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May 18, 2018

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

Report Number: B18-6-6

Dear Mayor Spano and City Council Members,

Chapter 55 of the Laws of 2014 authorizes the City of Yonkers (City), subject to certain requirements, to issue serial bonds not to exceed \$45 million to liquidate 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 proposed budget must be submitted no later than 30 days before the date scheduled for the City Council's vote on its adoption or the last date on which the budget may be finally adopted, whichever is earlier. The State Comptroller and the Commissioner of Education must then 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 its 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 2018-19 fiscal year are contained in this report.

Our Office has recently completed a review of the City's proposed 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 question related to the City's proposed budget for the upcoming fiscal year:

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

To accomplish our objective, we reviewed 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 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 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 2018-19 fiscal year consisted of the following:

- 2018-19 Mayor’s Budget Letter
- 2018-19 Proposed Executive Budget
- 2018-19 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	\$460,838,526	\$384,074,880	\$18,261,008	(\$303,574,005)	\$362,076,643
Water Fund	\$37,585,295	\$43,504,172	\$5,980,808	(\$11,899,685)	\$0
Sewer Fund	\$7,609,812	\$8,316,347	\$2,718,921	(\$3,425,456)	\$0
Library Fund	\$9,105,795	\$150,610	\$506,733	\$8,448,452	\$0
Museum Fund	\$250,000	\$0	\$0	\$250,000	\$0
Yonkers Public Schools ^b	\$604,826,391	\$319,037,074	\$25,062,176 ^c	\$260,727,141	\$0
Debt Service Fund	\$51,932,775	\$0	\$2,459,222	\$49,473, 553	\$0
Total	\$1,172,148,594	\$755,083,083	\$54,988,868	\$0	\$362,076,643

^a Includes transfers to and from various funds

^b Includes debt service for school debt

^c Includes \$24.1 million of appropriated education fund balance that was not included in the City's Executive Budget. The appropriation is pending Board of Education and City Council approval.

Our review disclosed the following issues which should be reviewed by City officials for appropriate action. As noted above, 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

Fund Balance – The District is projecting unassigned fund balance of \$24.1 million at the end of the 2017-18 fiscal year. The District appropriated all of this projected fund balance in the 2018-19 proposed budget. However, the fund balance appropriation must be approved by the Board of Education and City Council before it can be used. If the fund balance appropriation is not approved or available at year end, the District could have a budget gap of approximately \$24.1 million.

The District’s use of its fund balance to close the budget gap puts it in a precarious financial position to not be able to respond to financial emergencies or cover unforeseen shortfalls in revenue. We are concerned that the District continues to rely on nonrecurring revenue, such as fund balance, to balance its budget. District officials will have to replace this nonrecurring revenue in the 2019-20 budget.

Textbooks – The District’s 2018-19 budget request does not include an appropriation for the purchase of textbooks. The District expended approximately \$1.8 million for this purpose in 2016-17 and approximately \$707,000 to date in 2017-18. District officials plan to have the City issue a bond for the acquisition of textbooks and equipment during 2018-19, and the City’s capital budget includes up to \$4.9 million for this acquisition. The purchase of textbooks is a recurring District expenditure and therefore should be included as an appropriation in the annual budget. The District will incur additional costs by borrowing for textbooks.

Personal Services – The District has budgeted \$279.1 million for personal services. However, the District’s budget includes a reduction of \$2 million for a “vacancy factor,” a budgeting technique, to account for retirements and employees taking leaves of absence who may be replaced by employees with lower salary rates. According to City officials, the vacancy factor is being used because of significant salary savings in prior years. However, the District has not significantly overbudgeted for personal services in each of the last four completed fiscal years. As a result, the appropriation for personal services is likely underestimated by as much as \$2 million.

Reduced Services – The District’s 2018-19 proposed budget includes a staffing reduction of 210, comprised of 199 layoffs and the elimination of 11 vacant positions. The staffing reductions are intended to save the District approximately \$13.2 million in salaries. These reductions create a balanced budget. However, after they are implemented, the District will have no remaining fund balance. Therefore, when preparing the 2019-20 budget, the District will have to find additional funding sources and/or reduce services, which may have a significant impact on students and residents.

