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November 21, 2025

Mayor Kate Wdowiasz
Members of the City Council
City of Dunkirk
342 Central Avenue
Dunkirk, NY 14048

Report Number: B25-1-8

Dear Mayor Wdowiasz and Members of the City Council:

Chapter 56 of the Laws of 2024, Part DD (the City of Dunkirk Fiscal Recovery Act; “Deficit Financing Act”) authorized the City of Dunkirk (City) to issue debt not to exceed \$18.5 million to liquidate the accumulated (actual) deficits in the general, water, sewer and capital projects funds existing at the close of its 2024 fiscal year.

During the effective period of the Deficit Financing Act, the Fiscal Affairs Officer must submit the proposed budget for the next succeeding fiscal year to the State Comptroller no later than 30 days before the date scheduled for the City Council’s vote on the adoption of the final budget or the last date on which the budget may be finally adopted, whichever is earlier.

The State Comptroller must examine the proposed budget and make recommendations, as deemed appropriate. Recommendations, if any, are made after the examination of the City’s estimates of revenues and expenditures. The City Council (Council), no later than five days prior to the adoption of the budget, must review all recommendations made by the State Comptroller and must make adjustments to its budget consistent with the recommendations contained in this report.

Our Office completed an independent evaluation (review) of the City’s proposed budget for 2026. The review addressed the following question:

- Are the significant revenue and expenditure projections in the City’s proposed budget reasonable?

The lack of complete, accurate, and current accounting and financial records significantly limited our review and precluded us from determining the reasonableness of all the City’s significant revenue and expenditure projections. For example, department heads’ salaries are not accounted for using appropriate account codes, water and sewer billing reports from the City Treasurer (Treasurer) included conflicting information, New York State and Local Retirement System (NYSLRS) expenditures were understated due to erroneous accounting entries, and the budget-to-

actual report figures do not agree with general ledger figures. However, we determined the City's significant revenue and expenditure projections in the proposed budget we were able to assess are generally not reasonable. We were unable to assess the reasonableness of water and sewer rent revenue and interfund transfer estimates, as discussed below.

In addition, City officials do not have accurate, complete and up-to-date accounting records. As a result, City officials do not know the City's current financial position and cannot properly monitor the City's cash flow or deteriorating financial condition. Our review also disclosed the following findings as outlined in this letter that should be reviewed and addressed by City officials, with appropriate action taken as necessary in accordance with the requirements of the Deficit Financing Act.

The scope of our review does not constitute an audit under generally accepted government auditing standards. We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of City services under consideration.

To accomplish the review's objective, we requested your proposed budget, salary schedules, debt payment schedules, as well as other pertinent information. We also held conversations with the Mayor, the Fiscal Affairs Officer, the Treasurer, department heads and three of five members of the Council; two Councilmembers did not reply to our invitations to do so.

We identified and examined significant estimated revenues and appropriations (estimated expenditures) for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We identified any significant new or unusually high or low revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimates were realistic and reasonable. We also reviewed the allocation of certain costs among different funds to determine the reasonableness and appropriateness of the allocations. Although each of these appropriations may not be significant, the proper amounts must be allocated to the proper funds to ensure that the revenues in each fund are sufficient to fund actual recurring expenditures. We also reviewed the records provided by City officials and evaluated them against bank statements for accuracy, then based our review of the reasonableness of revenue and expenditure projections on those records.

We attempted to analyze, verify and/or corroborate trend data and estimates, where appropriate; however, due to the lack of reliable accounting records, we were unable to complete these procedures. At the time of our review, the City's most recent available Annual Financial Report was submitted for the 2023 fiscal year; the 2024 Annual Financial Report was due April 30, 2025. Furthermore, the most recent available audited financial statements completed by an independent accountant were finalized for 2024 in October 2025.¹ The findings reported in the 2022, 2023 and 2024 financial statements by the independent external auditors further support our position that the City's accounting records are not reliable or up to date. The independent external auditors also acknowledge the rapid deterioration of the City's finances and report that officials do not have the ability to effectively monitor the City's cash position or results of operations, making financial planning and budgeting incredibly difficult. Furthermore, due to significant internal control weaknesses impacting the reliability of the City's accounting records and financial reports, there is an increased risk that material errors and omissions could be present, not detected or corrected.

