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May 13, 2022

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: B22-7-4

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 2022-23 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 2021?

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 2021 budget review letter. Therefore, we are commenting on those findings in this letter. Lastly, the City’s proposed budget includes a tax levy of \$53.1 million, which is \$2.1 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. 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 2022-23 fiscal year (summarized in Figures 1, 2 and 3) consisted of the following:

- 2022-23 City Manager’s Budget Message
- 2022-23 Proposed Budget
- Supplementary Information

Figure 1: 2022-23 Proposed Budget			
Fund	Appropriations and Provisions for Other Uses	Financing Sources	
		Estimated Revenue	Real Property Taxes
General	\$95,500,168	\$41,482,861	\$54,017,307 ^a
Water	\$5,543,317	\$5,543,317	\$0
Sewer	\$6,839,949	\$6,839,949	\$0

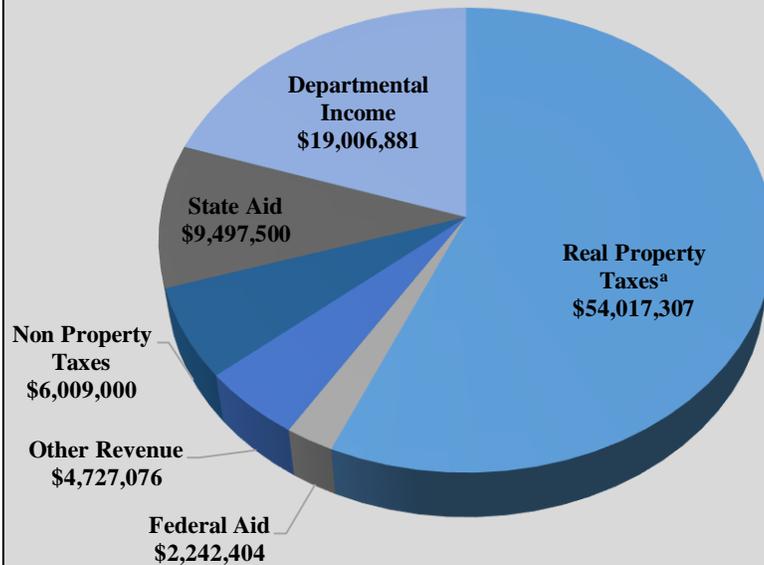
a) Includes real property taxes, PILOTs and assessments.

The City's financial condition is susceptible to fiscal stress. Therefore, while the Council is finalizing the budget, 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.

During the period 2019 to 2023, the operating funds (combined) grew by a total of approximately 17.2 percent.

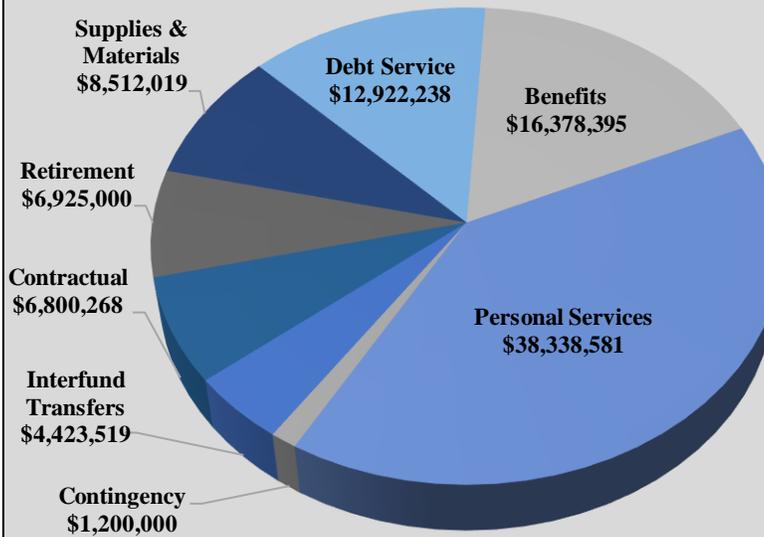
Based on our review of the proposed budget, City officials are continuing to take actions to address the City's poor financial position. The proposed budget contains an appropriation of approximately \$2.5 million¹ for termination salary payments which will not be financed using debt, as the City has done in the past five years. In addition, the City's appropriation for overtime is in line with historical expenditure trends.

