

¹⁶ New York State Civil Service Law states that negotiated items, such as health insurance, are generally determined through comparison to like municipalities and other factors.

Recommendations

The Council and City officials should:

1. Not issue debt for longer than an item's useful life.
2. Evaluate the City's debt and develop a comprehensive plan to reduce the outstanding debt or only issue debt when other funds are not available. If funds do not become available in the budget, City officials could issue short-term debt, such as budget notes or bond anticipation notes.
3. Continue to assess refuse operations and make changes, as necessary, to work towards the operations becoming self-funding.
4. Continue to periodically analyze their health insurance costs and compare alternate options for providing those benefits to employees and retirees in a cost-effective manner.

Non-Property Tax Services

City officials should monitor the expenditures for fee-based services and analyze existing revenue streams used to fund the services to verify the cost-benefit of providing non-property tax services.

We identified a number of opportunities related to non-property tax services that could help improve the City’s fiscal health. Specifically, we identified opportunities for City officials to consider for sewer and refuse operations, building permits, parking operations and, potentially, gross receipts tax revenues.

Sewer Operations

The sewer fund’s revenues are not sufficient to cover operational expenditures. The City’s sewer fund had \$4.4 million in operating deficits from 2012 through 2014. The majority of the sewer fund’s expenditures relate to fixed costs, such as sewage treatment costs (i.e., payments to the Binghamton-Johnson City Joint Sewage Treatment Plant (JSTP)), debt and personal services, which would be difficult to reduce without significant changes to sewer services.

Figure 8: Sewer Expenditures

	2012	2013	2014
Sewage Treatment	\$3,600,000	\$3,848,093	\$3,695,828
Debt	\$3,041,187	\$3,073,025	\$3,284,722
Personal Services	\$694,936	\$723,442	\$679,886
Other Expenditures	\$1,759,805	\$1,934,239	\$2,468,412
Total Expenditures	\$9,095,928	\$9,578,799	\$10,128,848

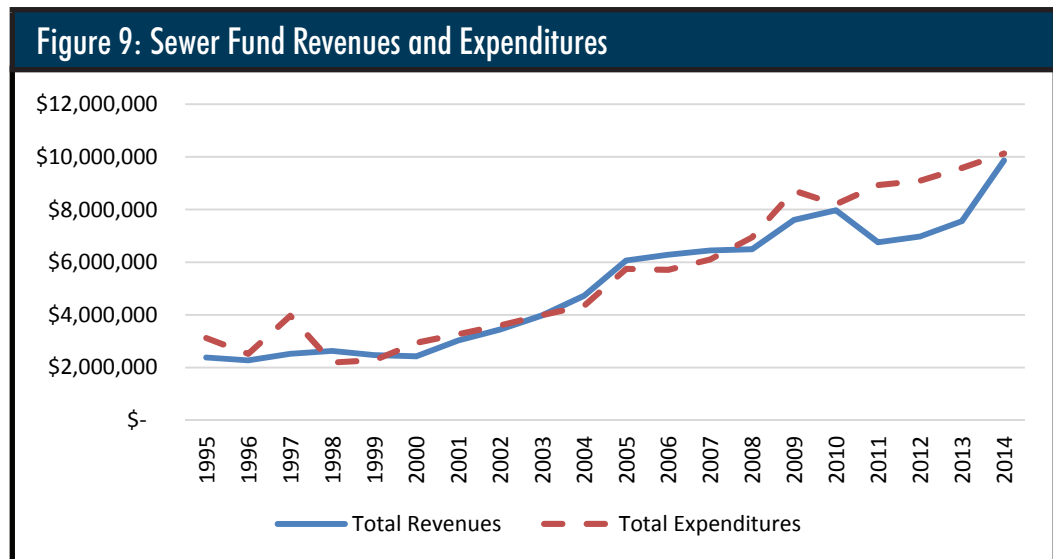
In the 2016 budget, appropriations for debt and sewage treatment disposal accounted for approximately 74 percent¹⁷ of the sewer fund’s budget, which is high considering the fact that the sewer fund’s revenues have not been sufficient to cover operations from 2012 through 2014.