¹ The 2024 final audited financial statements, supplemental information, management letter and auditor communication letter were completed and provided to us on October 30, 2025.

Although we told the Mayor, Treasurer, Fiscal Affairs Officer and members of the Council on multiple occasions including during the 2025 budget review² that the financial records were incomplete and inaccurate, they have not taken sufficient action to address these deficiencies and continued to make key financial decisions including developing this budget without adequate information.

The budget process should start with establishing a budget calendar. The calendar promotes transparency and provides all interested parties including the public with a schedule of when information will be available and when public hearings will be held. Additionally, a budget calendar helps to ensure all City officials and department heads have sufficient time to develop reasonable estimates and budget requests. Although we requested the Council to submit a budget calendar – including dates for public hearings, Council meetings, the date the Council plans to adopt the 2026 budget, and the final date on which the budget must be adopted – to our Office, they failed to do so. Rather, the Councilman-at-large verbally advised us on November 3, 2025 that the Council planned to adopt the budget on December 2, 2025. Not having a budget calendar defining critical dates in the budget process could lead to department heads missing deadlines to participate and submit estimates for the proposed budget to the Mayor and insufficient time for the Council to thoroughly review the proposed budget.

The budget package submitted for review for the 2026 fiscal year consisted of the 2026 proposed budget and supplementary information. Figure 1 summarizes the proposed budget submitted to our Office, Figure 2 summarizes the general fund’s revenue and other financing sources and Figure 3 summarizes the general fund’s appropriations.

Figure 1: 2026 City of Dunkirk Proposed Budget

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$20,931,863	\$10,959,842	\$0	\$9,972,021
Wastewater	4,367,600	4,367,600	0	0
Water	4,279,180	4,279,180	0	0
Total	\$29,578,643	\$19,606,622	\$0	\$9,972,021

The Mayor, Council, Treasurer and Fiscal Affairs Officer have a shared responsibility for managing and maintaining the City’s fiscal health. To maintain the City’s fiscal stability, City officials must develop and adopt realistic and structurally balanced budgets that provide sufficient recurring revenues to finance recurring expenditures.

Our review disclosed the following matters which should be reviewed by City officials for appropriate action. The Deficit Financing Act requires the Council to adjust the proposed budget consistent with our recommendations. We believe that such adjustments will help improve the City’s financial condition.

² We expressed concerns regarding the condition of the City’s financial records in two written letters dated September 5, 2024, and October 15, 2024, as well as during our previous budget review and in the resulting letter dated November 27, 2024. <https://www.osc.ny.gov/files/local-government/audits/2024/pdf/dunkirk-city-b24-1-10.pdf>

Fund Balance

Fund balance represents the cumulative residual resources from prior fiscal years' operations that may be appropriated in the annual budget to help finance operations and reduce the tax levy.

While fund balance can be appropriated in the budget, there must be sufficient fund balance available to do so, and consistently appropriating fund balance – instead of planning to use recurring revenue sources – can deplete fund balance to levels that are insufficient to cover unexpected contingencies and routine cash flow, as is the City's current situation.

The City's most recently completed audited financial statements reported that as of December 31, 2024, unassigned fund balance in the general, water, wastewater, refuse and boardwalk funds were (\$11.6 million), (\$2.5 million), (\$1.1 million), (\$109,232) and (\$11,970), respectively; in other words, the City's liabilities exceeded assets in each of these funds. The City's financial condition continued to decline during the current year because the 2025 adopted budget was not structurally balanced and due to a large unbudgeted \$1.8 million payment for the purchase of two pumper trucks. While the Mayor, Fiscal Affairs Officer and three Councilmembers stated that all funds will 'break even' for 2025, our Office is projecting an operating deficit of at least \$2 million. After we brought the unbudgeted pumper trucks to the attention of City officials, they agreed that the general fund will realize an operating deficit.

While City officials initiated the purchase of the pumper trucks in February 2023, the City did not receive the trucks until October 2025. However, the Mayor did not include appropriations for pumper trucks in the 2025 proposed budget and even though we advised the Council to consider amending the budget to include appropriations for the pumper trucks in the 2025 adopted budget, the Council did not do so. However, City officials paid for the pumper trucks, further depleting the City's minimal cash balance, which the Fiscal Affairs Officer estimates will total \$5 million at year-end.

