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July 10, 2019

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

Report Number: B19-6-6

Dear Mayor Spano and City Council Members,

By letter dated July 3, 2019, 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 2019-20 and the related justification documents are in material compliance with the requirements of the Fiscal Agent Act (Chapter 488 of the Laws of 1976) and as incorporated in the City's bond covenants (Act).

Generally, the Act requires 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 2019-20 budget materially complies with the provisions of the Act, we wish to comment on the following issues which impact the City's financial condition in the current and future years.

The City's 2019-20 budget totals \$1.2 billion. The budget includes operating and debt service funding of \$628.5 million for the Yonkers Public Schools (District) and \$590.8 million for the City. The 2019-20 budget is \$28.4 million more than the City's budget for 2018-19, an increase of 2.4 percent.

Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Fund Transfers In/(Out)^a	Real Property Taxes
General Fund	(\$489,970,863)	\$388,155,349	\$27,890,155	(\$311,782,510)	\$385,707,869
Water Fund	(\$34,496,512)	\$43,097,290	\$0	(\$8,600,778)	\$0
Sewer Fund	(\$5,957,534)	\$9,273,762	\$159,977	(\$3,476,205)	\$0
Library Fund	(\$9,872,956)	\$130,875	\$346,139	\$9,395,942	\$0
Museum Fund	(\$275,000)	\$0	\$0	\$275,000	\$0
Yonkers Public Schools ^b	(\$628,450,499)	\$354,879,254	\$7,972,634	\$265,598,611	\$0
Debt Service Fund	(\$50,229,228)	\$0	\$1,639,288	\$48,589,940	\$0
Total	(\$1,219,252,592)	\$795,536,530	\$38,008,193	\$0	\$385,707,869

^a Includes transfers to and from various funds.

^b Includes debt service for school debt.

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 2019-20 budget continues this practice of reliance on nonrecurring funding of \$50.3 million to finance operating expenditures.

Fund Balance – The City has projected a 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 from the general fund in the 2019-20 budget. The District appropriated \$7.8 million, or approximately 55.2 percent, of the projected fund balance from the general fund in the 2019-20 budget. In addition, the City appropriated approximately \$1.8 million from the debt service fund, \$346,139 from the library fund, and \$159,977 from the sewer fund.

The City’s use of fund balance to close gaps in the budget decreases 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. We are concerned that the City continues to rely on nonrecurring revenue, such as fund balance, to balance its budget. 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.

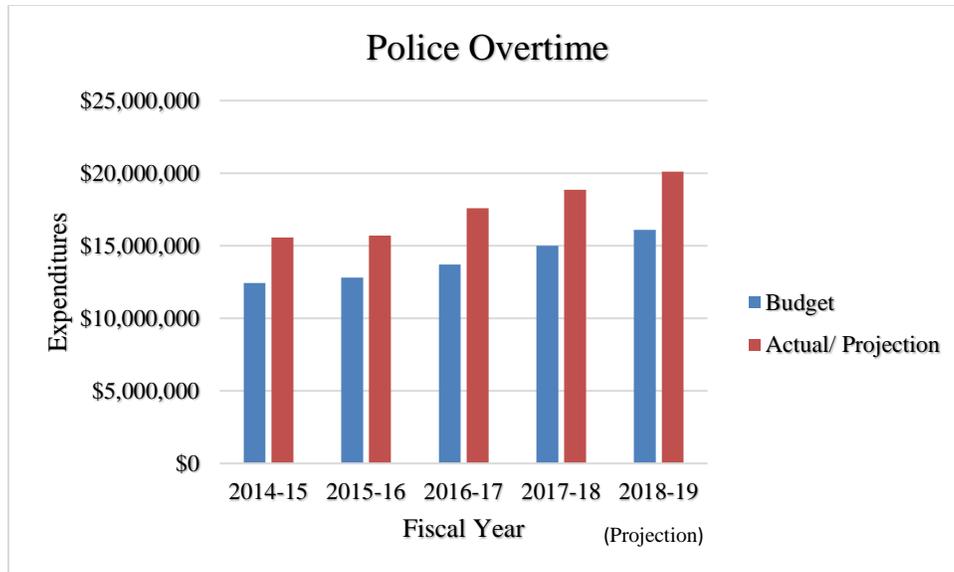
Fund	Fund Balance Appropriated	Projected Fund Balance Available	Percent Used	Fund Balance Available Per Act^a	Percent Used
General	\$27,890,155	\$38,140,467	73.1%	\$27,890,155	100.0%
Education	\$7,806,273	\$14,136,482	55.2%	\$7,806,273	100.0%
Debt Service	\$1,805,649	\$1,934,259	93.4%	\$1,805,649	100.0%
Library	\$346,139	\$750,279	46.1%	\$346,139	100.0%
Sewer	\$159,977	\$4,630,265	3.5%	\$4,697,849	3.4%
a) To comply with the requirements of the Fiscal Agent Act, the City's 2019-20 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 2017-18 fiscal year.					

Additional Aid – The 2019-20 budget relies on additional State aid of \$12 million to provide municipal relief to the District for 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.

Overall, the City is relying on \$50.3 million of nonrecurring revenue 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 an alternate source of revenue or by reducing appropriations.

Appropriations

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 adopted 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 \$18.2 million in 2018-19 (as of May 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 a total of \$20.1 million on police overtime in the 2018-19 fiscal year. The City has not implemented 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 \$3 million.



Tax Certiorari – The adopted 2019-20 budget includes \$500,000 for payment of tax certiorari claims, which is low compared to the \$15.7 million in tax certiorari payments the City made so far in 2018-19. The City issued bonds in the prior years to pay for tax certiorari claims and plans to borrow up to \$15 million for tax certiorari settlements in the 2019-20 fiscal year. The continued practice of using debt to pay for these costs is imprudent. Tax certiorari claims are a recurring cost of doing business 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 in the operating budget.

Other Matters

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.

Debt

The City’s outstanding debt has grown almost 5 percent during the last 10 years. Since 2011, the City’s annual debt service obligations have risen nearly 8 percent. The City will need \$71.2 million to service its debt obligations during 2019-20. This amount represents about 6 percent of the City’s annual budget. Although the City’s annual debt service obligation will decrease in the 2020 fiscal year, the City recently passed special ordinances authorizing the issuance of bonds up to \$160.2 million with payments becoming due in 2020-21. A contributing factor to the debt increase is the City’s continuing practice of bonding for recurring expenditures, such as textbooks for the school 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 taxable real property. Under the 2019-20 budget, the City will have exhausted 88.75 percent of its constitutional tax limit, according to the City's calculation. However, as of June 28, 2019 the City has not completed the State Comptroller's Constitutional Tax Limit Form to verify this computation as required. We caution the City that if property values do not increase, its ability to increase taxes may be reduced in future years.

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. The City's adopted 2019-20 budget includes a tax levy of \$385,707,869. While this levy appears to be within the tax levy limit based on the City's preliminary computation, as of June 28, 2019 the City has not finalized and submitted the Comptroller's Real Property Tax Cap Form as required.

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,

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. Shelley Mayer, NYS Senate
Hon. Andrea Stewart-Cousins, NYS Senate
Hon. J. Gary Pretlow, NYS Assembly
Hon. Nader J. Sayegh, NYS Assembly
Robert F. Mujica Jr., Director, NYS Division of Budget
James Obeng, Principal Examiner, Newburgh Regional Office