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June 24, 2020

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

Report Number: B20-6-6

Dear Mayor Spano and City Council Members,

By letter dated June 5, 2020, 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 2020-21 and the related justification documents are in material compliance with the requirements of the Fiscal Agent Act (Chapter 488 of the Laws of 1976, as amended) (Act) and the City's bond covenants incorporating provisions of the Act.

Generally, the Act and related bond covenants require 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 2020-21 budget materially complies with the provisions of the Act and related bond covenants, we wish to comment on the following issues which impact the City's financial condition in the current and future years.

Our review considered City officials' planning in response to economic impacts of COVID-19 on revenue and expenditure trends. However, due to the continuous evolving circumstances, we expect City officials to carefully monitor revenues and expenditures and make adjustments to the budget as needed throughout the year as more information becomes available. Additionally, City officials should develop a plan in the event revenue projections are not fully realized.

The City's 2020-21 budget totals \$1.2 billion. The budget includes operating and debt service funding of \$641.2 million for the Yonkers Public Schools (District) and \$593.6 million for the City. The 2020-21 budget is \$15.6 million more than the City's budget for 2019-20, an increase of 1.3 percent.

Figure 1: 2020-21 Adopted Budget

Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Fund Transfers In/(Out)^a	Real Property Taxes
General Fund	\$487,330,756	\$379,648,875	\$33,021,887	(\$317,155,595)	\$391,815,589
Water Fund	\$34,741,293	\$40,725,860	\$6,628,944	(\$12,613,511)	\$0
Sewer Fund	\$7,065,859	\$8,941,496	\$1,778,336	(\$3,653,973)	\$0
Library Fund	\$9,249,121	\$86,400	\$469,552	\$8,693,169	\$0
Museum Fund	\$275,000	\$0	\$0	\$275,000	\$0
Yonkers Public Schools	\$641,151,123	\$358,791,033	\$12,717,821	\$269,642,269	\$0
Debt Service Fund	\$54,995,772	\$0	\$183,131	\$54,812,641	\$0
Total	\$1,234,808,924	\$788,193,664	\$54,799,671	\$0	\$391,815,589

^a Includes transfers to and from various funds.

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 2020-21 budget continues this practice of reliance on nonrecurring funding of \$67.1 million to finance operating expenditures such as appropriated fund balance, one-time State funding and sale of property.

Fund Balance¹ – The City is projecting unassigned general fund balance of \$39 million at the end of the 2019-20 fiscal year. However, this assumes the City’s receipt of \$97 million in AIM revenue for its 2019-20 fiscal year, of which 20 percent, or \$19.5 million, has been deferred or reduced as of the date of this letter. The City must carefully review fund balance projections as the result of changes to State aid. This is an important step because the City is appropriating almost all of the projected available fund balance. As a result of changes to State aid, the City’s appropriation of \$33 million in the general fund may not be available.

The City’s use of fund balance to close gaps in the budget decreases the fund balance that is available to cover unforeseen circumstances, shortfalls in revenue or cash flow needs. It also exposes the City to cash shortages that will impact operations. Retaining such a low amount of fund balance leaves the City without a cushion against unexpected costs or contingencies that may occur. This lack of flexibility is a particular concern, given the aggressive estimates for sales tax

¹ To comply with the requirements of the Fiscal Agent Act (Laws of 1976, Chapter 488, as amended) and the City’s related bond covenants, the City’s 2020-21 adopted budget may not appropriate fund balance in excess of the aggregate of the fund balance of the City’s various operating funds as of the end of the 2018-19 fiscal year.

and income tax surcharge that we address below. City officials will have to replace this nonrecurring revenue in the 2021-22 budget.

In addition to appropriating almost all of the projected fund balance in the general fund, the City has appropriated \$12.7 million of education fund balance, \$6.6 million of water fund balance, \$1.8 million of sewer fund balance, \$469,552 of library fund balance and \$183,131 of debt service fund balance (Figure 2).