Sewer rates are not sufficient to cover operations. The City does not have a formal sewer rate schedule approved by the Council. Instead, the City’s Charter limits sewer rates to 120 percent of the amount the City is billed by the JSTP for the costs of sewage treatment. In 2014, the JSTP billed the City \$7.5 million. Therefore, the City’s total sewer rents could not exceed \$9 million (\$7.5 million multiplied by 120 percent). As a result of the City’s Charter, the amount available for

¹⁷ According to the City Comptroller, \$2.1 million (or 22.8 percent) of the City’s sewer fund budget is related to debt associated with the JSTP.

debt, capital and other non-operational costs for 2014 was limited to \$1.5 million, or a maximum of 16.7 percent¹⁸ of the maximum sewer rents the City can charge.

Because the bills from the JSTP lag behind the City’s billing cycle for the sewer customers, the City Comptroller estimates the JSTP bill and how much 120 percent of that bill would be in order to calculate the City’s sewer rate. In order to be conservative and not increase sewer rates more than 120 percent of the JSTP bill, the City Comptroller maintained the same sewer rate of \$3.84 (per 100 cubic feet of water used) from 2009 to 2013¹⁹ and increased it to \$4.74 (per 100 cubic feet of water used) in 2014. However, costs have continued to increase. Over the last 20 years, the sewer fund’s revenues and expenditures increased by almost \$7.5 million and \$7.0 million, respectively, as shown in Figure 9.²⁰



Moreover, although City officials have established a capital assessment fee to help offset the cost of water debt issued, they have not established a similar fee to help offset the cost of sewer debt issued. Capital assessment fees can be used to cover the City’s capital costs for installing sewer lines. The costs are generally allocated to each property that benefits from the installation of the sewer line.

During this period, the sewer fund’s unrestricted fund balance decreased by \$2.6 million and, as of December 31, 2014, was in a deficit of almost \$4.5 million – approximately 46 percent of the 2015 sewer fund budget. This deficit fund balance equates to \$282 per City

¹⁸ \$1.5 million divided by \$9 million equals 16.7 percent.

¹⁹ Although the rate per 100 cubic feet of water used remained constant during this period, total revenues fluctuated due to variances in the cubic feet of water used.

²⁰ Included in this activity are the costs associated with the City’s joint ownership of the sewage treatment plant with the Village of Johnson City.

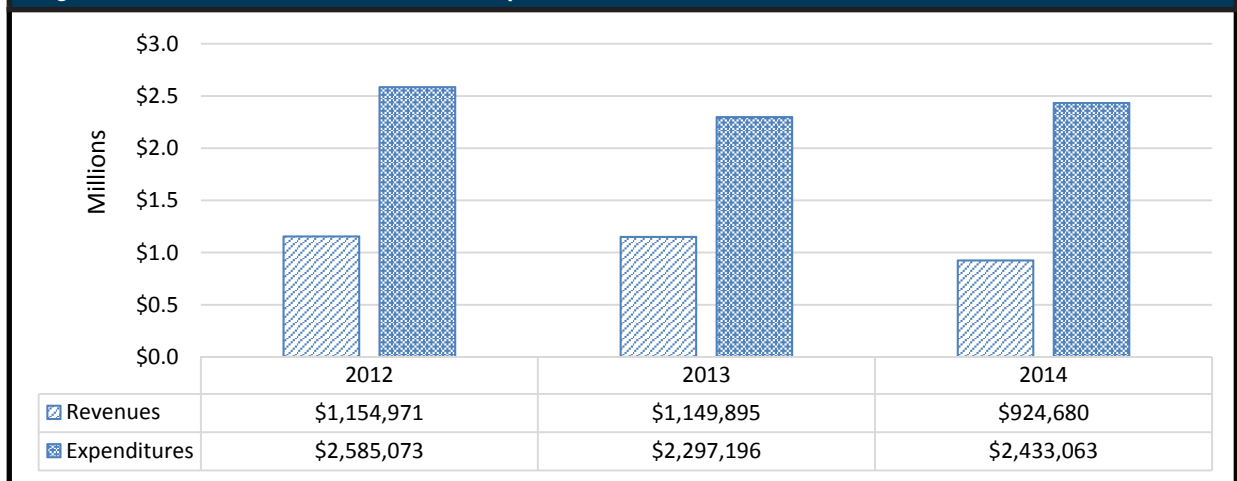
property. City officials have increased the sewer rate by 6.5 percent for 2016 to \$5.05 (per 100 cubic feet of water used). However, even with this increase there may not be sufficient revenues to cover operations. Therefore, it is imperative for City officials to analyze and improve the efficiency of sewer operations.

