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May 15, 2015

Honorable Mike Spano, Mayor
City Council Members
City of Yonkers
City Hall
Yonkers, NY 10701-3886

Report Number:

Dear Mayor Spano and City Council Members,

Chapter 55 of the Laws of 2014 authorized the City of Yonkers (City), subject to certain requirements, to issue serial bonds not to exceed \$45 million to liquidate the current deficits in the City School District's (District) general fund as of June 30, 2014. Additionally, Chapter 55 requires the City to submit to the State Comptroller and the Commissioner of Education, starting with the fiscal year during which it was authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, its proposed budget for the next succeeding fiscal year.

The budget must be submitted 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 and the Commissioner of Education must examine the proposed budget and make recommendations as deemed appropriate after examining 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 the Commissioner of Education and make adjustments to the proposed budget consistent with the recommendations made by the State Comptroller and the Commissioner of Education. The State Comptroller's recommendations on the City's proposed budget for the 2015-16 fiscal year are contained in this report.

Our Office has recently completed a review of the estimates of revenues and expenditures set forth in the City's proposed budget for the 2015-16 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 proposed budget for the 2015-16 fiscal year:

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

To accomplish our objective we reviewed the 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 significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items. We assessed whether the estimates were 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 2015-16 fiscal year consisted of the following:

- 2015-16 Mayor’s Budget Letter
- 2015-16 Proposed Executive Budget
- 2015-16 Board of Education Budget Request
- Supplementary Information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Fund Transfers In/(Out)^a	Real Property Taxes
General Fund ^b	\$478,722,531	\$331,292,024	\$37,493,840	(\$231,102,419)	\$341,039,086
Water Fund	\$27,924,651	\$38,090,600	\$1,250,000	(\$11,415,949)	\$0
Sewer Fund	\$2,910,974	\$7,562,397	(\$409,115)	(\$4,242,308)	\$0
Library Fund	\$8,258,574	\$165,070	\$0	\$8,093,504	\$0
Museum Fund	\$210,700	\$0	\$0	\$210,700	\$0
Yonkers Public Schools ^c	\$550,957,837	\$286,690,830	\$0	\$238,456,472	\$0
Total	\$1,068,985,267	\$663,800,921	\$38,334,725	\$0	\$341,039,086

^a Includes transfers to and from various funds

^b Includes debt service for non-school debt

^c The appropriation amount represents the amount contained in the Board of Education’s budget request.

Our review disclosed the following issues which should be reviewed by City officials for appropriate action. Chapter 55 of the Laws of 2014 requires the City Council to make adjustments to the proposed budget consistent with our recommendations. We believe that any such adjustments will help improve the City’s financial condition.

Board of Education

Budget Gap – The City’s 2015-16 proposed budget provides \$525.1 million for District operations and debt service payments; however, the District’s budget request includes appropriations and debt service payments totaling \$550.9 million, thereby resulting in a gap of approximately \$25.8 million. City and District officials should work to address this gap between District revenues and appropriations.

Textbooks – The District’s 2015-16 budget request does not include an appropriation for the purchase of textbooks. In 2013-14, the District expended \$3.5 million for this purpose. District officials plan to have the City issue a bond anticipation note (BAN) for the acquisition of textbooks during 2015-16, and the City’s capital budget includes up to \$4.7 million for this acquisition. The purchase of textbooks is a recurring District expenditure and generally should be included as an appropriation in the annual budget. The City will incur additional costs by borrowing for textbooks.

Pension Costs – The District’s 2015-16 budget request contains \$10.39 million for payments due the New York State and Local Retirement System (NYSLRS). NYSLRS allows municipalities to amortize certain pension costs as part of a stabilization program which spreads payments over several years, and the District has elected to participate in the program. However, the minimum payment permitted under the program for 2015-16 is \$10.85 million. Therefore, the District has underestimated pension costs by approximately \$460,000.

City of Yonkers

Nonrecurring Funding Sources

Fund Balance¹ – The City has projected a general fund balance of \$72.4 million at the end of the 2014-15 fiscal year. The City has appropriated \$37.5 million, or approximately 52 percent of the projected fund balance, in its general fund in the 2015-16 proposed budget. In addition, the City appropriated \$1.25 million of fund balance in the water fund. The City’s use of fund balance to close gaps in the budget decreases the fund balance that is available to cover unforeseen shortfalls in revenue. We are concerned that the City continues to rely on nonrecurring revenue, such as fund balance, to balance its budget. City officials will have to replace this nonrecurring revenue in the 2016-17 budget.

¹ To comply with the requirements of the Fiscal Agent Act (Laws of 1976, Chapter 488, as amended) and the City’s related bond covenants, the City’s 2015-16 adopted budget may not appropriate fund balance in excess of the aggregate of the fund balance of the various operating funds of the City as of the end of the 2013-14 fiscal year.

Revenues²

Metered Water Sales – The 2015-16 proposed budget includes metered water sales revenue of \$33.1 million, which is an increase of approximately \$8.4 million from the amount received in the 2013-14 fiscal year. However, water consumption decreased for the 2014-15 fiscal year. City officials explained that the decrease occurred as a result of installation of new meters and billing customers based on actual readings instead of estimates as was done in prior years. The revenue for metered water sales in the 2015-16 proposed budget is \$8 million more than what is projected to be received in 2014-15. If City officials expect to realize this additional revenue, they may have to increase rates for metered water sales by as much as 31 percent.

