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May 11, 2021

Donna Gayden, City Manager
Members of the City Council
City of Long Beach
City Hall
1 West Chester Street
Long Beach, NY 11561

Report Number: B21-7-6

Dear Ms. Gayden and Members of the City Council:

Chapter 3 of the Laws of 2014 authorizes 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 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 proposed budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on the adoption of the final budget 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 proposed budget for the 2021-22 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 2020?

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. The City Council should review these issues for appropriate action. The City Council must review the recommendations and take appropriate action as necessary in accordance with the requirements in Local Finance Law (LFL) Section 10.10. We also found that City officials only partially implemented the recommendations provided in our May 2020 budget review letter. Therefore, we are also commenting on those findings in this letter. Furthermore, while the City's budget for 2021-2022 is balanced, it is not structurally balanced because it relies on one shot revenues such as appropriation of fund balance and issuance of debt, to fund recurring expenditures. The practice of adopting budgets that are not structurally balanced has contributed to the poor financial condition of the City and this budget continues this practice. Lastly, the City's proposed budget includes a tax levy of \$50.5 million, which is \$3 million above the legal limit. The City Council has not adopted a local law indicating it plans to override the tax levy limit.

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 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. 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.

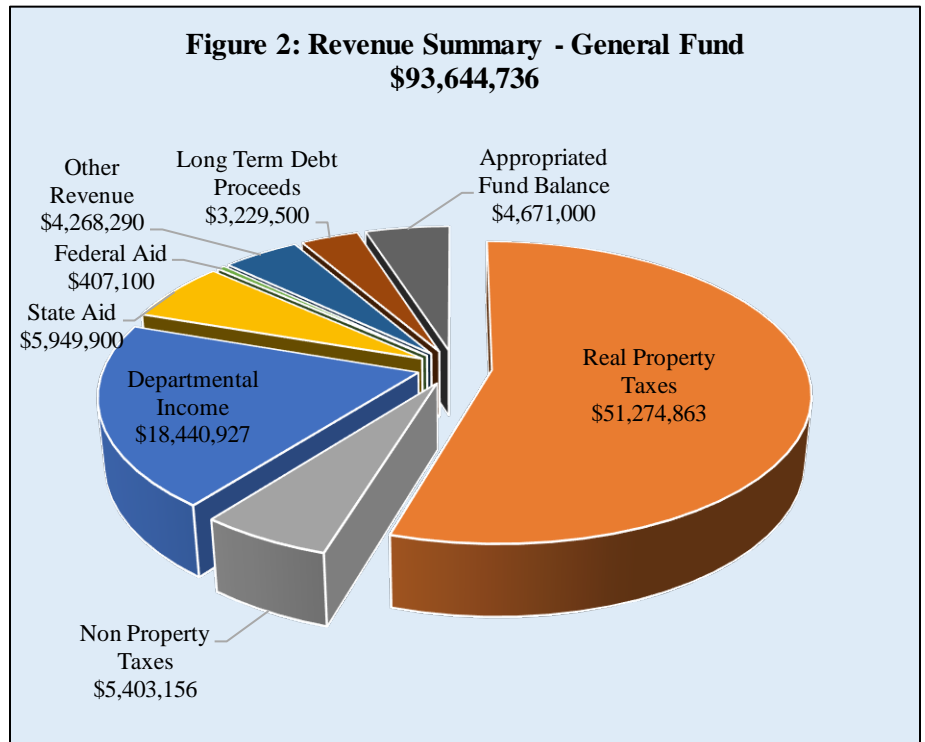
Proposed Budget Submission and Contents

The proposed budget package submitted for review for the 2021-22 fiscal year (summarized in Figures 1, 2 and 3) consisted of the following:

- 2021-22 City Manager’s Budget Message
- 2021-22 Proposed Budget
- Supplementary Information

