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May 11, 2017

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: B17-7-9

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 not to exceed \$12,000,000 to liquidate accumulated deficits in the City's general fund and certain other funds as of June 30, 2012. New York State Local Finance Law Section 10.10 requires all municipalities 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 municipality is authorized to issue the deficit obligations and, for each subsequent fiscal year during which the deficit obligations are outstanding, their proposed budget for the next 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 on the proposed budget as deemed appropriate. Recommendations, if any, are made after the examination into the City's estimates of revenues and expenditures.

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 governing board rejects must be explained in writing to our Office. The City may not issue bonds unless and until adjustments to the proposed budget consistent with any recommendations of the State Comptroller are made, or any recommendations that are rejected have been explained in writing to the State Comptroller.

Our Office has recently completed a review of the City’s budget for the 2017-18 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 2016?

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. In addition, we inquired and evaluated 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 2017-18 fiscal year consisted of the following:

- 2017-18 City Manager’s Budget Message
- 2017-18 Proposed Budget
- 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	Real Property Taxes
General Fund	\$81,803,458	\$44,272,044	\$837,545	\$36,693,869
Water Fund	\$5,516,045	\$5,365,960	\$150,085	\$0
Sewer Fund	\$6,227,309	\$6,227,309	\$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. The recommendations must be reviewed by the governing board, with appropriate action taken as necessary in accordance with the requirements in Local Finance Law Section 10.10.

We also found that City officials partially implemented the recommendations in our May 2016 budget review letter.

General Fund

Refuse and Garbage Charges – The proposed budget includes estimated revenue for refuse and garbage charges of \$9.45 million. These amounts include a mid-year increase of refuse and garbage charges to \$15 per sanitation 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. Therefore, the proposed increase should be authorized prior to adoption of the budget, setting forth the amount and timing of the increase. Alternatively, the budget should be modified to agree with the rates in effect.

Overtime – The City’s proposed budget includes appropriations for overtime salaries totaling \$2.7 million. The City expended \$2.7 million in overtime for the first nine months of the current fiscal year. In addition, overtime costs have averaged approximately \$3 million in each of the last five completed fiscal years. The City Comptroller told us that officials are working with departments that traditionally have higher overtime, in particular the fire, recreation, transportation and beach maintenance departments, to help the departments work within the limits set for overtime. Although the City has improved its projections for overtime costs in certain departments, based on the trends it does not appear that the total proposed appropriation will be sufficient. Unless City officials ensure that the necessary controls are in place and operating effectively, budgeted amounts for overtime may not be sufficient. City officials should adopt policies and procedures that will reduce overtime or modify the budget to provide appropriations more consistent with past overtime costs.

Timely Review of Proposed Budget

Local Finance Law (LFL) provides that the State Comptroller shall examine the City’s proposed budget and make recommendations as deemed appropriate no later than 10 days before the date the governing board is scheduled to vote on the budget or the last date on which the budget must be adopted, whichever is sooner. LFL also provides that, no later than five days prior to the adoption of the budget, the governing board shall review any such recommendations and may make adjustments to its proposed budget consistent with any recommendations made by the State Comptroller. Any recommendations that the Council rejects shall be explained in writing to the State Comptroller.

Under the City Charter, the City has until May 31, 2017 to adopt its budget. Initially, City officials indicated the Board planned on voting on the budget on May 23, 2017. Therefore, our Office was required to make recommendations to the governing Board no later than May 13. However, officials subsequently decided to reschedule the budget vote to May 16, 2017, but did not communicate this change to our Office until May 8, 2017. Consistent with the requirements of

LFL Section 10.10, we have provided recommendations in accordance with the 10-day requirement, based on the May 23, 2017 budget vote date initially indicated by City officials. These recommendations must be reviewed by the City Council before the budget is adopted, with appropriate action taken as necessary in accordance with the requirements in LFL Section 10.10.

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 2016 budget review letter. City officials partially implemented our recommendations.

Sale of Real Property – The City did not modify the estimated \$600,000 from the sale of City property before adopting the 2016-17 budget. City officials have since determined that they will not place the property for sale and therefore will not realize the revenue in 2016-17. The City has appropriately removed this one-time revenue from the 2017-18 proposed budget.

Beach Charges – The proposed budget of \$4.9 million included estimates for beach charges that contained rate increases ranging between \$4 and \$50, depending on the type of beach pass. The City Council authorized rate increases of up to \$20 for beach charges in May 2016. The City modified its budget before adoption, reducing the estimate to \$4.4 million, which is more in line with the approved rates and revenue trends. As of March 31, 2017, the City has collected \$1.97 million in beach charges.

Refuse and Garbage Charges – The proposed budget of \$9.3 million included an estimated rate increase of \$10 in sanitation charges per parcel. In May 2016, the Council authorized the \$10 rate increase in sanitation charges per parcel effective July 1, 2016; therefore, the proposed amount of \$9.3 million was not modified prior to adoption, and appears reasonable based on the approved rate per parcel.

Overtime – City officials did not modify overtime appropriations in the 2016-17 adopted budget. As of March 31, 2017 overtime expenditures were \$2.63 million, which exceeds the total appropriated in the 2016-17 adopted budget by \$503,749. We have addressed overtime budgeting again in this review.

Water and Sewer Funds – The 2016-17 proposed budget included revenues for metered water sales of \$4.4 million and sewer rents of \$5.1 million. Both estimates included amounts to be realized from rate increases in metered water and sewer rents that had not been authorized by the Council. In May 2016 the City authorized a 4 percent increase in metered water rates and set sewer rents equal to 108 percent of the water charges, effective July 1, 2016. At that time the Council also approved a sewer rent increase to 115 percent of water charges, effective July 1, 2017. As a result of the authorized rate increases, the estimate for metered water sales did not need to be modified prior to adoption. Sewer rent estimates were appropriately modified prior to budget adoption.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on local governments, which was effective beginning in the City's 2012-13 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 limitation.

The City's proposed budget includes a tax levy of \$36,693,869. In adopting the 2017-18 budget the Council should be mindful of the legal requirements to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it obtains the proper voter approval to override the tax levy limit.

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.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Kristie Hansen-Hightower, City Comptroller
Len Torres, City Council
Anthony Eramo, City Council
Chumi Diamond, City Council
Scott J. Mandel, City Council
Anissa D. Moore, 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. Melissa Miller, NYS Assembly
Hon. Todd Kaminsky, NYS Senate
Robert F. Mujica, Jr., Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Ira McCracken, Chief Examiner, Long Island Regional Office