Figure 2: Revenue Summary - General Fund
\$95,500,168



a) Includes real property taxes, PILOTs and assessments.

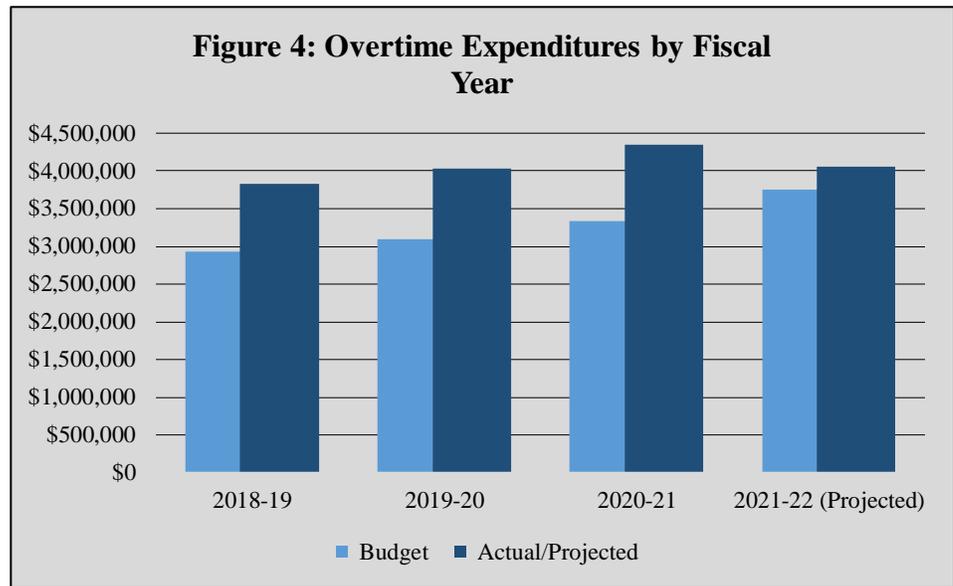
Figure 3: Appropriations Summary - General Fund
\$95,500,168



¹ This includes \$2.5 million in the general fund and \$5,887 in the water fund.

Overtime

The City's 2022-23 proposed budget contains an appropriation of \$4.1 million for overtime which appears to be sufficient. During the past three fiscal years, overtime costs have exceeded budgeted amounts by a total of \$2.8 million, with the highest variance being more than \$1 million in 2020-21 (Figure 4).



As of March 15, 2022, the City had already expended \$2.9 million of the \$3.7 million budgeted for overtime. The City is projected to spend \$4.1 million, a strong indication that the pattern of over expending for overtime has continued and that overtime costs will exceed budgeted amounts again this year.

Although the City has improved its projections of overtime costs for certain departments, as of March 15, 2022, fire department overtime appropriations were overspent by \$339,730. While City Officials increased the 2022-23 appropriation for fire department overtime from \$400,000 to \$500,000, it appears this amount will be insufficient since overtime costs are projected to be more than \$1 million by May 31, 2022. 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 not required, cash flow projections 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 cash flow projections would provide officials with another gauge of the effectiveness of the proposed budget. Therefore, we encourage officials to develop them as part of the annual 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 2021 budget review letter. City officials only partially implemented our recommendations.

Overtime – The City’s 2021-22 proposed budget contained an appropriation of \$3.7 million for overtime. As of March 15, 2022, the City had spent approximately \$2.9 million for these expenditures, and the City is projected to spend \$4.1 million (almost \$315,000 more than was budgeted for) by the end of the 2021-22 fiscal year.

Cash Flow Projections – City officials did not include cash flow projections with the 2021-22 proposed budget. As previously stated, while cash flow projections are not required, they would help City officials identify anticipated cash shortfalls and plan accordingly.

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 \$53.1 million, which is \$2.1 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 2022-23 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
Karen McInnis, City Council President
Elizabeth M. Treston, City Council Vice President
John Bendo, City Council
Roy Lester, City Council

Tina Posterli, 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. Ari Brown, 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