Each year, the City receives a minimal amount of revenue in the first three months of the year, about \$1.6 million per month, but spends on average about \$2.4 million per month. In addition to the City's regular monthly operating expenditures, City officials plan to pay the current NYSLRS bill which totaled more than \$2.7 million in February 2026. Therefore, we estimate that the \$5 million remaining cash balance as of December 31, 2025 plus the additional \$4.8 million in revenues received in the first three months of 2026 will not be sufficient to pay for the City's monthly operating expenditures and the current NYSLRS bill. Without deficit financing, as authorized by the Deficit Financing Act, we estimate that the City will experience cash flow issues beginning in March 2026. Furthermore, at the time of our review, the City was delinquent in paying its past NYSLRS bills and owed more than \$5 million to the NYSLRS. The 2026 proposed budget does not provide for repaying the NYSLRS and the Mayor told us that she intends to issue deficit financing as authorized by the Deficit Financing Act to satisfy each of these liabilities.

Under the Deficit Financing Act, the City may not issue deficit bonds unless and until the State Comptroller has reviewed and confirmed the existence of and certified the amount of the deficits. The Deficit Financing Act requires the City to prepare and submit to the State Comptroller a report detailing the amount and cause of the deficits in addition to submitting the independent audit report for fiscal year ending December 31, 2024 prior to the State Comptroller's review and certification of the deficits. The City's independent audit report for the 2024 fiscal year was completed in October 2025, and the Fiscal Affairs Officer provided it to us based upon our request on October

30, 2025. However, as of the time of our budget review, the Mayor had not submitted the report detailing the amount and cause of the deficits as required by the Deficit Financing Act.

We urge City officials to work together to provide our Office with the information needed to certify the City's accumulated deficits in the general, water, sewer and capital project funds and to closely monitor the City's finances, especially available cash balance to ensure the City can continue to provide services and fund its operations.

With fund balance depleted, the City has limited options available to fund any increases in operating costs. At the time of our budget review, City officials were not planning to increase water or wastewater rates to address the deficits in the water and wastewater funds. The 2026 budget includes a proposed tax levy increase of \$198,675 (2 percent) which will exhaust 86.37 percent of the City's constitutional tax limit, the maximum amount of real property tax that may be levied in any fiscal year. As a result, the City's ability to raise taxes going forward will be severely limited.

Because the City does not have accurate, complete and up-to-date accounting records, City officials do not know the City's current financial position and cannot properly monitor the City's rapidly deteriorating financial condition or its significant cash flow issues.

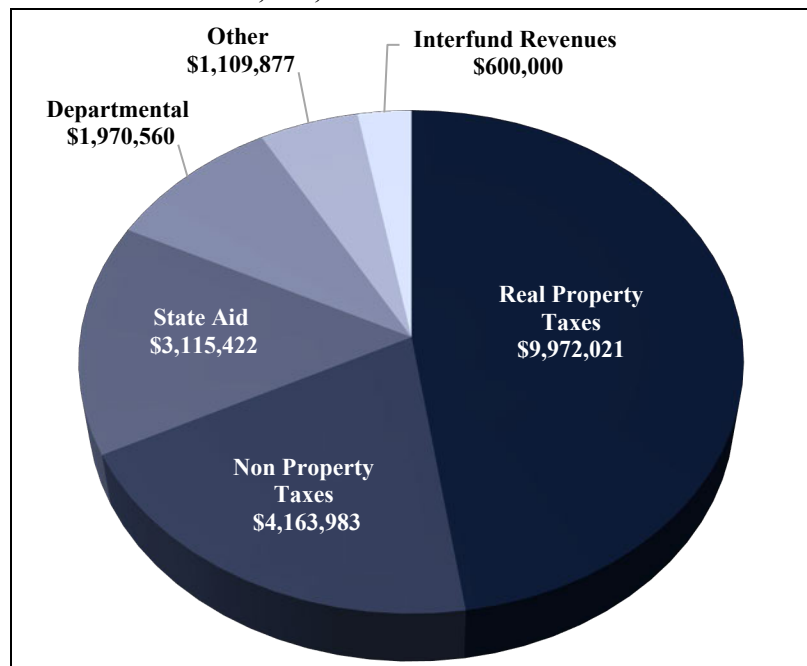
Revenues

The City derives the majority of its general fund revenues from real property taxes, sales tax and State aid. The proposed budget submitted to our Office for the City's general fund revenues is summarized in Figure 2.

