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May 8, 2018

Commissioner Michael Tangney, Acting City Manager
Members of the City Council
City of Long Beach
City Hall
1 West Chester Street
Long Beach, NY 11561

Report Number: B18-7-5

Dear Commissioner Tangney and Members of the City Council:

Chapter 3 of the Laws of 2014 authorized the City of Long Beach (City) to issue debt not to exceed \$12,000,000 to liquidate the accumulated deficit 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 as deemed appropriate. Recommendations, if any, are made after the examination into the 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 2018-19 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 2017?

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 2018-19 fiscal year consisted of the following:

- 2018-19 Acting City Manager’s Budget Message
- 2018-19 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	\$82,923,747	\$41,565,481	\$0	\$41,358,266
Water	\$5,638,826	\$5,638,826	\$0	\$0
Sewer	\$6,518,321	\$6,518,321	\$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. However, 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 City Council, with appropriate action taken as necessary in accordance with the requirements in Local Finance Law (LFL) Section 10.10.

While the Council is finalizing the budget and formulating a response for our review, it is important to keep in mind the current financial condition of the City, the financial uncertainties and the impact the budget will have on City operations and financial health. The City is in significant fiscal stress and its condition has been deteriorating over recent years. Because of prior year appropriations of fund balance and over-expenditures, the City has incurred operating deficits. These deficits have caused fund balance to decline as well as available cash balances.

For the most recent completed fiscal year ended June 30, 2017, personal services and employee benefits totaled over 75 percent of available revenues and debt service was almost 12 percent. Alarming, both of these costs have seen steady increases as a percent of revenue over the past few years. With these costs accounting for 87 percent of revenue, there is limited ability to finance operations and maintain infrastructure. Given the uncertainty of current year operations, it is difficult to project how the City's finances will be at year end. City officials have stated that they have financial plans to cover the cost of operations for the rest of the current year, but did not provide them for our review.

Based on our review of the proposed budget, City officials continue to take actions that are detrimental to the City's financial position. It is imperative that officials address the City's declining financial condition during this current budget cycle. While the proposed budget has balanced revenues and appropriations, it does not include measures to improve financial condition.

We also found that City officials only partially implemented the recommendations in our May 2017 budget review letter.

General Fund

Refuse and Garbage Charges – The proposed budget includes estimated revenue for refuse and garbage charges of \$9.6 million. These amounts include an increase of refuse and garbage charges of \$20 per sanitation parcel (from \$585 to \$605), 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 will not be realized and the City's already stressed finances will be further disrupted. Therefore, the proposed increase must be authorized prior to adoption of the budget, setting forth the amount and timing of the increase in order for the budget to be appropriately balanced. Alternatively, the budget could be modified to agree with the current rates in effect, if the increase is not authorized.

Given that for 2017-18 City officials budgeted for an increase and then failed to adopt the increased rates, it is important that Officials not repeat the mistake of budgeting revenue for a rate increase until the rate increase has been approved.

Termination Salary Payments

The City's 2018-19 proposed budget contains an appropriation of approximately \$1.8 million¹ for "termination salaries." City officials' reference to these payments as termination salaries is somewhat misleading as they also include cash payments for accrued leave to employees that remain employed by the City. Officials told us that payments to employees for accrued leave are based on past practice and interpretations of the City's Code of Ordinances, at the City Manager's discretion. The appropriateness of this practice was not part of this review.

The City's termination salary expenditures have averaged \$2.6 million over the last three completed fiscal years. Based on these trends, it does not appear that the total proposed appropriation will be sufficient. Officials indicated that retirement incentives offered during the past few years increased the amount of termination payments. However, there are currently no retirement incentives being offered and therefore termination salary payments should be lower.

In addition, during the past two fiscal years the City issued debt averaging \$2.6 million for termination salaries.² The 2017-18 budget included \$1.8 million for these payments. However, officials now expect termination payment expenditures to total \$2.1 million, exceeding the budgeted amount by \$300,000. As of March 31, 2018, the City expended a total of \$1.6 million.

City officials planned for these payments to be financed with budgeted proceeds from borrowing. On April 17, however, the City Council rejected a proposal to issue debt of \$2.1 million to cover these costs. Officials indicated that they have alternate plans to finance operations through the end of the year without the debt proceeds but did not provide us with specific details. Should, these management actions not be sufficient, the City's current year finances have a potential cash shortfall of \$2.1 million that could result in a deficit going into the 2018-19 fiscal year.

The City's continued practice of borrowing to fund these operating costs is not fiscally prudent. This practice will saddle future taxpayers with the repayment of past service costs, with interest, for which they received no benefit. In addition, the continued reliance on proceeds of long-term debt to finance recurring operating expenditures will diminish the City's ability to finance needed services in future budgets because the City will have to devote more of its limited resources to repay the principal and interest on this debt. As noted, debt service costs for the City are already a significant cost, which have been steadily increasing yearly. Budgeting only \$1.8 million for termination salaries in the 2018-19 budget does not address this growing concern and could result in adding to the growing debt burden.

Cash Flow Projections

City officials did not include cash flow projections with the proposed budget. Although such projections are not a required part of the annual budget, we believe the City should include them to compare not only total revenues with total expenditures but also to compare timing of receipts and disbursements to be sure cash will be available when needed and any shortfalls can be planned for. With the City's weak financial condition, declining cash balance and uncertain projections

¹ This includes \$1.4 million in the general fund, \$270,000 in the sewer fund and \$95,000 in the water fund.

² The State Legislature amended the Local Finance Law in 2012 authorizing the City to finance separation payments with proceeds of long-term debt, payable over five years.

for the rest of the current year, cash flow projections would provide officials with another gauge of the effectiveness of the proposed budget.

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 2017 budget review letter. City officials only partially implemented our recommendations.

Refuse and Garbage Charges – The 2017-18 budgeted amount of \$9.45 million included an estimated rate increase of \$15 per sanitation parcel. City officials informed us that this rate increase was not authorized by the Council. City officials did not modify their adopted budget for 2017-18 to reflect the existing rates. As of March 31, 2018, the City has realized \$9.23 million.

Overtime – City officials did not modify overtime appropriations in the 2017-18 adopted budget. As of March 31, 2018 overtime expenditures were approximately \$2.98 million, which exceeds the total appropriated in 2017-18 by \$246,216. We reviewed overtime estimates in the 2018-19 proposed budget and found them to be reasonable.

Tax Cap Compliance

General Municipal Law Section 3-c established a tax levy limit on local governments, which was effective with 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 initially proposed budget includes a tax levy of \$41,358,266 which is \$3,712,839 above the limit established by law. On May 1, 2018, the Council adopted a resolution authorizing publication for hearing of a local law authorizing the City to override the tax levy limit. In adopting the 2018-19 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 governing board approval to override the tax levy limit.

We request that you provide us with a copy of the adopted budget, authorization for increases in refuse and garbage rates and authorization to exceed the tax cap.

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: Erin D'Antonio, Acting City Comptroller
John Bendo, 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. Helene E. Weinstein, 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
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