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June 22, 2016

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

Report Number: B6-16-11

Dear Mayor Spano and City Council Members,

By letter dated June 14, 2016, the Office of the State Comptroller, as Fiscal Agent for the City of Yonkers (City), determined that the City's adopted budget for fiscal year 2016-17 and the related justification documents are in compliance with the requirements of the Fiscal Agent Act (Chapter 488 of the Laws of 1976) (Act).

Generally the Act requires the City to appropriate for each cost category at least as much as was appropriated or spent in the previous two years and to only anticipate receiving miscellaneous revenue in amounts no greater than the amounts received in the prior two years. If the City wants to appropriate less money or budget additional miscellaneous revenue, it must provide to us a detailed justification supporting the proposed action. While we have determined that the 2016-17 budget complies with the provisions of the Act, we wish to comment on the following issues which impact the City's financial condition in the current and future years.

The City's 2016-17 budget totals \$1.12 billion. The budget includes operating and debt service funding of \$570.3 million for the Yonkers Public Schools and \$546.1 million for the City. The 2016-17 budget is \$46 million more than the City's budget for 2015-16, an increase of 4.3 percent.

Nonrecurring Funding Sources

Municipal Relief – In prior years, we have expressed concern about the City's practice of financing recurring operating expenditures with nonrecurring funding sources. The 2016-17 budget relies on nonrecurring funding of \$11 million, authorized by Chapter 20 of the Laws of 2015, to finance operating expenditures. Although this aid will provide relief in the 2016-17 budget, this funding source will not be available in future years. Therefore, a potential funding gap will occur in the 2017-18 fiscal year that the City must address by finding an alternate source of revenue or by reducing appropriations.

Fund Balance – The City has projected a general fund balance of \$61.8 million at the end of the 2015-16 fiscal year. The City appropriated \$38 million, or approximately 61 percent, of the projected fund balance from the general fund in the 2016-17 budget.¹ In addition, the City appropriated approximately \$2.1 million attributable to excess money in the debt service fund and \$231,501 from the library fund. The City’s use of fund balance to close gaps in the budget decreases 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 2017-18 budget.

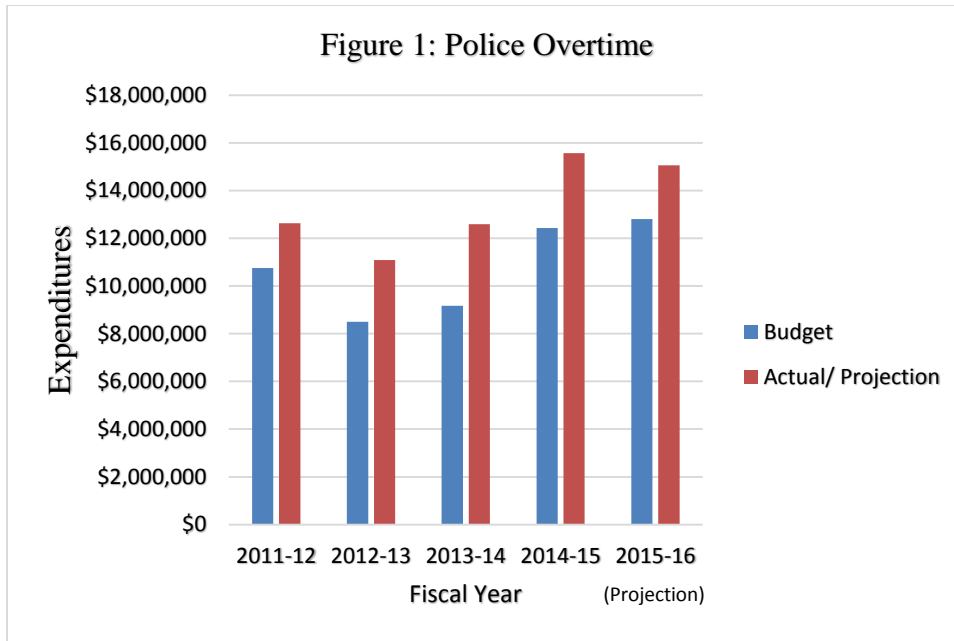
Revenues

Sales Tax – The City has budgeted \$74.2 million for sales and use tax revenue in 2016-17. This is an increase of approximately \$2.6 million over the amount anticipated to be received in the 2015-16 fiscal year. Therefore, the City’s budget is relying on a 3 percent growth in sales tax revenue. This may be an overly optimistic estimate considering sales tax revenue is estimated to decline by 2.6 percent in 2015-16 from the 2014-15 fiscal year. The City could potentially face a \$2.6 million shortfall in revenue if it does not receive the projected amount of sales tax revenue.

