

2018-2019 Second Quarter Gap Sheets Response

As required by the City Charter, we have reviewed the 2018-2019 Second Quarter Gap Sheets Report (Gap Report), which was prepared and submitted by the administration, and are submitting this analysis.

The anticipated timing of certain receipts and expenditures for the last two quarters of this fiscal year is unknown to our fiscal office. Therefore, past transactions were utilized to review the reasonableness of the projections as established by the administration. Unusual and non-recurring items were considered in this calculation and adjustments were made accordingly.

The administration's Gap Report projects a \$160,000 budgetary surplus for the current year ending June 30, 2019, based on actual results through December 31, 2018 and projections for the period January 1, 2019 through June 30, 2019.

This office's financial review of the year-end projection varies from that of the administration, largely as it relates to revenues. We continue to be concerned that actual operating revenues will come in below the amounts budgeted in specific line items, as has consistently been the case for the last three years.

Since our last report, a binding arbitration decision was delivered in favor of New York State, finding that the Seneca Nation must continue to pay slot revenue sharing payments to New York State, a portion of which is forwarded to the City. Barring calculation disagreements, it is expected that these funds should be made available to the City within the fiscal year. We are hopeful that the additional gaming slots that were added to the Seneca Buffalo Creek Casino will result in revenues above those that were budgeted, but at this point it is too early to be certain by how much. The City should closely monitor this situation.

Revenue Item	2018-2019 Budget	Actual Revenue Received by 12/31/2018	MUNIS Balance as of 2/28/2019	Projected Revenue at 6/30/2019	Projected Under Budget
Sale of City Owned Real Estate	\$8,000,000	\$0	\$914,000*	\$1,000,000	\$7,000,000
Traffic Violations Revenue	6,000,000	1,152,000	1,342,000	3,000,000	3,000,000
Entertainment Ticket Fee	2,000,000	0	0	0	2,000,000
Gifts and Donations	2,000,000	0	0	0**	2,000,000
Parking Tags and Fines	7,900,000	3,536,000	4,685,000	7,000,000	900,000
Transfer from Parking	7,800,000	0	1,600,000	6,000,000	1,800,000
Total	\$25,900,000	\$2,208,000	\$3,628,000	\$11,000,000	\$16,700,000

*Revenue was received from the sale of properties on St. Paul Mall in February 2019.

The Department of Audit and Control is aware that there has been a buyer identified for the former Police Headquarters for \$3 million. This building currently has approximately \$1 million in debt that will need to be paid with the proceeds from the sale. This would leave \$2 million of revenue that would be recognized when the contract closes and funds are received. As of this date there is not a signed contract for this sale, therefore we are not including this in our expectation for June 30, 2019.

Additionally, we have been informed that there is a signed contract for \$1.7 million for the Gates Circle Parking Ramp. This sale has been pending for an extended period of time and as of this date, with the information we have, we are not certain that it will close by June 30, 2019, therefore we are not including this in our expectation for June 30, 2019.

We are aware that other properties are at various stages of the negotiation process however, given the uncertainty around the timing of the closing process, our projection will remain the same. We are prepared to reexamine this projection as we move into the third quarter and as more information becomes available.

**There was an announcement that the City is establishing an account for donations. Donations must be made without any restrictions and received by year end in order to have a positive impact on the City's General Fund for June 30, 2019. At this point we have not received any information about unrestricted donations or pledges that have been made to the City.

Most of the items noted above were all mentioned in the 2018-2019 Comptroller's Budget Response as highly questionable revenue projections, and with the completion of the second quarter of the current fiscal year, our concerns relative to these items remain largely unchanged. We do not have enough verifiable information that any of the noted revenues will be realized at amounts greater than we have projected. Additionally, it appears that the budgeted transfer in from the Parking Enterprise Fund will likely fall short by \$1.8 million due to that fund's current financial performance. This would mean that the City could be looking at revenues and transfers in being \$16.7 million below budget at June 30, 2019.

If the revenues continue as projected, the City would be left with few options to balance its budget. Controlling expenses is one option, but a challenging one at this point in the year, as overtime costs are already projecting to be at least \$7-9 million over budget at \$23-25 million by year end, compared to a budgeted amount of \$16 million. The range is due to the fact that the City has recently experienced reductions in its overtime costs since implementation of the new firefighters' contract. Because these savings have only been realized over the last three payrolls, it's too early to predict a consistent trend of reduced overtime. Therefore, we are providing our expectations of the range of possible outcomes. Additionally, there are savings due to open positions that will help to reduce some of this overtime cost.

Estimated savings within benefits, specifically within pension and healthcare costs should help to offset some of the expected shortfalls in revenue. At this point, it is challenging to precisely predict the savings, but my range from \$7-10 million, a material positive impact on the bottom line.

It should also be noted that the City has estimated \$8.3 million of future Judgments and Claims as of June 30, 2018, but there was only available fund balance of \$2.7 million in assigned fund balance to cover these claims.

Aside from the lack of assigned fund balance to cover potential Judgments and Claims, there is currently \$0 of unassigned fund balance, which had been a resource in previous years when the City's revenues did not cover expenses. The City used \$35 million and \$23 million of available fund balance to balance the budgets in fiscal years 2017 and 2018, respectively. There is no more available unassigned fund balance to cover any shortages in fiscal year 2019.

We understand that historical trends, though useful in performing a reasonableness test, may not necessarily be a fair prediction of what may occur in the next six months. Furthermore, as our office is not a part of City-wide management decisions, we may not be aware of all anticipated changes to staffing and operations during the remainder of the fiscal year.