Interfund Revenues – The general fund's 2026 proposed budget includes interfund revenues due from each of the other operating funds for administrative fees as follows:

- \$370,000 from the wastewater fund, and
- \$230,000 from the water fund.

Figure 2: Revenue & Other Financing Sources Summary - General Fund \$20,931,863



During our 2025 budget review, we recommended that the Council evaluate the allocation methods used for interfund revenues to ensure that they were supported, and that certain funds did not assume an inequitable burden for costs that do not apply to their operations. Furthermore, we recommended that City officials develop an allocation plan based on a detailed analysis that ensured costs allocated to each fund are directly related to its operations.

While the Council did not evaluate and adjust the administrative fees when adopting the 2025 budget, it modified the budget on January 7, 2025 to reallocate the administrative fee charged to other funds to a more reasonable and fair allocation of expenditures (Figure 3).

Figure 3: Interfund Administrative Fee Appropriations

Fund	2025 Proposed Budget Allocation	2025 Modified Budget Allocation	Difference
General	\$568,821	\$1,294,114	\$(725,293)
Wastewater	625,000	280,114	344,886
Water	525,000	227,945	297,055
Refuse	150,000	66,648	83,352
Total	\$1,868,821	\$1,868,821	\$0

The Fiscal Affairs Officer stated that the administrative fees budgeted for 2026 were derived from specific line items within the general fund that contributed to the administration of water and wastewater operations including: Common Council, Mayor, Fiscal Affairs Office, Treasurer's Office, City Attorney, Personnel Department, Public Works Administration, Central Garage, Central Copying and Mailing and Central Data Processing, totaling approximately \$2.2 million. However, City officials included potentially inappropriate items such as:

- \$371,000 for Community Development Block Grant projects which the Mayor and Fiscal Affairs Officer stated will be reimbursed,
- \$175,000 for the City's new accounting software which was budgeted for and included in the 2025 administrative fees, and
- \$160,000 for fuel. However, the water and wastewater funds fuel appropriations are included in department budgets and therefore should not be included in the administrative fees.

As such, the City's calculation and allocation of costs are potentially inaccurate (Figure 4).

Figure 4: Interfund Administrative Fee Appropriations

Fund	Percent Allocation Per City	2026 Proposed Budget Allocation	OSC Estimate	Amount Over/ (Under) Estimated
General^a	75.8%	\$1,661,468	\$1,125,985	\$535,483
Wastewater	13.7%	300,000	203,509	96,491
Water	10.5%	230,000	155,974	74,026
Total		\$2,191,468	\$1,485,468	\$706,000

a) The Fiscal Affairs Officer combined the refuse fund with general fund and eliminated the need to budget for an administrative fee for general fund services attributable to refuse in 2026.

Furthermore, the Mayor's proposed budget included general fund interfund revenue for these administrative fees totaling \$600,000 but the corresponding interfund appropriations budgeted for in the water and wastewater funds totaled only \$530,000, or \$70,000 less than the interfund revenue budgeted. However, the wastewater and water funds have not had the cash available to pay the administrative fee to the general fund for the last four years and will likely be unable to make these payments in 2025. Therefore, we question the continued practice of budgeting for interfund activity that will not materialize, especially because the general fund has and will most likely continue to fully fund these administrative costs. If the Council and City officials intend to

share these costs, then they should ensure the allocations are appropriate and consider increasing water and wastewater rates to ensure there are sufficient recurring revenues to do so.

Appalachian Regional Commission³ Grant – In June 2025, the City was awarded a grant totaling \$588,737 to help defray the cost of the annual fee associated with the City’s new accounting software, personnel costs and fringe benefits. The City will receive grant revenue up to \$412,115 and be responsible for paying \$176,622 from City funds. The Mayor stated that she intends to use the grant revenue for personnel costs and fringe benefits for a new proposed City Comptroller position. The Mayor stated that she did not include the grant revenue as an estimated revenue in the 2026 proposed budget. However, the Council should review the grant award and determine whether the City will be using the grant revenue in 2026 and adjust the budget accordingly.

