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July 7, 2017

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

Report Number: B17-6-11

Dear Mayor Spano and City Council Members,

By letter dated July 3, 2017, 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 2017-18 and the related justification documents are in compliance with the requirements of the Fiscal Agent Act (Chapter 488 of the Laws of 1976) (Act).

Generally the Act requires the City to appropriate for each cost category at least as much as was 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 budget additional miscellaneous revenue, it must provide to us a detailed justification supporting the proposed action. While we have determined that the 2017-18 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 2017-18 budget totals \$1.15 billion. The budget includes operating and debt service funding of \$590.7 million for the Yonkers Public Schools (District) and \$563.6 million for the City. The 2017-18 budget is \$38 million more than the City's budget for 2016-17, an increase of 3.4 percent.

Nonrecurring Funding Sources

Fund Balance – The City has projected an unassigned general fund balance of \$38.6 million at the end of the 2016-17 fiscal year. The City appropriated \$37.7 million, or approximately 97.6 percent, of the projected fund balance from the general fund in the 2017-18 budget.¹ In addition, the City

¹ To comply with the requirements of the Fiscal Agent Act, the City's 2017-18 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 2015-16 fiscal year.

appropriated approximately \$7.7 million from the debt service fund, \$564,649 from the library fund and \$4 million from non-spendable general fund balance.

The District has projected an unassigned fund balance of \$24.6 million at the end of the 2016-17 fiscal year. The District has appropriated \$17.4 million of fund balance, which is 70.9 percent of the available fund balance, leaving approximately \$7.2 million of unassigned fund balance.

The use of fund balance to close gaps in the budget decreases fund balance that is available to cover unforeseen shortfalls in revenue. 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 2018-19 budget.

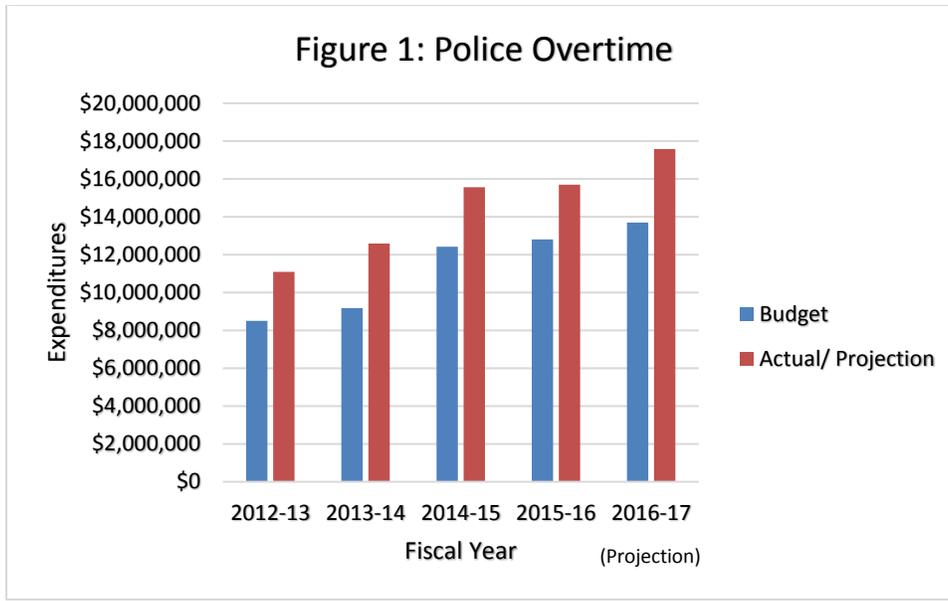
Revenues

Income Tax Surcharge – New York State Tax Law authorizes the City to enact a local law to impose an income tax surcharge on City residents and non-residents who work within the City’s boundaries. The 2017-18 adopted budget includes City income tax surcharge revenues of \$51.1 million. We project that the City will receive approximately \$49.4 million in the 2016-17 fiscal year, which is a decrease of approximately 2.1 percent from the amount received in the 2015-16 fiscal year. The City could potentially face a shortfall of approximately \$1.7 million in revenue if income tax surcharges remain at 2016-17 levels.

Parking Violations Bureau – The 2017-18 adopted budget includes \$20.6 million in revenue from the Parking Violations Bureau (Bureau). This includes approximately \$112,000 from increases in fines and \$1.2 million from an additional public safety fee on all Bureau violations. The 2017-18 proposed revenue is a 2.5 percent increase over the \$20.1 million that we project the City will receive in the 2017-18 fiscal year. The City could potentially face a shortfall of \$515,000 if revenue estimates are not realized.