City of Yonkers

Nonrecurring Funding Sources

Unsupported Revenue – The 2018-19 proposed budget includes \$5 million revenue for specialized State aid. According to the Mayor’s budget letter, this revenue is for aid from the New York State Financial Restructuring Board for Local Governments (Board). The Board offers grants or loans of up to \$5 million to fiscally eligible municipalities for undertaking recommendations to improve

fiscal stability and management and the delivery of public services. City officials were unable to provide documentation to support that the City has been approved for participation in the program or will receive the aid in the 2018-19 fiscal year. Grants from the Board are typically given to fund the costs of a change in operations, so it is likely that any increased revenue would be offset by additional expenditures. Also, the City is not listed as an automatically eligible municipality as determined by Board requirements, although the Board may find the City to be fiscally eligible for Board services and assistance if it determines that they would benefit from its services and assistance. Such a determination is on a case by case basis using available information.¹ As a result, the City's proposed budget is structurally imbalanced with a budget gap of at least \$5 million.

Debt Service Fund Balance – The 2018-19 proposed budget includes a \$3.4 million debt service fund balance appropriation, including education debt service fund balance. The City's 2016-17 fiscal year financial statements indicate that the fund balance is available for appropriation. However, City officials did not take into account \$1.2 million in fund balance that was used in 2017-18 as part of an advance refunding of outstanding general obligation bonds. This expenditure was not accounted for in the City's fund balance projections because it was not recorded in its accounting records. As a result, the City may be appropriating more fund balance than available, which could result in a fund balance deficit in the debt service fund. If City officials adjust the amount of appropriated fund balance in its adopted budget, and do not identify other funding sources, the potential budget gap of \$5 million could be increased to approximately \$6.2 million. City officials will have to replace this nonrecurring revenue in the 2019-20 budget.

Fund Balance² – The City is projecting unassigned general fund balance of \$21.8 million at the end of the 2017-18 fiscal year. The City appropriated \$18.3 million, or approximately 83.7 percent of the projected fund balance, in the 2018-19 proposed budget. In addition, the City has appropriated \$6 million of water fund balance, \$2.7 million of sewer fund balance and \$506,733 of library fund balance.

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 with the City's continued reliance on nonrecurring revenue, such as fund balance, to balance its budget. This action decreases the fund balance that is available to cover unforeseen shortfalls in revenue. Appropriating such a high percentage of fund balance leaves the City vulnerable to unexpected costs or contingencies that may occur. City officials will have to replace this nonrecurring revenue in the 2019-20 budget.

¹ <https://frb.ny.gov/FRBeligible.html>

² 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 2018-19 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 2016-17 fiscal year.

Revenues³

Metered Water Sales – The 2018-19 proposed budget includes metered water sales revenue of \$38.2 million, which is an increase of approximately \$3.7 million from the amount billed in the 2016-17 fiscal year. The City plans to increase rates for metered water sales by approximately 3 percent. We project that the City will receive approximately \$36 million in the 2017-18 fiscal year. If rates are increased by 3 percent, the City still could face a revenue shortfall of approximately \$1.1 million based on current year projections. The City Council must pass a resolution to raise water rates prior to the adoption of the budget or lower the estimates for metered water sales revenue.

