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May 13, 2020

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: B20-7-3

Dear Ms. Gayden and Members of the City Council:

Chapter 3 of the Laws of 2014 authorized 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 all 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 budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on its adoption 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 budget for the 2020-21 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 2019?

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.

The proposed budget package submitted for review for the 2020-21 fiscal year consisted of the following:

- 2020-21 City Manager’s Budget Message
- 2020-21 Proposed Budget
- 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	Real Property Taxes
General	\$83,216,478	\$36,592,051	\$0	\$46,624,427
Water	\$5,226,684	\$5,226,684	\$0	\$0
Sewer	\$6,296,577	\$6,296,577	\$0	\$0

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. However, our review identified several issues that require the City Council’s attention. 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.

While the Council is finalizing the budget and formulating a response for our review, it is important to keep in mind the City’s current financial condition and the impact the budget will have on City operations and financial health. The City’s financial condition remains in significant fiscal stress and has not changed from last fiscal year. Because of prior year appropriations of fund balance

and over-expenditures, the City has incurred operating deficits. These deficits have caused a decline in both fund balance and available cash balances.

For the most recent completed fiscal year ended June 30, 2019, personal services and employee benefits totaled about 74 percent of available revenues and debt service was 12 percent. Both of these costs have seen steady increases as a percent of revenue over the past few years. With these costs accounting for about 86 percent of revenue, there is limited ability to finance operations and maintain infrastructure. Furthermore, the City continues to issue debt to finance recurring operations.

Based on our review of the proposed budget, City officials appear to be taking actions to address the City's poor financial position. The proposed budget has measures that may help to improve the financial condition, such as a proposed budget amount totaling \$699,929 for restoration of fund balance and payroll reductions of approximately \$3.4 million in 2020-21.

As a result of economic changes resulting from the COVID-19 pandemic (pandemic), City officials have made adjustments to the 2019-20 budget and considered its possible impact on the 2020-21 budget. We considered the impact of the pandemic during our budget review, to the extent that it was included in City officials' explanations for significant changes in estimated revenues and proposed appropriations.

We also found that City officials only partially implemented the recommendations in our May 2019 budget review letter.

Budget Calendar

City officials have not developed or adopted a budget calendar which would have included, among other things, the scheduled date for formal adoption of the budget. The date the governing board is scheduled to vote on adopting the budget dictates several other benchmark dates including when this budget letter must be released¹ to officials and the public. To date, City officials have been unable to indicate the date the City Council plans to vote on the adoption of the budget.

City officials informed us that they had a late start this year due to the addition of new City Council members. Officials indicated the original plan was to develop a budget calendar in late February to early March. However, they said they did not have the opportunity to discuss and prepare the budget calendar during Council meetings because of the pandemic.

Water and Sewer Funds

The proposed budget includes revenue estimates for metered water sales of \$4.3 million and sewer rent estimates of \$5.5 million. Officials indicated that there are currently no plans for water and sewer rate increases in 2020-21.

¹ Ten days prior to the planned budget adoption date.

The \$5.5 million estimated for water rents appears reasonable. We recalculated the sewer rents based on the prior year's metered water usage and the 130 percent rate currently in effect and found that the 2020-21 sewer rents are also reasonably estimated.

Termination Salary Payments

The City's 2020-21 proposed budget contains an appropriation of approximately \$2.7 million² for termination salaries. The City's termination salary expenditures have averaged \$2.2 million over the last three completed fiscal years and officials estimate \$2.6 million³ will be disbursed in the 2020-21 fiscal year.

Although the City appears to have budgeted sufficiently for the 2020-21 fiscal year, we caution the City that its continued practice of borrowing to fund these operating costs is not fiscally prudent. In addition, the continued reliance on proceeds of long-term debt to finance recurring operating expenditures will further diminish the City's ability to finance needed services in future budgets because the City will have to devote more of its limited resources to repay the principal and interest on this debt. As noted, debt service amounts for the City are already a significant cost that has been steadily increasing yearly.