Figure 2: Fund Balance					
Fund	Fund Balance Appropriated	Projected Fund Balance Available	Percent Used	Fund Balance Available Per Act	Percent Used
General	\$33,021,887	\$39,003,731	84.7%	\$41,021,887	80.5%
Education	\$12,717,821	\$21,556,475	59.0%	\$12,717,821	100.0%
Water	\$6,628,944	\$13,989,123	47.4%	\$14,719,693	45.0%
Sewer	\$1,778,336	\$4,322,769	41.1%	\$4,536,175	39.2%
Library	\$469,552	\$640,900	73.3%	\$469,552	100.0%
Debt Service^a	\$183,131	\$1,559,673	11.7%	\$183,131	100.0%

a) Includes appropriated debt service fund balance for the education fund.

Additional Aid – The District’s 2020-21 budget relies on additional State aid of \$12 million for District services and expenses. Although funding from the State included in the City’s budget agrees with State budget figures, we caution the City to be mindful that the State budget gives the Executive and the Legislature authority to defer or reduce State aid. Furthermore, although the aid may provide relief in the 2020-21 budget, this funding source may not be available in future years. The District’s reliance on additional State aid to finance District operating expenditures may cause funding gaps in the future.

Overall, the City is relying on \$67.1 million of nonrecurring revenue to finance its 2020-21 operations. Although this funding provides relief in the 2020-21 budget, it may not be available in future years. Therefore, a potential significant funding gap will occur in the 2021-22 fiscal year that the City must address by finding an alternate source of revenue or by reducing appropriations.

Revenues

AIM Funding – The City’s 2020-21 budget relies on \$108.2 million in State funding for Aid and Incentives to Municipalities (AIM).² Although funding from the State included in the City’s budget agrees with State budget figures, we caution the City to be mindful that the State budget gives the Executive and the Legislature authority to defer or reduce State aid.

Sales and Use Tax, and Sales and Use Tax – Education – The 2020-21 adopted budget includes City sales and use tax including education revenues of \$96.1 million, which is a decrease of approximately \$3.7 million from the actual revenue in the 2018-19 fiscal year. The City’s 2020-

² The City typically receives AIM payments in May, June, October and December.

21 estimate included assumptions such as a projected 30 percent decline in revenue from July through September. Our projection of \$82.4 million for 2020-21 is based on 2019-20 revenue projections with 15.5 percent decline based on the information published by the New York State Division of the Budget in April 2020. If the decline in sales and use tax revenue including education is greater than the City's projection, the City could face a significant shortfall in revenue of approximately \$13.7 million.

Income Tax Surcharge – The 2020-21 adopted budget includes City income tax surcharge revenues of \$54.4 million. The 2020-21 adopted budget for this revenue is a 19.3 percent increase over the \$45.6 million that we project the City will receive in the 2020-21 fiscal year. We based our projection for 2020-21 on revenue projections for 2019-20 with a projection of 8.6 percent decline based on the information published by the New York State Division of the Budget in April 2020. The City could potentially face a shortfall of \$8.8 million if revenue estimates are not realized.

Metered Water Sales – The 2020-21 adopted budget includes metered water sales revenue of \$35.8 million, which is an increase of approximately \$1.1 million from the amount billed in the 2018-19 fiscal year. We project that the City will receive approximately \$35.1 million in the 2019-20 fiscal year. The City could still face a revenue shortfall of almost \$700,000 if metered water sales remain at 2019-20 levels.

Utilities Gross Receipts – The 2020-21 adopted budget includes City utilities gross receipts revenues of \$8.1 million. We project the City will receive approximately \$7.4 million in the 2020-21 fiscal year based on 2019-20 projections with no change in rates. The City could potentially face a shortfall of \$625,000 if revenue estimates are not realized.

