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May 17, 2021

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

Report Number: B21-6-7

Dear Mayor Spano and City Council Members,

Chapter 55 of the Laws of 2014 authorizes the City of Yonkers (City), subject to certain requirements, to issue serial bonds not to exceed \$45 million to liquidate deficits in the City School District's (District's) general fund as of June 30, 2014. Additionally, Chapter 55 requires the City to submit to the State Comptroller and the Commissioner of Education, starting with the fiscal year during which it was authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, its proposed budget for the next succeeding fiscal year.

The proposed budget must be submitted no later than 30 days before the date scheduled for the City Council'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 and the Commissioner of Education must then examine the proposed budget and make recommendations as deemed appropriate after examining the City's 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 the Commissioner of Education and make adjustments to its proposed budget consistent with the recommendations made by the State Comptroller and the Commissioner of Education. The State Comptroller's recommendations on the City's proposed budget for the 2021-22 fiscal year are contained in this report.

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 question related to the City's proposed budget for the upcoming fiscal year:

- Are the significant revenue and expenditure projections in the City's proposed budget reasonable?

Based on the results of our review, we found that significant revenue and expenditure projections in the adopted budget are not reasonable. In addition, officials’ continued practice of using debt to pay for recurring costs is imprudent.

To accomplish our objective, we reviewed the City’s 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 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 and determined whether the amount of fund balance was available and sufficient for that purpose.

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 2021-22 fiscal year consisted of the following:

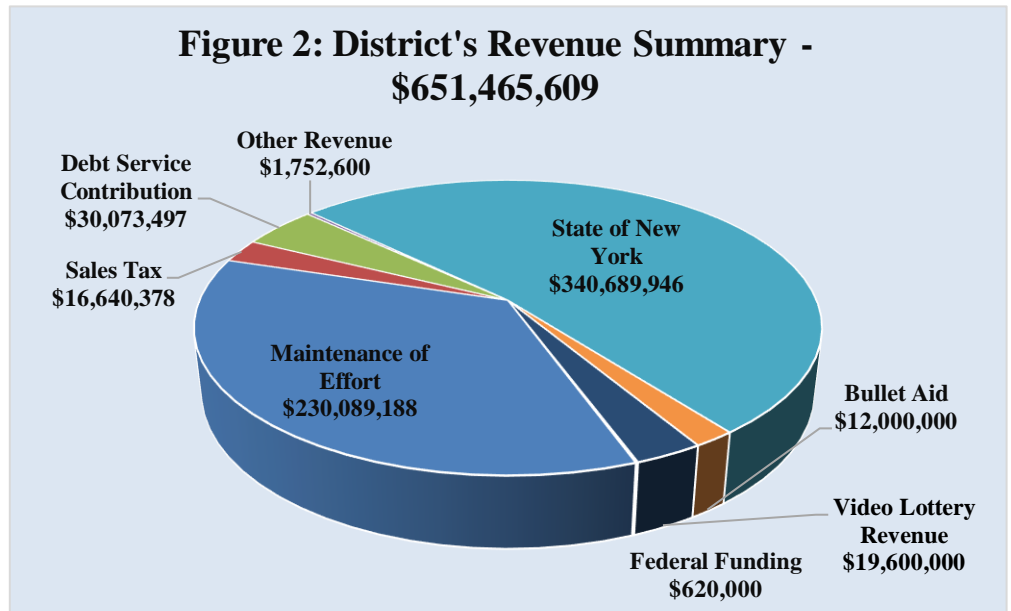
- 2021-22 Mayor’s Budget Letter
- 2021-22 Proposed Executive Budget
- 2021-22 Board of Education Budget Request
- Supplementary Information

The City’s proposed budget submitted to our Office is summarized in Figure 1:

<b>Figure 1: 2021-22 City of Yonkers’s Proposed Budget</b>					
<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenue</b>	<b>Appropriated Fund Balance</b>	<b>Fund Transfers In/(Out)<sup>a</sup></b>	<b>Real Property Taxes</b>
<b>General Fund</b>	\$484,331,027	\$408,959,763 <sup>b</sup>	\$5,904,566	(\$322,348,891)	\$391,815,589
<b>Board of Education Fund</b>	\$651,465,609	\$374,662,546	\$0	\$276,803,063	\$0
<b>Library Fund</b>	\$10,729,238	\$67,000	\$660,149	\$10,002,089	\$0
<b>Museum Fund</b>	\$275,000	\$0	\$0	\$275,000	\$0
<b>Water Fund</b>	\$36,842,343	\$42,802,228	\$3,699,711	(\$9,659,596)	\$0
<b>Sewer Fund</b>	\$7,544,397	\$9,362,503	\$1,086,818	(\$2,904,924)	\$0
<b>Debt Service Fund</b>	\$49,379,519	\$0	\$1,546,260 <sup>c</sup>	\$47,833,259	\$0
<b>Total</b>	<b>\$1,240,567,133</b>	<b>\$835,854,040</b>	<b>\$12,897,504</b>	<b>\$0</b>	<b>\$391,815,589</b>

<sup>a</sup> Includes transfers to and from various funds.  
<sup>b</sup> Includes Aid and Incentives to Municipalities (AIM) received in 2021 from fiscal year 2020.  
<sup>c</sup> Includes appropriated debt service fund balance for the education fund.

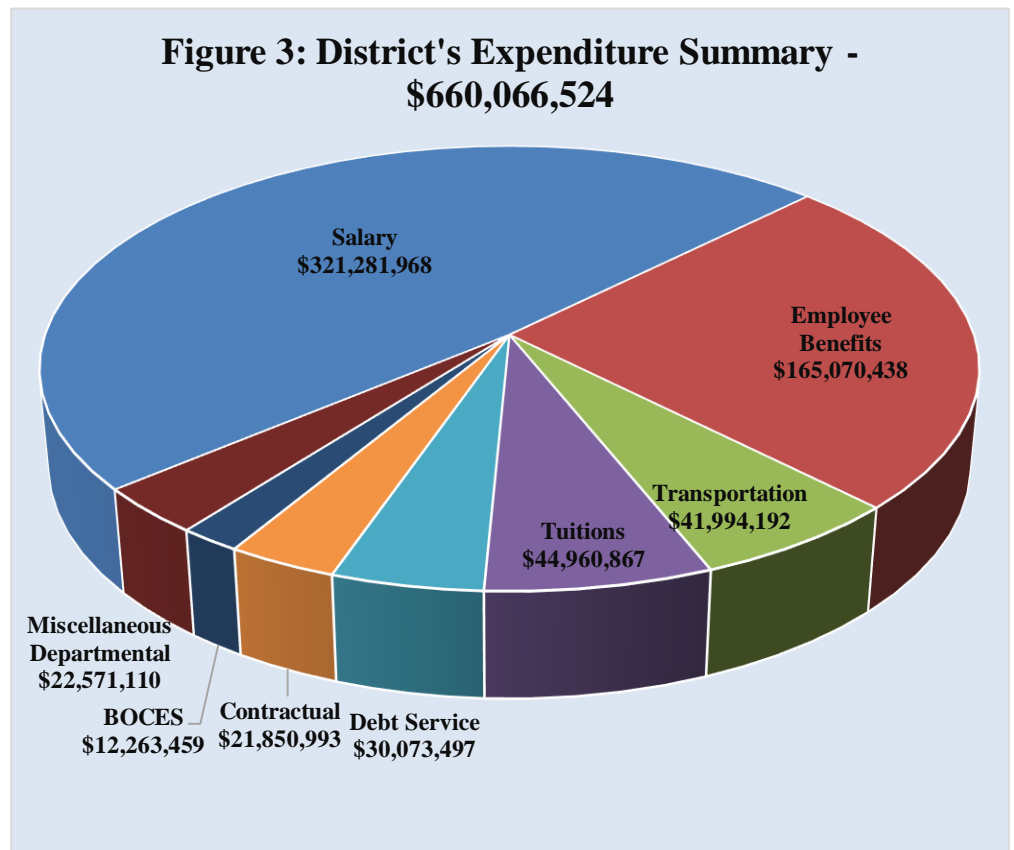
Our review disclosed the following issues which City officials should review for appropriate action. As noted above, Chapter 55 of the Laws of 2014 requires the City Council to make adjustments to the proposed budget consistent with our recommendations. We believe that any such adjustments will help improve the City's financial condition.



