



THOMAS P. DINAPOLI
COMPTROLLER

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

ELLIOTT AUERBACH
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

May 21, 2020

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

Report Number: B20-6-4

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 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 the adoption of the final budget 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 City's 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 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 2020-21 fiscal year are contained in this report.

Our Office has recently completed a review of the City's proposed 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 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 2020-21 fiscal year consisted of the following:

- 2020-21 Mayor’s Budget Letter
- 2020-21 Proposed Executive Budget
- 2020-21 Board of Education Budget Request
- Supplementary Information

The proposed budget submitted to our Office is summarized in Figure 1:

Figure 1: 2020-21 Proposed Budget					
Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Fund Transfers In/(Out)^a	Real Property Taxes
General Fund	\$487,646,854	\$379,447,973	\$33,021,887	(\$318,555,595)	\$393,732,589
Water Fund	\$38,141,293	\$42,725,860	\$4,628,944	(\$9,213,511)	\$0
Sewer Fund	\$7,565,859	\$9,441,496	\$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	\$639,247,726	\$358,791,033	\$12,717,821	\$267,642,269	\$0
Debt Service Fund	\$54,899,169	\$0	\$183,131 ^b	\$54,812,641	\$0
Total	\$1,237,025,022	\$790,492,762	\$52,799,671	\$0	\$393,732,589

^a Includes transfers to and from various funds
^b Includes appropriated debt service fund balance for the education fund.

Our review disclosed the following issues which City officials should review 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.

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, City officials should 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.

Board of Education

Budget Gap – The District's 2020-21 budget request is \$661.7 million for appropriations; however, the City's Executive budget contains revenues for the District of \$639.2 million. As a result, the District's proposed budget is structurally imbalanced with a budget gap of at least \$22.5 million. City and District officials should work to address this gap between District revenues and appropriations.

Fund Balance – The District is projecting unassigned fund balance of \$21.6 million at the end of the 2019-20 fiscal year. The District appropriated \$12.7 million, or approximately 59 percent of the projected fund balance, in the 2020-21 proposed budget. If the fund balance appropriation is not available at year end, the District's budget gap could increase by an additional \$12.7 million.

The District's use of its fund balance as a revenue source may limit its 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 2021-22 budget.

State Funding for Basic Aid and Categorical Aid – The District's 2020-21 budget relies on \$311.2 million in State funding for basic aid and \$13.3 million in State funding for categorical aid. Although the State funding amount budgeted agrees with the State's budget, we caution the City to be mindful that the budget gives the Governor power to reduce spending, which means that State funding may decrease based on updates provided quarterly.

Additional Aid – The District's 2020-21 budget relies on additional State aid of \$12 million for District services and expenses. Although the aid may provide relief in the 2020-21 budget, this funding source may not be available in future years. The City's reliance on additional State aid to finance District operating expenditures may cause funding gaps in the future.

Teacher Retirement – The 2020-21 proposed budget includes a \$24.9 million appropriation for the payment of teacher retirement. We project the District will spend \$25.1 million in 2020-21 based on New York State Retirement projections. Additionally, the District did not budget for the retroactive installment payment due in 2020-21 which, if not made in fiscal year 2019-20 as planned, could result in the District's estimate being underestimated by as much as \$2.6 million.

Textbooks, Software and Equipment – The District's 2020-21 budget request includes a \$4.7 million appropriation for the purchase of textbooks, software and equipment. However, the City's capital budget also 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 \$22.5 million budget gap. The purchase of textbooks, software and equipment is a recurring District expenditure and, therefore, should remain as an appropriation in the annual budget and not

be included in the capital budget. The District will incur additional costs if it continues to borrow for operating costs 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 to balance its budget. The 2020-21 proposed budget continues this practice of using nonrecurring funding of \$65.1 million such as appropriated fund balance, one-time State funding and sale of property to finance operating expenditures.

Fund Balance¹ – The City is projecting unassigned general fund balance of \$39 million at the end of the 2019-20 fiscal year. However, this includes \$97 million in AIM revenue that has been deferred indefinitely. Before finalizing the budget, the City should 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, 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 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 \$4.6 million of water fund balance, \$1.8 million of sewer fund balance, \$183,131 of debt service fund balance and \$469,552 of library fund balance (Figure 2).

