

THOMAS P. DINAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

ANDREW A. SANFILIPPO
EXECUTIVE DEPUTY COMPTROLLER
OFFICE OF STATE AND LOCAL GOVERNMENT
ACCOUNTABILITY
Tel: (518) 474-4593 Fax: (518) 402-4892

May 17, 2019

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

Report Number: B19-6-5

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 current 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 its adoption 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 estimates of revenues and expenditures of the City.

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 2019-20 fiscal year are contained in this report.

Our Office has recently completed a review of the City's proposed budget for the 2019-20 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?

To accomplish our objective, we reviewed 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 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 2019-20 fiscal year consisted of the following:

- 2019-20 Mayor’s Budget Letter
- 2019-20 Proposed Executive Budget
- 2019-20 Board of Education Budget Request
- Supplementary Information

The proposed budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Fund Transfers In/(Out)^a	Real Property Taxes
General Fund	\$491,028,307	\$387,173,349	\$27,890,155	(\$311,828,066)	\$387,792,869
Water Fund	\$41,263,445	\$43,097,290	\$6,766,933	(\$8,600,778)	\$0
Sewer Fund	\$8,344,534	\$9,500,762	\$2,319,977	(\$3,476,205)	\$0
Library Fund	\$10,000,512	\$130,875	\$346,139	\$9,523,498	\$0
Museum Fund	\$275,000	\$0	\$0	\$275,000	\$0
Yonkers Public Schools ^b	\$645,267,916	\$371,778,671	\$7,972,634	\$265,516,611	\$0
Debt Service Fund	\$50,229,228	\$0	\$1,639,288	\$48,589,940	\$0
Total	\$1,246,408,942	\$811,680,947	\$46,935,126	\$0	\$387,792,869

^a Includes transfers to and from various funds
^b Includes debt service for school debt

Our review disclosed the following issues which should be reviewed by City officials 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

Budget Gap – The District’s 2019-20 budget request is \$645.3 million for appropriations. The City’s Executive Budget contains revenues for the District in the same amount; however, it includes \$17.6 million for pending additional State funding that is not supported. District and City officials were unable to provide documentation to support that the City will receive the aid in the 2019-20 fiscal year. As a result, the District’s proposed budget is structurally imbalanced with a budget gap of at least \$17.6 million. City and District officials should work to address this gap between District revenues and appropriations.

Additional Aid – The District’s 2019-20 budget relies on additional State aid of \$12 million for District services and expenses. Although the aid will provide relief in the 2019-20 budget, this funding source may not be available in future years. The City’s reliance on additional State aid to finance District operating expenditures will likely create similar funding gaps in the future.

Fund Balance – The District is projecting unassigned fund balance of \$14.1 million at the end of the 2018-19 fiscal year. The District appropriated \$7.8 million, or approximately 55.2 percent of the projected fund balance, in the 2019-20 proposed budget. However, the fund balance appropriation must be approved by the Board of Education and City Council before it can be used. If the fund balance appropriation is not approved or available at year end, the District’s budget gap could increase by an additional \$7.8 million. If the District does end the year with \$14.1 million of fund balance and uses \$7.8 million to help fund the 2019-20 budget, it will have \$6.3 million of available fund balance, or about 1 percent of appropriations.

The District’s use of its fund balance in the 2019-20 budget could put it in a precarious financial position with little ability to respond to financial emergencies or cover unforeseen shortfalls in revenue. We are concerned that the District continues to rely on nonrecurring revenue, such as fund balance, to balance its budget. District officials will have to replace this nonrecurring revenue in the 2020-21 budget.

Textbooks, Software and Equipment – The District’s 2019-20 budget request includes a \$4.2 million appropriation for the purchase of textbooks, software and equipment. However, the City’s capital budget includes up to \$4.6 million for this acquisition. City officials included the request within the capital budget to allow the option to bond for textbooks and equipment to close the budget gap. The purchase of textbooks, software and equipment is a recurring District expenditure and, therefore, should be included as an appropriation in the annual budget. The District will incur additional costs if it continues to borrow for recurring expenditures such as textbooks, software and equipment.