Refuse Operations

In 1991, the City instituted a user-fee system for refuse collections in which residents pay for and use officially designated garbage bags authorized by the City. However, refuse user-fee revenues are not sufficient to finance operational expenditures, which include personal services, contractual expenditures (e.g., tipping fees) and employee benefits, among other things. The refuse operations experienced operating deficits totaling approximately \$4.1 million from 2012 through 2014. These deficits are then funded by real property taxes and represent an average of about 4 percent of the City’s real property tax levy for those years.

The gross revenues earned in 2014 from fees charged for the City-required garbage bags totaled approximately \$828,000, or almost 90 percent of the total operational revenues. While both revenues and expenditures have remained relatively steady from 2012 through 2014, total expenditures are more than two and one half times the revenues earned by the operations.

Figure 10: Refuse Fund Revenues and Expenditures



The fees for the garbage bags have not been adjusted since 2010. During 2014, garbage bag fees generated approximately \$660,000 in net revenue towards the \$2.4 million total cost of refuse operations.

We compared the City’s refuse revenues per capita to other comparable cities²¹ and found that these cities’ revenues per capita were more than

²¹ For refuse revenue comparisons, we compared the City to other upstate cities with a population of at least 30,000, refuse revenues totaling at least \$500,000 and refuse revenues per capita of at least \$10.50. These cities included Buffalo, Rochester, Albany, Schenectady, Rome, Poughkeepsie and Jamestown.

four and one quarter times, or about \$3.1 million, higher than the City in 2014. These cities charged revenues totaling \$85 per capita, versus \$20 per capita for the City. Moreover, we contacted local third-party vendors and determined the average cost for the lowest-priced residential garbage collection service was \$263 per household per year, or approximately \$132 per capita.

Building Permits

Opportunities exist for the City to evaluate the fees charged for building permits. For projects where the estimated cost of construction is over \$200,000, fixed building permit fees apply and start at \$1,500 with a maximum fee of \$5,000.²² Due to the City’s fee structure, the City charges significantly less for building permit fees as compared to the Four Cities. For example, as indicated in Figure 11, the City charges significantly less than any of the Four Cities whether the project costs \$100,000 or \$5 million.

Figure 11: Comparison of Permit Fee Costs

City	Permit fee for a \$100,000 project	Permit fee for a \$5,000,000 project
Binghamton	\$500	\$4,000
Niagara Falls	\$2,020	\$100,020
Utica ^a	N/A	N/A
Troy	\$1,148	\$46,148
Schenectady	\$550	\$10,350

^a Utica bases building permit fees on square footage, while Binghamton uses estimated cost. Therefore, we cannot compare Utica with Binghamton.

City officials were unable to determine when the current building permit fee structure was established or the last time building permit fees were increased. The Building Department Supervisor told us he had proposed increasing the maximum fee to the Council. However, the Council was hesitant to increase the fees because it did not want to hinder development. According to a Council member, he did not recall any past proposals for increasing building permit fees in the last three years.

In September 2015, the City Comptroller and Building Department Supervisor proposed to the Council an increase of the maximum fee from \$5,000 to \$25,000. If the maximum fee in place from 2012 through 2014 was \$25,000 instead of \$5,000, City officials could have collected an additional \$83,000 in building permit fees.

²² For projects valued in excess of \$5 million, the City’s maximum building permit fee is \$5,000.

Parking Operations

Opportunities exist for the City to evaluate parking ramp operations. Over the last three years, parking ramp related expenditures exceeded revenues by approximately \$120,000.