**Board of Education**

The proposed budget submitted to our Office for the Board of Education (District) is summarized in Figures 2 and 3:

Budget Gap – The District's 2021-22 budget request is \$660.1 million for appropriations; however, the City's proposed Executive budget contains revenues for the District of \$651.5 million. As a result, the District's proposed budget is structurally imbalanced with a budget gap of at least \$8.6 million. City and District officials must resolve this gap between District revenues and appropriations.



Additional Aid – The District's 2021-22 budget relies on

additional State aid of \$12 million for District services and expenses. Although the aid may provide relief in the 2021-22 budget, this funding source may not be available in future years. The City’s reliance on additional State aid to finance District operating expenditures may cause funding gaps in the future.

Contractual Settlements – The District’s 2021-22 budget includes no appropriation for contractual settlements. All four of the District’s union collective bargaining agreements (CBAs) expire June 30, 2021 (Figure 4). The District could face additional expenditures when these contracts are settled. The District has not budgeted any amount for these potential liabilities and, therefore, will need to find a funding source for any additional expenditures when contract agreements are reached.

<b>Figure 4: Bargaining Unit CBAs Expiring on June 30, 2021</b>
Yonkers Federation of Teachers
Yonkers Council of Administrators
Civil Service Employees Association Yonkers Non-Teaching Unit 9169, Local 1000, American Federation of State, County and Municipal Employees, Westchester Local 860
Teamster Local 456

Charter School Tuition Payments – The District’s 2021-22 budget includes approximately \$16.1 million for charter school tuition, which includes a projected increase in enrollment of 40 students. However, enrollment for 2021-22 could increase by approximately 79 students based on prior year trends. Therefore, the District’s budgeted amount for charter school tuition payments may be underestimated by approximately \$336,000.

**City of Yonkers**

**Nonrecurring Funding Sources**

We have previously expressed concerns about the City’s continuous practice of balancing its budget by financing recurring operating expenditures with nonrecurring funding sources. Officials continue this practice as their 2021-22 proposed budget uses nonrecurring funding of \$46.8 million such as appropriated fund balance, one-time State funding and sale of property to finance operating expenditures.

The City is projecting unassigned general fund balance of \$31.9 million at the end of the 2020-21 fiscal year. The City appropriated \$5.9 million, or approximately 18.5 percent of the projected fund balance, in the 2021-22 proposed budget. In addition to appropriating fund balance in the general fund, the City has appropriated \$3.7 million of water fund balance, \$1.1 million of sewer fund balance, \$1.5 million of debt service fund balance and \$660,149 of library fund balance (Figure 5).

The City’s use of fund balance to close gaps in the budget decreases the fund balance that is available to cover unforeseen circumstances, creating shortfalls in revenue or cash flow needs. It also exposes the City to cash shortages that may impact operations. Retaining such a low amount of fund balance leaves the City without a cushion against unexpected costs or contingencies that may occur. City officials may have to replace this nonrecurring revenue in the 2022-23 budget.

Overall, the City is relying on \$46.8 million of nonrecurring revenue such as appropriated fund balance, one-time State funding and sale of property to finance its 2021-22 operations. Although this funding provides relief in the 2021-22 budget, it may not be available in future years.