Metered Water Sales – The 2026 proposed budget includes metered water sales of approximately \$3.6 million, an increase of approximately \$125,000 from the 2025 adopted budget. We were unable to determine whether the estimated metered water sales in the proposed 2026 budget were reasonable because the reports we received from the Treasurer contained conflicting information and did not agree with the City’s general ledger (Figure 5).

Figure 5: Water Billings as of September 30, 2025

Account	Budget vs Actual	General Ledger	Treasurer’s Report
Residential	\$1,115,457	\$1,270,241	\$1,251,994
Municipal	813,130	1,006,498	995,715
Industry	437,812	492,998	429,627
Total	\$2,366,399	\$2,769,737	\$2,677,336

The Department of Public Works Director presented a water rate increase for industrial users in February 2024 and November 2024, but the Council did not take any action to adjust rates. Because water rent revenues were not sufficient to fund water operations for the last four years, the Council should evaluate the City’s appropriations and determine what actions are necessary to fund water operations without reliance on the general fund.

Sewer Rents – The 2026 proposed budget includes sewer rents of approximately \$4.3 million, which is an increase of approximately \$60,100 from the 2025 adopted budget. Similar to metered water sales, we were unable to determine whether estimated sewer rent revenues were reasonable because reports we received from the Treasurer had conflicting information (Figure 6).

Figure 6: Sewer Billings as of September 30, 2025

Account	Budget vs Actual	General Ledger	Treasurer’s Report
Industry	\$1,042,936	\$1,180,225	\$49,385
Residential	697,971	791,078	784,255
Municipal	212,802	240,305	11,090
Industrial Suburban	175,143	186,534	780
Commercial	161,537	172,990	167,390
Total	\$2,290,389	\$2,571,132	\$1,012,900

Because there is not enough reliable information to determine whether the revenue estimates are accurate and the sewer fund operated at a deficit for the last eight years, the Council should evaluate the City’s appropriations and determine what actions are necessary for the wastewater

³ The Appalachian Regional Commission is an economic development partnership entity of the federal government.

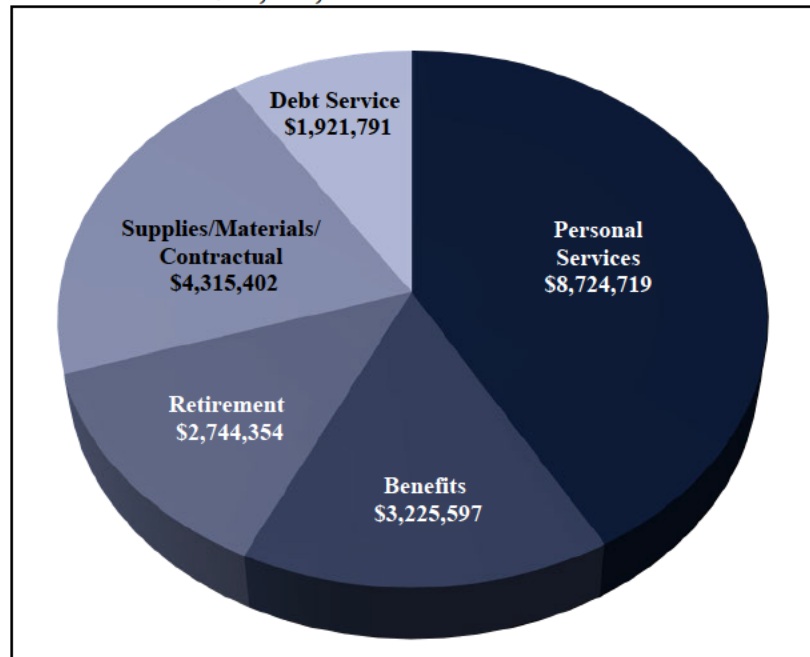
fund to operate without reliance on the general fund. Although the Treasurer relieved unpaid water and sewer rents on the 2025 tax roll, City officials did not use the funds collected to fund water and sewer operations. Instead, the funds were retained and used to fund general fund operations. This practice contributed to further decline in the water and sewer funds' financial condition.

Appropriations

The proposed budget submitted to our Office for the City's general fund appropriations is summarized in Figure 7.

Fire Department – The 2026 proposed budget includes fire department appropriations totaling \$2.1 million. These appropriations primarily consist of personal services and overtime totaling \$1.8 million and \$150,000, respectively. When compared with actual costs from prior years, the personal service and overtime appropriations for 2026 will likely be exceeded.

