



THOMAS P. DiNAPOLI
COMPTROLLER

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

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

May 13, 2014

Jack Schnirman, City Manager
Members of the City Council
City of Long Beach
City Hall
1 West Chester Street
Long Beach, NY 11561

Report Number: B7-14-12

Dear Mr. Schnirman and Members of the City Council:

Chapter 3 of the Laws of 2014 authorizes the City of Long Beach (City) to issue debt on or before June 30, 2015, in an aggregate principal amount not to exceed \$12,000,000 to liquidate cumulative deficits in the City's general, sewer, water and risk retention funds as of June 30, 2012. Local Finance Law Section 10.10 requires all local governments that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year, starting with the fiscal year during which the local government is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, their proposed budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on its adoption 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 for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the City.

The City Council, no later than five days prior to the adoption of the budget, must review all recommendations made by the State Comptroller and may make adjustments to its proposed budget consistent with those recommendations contained in this report. All recommendations that the City Council rejects must be explained in writing to our Office.

Our Office has recently completed a review of the City's budget for the 2014-15 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following question related to the City's budget for the 2014-15 fiscal year:

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

To accomplish our objective in this review, we requested your proposed budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimate was realistic and reasonable. We also evaluated the amount of fund balance appropriated in the proposed budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose.

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

The proposed budget package submitted for review for the 2014-15 fiscal year consisted of the following:

- The 2014-15 City Manager’s Budget Message
- 2014-15 Proposed Budget
- Supplementary Information

The proposed budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General Fund	\$73,984,378	\$49,135,404	(\$7,850,000) ^a	\$32,698,974
Water Fund	\$5,034,014	\$4,384,014	(\$650,000) ^a	\$0
Sewer Fund	\$5,463,497	\$5,463,497	(\$2,000,000) ^a	\$0
^a Appropriated fund balance represents a net restoration of fund balance resulting from the proceeds of deficit financing debt issued.				

Based on the results of our review, we believe that general fund revenues for refuse and garbage charges, and water fund and sewer fund revenues for metered water sales and sewer rents, respectively, may be overestimated. In addition, we believe the general fund expenditures for overtime salaries may be underestimated.

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

statements for the fiscal year ending June 30, 2013 had not yet been issued. As a result, our conclusions are based on data that is not as comprehensive as it should be.

Our review disclosed the following findings which should be reviewed by the City Council for appropriate action. Good management practices require that City officials take prompt action concerning our recommendations. We believe that prompt action by City officials will help improve the City's financial condition.

General Fund

Refuse and Garbage Charges - The 2014-15 proposed budget includes revenue of \$9,184,475 from refuse and garbage charges, a 17 percent increase over the 2013-14 budget of \$7,854,711, of which the City has only realized \$7,149,902 to date. City officials plan to raise the additional revenue with a fee increase of approximately \$100 per parcel, which is scheduled for consideration at the May 20, 2014 City Council meeting. We caution the City Council that this budgeted increase in refuse and garbage charges will likely not be realized without the passage of a resolution authorizing the planned fee increase.

Overtime – The City's proposed budget includes appropriations for overtime salaries totaling \$2,230,000, despite such costs averaging over \$2.9 million for the last five completed fiscal years. City Officials have indicated that their intention is to better monitor overtime costs and to hold department heads more accountable for remaining within the prescribed budget limits. City officials must ensure that the necessary internal controls are in place and operating effectively in order for these cost savings to be realized.

Contingency Appropriations – The City's proposed budget includes an appropriation of \$300,000 for contingencies. Contingency appropriations provide the City with a cushion against unforeseen events. However, the City's charter does not authorize such an appropriation. In order to include a contingency appropriation in its budget, the City must enact a local law, amending its charter, to include such an authorization.

Water and Sewer Funds

The proposed budget includes an increase in the revenues for metered water sales and sewer rents expected to be realized from a 6 percent increase in metered water rates. As of May 9, 2014, the City has realized approximately \$3.3 million each for metered water sales and sewer rents and projected actual results as of June 30, 2014 are approximately \$3.5 million for each. We caution the City Council that this budgeted increase in metered water sales and sewer rents will likely not be realized without the passage of a resolution authorizing the planned fee increase, which is scheduled for consideration on May 20, 2014.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments, which was effective beginning in the 2012 fiscal year. The law 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 limitation.

The City's proposed 2014-15 budget complies with the tax levy limit. The 2014-15 proposed budget includes a tax levy of \$32,698,974, which decreases the 2014-15 tax levy, thereby staying within the limits established by Law.

As noted above, the City Council has the responsibility to initiate corrective action to address the recommendations in this report. In addition, pursuant to Section 35 of the General Municipal Law, the Council should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. We encourage the City Council to make this plan available for public review in the City Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

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

We hope that this information is useful as you adopt the budget for the City. If you have any questions on the scope of our work, please feel free to contact Ira McCracken, Chief Examiner of the Hauppauge Regional Office, at (631) 952-6534.

Sincerely,

Gabriel F. Deyo

cc: Kristie Hansen-Hightower, City Comptroller
Scott J. Mandel, City Council
Fran Adelson, City Council
Anthony Eramo, City Council
Eileen J. Goggin, City Council
Len Torres, City Council
David W. Fraser, City Clerk
Hon. John A. DeFrancisco, Chair, Senate Finance Committee
Hon. Herman D. Farrell Jr., Chair, Assembly Ways and Means Committee
Hon. Harvey Weisenberg, NYS Assembly
Hon. Dean G. Skelos, NYS Senate
Robert L. Megna, Director, Division of the Budget
Andrew SanFilippo, Executive Deputy Comptroller
Ira McCracken, Chief Examiner, Hauppauge Regional Office