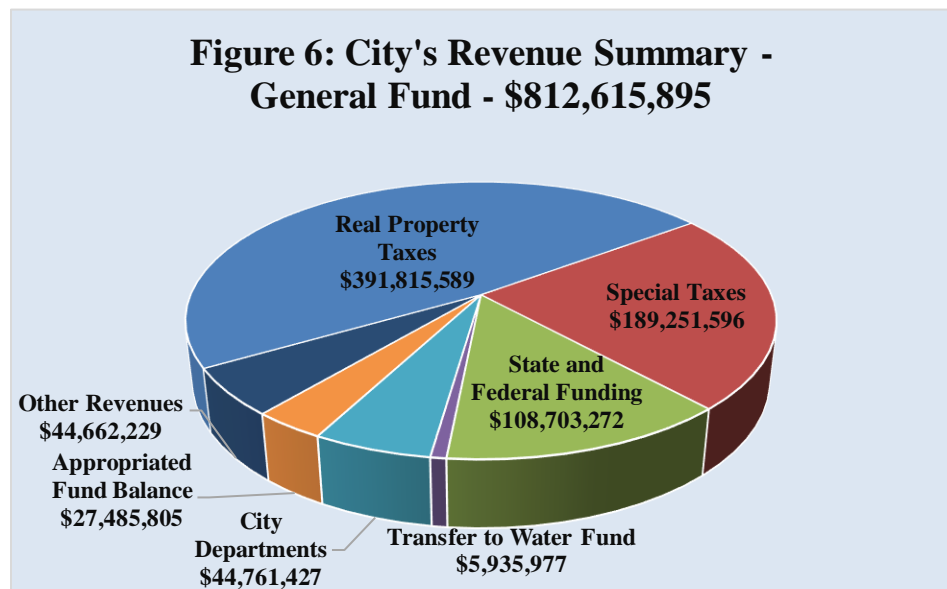
Therefore, a potential significant funding gap may occur in the 2022-23 fiscal year that the City must address by finding alternative sources of revenue or reducing appropriations.

<b>Figure 5: Fund Balance</b>					
<b>Fund</b>	<b>Fund Balance Appropriated</b>	<b>Projected Fund Balance Available</b>	<b>Percent Used</b>	<b>Fund Balance Available Per Act</b>	<b>Percent Used</b>
<b>General Fund</b>	\$5,904,566	\$31,866,665	18.5%	\$5,904,566	100.0%
<b>Board of Education Fund</b>	\$0	\$30,080,591	0.0%	\$23,263,723	0.0%
<b>Library Fund</b>	\$660,149	\$1,285,300	51.4%	\$660,149	100.0%
<b>Water Fund</b>	\$3,699,711	\$11,443,630	32.3%	\$8,923,287	41.5%
<b>Sewer Fund</b>	\$1,086,818	\$2,771,076	39.2%	\$2,672,238	40.7%
<b>Debt Service Fund<sup>a</sup></b>	\$1,546,260	\$2,024,131	76.4%	\$1,546,260	100.0%
a) Includes appropriated debt service fund balance for the education fund.					

**Revenues<sup>1</sup>**

The proposed budget submitted to our Office for the City’s general fund revenues is summarized in Figure 6:

Income Tax Surcharge – The 2021-22 proposed budget includes City income tax surcharge revenues of \$56.8 million. The 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.



<sup>1</sup> If any of the revenues discussed in this section are included in the City’s adopted budget in an amount which exceeds the amount of such revenue either realized in 2019-20 or “properly attributable” to 2020-21, then the City must submit a “justification document” with respect to the excess before the adopted budget may be approved under the Fiscal Agent Act and bond covenants. If the amount of any such revenue included in the City’s adopted budget requires an increase in a rate or charge, the City must act to increase the rate or charge before the justification document can be approved under the Fiscal Agent Act and bond covenants. Similarly, if the amount of any such revenue included in the City’s adopted budget requires enactment of State legislation, the legislation must be enacted before the justification document can be approved.

Under current law, the surcharge only applies to taxable years beginning before 2022; therefore, the New York State Legislature will have to extend the law authorizing the imposition of this surcharge in order for the City to potentially realize this revenue estimate. If the law is not extended, the City could face a \$40.2 million revenue shortfall, as it would only receive 25 percent of the revenue projections for the first quarter.

