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July 3, 2014

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

Report Number: B6-14-14 - Revised

Dear Mayor Spano and City Council Members,

As you know, by letter dated June 17, 2014, the Office of the State Comptroller, as Fiscal Agent for the City of Yonkers (City), determined that the City's adopted budget for fiscal year 2014-15 and the related Justification Documents are in material compliance with the requirements of the Fiscal Agent Act (Laws of 1976, Chapter 488, as amended) and the City's bond covenants incorporating provisions of that Act.

Generally, the Fiscal Agent Act and related bond covenants require the City to appropriate for each cost category as least as much as it appropriated or spent in the previous two years and to only anticipate receiving miscellaneous revenue in amounts no greater than the amounts received in the prior two years. If the City wants to appropriate less money, or to budget additional miscellaneous revenue, it must provide to us a detailed justification supporting the proposed action. While we have determined that the 2014-15 adopted budget complies with the provisions of the Act, we wish to comment on the following issues which impact the City's financial condition in the current and future years.

The City's 2014-15 adopted budget totals \$1.02 billion. The budget includes operating and debt service funding of \$522.9 million for the Yonkers Public Schools and \$497.1 million for the City. The 2014-15 adopted budget is \$30.9 million more than the City's adopted budget for 2013-14, an increase of 3.1 percent.

Nonrecurring Funding Sources

In prior years, we have expressed concern about the City's practice of financing recurring operating expenditures with nonrecurring funding sources. The 2014-15 adopted budget includes revenue of \$28 million, authorized by Chapter 55 of the Laws of 2014, to finance operating expenditures. Although this aid will provide relief in the 2014-15 budget, this funding source will not be available in future years thereby creating a funding gap in the 2015-16 fiscal year that the City must address by finding an alternate source of revenue or by reducing appropriations.

The City has projected a general fund balance of \$54.9 million at the end of the 2013-14 fiscal year. The City has appropriated \$31 million, or approximately 56 percent, of the available fund balance from the general fund in the 2014-15 budget.¹ In addition, the City appropriated \$640,000 of fund balance from the water fund. 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 or unexpected expenditures. We are concerned that the City continues to rely on nonrecurring revenue, such as fund balance, to balance its budget. City officials will have to replace this nonrecurring revenue in the 2015-16 budget.

Revenue

The 2014-15 adopted budget projects sales tax revenues at \$73.6 million, which is a 4.9 percent increase over projected amounts the City expects to collect in the 2013-14 fiscal year. This estimate may be optimistic; a more conservative estimate is that sales tax revenue will be approximately \$72.2 million or \$1.4 million less than budgeted. City officials need to carefully monitor sales tax revenues throughout the year and take prompt action to adjust expenditures if sales tax revenue begins to fall short of expectations.

The City is planning to issue \$150 million in Tax Anticipation Notes (TANs) and \$140 million in Revenue Anticipation Notes (RANs) during the 2014-15 fiscal year. RANs are being issued against anticipated revenues from various forms of State aid. City officials should develop a plan to begin reducing the level of this borrowing in future years because such borrowing results in significant interest costs.

The adopted budget also includes \$5.3 million in revenue generated by red light cameras. However, the legislation authorizing this revenue source is set to expire on December 1, 2014. The New York State Legislature recently passed legislation to extend this authority to December 1, 2019. As of this date, the legislation has not been delivered to the Governor. If this legislation does not become law, the City will not be able to collect this revenue beyond December 1, 2014, and as a result City officials may have to reduce expenditures to offset lost revenue.

Appropriations

The adopted budget includes \$500,000 for payment of tax certiorari claims in 2014-15. The City settled claims for approximately \$7.5 million in 2012-13 and as of April 30, 2014, settled claims of approximately \$6.1 million. The City issued bonds in the prior years to pay for tax certiorari claims and plans to borrow up to \$11 million for tax certiorari settlements in the 2014-15 fiscal year. The continued practice of using debt to pay for these costs is imprudent. Tax certiorari claims are a recurring cost of doing business 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 current year's operating budget.

Historically, the City has not stayed within budgeted amounts for firefighter overtime costs. During the 2012-13 fiscal year, the City spent \$11.7 million on firefighter overtime, and we

¹ To comply with the requirements of the Fiscal Agent Act and bond covenants, the City's 2014-15 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 2012-2013 fiscal year.

project the City will expend approximately \$10.2 million in 2013-14. The 2014-15 adopted budget includes an appropriation of \$8.2 million for firefighter overtime. City officials should assess the amount budgeted for firefighter overtime and determine whether expected measures to reduce overtime costs are reasonable. If reductions in overtime costs do not occur in 2014-15, the City could face a shortfall of up to \$2 million.