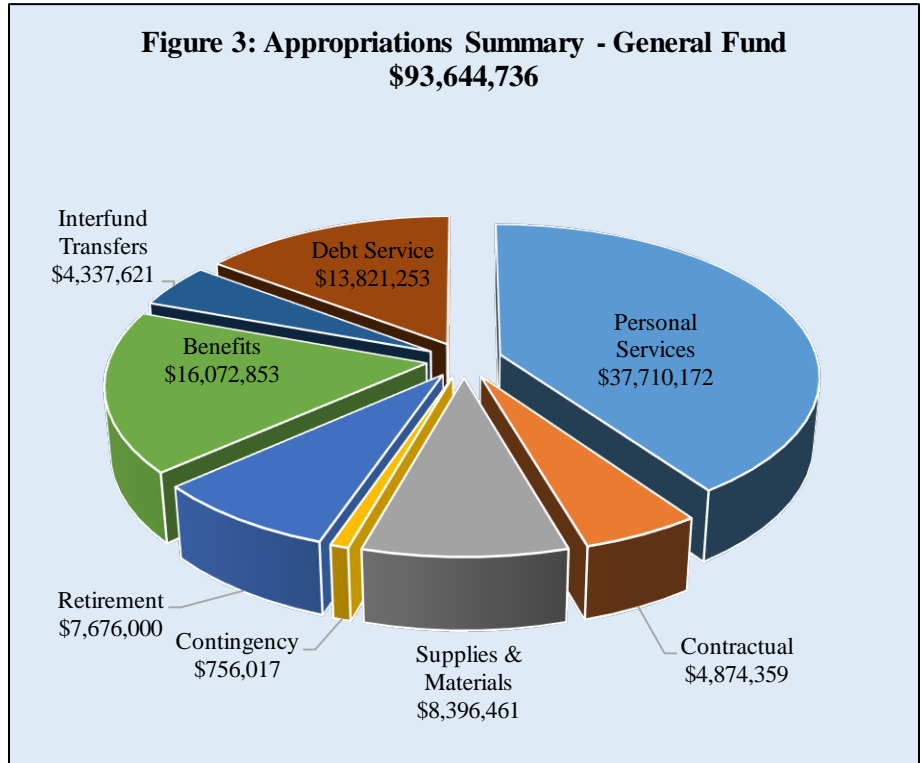
Figure 1: 2021-22 Proposed Budget				
Fund	Appropriations and Provisions for Other Uses	Financing Sources		
		Estimated Revenue	Appropriated Fund Balance	Real Property Taxes
General	\$93,644,736	\$37,698,873	\$4,671,000	\$51,274,863
Water	\$5,463,150	\$5,463,150	\$0	\$0
Sewer	\$6,593,981	\$6,593,981	\$0	\$0

While the Council is finalizing the budget and formulating a response for our review, it is important to keep in mind the City’s current financial condition and the effect the budget will have on City operations and financial health. The City’s financial condition remains in significant fiscal stress. Because of prior year appropriations of fund balance and overexpenditures, the City has incurred operating deficits. These deficits have caused a decline in both fund balance and available cash balances.



During the period 2018 to 2022, the operating funds (combined) grew by a total of approximately 15.3 percent. The Fiscal 2022 Proposed Budget includes a one-time expenditure of approximately \$4.3 million (inclusive of principal and interest) to repay a deficiency note issued in May 2020. Furthermore, the City continues to issue debt to finance recurring operations.

Based on our review of the proposed budget, City officials appear to be taking actions to address the City’s poor financial position. The proposed budget has measures that may help to improve the financial condition, such as a proposed budget amount totaling \$492,319 to restore fund balance and payroll reductions of approximately \$2.8 million in 2021-22.



As a result of economic changes resulting from the COVID-19 pandemic (pandemic), City officials have adjusted the 2019-20 and 2020-21 budgets and considered its possible effect on the 2021-22 budget. We considered the pandemic’s affect during our budget review, to the extent that it was included in City officials’ explanations, for significant changes in estimated revenues and proposed appropriations.

Budget Calendar

City officials developed a “Budget Timeline,” but it did not include the scheduled date for formal adoption of the budget. The date that the governing board is scheduled to vote on adopting the budget dictates several other benchmark dates, including when this budget letter must be released¹ to officials and the public. The City did not adopt a formal adoption date for the budget.

When City officials provided us with their timeline, May 31, 2021 was listed as the last day they could adopt the budget. However, they never confirmed an actual budget adoption date. A recent newspaper article indicated the City Council planned to adopt the budget on May 11. When we contacted the City Comptroller on May 3, she told us that the City Council would adopt the budget on May 17. However, because officials did not inform us of this date until we contacted them to inquire about the news article, our budget review will not be issued in time for officials to have the 10 days to take corrective action. Therefore, City officials will have to reschedule the budget adoption.

¹ Ten days prior to the planned budget adoption date

Water Fund

The proposed budget includes revenue estimates of \$4.5 million for metered water sales. This amount includes a 4 percent increase in rates, which the City Council has not yet authorized. Unless the increase is authorized in a timely manner, the full amount of revenues included in the proposed budget may not be realized. Therefore, the proposed rate increase should be authorized prior to the adoption of the budget.

Termination Salary Payments

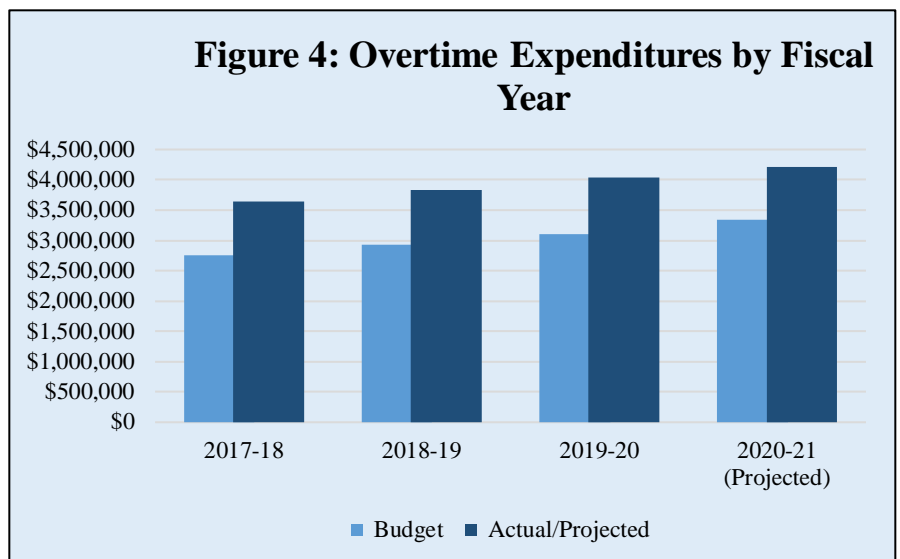
The City's 2021-22 proposed budget contains an appropriation of approximately \$3.1 million² for termination salaries. The City's termination salary expenditures have averaged \$2.1 million during the last three completed fiscal years, and officials estimate \$3 million³ will be disbursed in the 2021-22 fiscal year.