Sewer Rents – The 2015-16 proposed budget includes sewer rent revenues of \$7.4 million, which is an increase of approximately \$2.5 million from the amount projected to be received in the 2014-15 fiscal year. If City officials expect to realize this additional revenue, they may have to increase rates for sewer rents by as much as 50 percent.

Mortgage Tax – New York State Tax Law allows the City to impose a mortgage recording tax. However, the law authorizing the imposition of this tax is scheduled to expire on August 31, 2015. The 2015-16 proposed budget includes City and State mortgage tax revenues of \$5.4 million, which is a 2.3 percent increase over projected amounts the City will receive in the 2014-15 fiscal year. This amount appears reasonable provided the New York State Legislature (Legislature) extends the law authorizing this revenue source.

Income Tax Surcharge – The Tax Law authorizes the City to impose an income tax surcharge on all City residents and non-residents who work within the boundaries of the City. Under current law, the surcharge only applies to taxable years beginning before 2016. The 2015-16 proposed budget includes City income tax surcharge revenues of \$48.6 million. Since the projected amount to be received in the 2014-15 fiscal year is approximately \$46.9 million, this is an increase of approximately \$1.7 million. This amount appears reasonable provided the Legislature extends the law authorizing the imposition of the surcharge.

Appropriations

Tax Certiorari – The proposed budget includes \$500,000 for payment of tax certiorari claims in 2015-16. In 2013-14 the City settled claims for approximately \$6.2 million and, as of March 31, 2015, the City has settled claims of approximately \$11.9 million for 2014-15. Based on these trends, the City may need more funds to pay tax certiorari claims in the 2015-16 fiscal year than have been budgeted. The City bonded to pay tax certiorari claims in prior years. The continued

² If any of the revenues discussed in this section are included in the City's adopted budget in an amount which exceeds the amount of such revenue either realized in 2013-14 or "properly attributable" to 2014-15, then the City must submit a "justification document" with respect to the excess before the adopted budget may be approved under the Fiscal Agent Act and bond covenants. If the amount of any such revenue included in the City's adopted budget requires an increase in a rate or charge, the City must act to increase the rate or charge before the justification document can be approved under the Fiscal Agent Act and bond covenants. Similarly, if the amount of any such revenue included in the City's adopted budget requires enactment of State legislation, the legislation must be enacted before the justification document can be approved.

practice of using debt to pay for these costs is imprudent. Tax certiorari claims are a recurring cost of doing business and should be paid from annual appropriations. The City will incur additional debt and interest costs by bonding the cost of tax certiorari claims instead of financing them through the operating budget.

Contingency Funds – The City’s proposed budget does not include an appropriation for contingencies. In light of recent economic conditions, we believe it would be prudent for City officials to have funding available for unforeseen increases in expenditures. City officials should consider establishing a contingency appropriation at a level that would provide the City with reasonable flexibility in the event that it has to deal with unanticipated appropriations or insufficient revenues. The lack of a contingency fund, along with the decrease in the City’s unassigned fund balance, leaves the City vulnerable to unexpected events.

Other Matters

Constitutional Tax Limit – The Constitutional Tax Limit is the maximum amount of real property tax that may be levied in any fiscal year. The State Constitution limits the taxing power of cities to 2 percent of the five-year average full valuation of taxable real property of the City. Under the 2015-16 proposed budget, the City will have exhausted 88.65 percent of its taxing authority. We caution the City that if property values do not increase, its ability to increase taxes may be reduced in future years.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 (Law) that established a tax levy limit for local governments, which was effective beginning in the 2012 fiscal year. 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 proposed 2015-16 budget complies with the tax levy limit because it includes a tax levy of \$341,039,086 which increases the 2015-16 tax levy within the limits established by Law. In adopting the 2015-16 budget, the City Council should be mindful of the legal requirement to adopt a budget that includes a tax levy no greater than the tax levy limit, unless it adopts a local law to override the limit.

Recommendations

City officials should:

1. Work with District officials to eliminate the \$25.8 million gap in the District’s proposed budget.
2. Work with District officials to identify alternatives to borrowing funds for the purchase of textbooks.

3. Assess the appropriation in the District's budget request for employee pension costs and ensure that it will be sufficient.
4. Develop a plan to maintain fund balance at a reasonable level to ensure funds are available in the case of a shortfall in revenues during the fiscal year.
5. Review the estimate of metered water revenue and amend it as necessary.
6. Review the estimate of sewer rent revenue and amend it as necessary.
7. Consider adjusting the appropriation for tax certiorari refunds or settlements and provide a financing source for tax certiorari settlements.
8. Consider establishing and funding a contingency fund.

The City Council has the responsibility to initiate corrective action. Pursuant to Chapter 55 of the Laws of 2014, the City Council must review the recommendations in this report and make adjustments to the proposed budget consistent with the recommendations contained in this report.

We hope that this information is helpful to you as you adopt the upcoming budget. If you have any questions on the scope of our work, please contact Ms. Tenneh Blamah, Chief Examiner of our Newburgh Office, at (845) 567-0858.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Vincent E. Spano, City Clerk
John Liszewski, Commissioner of Finance
Dr. Micheal Yazurlo, Interim Superintendent of Schools
Hon. John A. Defrancisco, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Chair, Assembly Ways and Means Committee
Hon. George Latimer, NYS Senate
Hon. Andrea Stewart-Cousins, NYS Senate
Hon. J. Gary Pretlow, NYS Assembly
Hon. Shelley Mayer, NYS Assembly
Elizabeth Berlin , Acting Commissioner, NYS Education Department
Maria Guzman, Director, Office of Audit Services, NYS Education Department
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