However, assuming the law is extended, the 2021-22 proposed revenue of \$56.8 million is a 9.2 percent increase over the \$52 million that we project the City will receive in the 2020-21 fiscal year. We based our projection for 2021-22 on revenue projections for 2020-21 with a projection of 2.9 percent increase based on the average historical rate increase. The City could potentially face a shortfall of \$3.3 million if revenue estimates are not realized. City officials should reassess whether this estimate is achievable and, if not, lower the income tax revenue estimate.

City and State Mortgage Tax – The 2021-22 proposed budget includes city and state mortgage tax revenues of \$10.3 million. Our revenue projection of \$7.4 million for 2021-22 uses revenue for 2020-21 with a projection of a 5 percent increase based on the average historical rate increase. The City could potentially face a shortfall of \$2.9 million if revenue estimates are not realized. City officials should reassess whether this increase is achievable and, if not, lower the city and state mortgage tax revenue estimate.

Sales and Use Tax and Sales and Use Tax – Education – The 2021-22 proposed budget includes City sales and use tax including education revenues of \$99.7 million, which is an increase of approximately \$6.5 million from the actual revenue in the 2019-20 fiscal year. We based our projection for 2021-22 of \$97.6 million on revenue for 2020-21 with a projection of 1.6 percent increase based on the average historical rate increase. If the increase in sales and use tax revenue including education is less than the City’s projection, the City could face a shortfall in revenue of approximately \$2.1 million. City officials should reassess whether this increase is achievable and, if not, lower the sales and use tax including education revenues estimate.

Parks – The 2021-22 proposed budget includes parks revenue of \$2.7 million which is a 224.5 percent increase over the \$832,700 we project the City will receive in the 2020-21 fiscal year. We based our projection for 2021-22 of \$1.2 million on revenue projections for 2020-21 and 2019-20 actuals. The City could potentially face a shortfall of \$1.5 million if revenue estimates are not realized. City officials should reassess whether this increase is achievable and, if not, lower the parks revenue estimate.

Real Estate Transfer Tax – The 2021-22 proposed budget includes City real estate transfer tax revenues of \$12.7 million. We project the City will receive approximately \$11.3 million in the 2021-22 fiscal year based on 2020-21 projections with no change. The City could potentially face a shortfall of \$1.4 million if revenue estimates are not realized. City officials should reassess whether this increase is achievable and, if not, lower the real estate transfer tax estimate.

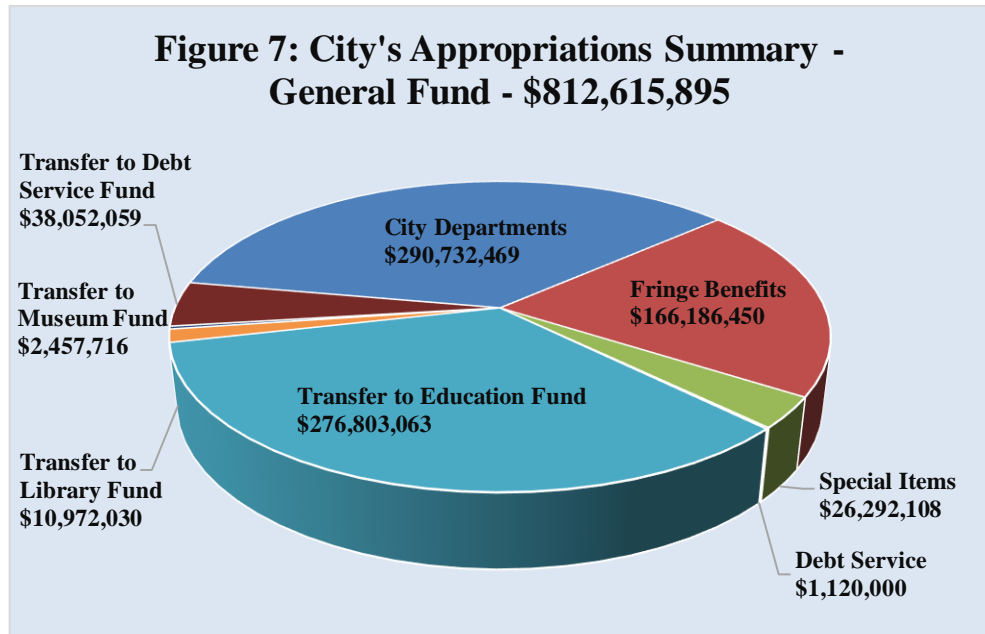
Sewer Rents – The 2021-22 proposed budget includes sewer rents revenue of \$9.2 million, which is an increase of approximately \$1.1 million from the amount billed in the 2019-20 fiscal year. The City plans to increase rates for sewer rents by 4.5 percent. We project that the City will receive approximately \$8.5 million in the 2020-21 fiscal year. If rates are increased by 4.5 percent, we