Figure 12: Parking Operations

	2012	2013	2014	Total
Revenues	\$916,339	\$861,870	\$929,129	\$2,707,338
Expenditures	\$920,117	\$938,731	\$968,441	\$2,827,289
Results of Operations	(\$3,778)	(\$76,861)	(\$39,312)	(\$119,951)

Among other costs, such as debt principal and interest and equipment and capital outlay,²³ the City contracts with a third-party vendor to oversee parking operations, including issuing parking permits and collecting and depositing fees into City bank accounts. During 2014, the City paid \$611,000 to the vendor, which collected \$929,000 in parking ramp revenues. However, the internal controls used by the vendor inhibit City officials' ability to ensure all moneys are collected and deposited. While the vendor has corrected some deficiencies²⁴ identified in our last audit report,²⁵ many deficiencies remained uncorrected.

For example, the vendor's parking ramp software reported 14,000 outstanding parking ramp tickets for the Collier Street parking ramp during our audit period. Using an average parking charge of \$3.50, this equates to approximately \$49,000 in potentially lost revenues for this parking ramp. The Facilities Manager employed by the vendor told us these outstanding tickets could be the result of a customer taking a ticket during regular hours and exiting the parking ramp after 7:00 p.m. when no attendant is on site. There are no controls in place, such as a fully automated system, to ensure that after-hours customers pay for parking. As of November 2015, the Collier Street parking ramp closed.²⁶

Moreover, a local retailer has a parking agreement with the City for \$25,000 per year to allow their customers to park in the Water Street parking ramp for a maximum of three hours per visit without

²³ From 2012 through 2014, parking operations' debt principal and interest expenditures averaged approximately \$340,000 and equipment and capital outlay expenditures averaged approximately \$12,000.

²⁴ The vendor purchased software in 2010 that tracks monthly parkers and performs monthly reconciliations. The vendor also segregated duties so that the person collecting monthly payments is no longer recording the payments in the customer's account.

²⁵ *City of Binghamton – Financial Operations* (2011M-17) available at <http://www.osc.state.ny.us/localgov/audits/cities/2011/binghamton.pdf>.

²⁶ The Collier Street parking ramp closed due to structural issues. The City plans to demolish the ramp.

being charged. However, in 2014, this retailer's customers used approximately 143,000 total hours which, at \$1 per hour, equates to a value of \$118,000. City officials said that due to the increased usage at the Water Street parking ramp, they are planning to have an automated system installed next year. However, they have had difficulties finding a system that encompasses all transactions (monthly parkers, local retailer validations and regular parkers). The City's contract with the local retailer runs through April 2018, when City officials said they would reconsider the terms as they did not realize the true cost of the contract's terms to the City.

Gross Receipts Tax Revenues

The City's gross receipts tax revenues²⁷ decreased by approximately \$60,000, or 12.8 percent, from 2012 through 2014. Moreover, when compared to the revenues for the Four Cities, the City had the lowest gross receipts tax revenues per capita at \$8.65, while the average of the Four Cities was \$15.45 per capita.

The gross receipts tax revenue decrease was mainly due to a significant decrease in gross receipts tax revenues reported by a utility company in 2013. However, this utility company's website reported an overall increase in sales in 2013. While the City Comptroller recognized there was a drop in revenue, he was unsure how to verify the amount the City should be receiving. When gross receipts tax revenues decrease significantly, there is an increased risk that the City may not be receiving all the revenues to which it is entitled.

Recommendations

The Council and City officials should:

5. Analyze non-property tax services to identify and implement any cost saving opportunity and revenue enhancement ideas.

The Council should:

6. Discuss with the City attorney the possible establishment of a sewer capital assessment fee to help offset the sewer debt.
7. Reevaluate the garbage bag rate structure.

City officials should:

8. Establish procedures to periodically review and adjust the building permit rate structure.

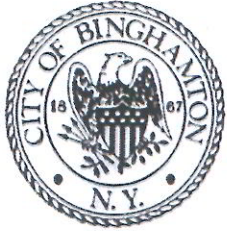
²⁷ New York State General City Law authorizes cities to impose a gross receipts tax on the sale of utility services. The tax can be equal to 1 percent of the gross operating income of utilities operating within City boundaries with gross operating income in excess of \$500 for 12 months ending May 31.