Figure 7: Appropriations Summary – General Fund \$20,931,863



The Fire Chief stated that the Mayor requested a meeting to discuss the fire department needs for the coming year. The Fire Chief presented budget figures to the Mayor for consideration that more closely reflected actual amounts expended in the prior two years, contractual requirements and current staffing levels. In addition, the Fire Chief stated that the fire department had multiple retirements in 2025 and anticipate at least four retirements in 2026. While the City intends to hire four new firefighters to fill the anticipated vacancies, officials must consider that overtime costs will likely be incurred in 2026 while the new firefighters are being trained (Figure 8).

Figure 8: Fire Department Personal Services and Overtime

	2025			2026	Variance
	Adopted Budget	First Nine Months	Projected Expenditure	Proposed Budget	2025 Expenditures ^a and 2026 Appropriations
Personal Services	\$1,807,041	\$1,575,010	\$2,073,319	\$1,822,591	\$(250,728)
Overtime	150,000	225,492	300,657	150,000	(150,657)
Total	\$1,957,041	\$1,800,502	\$2,373,976	\$1,972,591	\$(401,385)

a) Projected through December 31, 2025

While the 2026 proposed budget includes \$12,000 for equipment and \$7,500 for training, we question whether the proposed budget will be sufficient to cover the anticipated expenditures. The Fire Chief told us that each new firefighter is required to have two sets of turnout gear and these purchases would need to be funded in the equipment line. Furthermore, because the 2025 adopted budget for equipment was \$0, the Fire Chief was required to reallocate funds from other lines and

was only able to purchase one set of turnout gear for the three new hires in 2025. Therefore, the Fire Chief will need to purchase 11 sets of turnout gear in 2026, with a cost ranging between \$4,500 and \$5,500 per set, totaling between \$49,500 and \$60,500, which exceeds the 2026 proposed budget by \$37,500 to \$48,500. In addition, the Fire Chief stated that the training academy for the new firefighters costs approximately \$3,400 for each new firefighter or \$13,600, which exceeds the 2026 proposed budget by \$6,100. Furthermore, the training academy costs do not include other required training for firefighters throughout the year, which would be additional costs to the City.

The Council should review and ensure these appropriations are reasonable prior to adopting the final budget. Furthermore, if the Council adjusts appropriations for personnel service costs, it should consider adjustments to Social Security and Medicare taxes to align with fire department personal services costs in the budget.

Police Department – The 2026 proposed budget includes appropriations totaling \$4 million for police operations. This primarily consists of personal services and overtime totaling \$3.6 million and \$122,000, respectively. When compared with actual costs from prior years, the personal service and overtime appropriations for 2026 will likely be exceeded. The Police Chief stated that the Mayor requested a meeting to discuss the police department needs for the coming year. The Police Chief presented figures to the Mayor for consideration that more closely reflected actual amounts expended in the prior two years and contractual requirements. Furthermore, the Police Chief stated that the police department had retirements and officers out on workers' compensation in 2025 and anticipate two to four retirements in 2026. While City officials intend to hire new police officers to fill the anticipated vacancies, they must consider that overtime costs will likely be incurred in 2026 while the new police officers are being trained (Figure 9).

Figure 9: Police Department Personal Services and Overtime

	2025			2026	Variance
	Adopted Budget	First Nine Months	Projected Expenditure	Proposed Budget	2025 Expenditures ^a and 2026 Appropriations
Personal Services	\$3,453,385	\$2,859,412	\$3,775,224	\$3,637,000	\$(138,224)
Overtime	120,000	184,149	245,532	122,000	(123,532)
Total	\$3,573,385	\$3,043,561	\$4,020,756	\$3,759,000	\$(261,756)

a) Projected through December 31, 2025

The Council should review and ensure these appropriations are reasonable prior to adopting the final budget. Furthermore, the Council should consider adjustments to Social Security and Medicare taxes to align with police department personal services in the budget.

Department of Public Works (DPW) – The DPW includes the maintenance of streets and parks, public works projects, and refuse department operations which are budgeted for within the general fund. The Mayor's proposed budget underestimates DPW overtime costs in 2026. The proposed 2026 budget overtime appropriation is \$39,500 which is \$51,750 less than was budgeted in 2025 and \$38,265 less than the projected overtime expenditures for 2025. While the Police Chief, Fire Chief and DPW Director told us they are trying to ensure they stay within budgets, overtime is at times driven by factors beyond their control. As a result of these factors, the Council should ensure that these appropriations are reasonable prior to adopting the final budget. Furthermore, if the

Council adjusts appropriations for overtime costs, it should consider adjustments to Social Security and Medicare taxes to align with DPW personal services in the budget.