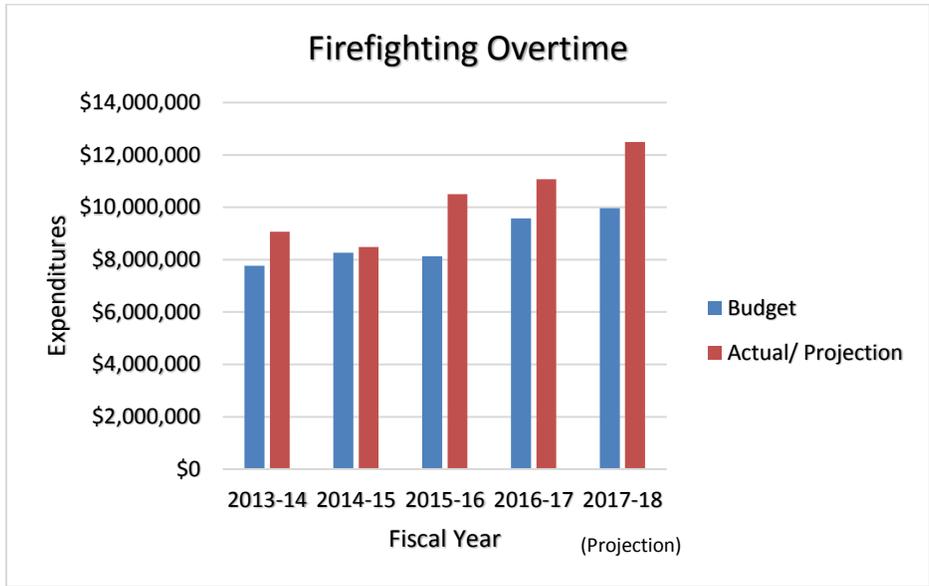
Income Tax Surcharge – The 2018-19 proposed budget includes City income tax surcharge revenues of \$54.1 million. The City is relying on growth in income tax revenue of 3 percent. We estimate a more conservative growth rate of 2 percent due to inconsistent income tax collections in prior years. If the 3 percent growth rate is not realized, the City could face an income tax revenue shortfall of approximately \$871,000.

Appropriations

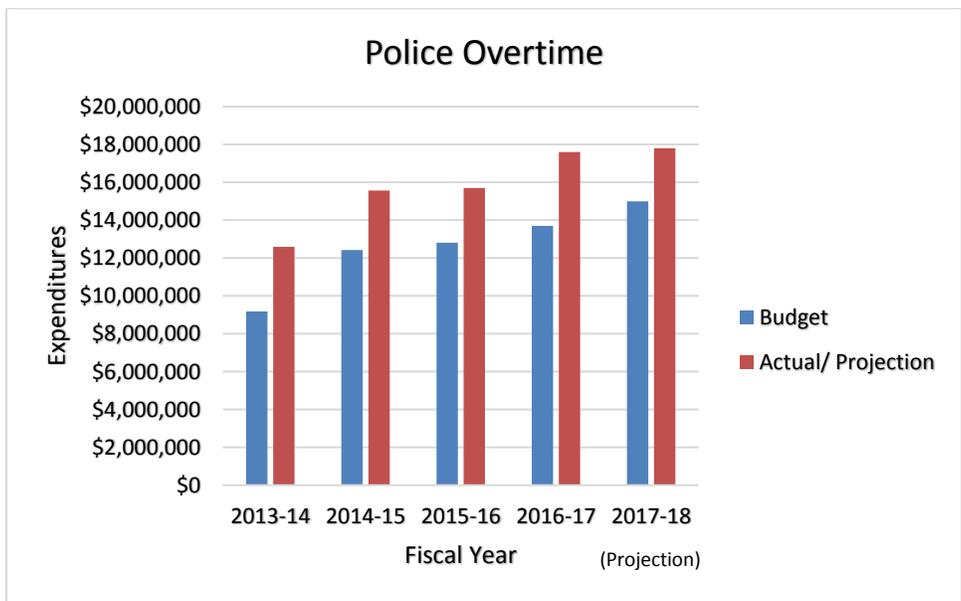
Tax Certiorari – The proposed budget includes \$500,000 for payment of tax certiorari claims in 2018-19, which is low compared to the \$6.3 million in certiorari payments the City made in 2016-17. The City bonded to pay tax certiorari claims in prior years and plans to bond for 2018-19 payments. The continued practice of using debt to pay for these recurring costs is imprudent. Tax certiorari claims are a recurring cost of operations 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.

Firefighting Overtime – The City routinely exceeds budgeted amounts for firefighting overtime costs each year. The City's 2018-19 general fund budget includes overtime funding of \$10.4 million for the Fire Department. The City spent \$11.1 million on overtime in 2016-17 and approximately \$8.9 million in 2017-18 (as of March 31, 2018). Based on our projections, the City will spend approximately \$12.5 million on overtime in the 2017-18 fiscal year. The City has not implemented procedures to reduce overtime so it is likely the historical trends will continue, which means the appropriation for overtime is likely underestimated by about \$2.1 million. Furthermore, with the reduction of 30 employees in the Fire Department in the proposed budget and the need to maintain coverage with fewer firefighters, overtime may be even higher this year.

³ 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 2016-17 or "properly attributable" to 2016-17, 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.