9. Explore alternatives to the use of a third-party vendor as the most cost-effective means for ensuring the City receives all the parking revenue it is due.
10. Request a “Utility Savings Audit”²⁸ to ensure the City is receiving the full amount of gross receipts tax revenue.

²⁸ The New York State Conference of Mayors and Municipalities has partnered with a consulting firm to provide a utility billing analysis that identifies, corrects and secures refunds for overcharges on telecommunications, electric and natural gas bills, or underpayments of gross receipts tax revenues. There are no upfront costs for this service and if a refund is not secured, there is no charge. For more information, see the following link: <http://www.nycom.org/programs-services/utility-savings-audit.html>.

APPENDIX A
RESPONSE FROM CITY OFFICIALS

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



OFFICE OF THE MAYOR

Richard C. David, Mayor
Jared M. Kraham, Deputy
Donna Ferranti, Secretary

May 20, 2016

Todd Eames
Office of the State Comptroller
Division of Local Government and School Accountability
44 Hawley St. #1702
Binghamton, NY 13901

Dear Mr. Eames,

On behalf of the City of Binghamton, I thank Comptroller DiNapoli and his staff in the Local Government and School Accountability Division for partnering on an examination of the City's finances and operations.

When the City requested the assistance of the Office of the State Comptroller, it was to leverage the resources and expertise of municipal accounting professionals who could identify best fiscal practices and improve taxpayer-funded programs. That assistance proved very helpful.

Upon taking office, my administration faced a number of financial challenges that had to be addressed. As the examination indicates, those challenges included a nearly exhausted constitutional taxing limit, poor debt management strategies, and a massive deficit in the Sewer Fund. I felt the City needed assistance is getting its finances in order.

This audit showcases some of the efforts underway to address these challenges, but I would like to highlight some key areas to provide more context and information and assure taxpayers that this City Hall is changing past practices to ensure efficient government and cost savings.

Taxes

To showcase this Administration's efforts to ensure operations were functioning at a lower cost to taxpayers, it's useful to compare historic tax levy increases.

From 2008 to 2014, the City of Binghamton tax levy increased \$12.2 million, or an average of \$1.7 million per year. From 2015 to 2016, this Administration's first two budgets, the total tax levy increase averaged \$137,000 per year.

Sewer Fund

From 2005 to 2008, the Sewer Fund's budgeted and actual revenues were very similar. In 2009, actual revenues were less than budgeted, causing a deficit. This trend continued, from 2010 to 2013, the revenue shortfall was \$600,000, \$520,000, \$2.6 million and \$2.4 million, respectively. In 2007, the Sewer Fund balance was \$2 million, but by the end of 2013 that had turned into a \$4.2 million deficit. A \$6 million negative swing.

In 2014, the solvency of the Sewer Fund was in question. All expense and revenue accounts were reviewed and evaluated along with policy and procedures to limit the burden on taxpayers and ratepayers. A sewer rate increase of 24 percent was approved in 2013 and went into effect in May 2014. In addition, proper accrual accounting practices were also implemented. These two changes started to reduce the deficit. In 2015, a series of one-time actions contributed to further deficit reductions: an appropriation of \$1.5 million from general fund, a \$1 million adjustment of final billing updates from previous years, \$1.8 million distribution of unused capital funds from the joint sewage plant, and collection of \$300,000 in past due Federal Emergency Management Agency (FEMA) funds.

In 2015, the Sewer Fund exceeded budgeted revenues by \$156,000 and by the end of 2015 it is anticipated the Sewer Fund will have a \$345,000 fund balance, erasing the \$4.2 million deficit in less than two years.

Debt Management

Improving the City's debt management policies is a complex but crucial endeavor.

More than 27 percent of the City's debt is related to the Binghamton-Johnson City Joint Sewage Treatment Plant (JSTP). Over the next four years, the JSTP rehabilitation project will add \$110 million more to the City's debt load. Although recorded on the books, about half this debt — \$55 million — will be paid by other municipal users.