Revenue Anticipation Note – City officials issued a Revenue Anticipation Note (RAN) in July 2024 for more than \$12.7 million that was to be repaid, with interest of \$952,196 in July 2025. While the Council included an appropriation in the 2025 adopted budget for this payment, officials did not set aside the funds designated to pay the RAN principal and interest and were unable to make the payment without obtaining additional debt. The City obtained a loan from New York State (State) to pay the RAN principal and interest, which totaled more than \$13.6 million. The loan is to be paid back to the State over a period of 15 years, with an interest rate of 7.5 percent, or a total cost of \$23.3 million. Beginning in July 2026, the State will withhold the City's State aid each year to cover the annual loan repayment costs. As such, the City will no longer receive more than \$1.5 million in State aid. Instead, the City will receive what funds remain after the loan payment is made each year. Although the Mayor appropriately budgeted for the State aid and loan in the 2026 proposed budget, without further action from the Mayor to provide our Office with the information needed to certify the deficit and to obtain deficit financing, the City, as noted above, will not have sufficient cash to pay for operations and current liabilities beginning in March 2026. In accordance with the Deficit Financing Act, the City would need to issue bonds on or before December 31, 2025.

Wastewater Electric Fees – The 2026 proposed budget includes \$330,000 for electric usage at the wastewater plant, which is \$51,800 less than projected expenditures for 2025. Furthermore, the 2026 proposed budget amount is \$10,000 less than the 2025 budget. Given the rising cost of electric service, the Council should consider whether the appropriation is adequate and adjust it accordingly.

Workers' Compensation – The 2026 proposed budget includes a \$314,250 appropriation for workers' compensation costs. However, the Fiscal Affairs Officer did not receive workers' compensation payment estimates until after the proposed budget was developed. Those estimates total nearly \$291,000. Based on the estimates, the appropriation for workers' compensation payments is likely overestimated by more than \$23,000.

Health Insurance – The 2026 proposed budget includes appropriations totaling approximately \$2.5 million for health insurance payments and health insurance opt-out payments for those employees who choose not to join the City's plan. We calculated the City's estimated health insurance costs by multiplying the number of employees currently enrolled by the anticipated cost per employee and allocating the costs to the funds in which the employees' salaries are allocated. In addition, we calculated the estimated opt-out payments by eligible employee per collective bargaining agreements (CBAs). We determined that the City overestimated the health insurance appropriations in all funds by a total of \$160,875. The Council should adjust the budget to align with actual anticipated costs.

Retiree Health Insurance – The 2026 proposed budget includes appropriations of \$257,148 for the cost of retiree health insurance. We calculated the City's estimated retiree health insurance costs by multiplying the number of retirees on the City's health insurance plan by the anticipated cost per retiree and allocating the costs to the fund in which the employee retired from. Based on this analysis the appropriation for total retiree health insurance costs are likely underestimated by \$102,360. The Council should adjust the budget to align with actual anticipated costs.

Employee Retirement – The 2026 proposed budget includes total retirement appropriations for members of the Employee Retirement System totaling approximately \$1.1 million, which is \$306,482 more than the projected bill totaling \$786,128 from the NYSLRS. This occurred because the Mayor budgeted the entire NYSLRS bill of \$786,128 in the general fund in addition to including appropriations of \$148,196 in the water fund and \$158,286 in the wastewater fund. The Council should adjust the budget to align with the actual anticipated NYSLRS payment.

Furthermore, during our review of the employee retirement appropriations, we noted that 2025 actual expenditures were incorrectly recorded. The accounting records show that the City expended \$176,436 related to the Employee Retirement System in the first nine months of 2025; however, the City actually paid \$716,562 for the amount due in February 2025. This occurred due to an erroneous journal entry which resulted in the expenditure account being incorrectly credited or reduced. The Fiscal Affairs Officer stated she was unsure why the entry was recorded. She acknowledged that the entry reduced the expenditure line and misrepresented the financial records. This is an inaccurate representation of the City's current expenditures and further demonstrates City officials' lack of accounting knowledge and their inability to maintain accurate accounting records or budget appropriately.