Appropriations

Police Overtime – The City has routinely exceeded budgeted amounts for police overtime costs each year. The City’s 2016-17 general fund budget includes overtime funding of \$13.7 million for the police department. The City spent \$15.6 million on police overtime in 2014-15 and, as of May 31, 2016, approximately \$13.5 million in 2015-16. Based on our projections, the City will spend a total of \$15.1 million on police overtime for 2015-16. If historical trends continue and overtime savings are not realized, the appropriation for overtime could be underestimated by as much as \$1.4 million.

¹ To comply with the requirements of the Fiscal Agent Act, the City’s 2016-17 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 2014-15 fiscal year.



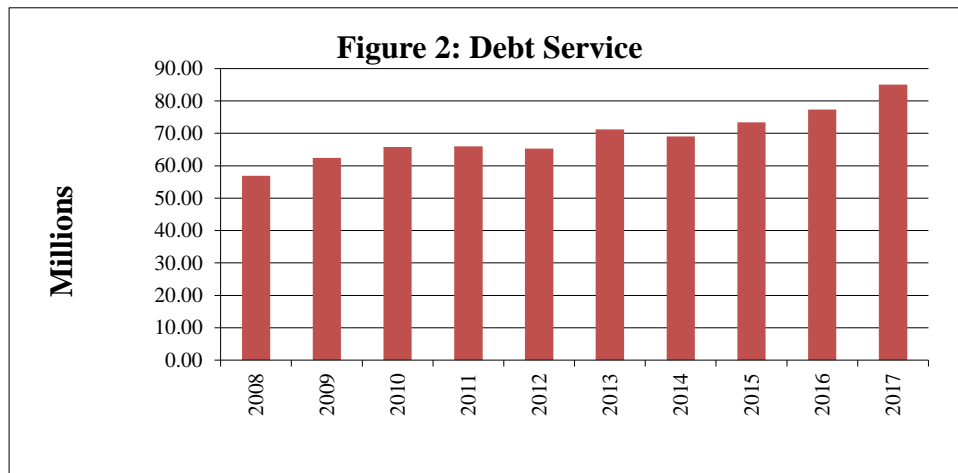
Tax Certiorari – The enacted 2016-17 budget includes \$500,000 for payment of tax certiorari claims. In 2014-15 the City settled claims for approximately \$11.9 million and in 2015-16 the City has settled claims for approximately \$8.7 million. The City issued bonds in the prior years to pay for tax certiorari claims and plans to borrow up to \$6.5 million for tax certiorari settlements in the 2016-17 fiscal year. The continued 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 in the operating budget.

Other Matters

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. With the 2016-17 budget, the City will have exhausted 91.22 percent of its taxing authority. The City’s ability to increase property taxes may be limited in future years if property values do not increase.

Debt

The City’s outstanding debt has grown almost 27 percent over the last 10 years. Since 2008, the City’s annual debt service obligations have risen 50 percent as depicted in Figure 2. The City will need \$85.1 million to service its debt obligations during 2016-17. This amount represents about 7.6 percent of the City’s annual budget. A contributing factor to the increases in debt is the City’s continuing practice of bonding for recurring expenditures, such as textbooks for the school district and tax certiorari costs, which should be included in budgeted appropriations.



Tax Cap Compliance

The New York State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 (Law) that established a property 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 adopted 2016-17 budget includes a property tax levy of \$355.4 million which exceeds the allowable levy limit by \$10.7 million. To comply with the Law, the City Council adopted a local law overriding the tax levy limit.

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
Hon. Catharine Young, 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
Robert F. Mujica, Director, Division of Budget
Tenneh Blamah, Chief Examiner, Newburgh Regional Office
Andrew A. SanFilippo, Executive Deputy Comptroller