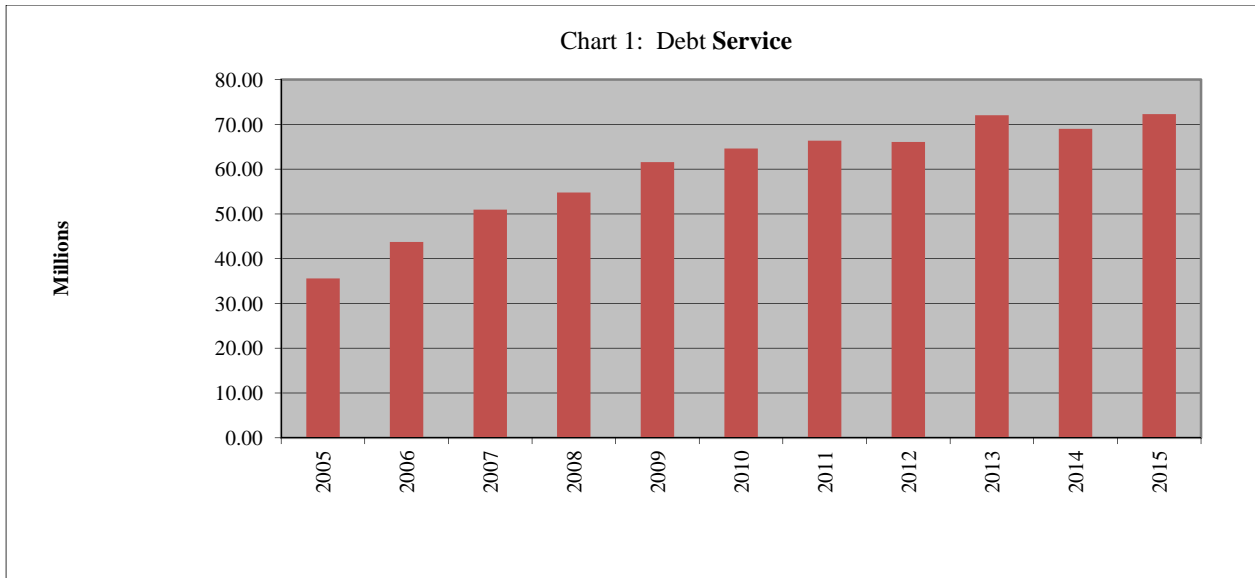
Other Matters

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 taxable real property. With the 2014-15 adopted budget, the City will have exhausted 87.15 percent of its taxing authority. The City’s ability to increase taxes may be limited in future years if property values do not increase.

Expired Union Contracts – The City currently has seven different contracts with various employee unions. Six contracts have expired as indicated below. One of the seven contracts, the Yonkers Police Benevolent Association (PBA) contract, is settled. Without current employee contracts in place, the City faces possible back pay expenditures in the future when these contracts are settled.

Union	Contract Expiration Date
Service Employees International Union (SEIU)	December 31, 2008
American Federation of State, County and Municipal Employees (AFSCME)	December 31,2008
Teamsters Local 456	December 31,2008
Yonkers Police Captains, Lieutenants, and Sergeants Association (CLSA)	June 30, 2009
Yonkers Firefighters Local 628	June 30, 2009
Yonkers Uniformed Fire Officers Association (UFOA)	June 30, 2009

Debt - The City’s outstanding debt has grown almost 14 percent over the last 10 years; over the same period, the City’s debt service payments have risen 65 percent as depicted in Chart 1. The City will need \$72.3 million to service its debt obligations during 2014-15. This amount represents about 7.1 percent of the City’s annual budget.



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 2014-15 budget complies with the tax levy limit because it includes a tax levy of \$335,448,551 which increases the 2014-15 tax levy by 1.37 percent which is within the limits established by Law.

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

cc: Vincent E. Spano, City Clerk
John Liszewski, Commissioner of Finance
Dr. Micheal Yazurlo, Interim Superintendent of Schools
Hon. John A. Defrancisco, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Chair, Assembly Ways and Means Committee
Hon. George Latimer, NYS Senate
Hon. Andrea Stewart-Cousins, NYS Senate
Hon. J. Gary Pretlow, NYS Assembly
Hon. Shelley Mayer, NYS Assembly
John B. King Jr., Commissioner, NYS Education Department
Charles Szuberla, Assistant Commissioner, NYS Education Department
Maria Guzman, Director, Office of Audit Services, NYS Education Department
Harold Coles, Superintendent Southern Westchester BOCES
Robert L. Megna, Director, Division of Budget
Tenneh Blamah, Chief Examiner, Newburgh Regional Office
Andrew A. SanFilippo, Executive Deputy Comptroller