Police Overtime – The City also routinely exceeds budgeted amounts for police overtime costs each year. The City’s 2018-19 general fund budget includes overtime funding of \$16.1 million for the police department. The City spent \$17.6 million on police overtime in 2016-17 and approximately \$13.4 million in 2017-18 (as of March 31, 2018). Based on our projections, the City will spend approximately \$17.8 million on police overtime in the 2017-18 fiscal year. The City has not implemented changes in procedures to reduce overtime so it is likely the historical trends will continue, which means the appropriation for overtime is likely underestimated by about \$1.7 million. Furthermore, with the reduction of 68 employees in the Police Department in the proposed budget, overtime may be even higher this year.



Workers’ Compensation – The City budgeted \$12.8 million for workers’ compensation insurance in its 2018-19 proposed budget. As of March 31, 2018, the City has expended approximately \$9

million on workers' compensation. Based on the percentage of total expenditures through March 31, 2018, we project that the City will spend approximately \$14.2 million on workers' compensation in 2017-18. If the City realizes the same amount of expenditures projected for 2017-18 in the 2018-19 fiscal year, then its estimate may be underestimated by as much as \$1.4 million.

Contingency Funds – The City's proposed budget does not include a contingency appropriation. In light of recent economic conditions, the significant budgetary concerns pointed out in this letter and the minimal fund balance left after what is appropriated in the proposed budget, it would be prudent for City officials to have contingency funding available for unforeseen increases in expenditures or revenue shortfalls. City officials should establish a contingency appropriation at a level that would provide the City with flexibility in the event that it has to deal with unanticipated expenditures or revenue shortfalls.

Other Matter

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 the City's taxable real property. Under the 2018-19 proposed budget, the City will have exhausted 87.7 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 2018-19 budget includes a tax levy of \$362,076,643, which is within the limits established by the law. In adopting the 2018-19 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 either approve the appropriation of fund balance or eliminate the potential funding gap if fund balance appropriation is not approved. Officials should also consider if it is prudent to appropriate the entire projected year end fund balance.
2. Work with District officials to develop a plan to maintain fund balance at a reasonable level to ensure funds are available in case of a shortfall in revenues during the fiscal year.

3. Work with District officials to identify alternatives to borrowing funds to purchase textbooks.
4. Work with District officials to review the estimate for personal services of the District and amend it as necessary.
5. Work with District officials to develop a plan to limit the impact of staffing reductions.
6. Evaluate the expectation of receiving \$5 million in specialized State aid and amend the proposed budget as necessary.
7. Review the estimate for appropriated debt service fund balance and reduce it as necessary.
8. Develop a plan to maintain fund balance at a reasonable level to ensure funds are available in case of unanticipated expenditures or a shortfall in revenues during the fiscal year.
9. Review the estimate for metered water sales and amend as necessary.
10. Review the estimate for the income tax surcharge revenue and amend it as necessary.
11. Adjust the appropriation for tax certiorari payments and provide a financing source for tax certiorari settlements.
12. Review the estimate for firefighting overtime and increase it to an appropriate level.
13. Review the estimate for police overtime and increase it to an appropriate level.
14. Review the estimate for workers' compensation insurance and increase it to an appropriate level.
15. Include a contingency appropriation in the budget.

The City Council must:

16. Pass a resolution to approve the appropriation of fund balance for the District, identify alternate funding, or lower appropriations.
17. Pass a resolution to raise water rates prior to the adoption of the budget or lower the estimate for water rents.

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 this information is helpful 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. Edwin Quezada, Superintendent of Schools
Hon. Catharine Young, Chair, Senate Finance Committee
Hon. Helene E. Weinstein, Chair, Assembly Ways and Means Committee
Hon. Shelley Mayer, NYS Senate
Hon. Andrea Stewart-Cousins, NYS Senate
Hon. J. Gary Pretlow, NYS Assembly
MaryEllen Elia, Commissioner, NYS Education Department
Thalia Melendez, Director, Office of Audit Services, NYS Education Department
Harold Coles, Superintendent Southern Westchester BOCES
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Tenneh Blamah, Chief Examiner, Newburgh Regional Office
Andrew A. SanFilippo, Executive Deputy Comptroller