Debt Service - Wastewater Fund – The wastewater fund budget includes \$630,924 in debt payments. However, based on debt schedules provided by the Fiscal Affairs Officer, there are outstanding debt payments of \$636,125 in the wastewater fund. As such, the appropriation for debt service in the wastewater fund is likely underestimated by \$5,201. The Council should adjust the budget to align with actual anticipated debt payments in 2026.

Contingency – Contingency accounts are used by local governments as a means of providing funding for unexpected events and uncertainties. City officials included contingency appropriations of \$0, \$15,298 and \$238,778 in the general, water and wastewater funds, respectively, in the 2026 proposed budget. Three CBAs with various City employees have expired and are currently being renegotiated. If any of these contracts are settled in 2025 or 2026, it is possible that additional appropriations will be needed to fund salary increases. The Council needs to consider whether the contingency appropriations are adequate to fund potential additional costs if any of the CBAs are settled and approved.

Our Office previously recommended that the Council determine the appropriate amount of contingency appropriations for each fund. The 2025 adopted budget included a contingency of \$180,000 in the general fund. The Council modified the 2025 budget to increase the general fund contingency appropriation to \$333,413 and include contingency appropriations in the water and sewer funds totaling \$24,389 and \$72,489, respectively.

These variances further demonstrate City officials' lack of accounting knowledge and their inability to maintain accurate accounting records or budget appropriately.

Tax Cap Compliance

New York State General Municipal Law Section 3-c establishes a tax levy limit for local governments. The law generally precludes local governments from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, unless the governing board adopts a local law to override the tax levy limit.

The City's 2026 proposed budget includes a tax levy of \$9,972,021, which is below the maximum levy the City can impose without the Council needing to override the tax levy limit. In adopting the 2026 budget, the Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it properly overrides the tax levy limit prior to adopting the budget.

Recommendations

The Council should:

1. Make updating and correcting the City's accounting records a priority and ensure records are updated as soon as possible so the Council has appropriate financial information to monitor the City's finances and make informed decisions.
2. Establish and adopt a budget calendar to promote transparency and provide all interested parties including the public with a schedule of when information will be available and when public hearings will be held.
3. Review appropriations identified in this report as needing additional review and consideration or that have not been allocated to the appropriate funds.
4. Prior to adopting the 2026 budget, ensure the budget is structurally balanced and includes realistic estimates and sufficient recurring revenues to fund recurring expenditures in all funds.
5. Review the City's practice of sharing administrative costs amongst operating funds and, if continuing this practice, consider modifying water and wastewater rates and/or reduce other operating costs as needed to ensure recurring revenues in the water and wastewater funds are sufficient to do so.
6. Closely monitor the City's finances, especially the available cash balance, to ensure the City can continue to provide services and fund its operations.
7. Work with the Mayor and other City officials to submit to our Office a report detailing the amount and cause of the deficits as required by the Deficit Financing Act.

City officials should:

8. Review the proposed estimates for revenues and expenditures and amend as necessary.
9. Ensure collections for unpaid water and sewer rents levied on the tax roll are returned to and used to fund water and wastewater fund operations.
10. Closely monitor revenues and expenditures and make timely and properly authorized adjustments to the budget as needed throughout the year.

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

We hope that this information is useful as you adopt the upcoming budget for the City. If you have any questions on the scope of our work, please feel free to contact Melissa A. Myers, Chief of Municipal Audits in the Buffalo Regional Office, at (716) 847-3647.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller

cc: Mark Woods, City Treasurer
Ellen Luczkowiak, City Fiscal Affairs Officer
Amy Dobek, City Clerk
Blake Washington, Director, NYS Division of Budget
Hon. Andrea Stewart-Cousins, NYS Senate Majority Leader
Hon. Carl E. Heastie, NYS Assembly Speaker
Hon. J. Gary Pretlow, Chair, NYS Assembly Ways and Means Committee
Hon. Liz Krueger, Chair, NYS Senate Finance Committee
Hon. Andrew Molitor, NYS Assembly Representative
Hon. George M. Borrello, NYS Senate Representative
Melissa A. Myers, Chief of Municipal Audits, Buffalo Regional Office