Although the City appears to have budgeted sufficiently for the 2021-22 fiscal year, we caution the City that its 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 amounts for the City are already a significant cost that has been steadily increasing each year.

Overtime

The City's 2021-22 proposed budget contains an appropriation of \$3.7 million for overtime. During the past three fiscal years, overtime costs have exceeded budgeted amounts by a total of \$2.7 million, with the highest variance being \$935,477 in 2019-20 (Figure 4).

As of March 31, 2021, the City had already expended \$3.2 million of the \$3.3 million budgeted for overtime in 2020-21, a strong indication that the pattern of over expending for overtime has continued and that overtime costs will exceed budgeted amounts again this year.



² This includes \$3 million in the general fund, \$53,000 in the water fund and \$120,000 in the sewer fund.

³ This includes \$2.2 million from scheduled installments, \$2.8 million for new retirees.

Overtime expenditures for police, fire and beach maintenance totaling \$2.2 million paid during the past three years have contributed the most to this overspending.

Although the City has improved its projections for overtime costs in certain departments, it appears, based on the trends, that the total proposed overtime appropriation will be insufficient. City officials have not implemented procedures to reduce overtime costs and have not budgeted enough to equal the projected actual 2020-21 costs of over \$4 million. City officials need to ensure that procedures are put in place to reduce actual overtime costs or budget an amount sufficient to cover costs at their current levels.

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. This would serve not only to compare total revenues with total expenditures, but also to compare the timing of receipts with disbursements to ensure 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 2020 budget review letter. City officials only partially implemented our recommendations.

Budget Calendar – While the City developed a “Budget Timeline,” City officials could not tell us on which date the Council would adopt the budget when they provided us with this timeline.

Termination Salary Payments – The City's 2020-21 proposed budget contained an appropriation of approximately \$2.7 million for termination salaries. As of March 31, 2021, the City had spent approximately \$2.4 million for these expenditures, and officials expect to spend a total of \$3 million by the end of the 2020-21 fiscal year.

The City continues to rely on debt to fund these expenditures. 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 a cash flow analysis.

Overtime – The City's 2020-21 proposed budget contained an appropriation of \$3.3 million for overtime. As of March 31, 2021, the City had spent approximately \$3.2 million for these expenditures, and officials expect to spend \$4.2 million (almost \$900,000 more than was budgeted for) by the end of the 2020-21 fiscal year. It appears City officials have not taken action to address excess overtime costs.

Cash Flow Projections – City officials did not include cash flow projections with the 2020-21 proposed budget. As previously stated, while cash flow projections are not required, they would help City officials identify anticipated cash shortfalls and plan accordingly.

American Rescue Plan Act

The federal American Rescue Plan Act (Act) of 2021 will provide substantial aid to local governments in the upcoming fiscal year. At this time, the timing of the receipt of funds from the Act is uncertain. Once received, the funds will come with restrictions for how they can be used. City officials should be mindful of these restrictions as they budget and plan for the use of these funds. Furthermore, because this is not a recurring revenue it should not be used to fund recurring expenditures. Rather this funding should be used, in accordance with all restrictions, for capital improvements, economic development or debt reduction.

Tax Cap Compliance

General Municipal Law Section 3-c establishes a tax levy limit on local governments. The law generally precludes local governments from adopting a budget with 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 includes a tax levy of \$50.5 million, which is \$3 million above the legal limit. The City Council has not adopted a local law authorizing an override of the tax levy limit. In adopting the 2021-22 budget, the Council should be mindful of the legal requirement to maintain the tax levy increase within the tax levy limit as permitted by law, unless it properly overrides the tax levy limit prior to adopting the budget.

We request that you provide us with details of the corrective action taken in response to this letter and a copy of the adopted budget.

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,

Elliott Auerbach
Deputy Comptroller

cc: Inna Reznik, City Comptroller
John Bendo, City Council President
Karen McInnis, City Council Vice President
Michael A. Delury, City Council
Scott J. Mandel, City Council
Elizabeth M. Treston, 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
Hon. Andrea Stewart-Cousins, NYS Senate Majority Leader
Hon. Carl E. Heastie, NYS Assembly Speaker
Robert F. Mujica, Jr., Director, Division of the Budget
Ira McCracken, Chief Examiner, Long Island Regional Office