Local governments in New York State are "falling behind" in meeting their responsibilities to adequately maintain and improve critical infrastructure system, according to a 2014 report by the Office of the State Comptroller. The City has had to bond millions on infrastructure upgrades, as some major roadways had not been fixed in more than 30 years.

While the City secures state and federal grant funding for these upgrades, there is still a need to improve the infrastructure outside the general operating budget of the city. Furthermore, interest rates are at the lowest levels in a generation.

Improvements to roads, bridges, water and sewer lines, and gateway corridors in the community are necessary. Without these improvements, property values decline and residents leave, further eroding the tax base.

In the City's 2016 budget, past practice was reversed by not bonding for \$500,000 of lower period of probable usefulness (PPU) capitals items. The City also paid additional principle on lower cost

and PPU items that were still recorded in its bond anticipation notes (BANs). These practices will continue moving forward.

While some items with a lower PPU were included in the 2016 bond, the bond was structured to payback the debt on these assets over their life expectancy. Again, improvements from past practice.

Parking Ramps

The city recognizes the fiscal challenges of the Parking Fund and is exploring options to improve it.

Over the past few years, the cost driver for the fund is debt service being added annually to fix aging parking garage infrastructure. The Collier St. Garage had received significant repairs over the past few years, but was closed in Nov. 2015 as additional fixes could not be financially justified. This closure caused an additional deficit in the Parking Fund for 2016. The City's third-party parking management firm was able to maintain most of the monthly permit parkers in other ramps, and the City increased rates in the 2016 budget. However, the loss of special event and late night parking revenue neutralized those rate increases.

In the 2017 budget, the City will explore the creation of a Parking Fund, a home for the net revenue from the parking meter fees, permits, and parking citations that is dedicated for investments in parking-related improvements downtown.

Health Insurance

Health insurance financial numbers used in this report are directly from the annual financial report (AUD).

This Administration disagrees with the manner in which health insurance expenses were accounted for in past years, both in practice and on the AUD.

In 2013, \$2.5 million was transferred from the General Fund's health insurance line to the Insurance Fund. In our opinion, the proper accounting should have been an interfund transfer, thus reducing the Health Insurance line from \$9.9 million to \$7.4 million. The city's outside accounting firm agreed and did make this adjustment in their audit.

See
Note 1
Page 29

From 2011 to 2013, the City's health insurance account was not corrected at year end to adjust for claims paid. Since the City is self-insured, expenses should include claims paid, premiums paid, and administrative fees. During these years, the amount reported on AUD documents was the City's portion of the anticipated premium, which is not paid. Therefore, health insurance expenses were overstated by \$1.5 million in 2011 and \$462,000 in 2012. 2013 expenses were understated by \$162,000. This accounting practice was changed in 2014 to correctly account for this expense.

Over the last several years, the City has implemented changes to reduce health insurance costs. First, by requiring all new employees to enroll in a preferred provider organization (PPO)

health plan and offering that option to existing employees. Second, by moving blue collar employees to a high deductible plan. Third, by increasing employees' percentage contribution towards health insurance premiums. Additionally, retirees under 65 have been moved to a PPO health plan and retirees over 65 have been moved to a Medicare PPO plan.

Moving forward, this Administration is exploring additional strategies to address climbing expenses, including restructuring retiree contributions.

Refuse

In general terms, the city is looking at options to reduce refuse costs to taxpayers. Options being explored are direct user fees and outsourcing.

Specifically, by reducing the refuse night shift from five positions and a Supervisor to three positions, the City expects to save nearly \$100,000 annually. The three positions eliminated from the Night Shift were assigned to perform other duties during the Day Shift rather than back-filling recent vacancies.

Permit Fees

As stated in the report, permit fees were adjusted for 2016. The City has also added an appendix to the annual budget which list all City fees so they will be evaluated annually during the budget process.

Gross receipt taxes owed to the City is currently undergoing a third party audit.

