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May 8, 2015

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: B7-15-14

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 on or before June 30, 2015, in an aggregate principal amount not to exceed \$12,000,000. The object or purpose of the debt is to liquidate cumulative deficits in its general fund, sewer fund, water fund and risk retention fund as of June 30, 2012. Local Finance Law Section 10.10 requires all local governments 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 local government is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, their proposed budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on the adoption of the budget or the last date on which the budget may be finally adopted, whichever is sooner. The State Comptroller must examine the proposed budget and make recommendations for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination into 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 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.

Our Office has recently completed a review of the City's budget for the 2015-16 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 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 letter issued in May 2014?

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 our last budget review were implemented or resolved and 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 2015-16 fiscal year consisted of the following:

- The 2015-16 City Manager’s Budget Message
- 2015-16 Proposed Budget
- Supplementary Information

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

| Fund | Appropriations and Provisions for Other Uses | Estimated Revenues | Appropriated Fund Balance | Real Property Taxes |
|--------------|--|--------------------|---------------------------|---------------------|
| General Fund | \$74,947,172 | \$40,657,062 | \$635,000 | \$33,655,110 |
| Water Fund | \$5,566,125 | \$5,260,570 | \$305,555 | \$0 |
| Sewer Fund | \$5,714,169 | \$5,714,169 | \$0 | \$0 |

Based on the results of our review, we found that the significant revenue and expenditure projections in the proposed budget appear reasonable. Our review identified several issues that require the City Council’s attention. For example, the City’s proposed budget includes revenue related to the sale of real property and federal aid which may not be realized. In addition, appropriations for overtime may not be sufficient. Finally, metered water sales and sewer rents include a 2 percent rate increase which has not yet been adopted by the City Council.

We also found that City officials generally implemented the recommendations in our prior budget review letter, issued in May 2014. The City Council adopted the rate increase for the refuse and garbage charges and the rate increase for water and sewer funds.

The following issues which should be reviewed by the City Council for appropriate action. Good management practices require that City officials take prompt action concerning our recommendations.

General Fund

Sale of Real Property – The proposed budget includes estimated revenue of \$1.3 million from the sale of City property. City officials could not provide documentation to show that this revenue will be realized in 2015-16. Also, even if these revenues are realized, the City should avoid using non-recurring revenues, such as proceeds from the sale of real property, to fund recurring operating expenditures. City officials should instead budget and use one-time revenues to fund one-time expenditures, such as the purchase of equipment or construction of capital assets. The City Council should review this revenue and determine whether it is likely to be realized during 2015-16.

Federal Aid – The City’s proposed budget includes estimated revenue of \$2.3 million in federal aid. However, the City has not yet submitted the application to the federal agencies. Officials informed us that the City intends to apply for and receive these reimbursements during the 2015-16 fiscal year. However, we caution that if this aid is not realized this budget year, the City may experience a budget shortfall.

Overtime – The City’s proposed budget includes appropriations for overtime salaries totaling \$2.1 million. This amount is less than the \$2.4 million expended for the first nine months of the current fiscal year. In addition, overtime costs have averaged over \$2.9 million for the last five completed fiscal years. City officials have indicated that their intention is to better monitor overtime costs and to hold department heads accountable for remaining within the prescribed budget limits. Unless City officials ensure that the necessary controls are in place and operating effectively, budgeted amounts may not be sufficient.

Water and Sewer Funds

The proposed budget includes revenue estimates for metered water sales and sewer rents of \$4.4 million each. These estimates include amounts that are expected to be realized from a 2 percent increase in metered water rates, which the City Council has not yet authorized. Unless the rate increase is authorized, and made in a timely manner, the full amount of revenues included in the proposed budget may not be realized, thereby having a negative effect on the results of these funds’ operations. If the proposed water rate increase is not authorized, or is authorized at a different rate, water and sewer fund budgets should be modified accordingly.

Tax Cap Compliance

The State Legislature enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments, which is effective beginning in the 2012 fiscal year. The law 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 complies with the tax levy limit. The proposed budget includes a tax levy of \$33.7 million, which increases the 2015-16 tax levy within the limits established by Law. In adopting the 2015-16 budget, the City Council should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated limit.

Prior Budget Review Recommendations

During this budget review, we also assessed the extent to which City officials acted to implement the recommendations contained in our prior budget review, which was issued in May 2014. City officials generally implemented our recommendations.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt a 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 the Hauppauge Regional Office, at (631) 952-6534.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Kristie Hansen-Hightower, City Comptroller
Scott J. Mandel, City Council
Fran Adelson, City Council
Anthony Eramo, City Council
Eileen J. Goggin, City Council
Len Torres, City Council
David W. Fraser, City Clerk
Hon. John A. DeFrancisco, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Hon. Todd Kaminsky, NYS Assembly
Hon. Dean G. Skelos, NYS Senate
Mary Beth Labate, Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Ira McCracken, Chief Examiner, Long Island Regional Office