project revenues of \$9 million for 2021-22. Therefore, the City still could face a revenue shortfall of approximately \$215,000 based on current year projections. The City Council must lower the estimates for sewer rent revenue or pass a resolution to raise sewer rents prior to the adoption of the budget.

Metered Water Sales – The 2021-22 proposed budget includes metered water sales revenue of \$38 million, which is an increase of approximately \$3 million from the amount billed in the 2019-20 fiscal year. The City plans to increase rates for metered water sales by 4.5 percent. We project that the City will receive approximately \$38.2 million in the 2020-21 fiscal year. This amount appears reasonable but requires the City Council to lower the estimates for metered water sales revenue or raise water rates prior to the adoption of the budget.

### Appropriations

The proposed budget submitted to our Office for the City’s general fund appropriations is summarized in Figure 7:



Tax Certiorari – The 2021-22 proposed budget includes \$500,000 for payment of tax certiorari claims, which is low compared to the \$4.5 million in tax certiorari payments

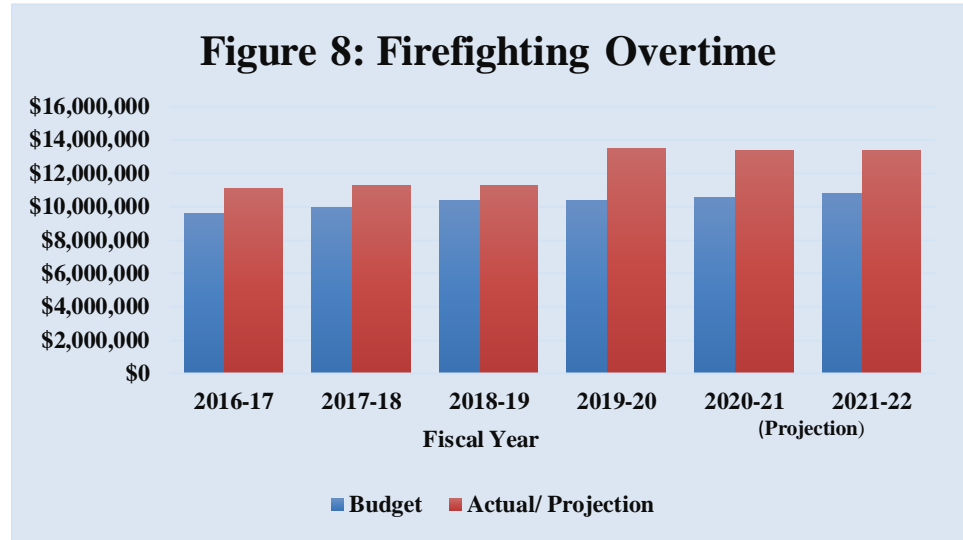
the City made so far in 2020-21. The City bonded to pay tax certiorari claims in prior years and has proposed legislation to bond up to \$15 million for 2021-22 payments. The continued practice of using debt to pay for these recurring costs is imprudent. Refunds attributable to tax certiorari claims are a recurring cost of operations 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 operating budget.

