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May 6, 2016

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: B7-16-9

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 totaling \$12,000,000 to liquidate the accumulated deficit in the City's general fund as of June 30, 2012. New York State 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 2016-17 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following questions related to the City's budget for the upcoming fiscal year:

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

- Did the City take appropriate action to implement or resolve recommendations contained in the budget review report issued in May 2015?

To accomplish our objectives 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. In addition, we inquired and checked whether written recommendations from the prior year’s budget review were implemented or resolved and, therefore, incorporated as part of the current year’s budget.

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 2016-17 fiscal year consisted of the following:

- 2016-17 City Manager’s Budget Message
- 2016-17 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	\$79,091,709	\$42,013,850	\$637,545	\$36,440,314
Water Fund	\$5,309,551	\$5,154,298	\$155,253	\$0
Sewer Fund	\$6,003,526	\$6,003,526	\$0	\$0

Based on the results of our review, except for the matters described in this letter, we found that the significant revenue and expenditure projections in the proposed budget are reasonable. Our review identified several issues that require the City Council’s attention. These issues should be reviewed by the City Council for appropriate action. Good management practices require that City officials take prompt action concerning our recommendations.

We also found that City officials partially implemented the recommendations in our May 2015 budget review letter.

General Fund

Sale of Real Property – The proposed budget includes estimated revenue of \$600,000 from the sale of City property.¹ There is currently no contract for the sale of this real property. Given the nature of this type of transaction, City officials cannot be certain that this revenue will be realized in 2016-17. If these revenues are realized, the City should avoid using non-recurring revenues, such as proceeds from the sale of real property, to fund recurring operating expenditures. City officials should instead budget and use one-time revenues to fund one-time expenditures, such as the purchase or construction of capital assets. The City Council should review this revenue and determine whether it is likely to be realized during 2016-17.

Beach Charges – The proposed budget includes estimated revenue for beach charges of \$4.9 million. These estimates include amounts that are expected to be realized from an increase in beach charges ranging from \$4 to \$50, depending on the type of beach pass, which the City Council has not yet authorized. Unless the increase is authorized in a timely manner, the full amount of revenues included in the proposed budget may not be realized. If the proposed increase is not authorized, or is authorized at a different rate, budgeted revenues for beach charges should be modified accordingly.

Refuse and Garbage Charges – The proposed budget includes estimated revenue for refuse and garbage charges of \$9.3 million. These estimates include amounts that are expected to be realized from a \$10 increase in sanitation charges per parcel, which the City Council has not yet authorized. Unless the increase is authorized in a timely manner, the full amount of revenues included in the proposed budget may not be realized. If the proposed increase is not authorized, or is authorized at a different rate, budgeted revenues for refuse and garbage charges should be modified accordingly.

Overtime – The City’s proposed budget includes appropriations for overtime salaries totaling \$2.3 million. This amount is less than the \$2.7 million expended for the first nine months of the current fiscal year. In addition, overtime costs have averaged over \$2.9 million for the last five completed fiscal years. Unless City officials ensure that the necessary controls are in place and operating effectively, budgeted amounts for overtime may not be sufficient.

Water and Sewer Funds

The proposed budget includes estimated revenue for metered water sales and sewer rents of \$4.4 million and \$5.1 million, respectively. These estimates include amounts that are expected to be realized from an increase in metered water rates and sewer rents, which the City Council has not yet authorized. Unless the rate increases are authorized in a timely manner, the full amount of revenues included in the proposed budget may not be realized, thereby having a negative effect on the results of these funds’ operations. If the proposed water and sewer rate increases are not authorized, or authorized at a different rate, water and sewer fund budgets should be modified accordingly.

¹ The property to be sold is two smaller parcels that were included in the \$1.3 million real property sale budgeted for in the 2015-16 fiscal year.

Prior Budget Review Recommendations

During this budget review we assessed the extent to which City officials acted to implement the recommendations contained in our May 2015 budget review letter. City officials partially implemented our recommendations.

General Fund – City officials did not modify \$3.6 million in revenue estimates. City officials estimated they would receive \$1.3 million for the sale of City property, but the City has not yet received this revenue. There is currently no contract for the sale of this real property. In addition, City officials also did not modify the revenue estimate of \$2.3 million for the receipt of federal aid. City officials informed us that the City has not yet received this payment. Finally, City officials did not modify overtime appropriations in the 2015-16 adopted budget. As of March 31, 2016, the City overexpended the overtime appropriations by \$578,512.

Water and Sewer Funds – A 2 percent increase in water and sewer rates was included in the City's 2015-16 proposed budget. The City Council did not adopt a rate increase. City officials appropriately adjusted the budget estimates for water and sewer revenues.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 (Law) that established a tax levy limit on all local governments, which was effective beginning in the City's 2012-13 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 budget includes a tax levy of \$36,440,314 which exceeds the allowable tax levy limit. Therefore, to comply with the Law, the City Council must adopt a local law overriding the tax levy limit before they adopt the proposed budget.

As noted previously, the City Council has the responsibility to initiate corrective action to address the recommendations in this report. 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 Ira McCracken, Chief Examiner of our Long Island office, at (631) 952-6534.

Very truly yours,

Gabriel F. Deyo
Deputy Comptroller

cc: Kristie Hansen-Hightower, City Comptroller
Scott J. Mandel, City Council
Anissa Moore, City Council
Anthony Eramo, City Council
Eileen J. Goggin, City Council
Len Torres, City Council
David W. Fraser, City Clerk
Hon. Catharine Young, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Hon. Todd Kaminsky, NYS Senate
Robert F. Mujica, Jr., Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Ira McCracken, Chief Examiner