City of Yonkers

Nonrecurring Funding Sources

In prior years, we have expressed concern about the City’s continuous practice of financing recurring operating expenditures with nonrecurring funding sources. The 2019-20 proposed

budget continues this practice with nonrecurring funding of \$76.8 million to finance operating expenditures.

Fund Balance¹ – The City is projecting unassigned general fund balance of \$38.1 million at the end of the 2018-19 fiscal year. The City appropriated \$27.9 million, or approximately 73.1 percent of the projected fund balance, in the 2019-20 proposed budget. In addition, the City has appropriated \$6.8 million of water fund balance, \$2.3 million of sewer fund balance, \$1.8 million of debt service fund balance and \$346,139 of library fund balance.

The City’s use of fund balance to close gaps in the budget decreases the fund balance that is available to cover unforeseen circumstances and shortfalls in revenue. It also exposes the City to potential cash shortages that will impact operations. Appropriating such a high percentage of fund balance leaves the City vulnerable to unexpected costs or contingencies that may occur. City officials will have to replace this nonrecurring revenue in the 2020-21 budget.

Fund	Fund Balance Appropriated	Projected Fund Balance Available	Percent Used	Fund Balance Available Per Act¹	Percent Used
General	\$27,890,155	\$38,141,218	73.1%	\$27,890,155	100.0%
Education	\$7,806,273	\$14,136,482	55.2%	\$7,806,273	100.0%
Debt Service^a	\$1,805,649	\$1,934,259	93.4%	\$1,805,649	100.0%
Library	\$346,139	\$750,279	46.1%	\$346,139	100.0%
Sewer	\$2,319,977	\$4,630,265	50.1%	\$4,697,849	49.4%
Water	\$6,766,933	\$13,491,550	50.2%	\$12,418,522	54.5%
^a Includes appropriated debt service fund balance for the education fund.					

Additionally, the City budgeted \$5 million for specialized State aid from the New York State Financial Restructuring Board for Local Governments (FRB) in the 2018-19 budget; however, the funding has not yet been approved by the FRB but has still been included in the City’s projected fund balance shown above. Last year, we expressed concern about the possibility that the City would not receive the revenue during the current fiscal year. If this revenue is not realized prior to year-end, the City’s general fund balance may be \$5 million less than current projections.

Overall, the City is relying on \$76.8 million of nonrecurring revenue, such as \$46.9 million in appropriated fund balance from the funds listed above and \$12 million in additional State aid, to finance its 2019-20 operations. Although this funding provides relief in the 2019-20 budget, it will not be available in future years. Therefore, a potential significant funding gap will occur in the 2020-21 fiscal year that the City must address by finding alternative sources of revenue or reducing appropriations.

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 2019-20 adopted 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 2017-18 fiscal year.

Revenues²

Metered Water Sales – The 2019-20 proposed budget includes metered water sales revenue of \$38.1 million, which is an increase of approximately \$2.9 million from the amount billed in the 2017-18 fiscal year. We project that the City will receive approximately \$34.8 million in the 2018-19 fiscal year, based on current rates. The City plans to increase rates for metered water sales by 6.6 percent. If rates are increased by 6.6 percent, the City still could face a revenue shortfall of approximately \$958,000 based on current year projections. The City Council is required to pass a resolution to raise water rates prior to the adoption of the budget. If rates are not increased, City officials should lower the estimates for metered water sales revenue.

Sewer Rents – The 2019-20 proposed budget includes sewer rents revenue of \$9.3 million, which is an increase of approximately \$1.1 million from the amount billed in the 2017-18 fiscal year. We project that the City will receive approximately \$8 million in the 2018-19 fiscal year based on current rates. The City plans to increase rates for sewer rents by 6.38 percent. If rates are increased by 6.38 percent, the City still could face a revenue shortfall of approximately \$757,000 based on current year projections. The City Council is required to pass a resolution to raise sewer rents prior to the adoption of the budget. If rates are not increased, City officials should lower the estimates for sewer rent revenue.

