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May 10, 2019

Robert Agostisi, Acting City Manager  
Members of the City Council  
City of Long Beach  
City Hall  
1 West Chester Street  
Long Beach, NY 11561

Report Number: B19-7-4

Dear Mr. Agostisi 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 2019-20 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 2018?

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, if any, 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 2019-20 fiscal year consisted of the following:

- 2019-20 Acting City Manager’s Budget Message
- 2019-20 Proposed Budget
- Supplementary Information

The proposed budget submitted to our Office is summarized as follows:

<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenue</b>	<b>Appropriated Fund Balance</b>	<b>Real Property Taxes</b>
General	\$85,678,257	\$40,735,603	\$0	\$45,092,654 <sup>a</sup>
Water	\$5,510,685	\$5,510,685	\$0	\$0
Sewer	\$6,428,033	\$6,428,033	\$0	\$0

<sup>a</sup> The City’s 2019-20 budget includes a planned operating surplus of \$150,000.

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 and the impact the budget will have on City operations and financial health. The City remains in significant fiscal stress and its condition has remained the same from last fiscal year. 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, 2018, personal services and employee benefits totaled over 76 percent of available revenues and debt service was 14 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 90 percent of revenue, there is limited ability to finance operations and maintain infrastructure. Furthermore, the City continues to issue debt to finance recurring operations.

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.

We also found that City officials only partially implemented the recommendations in our May 2018 budget review letter.

### **Water and Sewer Funds**

The proposed budget includes revenue estimates for metered water sales of \$4.5 million and sewer rents estimates of \$5.5 million. These estimates include amounts that are expected to be realized from a 2 percent increase in metered water rates and an increase in sewer rents from 120 to 125 percent of water usage, which the City Council has not yet authorized. Unless the rate increases are authorized and made in a timely manner, the full amount of revenues included in the proposed budget likely will 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.

In addition, City officials informed us that they are replacing a number of water meters that should provide more accurate water readings resulting in increased revenue. However, they could not provide us with the timing of the meter replacement or projections of how the new meters would impact accuracy. We recalculated the sewer rents based on the prior year's metered water usage and projected increase and found that the sewer rents are overestimated by approximately \$270,000. We advise City officials to review this estimate and adjust their budget accordingly.

### **Termination Salary Payments**

The City's 2019-20 proposed budget contains an appropriation of approximately \$1.9 million<sup>1</sup> for termination salaries. The City's termination salary expenditures have averaged \$2.2 million over the last three completed fiscal years. As of March 31, 2019, the City expended a total of \$1.7

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<sup>1</sup> This includes \$1.6 million in the general fund, \$125,000 in the water fund and \$95,000 in the sewer fund.

million and projects spending a total of approximately \$2.2 million for the 2018-19 fiscal year. Based on these trends, the total proposed appropriation may not be sufficient.

City officials plan for the \$1.9 million for termination salaries<sup>2</sup> included in the 2019-20 proposed budget to be financed with proceeds from borrowing. At the time of our review, the City Council had not authorized the issuance of debt to finance the appropriation for termination salaries. Unless the debt issuance is authorized in a timely manner, the full amount of proceeds from borrowings included in the proposed budget will not be realized and the City's already stressed finances will be further disrupted.

The City's continued practice of borrowing to fund these operating costs is not fiscally prudent. In addition, the continued reliance on proceeds of long-term debt to finance recurring operating expenditures will further 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 that has been steadily increasing yearly. Budgeting and continuing to borrow for the \$1.9 million for termination salaries in the 2019-20 budget does not address this growing concern and will likely result in adding to the 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, not only to compare total revenues with total expenditures but also to compare timing of receipts with disbursements to be sure cash will be available when needed and any shortfalls can be planned for. With the City's weak financial condition and projected operating deficits for the current fiscal 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 2018 budget review letter. City officials only partially implemented our recommendations.

Refuse and Garbage Charges – The 2018-19 estimated revenue for refuse and garbage charges of \$9.6 million included a rate increase of \$20 (from \$585 to \$605) per sanitation parcel, which the City Council had not yet authorized. The City Council authorized this rate increase on June 19, 2018.

Termination Salary Payments – The 2018-19 termination salaries included cash payments for accrued leave to employees that remain employed by the City. City officials stated that for fiscal year 2019-20 and moving forward, amounts paid for non-separating employees will no longer be

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<sup>2</sup> 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.

accounted for in termination salaries and will not be included in any related borrowing. On July 3, 2018, the City Council authorized \$1.8 million in debt to cover termination salary related expenditures. The City Council authorized an additional \$400,000 in debt to cover termination salary related expenditures on May 1, 2019. City officials plan to issue this debt prior to the end of fiscal year 2018-19. They stated that, while they understand the future impact of borrowing for termination payments, the City is not yet in a financial position to budget current revenues to cover these costs and that borrowing for these costs allows the City to pay them back over multiple years and evens out the effect on the budget. Routine reliance on debt only perpetuates the City's dire financial condition. We urge City officials to adopt a long-term planning approach that includes cash flow analysis.

Cash Flow Projections – City officials did not include cash flow projections with the 2018-19 proposed budget and indicated they would complete the process on an as-needed basis and as required for borrowing. However, no cash flow projection is included in the 2019-20 proposed budget. As we stated in last year's review and reiterate here, while cash flow projections are not required, they would help City officials identify anticipated cash shortfalls and plan accordingly.

### **Tax Cap Compliance**

General Municipal Law Section 3-c establishes 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 \$45,092,654 which is \$3,218,797 above the limit established by law. On May 7, 2019, the Council adopted a resolution authorizing the City to override the tax levy limit. In adopting the 2019-20 budget the Council should be mindful of the legal requirements to maintain the tax levy increase within 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 and the City Council's approval authorizing the increased water and sewer rates and the issuance of debt for termination salaries.

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,

Andrew A. SanFilippo  
Executive Deputy Comptroller

cc: Erin D'Antonio, Acting City Comptroller  
Anthony Eramo, City Council President

Chumi Diamond, City Council Vice President  
John Bendo, City Council  
Scott J. Mandel, City Council  
Anissa D. Moore, City Council  
David W. Fraser, City Clerk  
Hon. Elizabeth Krueger, 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  
Ira McCracken, Chief Examiner, Long Island Regional Office