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 various operating funds of the City as of the end of the 2018-19 fiscal year.

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%
Debt Service^a	\$183,131	\$1,559,673	11.7%	\$183,131	100.0%
Library	\$469,552	\$640,900	73.3%	\$469,552	100.0%
Sewer	\$1,778,336	\$4,322,769	41.1%	\$4,536,175	39.2%
Water	\$4,628,944	\$13,989,123	33.1%	\$14,719,693	31.4%
a) Includes appropriated debt service fund balance for the education fund.					

Overall, the City is relying on \$65.1 million of nonrecurring revenue such as appropriated fund balance, one-time State funding, and sale of property to finance its 2020-21 operations. Although this funding provides relief in the 2020-21 budget, it will 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 alternative sources of revenue or reducing appropriations.

Revenues²

Sales and Use Tax & Sales and Use Tax – Education – The 2020-21 proposed budget includes City sales and use tax including education revenues of \$96.1 million, which is a decrease of approximately \$3.1 million from the actual revenue in the 2018-19 fiscal year. The City’s 2020-21 estimate included assumptions such as a projected 30 percent decline in revenue from July through September. We based our projection for 2020-21 on revenue projections for 2019-20 with a projection of 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 \$11.2 million. City officials should continue to monitor available information to determine whether their estimate is achievable and, if not, lower the sales and use tax including education revenue estimate.

AIM Funding – The City’s 2020-21 budget relies on \$108.2 million in State funding for Aid and Incentives to Municipalities (AIM). Although funding from the State included in the City’s budget

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 2018-19 or “properly attributable” to 2019-20, 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.

agrees with State budget figures, we caution the City to be mindful that the budget gives the Governor power to reduce spending, which means that State funding may decrease based on updates provided quarterly.

Income Tax Surcharge – The 2020-21 proposed budget includes City income tax surcharge revenues of \$54.4 million. The 2020-21 proposed revenue is a 1.3 percent increase over the \$53.3 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 \$1.1 million if revenue estimates are not realized. City officials should reassess whether this increase is achievable and, if not, lower the income tax revenue estimate.

Sewer Rents – The 2020-21 proposed budget includes sewer rents revenue of \$9.3 million, which is an increase of approximately \$1.2 million from the amount billed in the 2018-19 fiscal year. The City plans to increase rates for sewer rents by 6.38 percent. We project that the City will receive approximately \$8.1 million in the 2019-20 fiscal year. If rates are increased by 6.38 percent, the City still could face a revenue shortfall of approximately \$687,000 based on current year projections. The City Council must pass a resolution to raise sewer rents prior to the adoption of the budget or lower the estimates for sewer rent revenue.

Metered Water Sales – The 2020-21 proposed budget includes metered water sales revenue of \$37.8 million, which is an increase of approximately \$3.1 million from the amount billed in the 2018-19 fiscal year. The City plans to increase rates for metered water sales by 5.69 percent. We project that the City will receive approximately \$35.2 million in the 2019-20 fiscal year. If rates are increased by 5.69 percent, the City still could face a revenue shortfall of approximately \$546,000 based on current year projections. The City Council must pass a resolution to raise water rates prior to the adoption of the budget or lower the estimates for metered water sales revenue.

Utilities Gross Receipts – The 2020-21 proposed budget includes City utilities gross receipts revenues of \$8.1 million. We project the City will receive approximately \$7.6 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 \$492,000 if revenue estimates are not realized. City officials should reassess whether this increase is achievable and, if not, lower the utilities gross receipts estimate.