Firefighting Overtime – The City’s 2021-22 proposed budget includes overtime funding of \$10.8 million for the fire department. The City spent \$13.5 million on firefighting overtime in 2019-20 and approximately \$9.6 million in 2020-21 (as of March 31, 2021). Based on our projections, the City will spend approximately \$13.4 million on firefighting overtime in the 2020-21 fiscal year. Based on the historical trends, we projected the City will spend the same as 2020-21 projections,

which means the appropriation for overtime is likely underestimated by as much as \$2.6 million (Figure 8).

Police and Fire Retirement – The 2021-22 proposed budget includes \$46.7 million for payments due New York State and Local Retirement

System (NYSLRS). NYSLRS allows municipalities to amortize certain pension costs as part of a stabilization program, which spreads payments over several years, and the City elected to participate in the program. However, the minimum payment permitted under the program for 2021-22 is \$48.1 million (if paid by February 1, 2022). Therefore, the City has underestimated police and fire retirement costs by as much as \$1.4 million.



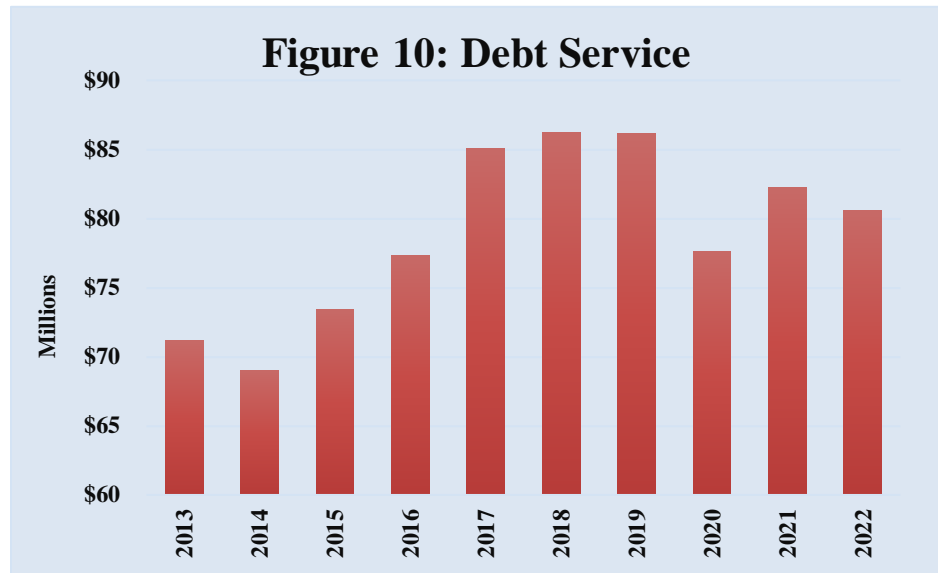
Contractual Settlements – The City’s 2021-22 budget includes no appropriation for contractual settlements. All eight of the City’s union collective bargaining agreements (CBAs) have expired (Figure 9). The City could face additional expenditures when these contracts are settled. The City has not budgeted any amount for these potential liabilities and, therefore, will need to find a funding source for any additional expenditures when contract agreements are reached.

Bargaining Unit	CBA Expiration Date
Service Employees International Union (SEIU)	December 31, 2018
American Federation of State, County and Municipal Employees (AFSCME)	June 30, 2020
Teamster Local 456	December 31, 2018
Yonkers Police Benevolent Association (PBA)	June 30, 2019
Yonkers Police Captains, Lieutenants, and Sergeants Association (CLSA)	June 30, 2019
Yonkers Firefighters Local 628	June 30, 2019
Yonkers Uniformed Fire Officers Association (UFOA)	June 30, 2019
Teamster Managers Local 456	June 30, 2020



## Debt

The City's outstanding debt has grown 9.4 percent over the last 10 years. Since 2013, the City's annual debt service obligations have risen 13.2 percent (Figure 10). The City will need \$80.6 million to service its debt obligations during 2021-22. This amount represents about 6.5 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 tax certiorari costs, which should be included in budgeted appropriations.