Appropriations

Police Overtime – The City has routinely exceeded budgeted amounts for police overtime costs each year. The City’s 2017-18 adopted budget includes overtime funding of \$15 million for the police department. The City spent \$15.7 million on police overtime in 2015-16 and approximately \$15.1 million in 2016-17 (as of May 31, 2017). Based on our projections, the City will spend approximately \$17.6 million on police overtime in the 2016-17 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 could be underestimated by as much as \$2.6 million.



Tax Certiorari – The adopted 2017-18 budget includes \$500,000 for payment of tax certiorari claims. The City made tax certiorari payments totaling approximately \$2.6 million and \$7.5 million in 2015-16 and 2016-17, respectively. The City issued bonds in the prior years to pay for tax certiorari claims and plans to borrow up to \$13 million for tax certiorari settlements in the 2017-18 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 in the operating budget.

Social Security – The adopted 2017-18 budget includes \$16.9 million for the City’s share of Social Security tax payments. The employer’s share of the Social Security tax consists of 6.2 percent of wages to a certain limit for Social Security and an additional 1.45 percent of all wages for Medicare. In January 2017, the Social Security Administration increased the amount of wages subject to Social Security tax from \$118,500 to \$127,200. While City officials acknowledged that they did not account for this increase in the proposed budget, they did not increase the appropriation for Social Security tax payments in the adopted budget. As a result, the City underestimated the amount of its share of the Social Security tax by approximately \$828,000.

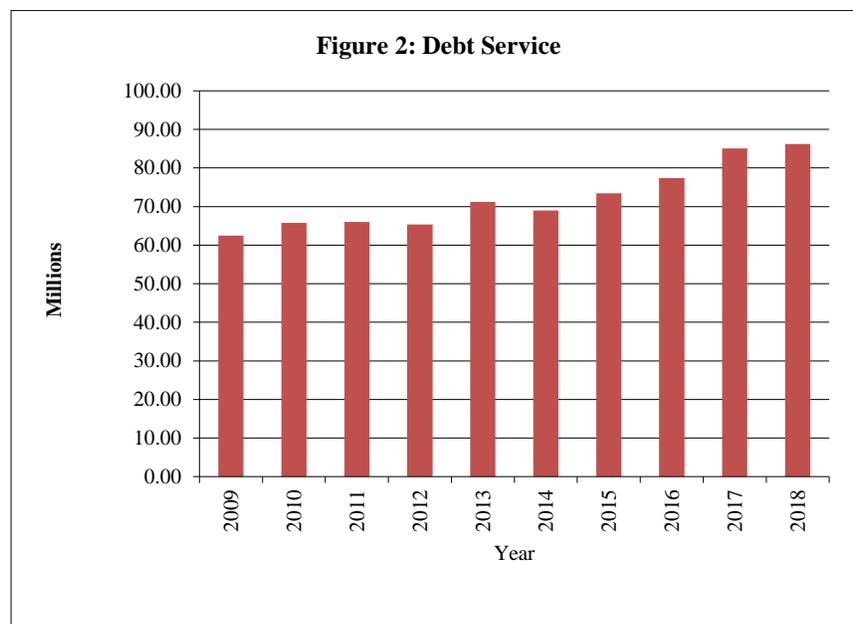
Contingency Funds – The City’s adopted budget does not include a contingency appropriation. In light of recent economic conditions, it would be prudent for City officials to have contingency funding available for unforeseen increases in expenditures. City officials should consider establishing a contingency appropriation at a level that would provide the City with reasonable flexibility in the event that it has to deal with unanticipated or insufficient appropriations. The lack of a contingency fund, along with the decrease in the City’s unassigned fund balance, leaves the City vulnerable to unexpected events.

Other Matters

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 2017-18 budget, the City will have exhausted 93.21 percent of its taxing authority. The City's ability to increase property taxes may be limited in future years if property values do not increase.

Debt

The City's outstanding debt has grown 15 percent over the last 10 years. Since 2009, the City's annual debt service obligations have risen 38 percent as depicted in Figure 2. The City will need \$86.2 million to service its debt obligations during 2017-18. This amount represents about 7.5 percent of the City's annual budget. A contributing factor to the debt increases is the City's continuing practice of bonding for recurring expenditures, such as textbooks for the District and tax certiorari costs, which should be included in budgeted appropriations.



Tax Cap Compliance

The New York 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 adopted 2017-18 budget complies with the tax levy limit because it includes a tax levy of \$356,243,271 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
Deputy Comptroller

cc: Vincent E. Spano, City Clerk
John Liszewski, Commissioner of Finance
Hon. Catharine Young, 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
Robert F. Mujica Jr., Director, Division of Budget
Tenneh Blamah, Chief Examiner, Newburgh Regional Office
Andrew A. SanFilippo, Executive Deputy Comptroller