Income Tax Surcharge – The 2019-20 proposed budget includes City income tax surcharge revenues of \$56.4 million. This amount appears to be reasonable, provided the New York State Legislature extends the law authorizing the continuation of this tax surcharge.³

Housing and Buildings – The 2019-20 proposed budget includes \$6.9 million in revenue from Housing and Buildings for various fees and violations. This amount appears reasonable, but requires the City Council to amend the various local laws to increase the fees prior to the adoption of the budget.

Appropriations

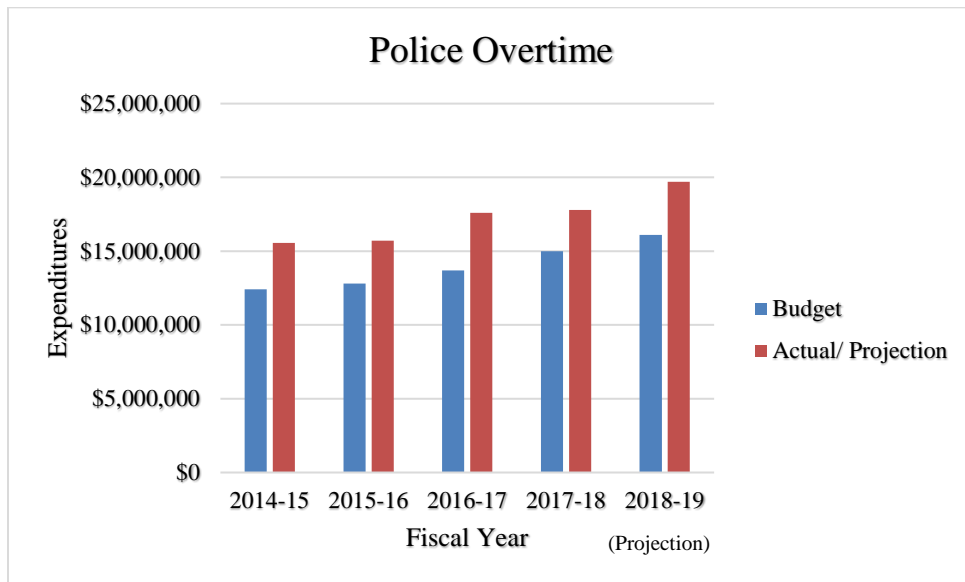
Tax Certiorari – The proposed budget includes \$500,000 for payment of tax certiorari claims in 2019-20, which is low compared to the \$7.8 million in tax certiorari payments the City made so far in 2018-19. The City issued bonds to pay tax certiorari claims in prior years and plans to issue bonds for 2019-20 payments. The continued practice of using debt to pay for these recurring costs is imprudent. Tax certiorari claims are a recurring cost of operations and should be paid from

² 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 2017-18 or “properly attributable” to 2018-19, 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.

³ 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 boundaries of the City. The law is due to expire September 30, 2019.

annual appropriations. The City will incur additional debt and interest costs by issuing bonds to finance the cost of tax certiorari claims instead of financing them through the operating budget.

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 2019-20 proposed budget includes overtime funding of \$17.1 million for the police department. The City spent \$18.9 million on police overtime in 2017-18 and approximately \$14.0 million in 2018-19 (as of March 31, 2019). Last year, we estimated that the City’s adopted budgeted appropriations for police overtime was underestimated by as much as \$2.6 million. During the current fiscal year, City officials have increased the adopted police overtime budgeted appropriations by \$2.5 million. Based on our projections, the City will spend approximately \$19.7 million on police overtime in the 2018-19 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 underestimated by as much as \$2.6 million.