## 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 (Law) 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 2021-22 budget includes a tax levy of \$391,815,589, which is \$3.4 million from exceeding the tax levy limit. In adopting the 2021-22 budget, the City Council should be mindful of the legal requirement to adopt a budget that includes a tax levy no greater than the tax levy limit, unless it adopts a local law to override the limit.

## **Recommendations**

The City Council must:

1. Work with District officials to create a structurally balanced budget and eliminate the \$8.6 million gap in the District's budget request.
2. Lower the estimate for sewer rents or pass a resolution to raise sewer rents prior to the adoption of the budget.
3. Lower the estimate for metered water sales or pass a resolution to raise water rates prior to the adoption of the budget.

City officials should:

4. Work with District officials to develop a plan to fund operations and discontinue the practice of relying on one-time revenues to finance recurring expenditures.
5. Work with District officials to review the estimate for charter school payments and amend it as necessary.
6. Work with District officials to consider adding an appropriation for the potential exposure related to contractual settlements.
7. Develop a plan to maintain fund balance at a reasonable level to ensure funds are available in case of unanticipated expenditures or a shortfall in revenues during the fiscal year.
8. Review the estimate for income tax and amend as necessary.
9. Review the estimate for city and state mortgage tax and amend as necessary.
10. Review the estimate for sales and use tax including education and amend as necessary.
11. Review the estimate for parks and amend as necessary.
12. Review the estimate for real estate transfer tax and amend as necessary.
13. Review the estimate for sewer rents and amend as necessary.
14. Consider adjusting the appropriation for tax certiorari payments and provide a financing source for tax certiorari settlements.
15. Review the estimate for firefighting overtime and increase it to an appropriate level.
16. Review the estimate for police and fire retirement and amend as necessary.

17. Consider adding an appropriation for the potential exposure related to contractual settlements.
18. Review the outstanding debt and review alternatives to borrowing, in particular for operating expenditures such as tax certiorari payments, to reduce the continuous increase in outstanding debt over the last 10 years.

The City Council has the responsibility to initiate corrective action. Pursuant to Chapter 55 of the Laws of 2014, the City Council must review the recommendations in this report and make adjustments to the proposed budget consistent with the recommendations contained in this report.

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

We hope this information is helpful as you adopt the upcoming budget. If you have any questions on the scope of our work, please contact Lisa Reynolds, Chief Examiner of our Newburgh Office, at (845) 567-0858.

Sincerely,

Elliott Auerbach  
Deputy Comptroller

cc: Vincent E. Spano, City Clerk  
John Liszewski, Commissioner of Finance  
John Jacobson, Budget Director  
Dr. Edwin Quezada, Superintendent of Schools  
Rev. Steve Lopez, President, Board of Education  
Dr. Rosalba Corrado Del Vecchio, Vice President, Board of Education  
Lakisha Collins-Bellamy, ESQ, Trustee, Board of Education  
Andrea Brown, Trustee, Board of Education  
Kevin Cacace, Trustee, Board of Education  
Dr. John Castanaro, Trustee, Board of Education  
Shiela Greenwald, Trustee, Board of Education  
Gail Burns, Trustee, Board of Education  
Abdool Jamal, Trustee, Board of Education  
Hon. Liz Krueger, Chair, Senate Finance Committee  
Hon. Helene E. Weinstein, Chair, Assembly Ways and Means Committee  
Hon. Shelley Mayer, NYS Senate  
Hon. Andrea Stewart-Cousins, Majority Leader, NYS Senate  
Hon. Crystal Peoples-Stokes, Majority Leader, NYS Assembly  
Hon. William Barclay, Minority Leader, NYS Assembly

Hon. Carl Heastie, Speaker of the House, NYS Assembly  
Dr. Betty Rosa, Commissioner, NYS Education Department  
Harold Coles, Superintendent Southern Westchester BOCES  
Robert F. Mujica Jr., Director, NYS Division of Budget  
Lisa Reynolds, Chief Examiner, Newburgh Regional Office