Overtime

The City's 2020-21 proposed budget contains an appropriation of \$3.3 million for overtime. Over the past three years (2016-17 through 2018-19), overtime costs have exceeded budgeted amounts by \$3.4 million with the highest variance, \$1.6 million, in 2016-17. In addition, the City has already expended \$2.9 million of the \$3.1 million budgeted for 2019-20 as of March 30, 2020. If overtime spending continues at this rate, overtime costs will exceed budgeted amounts again this year. Police, fire and beach maintenance overtime totaling \$2.5 million over the past three years have contributed the most to this overspending. Although the City has improved its projections for overtime costs in certain departments, based on the trends, it does not appear that the total proposed appropriation will be sufficient. On January 23, 2020, the City Comptroller implemented a procedure requiring preapproval of overtime. However, unless City officials ensure that the necessary controls are in place and operating effectively, budgeted amounts for overtime may not be sufficient.

Officials indicated that the excess overtime is due to a combination of poor past budgeting, a steadily decreasing payroll over the past few years, and minimum staffing requirements due to hiring freezes. Officials have not taken action to change these factors contributing to the cost of overtime and have not budgeted enough for the amount of overtime costs that are likely to be needed. Officials should consider increasing the appropriations for overtime or ensure that controls are in place to reduce the use of overtime.

² This includes \$2.5 million in the general fund, \$140,000 in the water fund and \$100,000 in the sewer fund.

³ This includes \$1.5 million from scheduled installments, \$1 million for new retirees and \$187,898 for fringe benefits.

Cash Flow Projections

City officials did not include cash flow projections with the proposed budget. Although such projections are not a required part of the annual budget, we believe the City should include them, not only to compare total revenues with total expenditures but also to compare timing of receipts with disbursements to be sure cash will be available when needed and any shortfalls can be planned for. With the City's weak financial condition and projected operating deficits for the current fiscal year, cash flow projections would provide officials with another gauge of the effectiveness of the proposed budget.

City officials informed us that a cash flow projection is currently being prepared, but they did not provide one for our review.

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 2019 budget review letter. City officials only partially implemented our recommendations.

Water and Sewer Funds – The 2019-20 estimated revenues included a 2 percent increase in metered water rates and an increase of sewer rents from 120 to 125 percent of water usage, which the City Council had not yet authorized. The City Council authorized both rate increases on May 21, 2019. The sewer rents were increased to 130 percent of water usage instead of 125 percent.

Termination Salary Payments – The City's 2019-20 proposed budget contained an appropriation of approximately \$1.9 million for termination salaries. The City has already exceeded its budget by approximately \$110,000, with termination payments totaling about \$2 million as of March 31, 2020, and they expect to spend a total of \$2.6 million by the end of the 2019-20 fiscal year. City officials indicated they plan to use funds saved from the reductions in payroll to make up for this deficiency. The City has eliminated about 27 permanent positions with annual salaries totaling approximately \$3.5 million. In addition, on February 6, 2020 the City issued \$2.1 million in bond anticipation notes for separation payments. Routine reliance on debt only perpetuates the City's dire financial condition. We urge City officials to adopt a long-term planning approach that includes a cash flow analysis.

Cash Flow Projections – City officials did not include cash flow projections with the 2019-20 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, which was effective with the City's 2012-13 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 budget includes a tax levy of \$46.6 million, which is \$4,136 above the legal limit. The City Council has not adopted a local law indicating it plans to override the tax levy limit. In adopting the 2020-21 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.

We request that you provide us with 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
John Bendo, City Council President
Karen McInnis, City Council Vice President
Michael A. Delury, City Council
Scott J. Mandel, City Council
Elizabeth M. Treston, 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. Melissa Miller, NYS Assembly
Hon. Todd Kaminsky, NYS Senate
Robert F. Mujica, Jr., Director, Division of the Budget
Ira McCracken, Chief Examiner, Long Island Regional Office