Bond Anticipation Note (BAN) and Revenue Anticipation Note (RAN) Interest – The 2019-20 proposed budget includes a \$2.36 million appropriation for the payment of BAN and RAN interest. On May 14, 2019, the City issued BANs totaling \$95.66 million that mature on December 17, 2019. At maturity, the City will be required to pay BAN interest totaling \$1.25 million.⁴ The City plans to issue a RAN in 2019-20 with an estimated interest payment of \$1.73 million. Therefore, the City’s estimate may be underestimated by approximately \$619,000.

Other Matters

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

⁴ The interest amount of \$1.25 million reflects the net interest cost after the premium amount of \$183,551.

to 2 percent of the five-year average full valuation of the City's taxable real property. Under the 2019-20 proposed budget, the City will have exhausted 89.3 percent of its constitutional tax limit. We caution the City that if property values do not increase, its ability to increase taxes may be reduced in future years.

Interfund Transfers – The water fund's budget includes a \$4 million transfer to the general fund for support services the City provides to the water fund. We reviewed the City's calculation for the transfer and found that the water fund may be subsidizing the general fund for services not related to the water fund by as much as \$3.7 million. For example, the City's calculation identifies that 5.7 percent of the City Council's salaries, materials and supplies, and contractual services are funded through the water fund. City officials should perform a detailed analysis to ensure that cost allocations charged to the water fund are related to operating the water system.

Tax Cap Compliance

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. In adopting the 2019-20 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

City officials should:

1. Work with District officials to evaluate the expectation of receiving \$17.6 million in additional State aid, close the budget gap and amend the proposed budget as necessary.
2. 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.
3. Work with District officials to either approve the appropriation of fund balance or eliminate the potential funding gap if fund balance appropriation is not approved.
4. Work with District officials to develop a plan to maintain fund balance at a reasonable level to ensure funds are available in case of a shortfall in revenues during the fiscal year.
5. Work with District officials to identify alternatives to borrowing funds to purchase textbooks and related software and equipment.
6. 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.

7. Review the estimate for metered water sales and amend as necessary.
8. Review the estimate for sewer rents and amend as necessary.
9. Adjust the appropriation for tax certiorari payments and provide a financing source for tax certiorari refunds or settlements.
10. Review the estimate for police overtime and increase it to an appropriate level.
11. Review the estimate for BAN and RAN interest payments and amend as necessary.
12. Perform a detailed analysis to ensure that cost allocations charged to the water fund are related to water operations.

The City Council should:

13. Pass a resolution to approve the appropriation of fund balance for the District, identify alternate funding, or lower appropriations.
14. Pass a resolution to raise water rates prior to the adoption of the budget or lower the estimate for metered water sales.
15. Pass a resolution to raise sewer rents prior to the adoption of the budget or lower the estimate for sewer rents.
16. Pass the necessary amendments to the City Code for the fees in Housing and Buildings prior to the adoption of the budget or lower the estimates for these revenues.

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

Sincerely,

Andrew A SanFilippo
Executive Deputy Comptroller

cc: Vincent E. Spano, City Clerk
John Liszewski, Commissioner of Finance
Dr. Edwin Quezada, Superintendent of Schools
Rev. Steve Lopez, President, Board of Education
Judith Ramos Meier, Vice President, Board of Education
Andrew Brown, Trustee, Board of Education
Kevin Cacace, Trustee, Board of Education
Dr. Rosalba Del Vecchio, Trustee, Board of Education
John Jacono, Trustee, Board of Education
Pasquale Mondesando, Trustee, Board of Education
Dr. Ammir Rabadi, Trustee, Board of Education
Edgar Santana, 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, NYS Senate
Hon. J. Gary Pretlow, NYS Assembly
Hon. Nader J. Sayegh, NYS Assembly
MaryEllen Elia, Commissioner, NYS Education Department
David Sears, Director, Office of Audit Services, NYS Education Department
Harold Coles, Superintendent Southern Westchester BOCES
Robert F. Mujica Jr., Director, NYS Division of Budget
James Obeng, Principal Examiner, Newburgh Regional Office