Sincerely,

Richard C. David
Mayor

APPENDIX B

OSC COMMENT ON THE CITY'S RESPONSE

Note 1

We updated Figure 3 to account for this \$2.5 million accounting error by the City.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall objectives were to determine if there were opportunities for cost savings and revenue enhancements in certain City departments. To accomplish these objectives, we evaluated the following areas: debt issuance, refuse collection, health insurance, sewer operations, building permits, parking and gross receipts tax revenues.

We interviewed City officials, tested selected records and examined pertinent documents for the period January 1, 2014 through May 21, 2015. We expanded our scope back to January 1, 1995 to assess trends in fund balances, budgets, revenues and expenditures. Our examination included the following:

- We reviewed the trends of revenues, expenditures and fund balances from 1995 through 2014.
- We reviewed the outstanding bonds as of December 31, 2014 per the City's debt schedule and determined that the outstanding bonds included 49 items with a value of \$100,000 or less each. We randomly selected 10 of these 49 items to determine if the bonds issued were for longer than the useful lives of the items by referring to Local Finance Law. For this same sample of 10 items, we reviewed the Council's meeting minutes to determine if each item was approved by the Council and had the proper bond ordinance.
- For the 49 items with values of \$100,000 or less, we selected the 10 oldest items to determine if the City still owned or used the items.
- We calculated the total serial bond interest costs the City paid from 2012 through 2014. We also estimated the amount of interest the City paid in relation to the 49 items with values of \$100,000 or less.
- We compared the City's trends in debt, health insurance, building permit fees and gross receipts tax revenues to Four Cities across the State with similar populations, revenue and expenditure patterns and a college within its limits.
- We interviewed City officials to gain an understanding of their refuse collection services and determine if they have evaluated the services.
- We reviewed refuse collection maps, which show the routes and collection frequency, to determine if they appeared efficient.
- We compared the tonnage dumped at the landfill per the landfill invoices to the maximum load of the trucks and the frequency of trips to determine if they appeared efficient.
- We compared the City's refuse operations to other upstate cities with a population of at least 30,000, refuse revenues totaling at least \$500,000 and refuse revenues per capita of at least \$10.50; these cities included Buffalo, Rochester, Albany, Schenectady, Rome, Poughkeepsie and Jamestown. We compared refuse revenues per capita and calculated the average refuse

revenues per capita for these cities. We also compared the average refuse revenues per capita to the collection rates for local third-party vendors.

- We interviewed City officials and reviewed third-party documentation from the City's health insurance vendor to determine the causes of health insurance cost increases.
- We reviewed the City's union contracts to determine employee contribution rates for health insurance.
- We interviewed City officials to gain an understanding of sewer operations and to determine how sewer rates were calculated.
- We calculated the cost per property that would be necessary to eliminate the sewer fund's deficit fund balance.
- We interviewed City officials and reviewed the City's building permit fee structure to determine how building permit fees were calculated.
- We recalculated the building permit fees collected from 2012 through 2014 with a \$25,000 maximum fee in place to determine how much additional revenue could have been collected if the maximum fee was increased.
- For the Collier and Water Street parking ramps, we randomly selected a day and recalculated the daily shift report for accuracy, which included reviewing all of the parking tickets to determine the number of outstanding tickets. For the State Street parking ramp, we judgmentally selected a recent day that included parking for a specific event.
- We reviewed all monthly parkers' activity for May 2015 because it had a larger number of student accounts which would not be reactivated in June to determine if payments were properly recorded and deposited and accounts were deactivated for non-payment.
- We compared the amount the City paid a vendor to oversee parking operations in 2014 to the amount the vendor collected in parking ticket revenues. We also reviewed the internal controls used by this vendor to determine if they corrected any deficiencies identified in our last audit report.
- We calculated the value of potentially lost revenues based on an average parking charge for the 14,000 outstanding parking tickets reported for the Collier Street parking ramp during our audit period.
- We calculated the value of the parking agreement between the City and a local retailer for 2014 by comparing the annual contractual amount paid to the City to the number of hours (at \$1 per hour) the retailer's customers used the parking ramp.
- We compared the City's gross receipts tax revenues from a utility company in 2013 to the sales reported on the utility company's website to determine if the gross receipts tax revenues collected were reasonable.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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DIVISION OF LOCAL GOVERNMENT
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