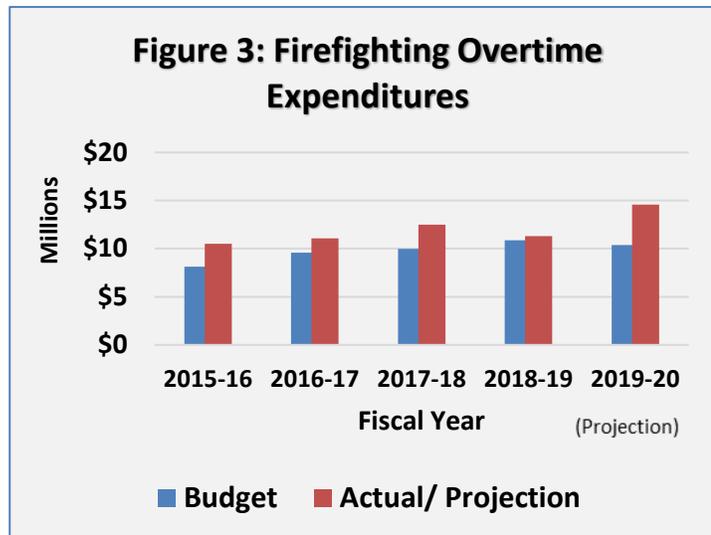
Consumer Protection Bureau – The 2020-21 adopted budget includes City consumer protection bureau revenues of \$1.3 million. We project the City will receive approximately \$754,000 in the 2020-21 fiscal year based on 2019-20 projections with no change. The City could potentially face a shortfall of \$594,000 if revenue estimates are not realized.

Sewer Rents – The 2020-21 adopted budget includes sewer rents revenue of \$8.8 million, which is an increase of approximately \$735,000 from the amount billed in the 2018-19 fiscal year. We project that the City will receive approximately \$8.5 million in the 2019-20 fiscal year. The City still could face a revenue shortfall of approximately \$271,000 if sewer rents remain at 2019-20 levels.

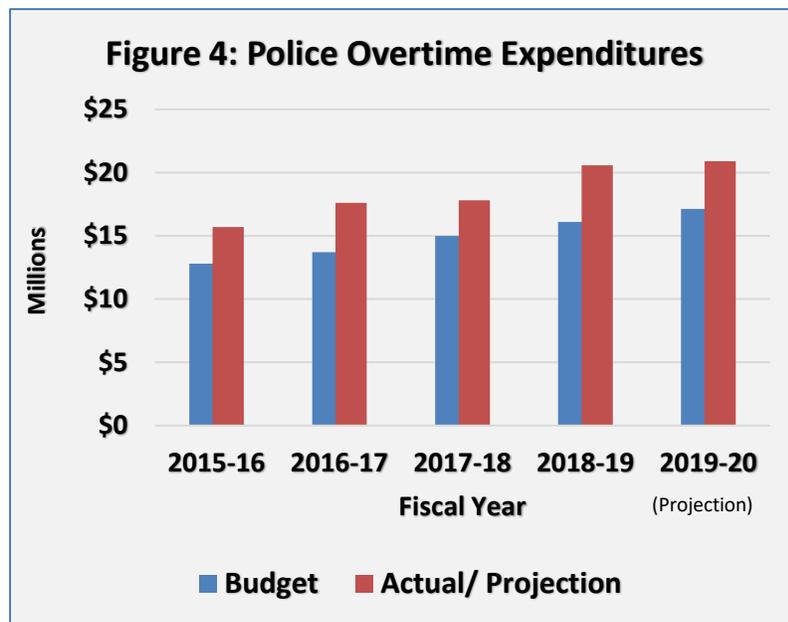
Parking Violations Bureau – The 2020-21 adopted budget includes City parking violations bureau revenues of \$19.2 million. We project the City will receive approximately \$19 million in the 2020-21 fiscal year based on 2019-20 projections with no change. The City could potentially face a shortfall of \$200,000 if revenue estimates are not realized.

Appropriations

Firefighting Overtime – The City’s 2020-21 adopted budget includes overtime funding of \$10.6 million for the fire department. The City spent \$11.3 million on firefighting overtime in 2018-19 and approximately \$11.1 million in 2019-20 (as of April 30, 2020). Based on our projections, the City will spend approximately \$14.6 million on firefighting overtime in the 2019-20 fiscal year. The City has not implemented changes in procedures to reduce overtime, so it is likely the historical trends will continue, which means the appropriation for overtime is likely to be exceeded by as much as \$4 million (Figure 3).



Police Overtime – In prior years, we have expressed concern about the City routinely exceeding budgeted amounts for police overtime costs each year. The City’s 2020-21 adopted budget



includes overtime funding of \$18.6 million for the police department. The City spent \$20.6 million on police overtime in 2018-19 and approximately \$15.9 million in 2019-20 (as of April 30, 2020). Based on our projections, the City will spend approximately \$20.9 million on police overtime in the 2019-20 fiscal year. If the City does not implement changes in procedures to reduce overtime, it is likely the historical trends will continue. This means the appropriation for overtime is likely to be exceeded by as much as \$2.3 million (Figure 4).

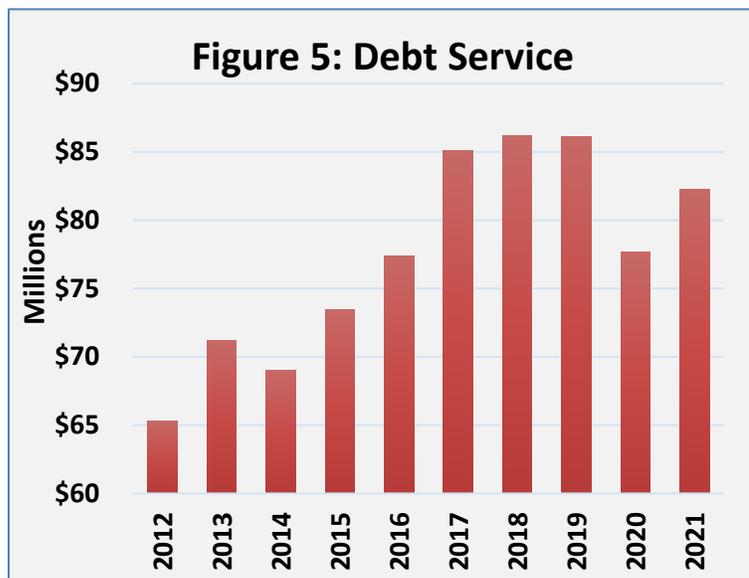
Termination Payments – The 2020-21 adopted budget includes a \$4 million appropriation for the payment of termination payments. The City spent \$3.2 million on termination payments in 2018-19 and approximately \$4 million in 2019-20 (as of April 30, 2020). Based on trends, we project the City will spend \$4.9 million in 2020-21. As a result, the City’s estimate may be underestimated

by approximately \$820,000. Furthermore, given the potential impact on State aid this year, it is possible there could be an increase in these payments over what historical trends indicate.

Tax Certiorari – The adopted 2020-21 budget includes \$500,000 for payment of tax certiorari claims, which is low compared to the \$16.7 million in tax certiorari payments the City made so far in 2019-20. The City bonded to pay tax certiorari claims in prior years and plans to bond up to \$15 million for tax certiorari settlements in the 2020-21 fiscal year. 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.

Debt Service

The City’s outstanding debt has grown 22.4 percent over the last 10 years. Since 2012, the City’s annual debt service obligations have risen 25.9 percent (Figure 5). The City will need \$82.2 million to service its debt obligations during 2020-21. This amount represents about 6.7 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.



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 the City’s taxable real property. Under the 2020-21 adopted budget, the City will have exhausted 79.91 percent of its taxing authority. We caution the City that if property values do not increase, its ability to increase taxes may be reduced in future years.

Property Tax Cap

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011, as amended (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 2020-21 budget includes a tax levy of \$391,815,589. The levy appears to be within the tax levy limit based on the City's computation.

If you have any questions on the scope of our work, please contact Ms. 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
Hon. Liz Krueger, Chair, Senate Finance Committee
Hon. Helene E. Weinstein, Chair, Assembly Ways and Means Committee
Hon. Andrea Stewart-Cousins, Temporary President and NYS Senate Majority Leader
Hon. Shelley Mayer, NYS Senate
Hon. Carl E. Heastie, Speaker of the House, NYS Assembly
Hon. Crystal Peoples-Stokes, NYS Assembly
Hon. William Barclay, NYS Assembly
Robert F. Mujica Jr., Director, NYS Division of Budget
Lisa Reynolds, Chief Examiner, Newburgh Regional Office