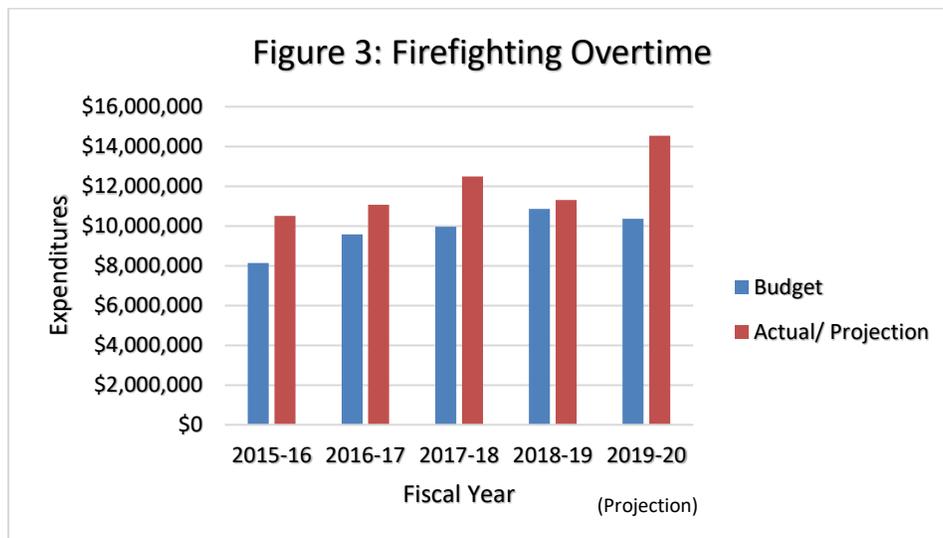
Consumer Protection Bureau – The 2020-21 proposed budget includes City consumer protection bureau revenues of \$1.3 million. We project the City will receive approximately \$786,000 in the 2020-21 fiscal year based on 2019-20 projections with no change. The City could potentially face a shortfall of \$562,000 if revenue estimates are not realized. City officials should reassess whether this increase is achievable and, if not, lower the consumer protection bureau estimate.

ETPA Administrative Charge – The 2020-21 proposed budget includes \$374,000 in revenue from the Emergency Tenant Protection Act (ETPA) administrative charge. This amount appears reasonable, but requires the City Council to amend the local law prior to the adoption of the budget.

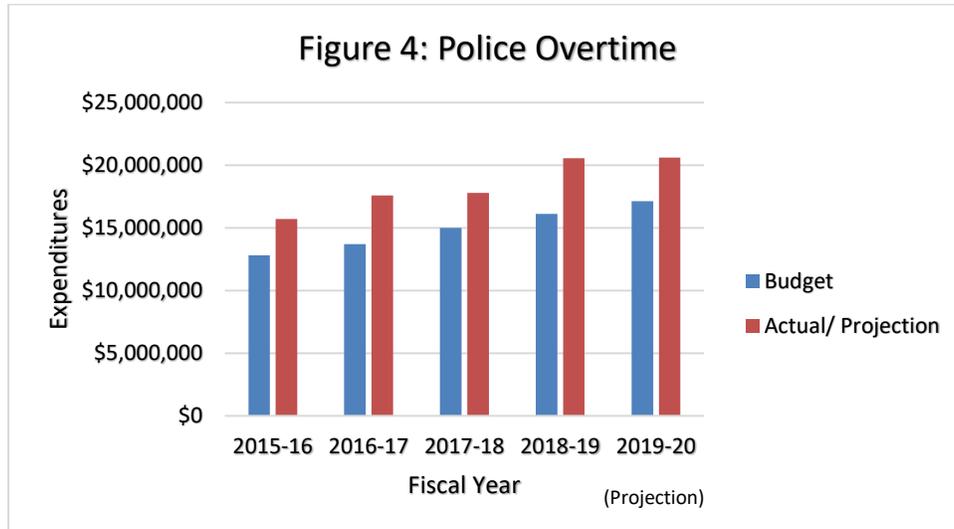
Appropriations

Tax Certiorari – The 2020-21 proposed 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 for 2020-21 payments. 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.

Firefighting Overtime – The City’s 2020-21 proposed 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 \$9.7 million in 2019-20 (as of March 31, 2020). Based on our projections, the City will spend approximately \$14.5 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 underestimated 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 proposed 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 \$14 million in 2019-20 (as of March 31, 2020). Based on our projections, the City will spend approximately \$20.6 million on police overtime in the 2019-20 fiscal year. If the City does not implement additional changes in procedures to reduce overtime, it is likely the historical trends will continue. This means the appropriation for overtime is likely underestimated by as much as \$2 million (Figure 4).



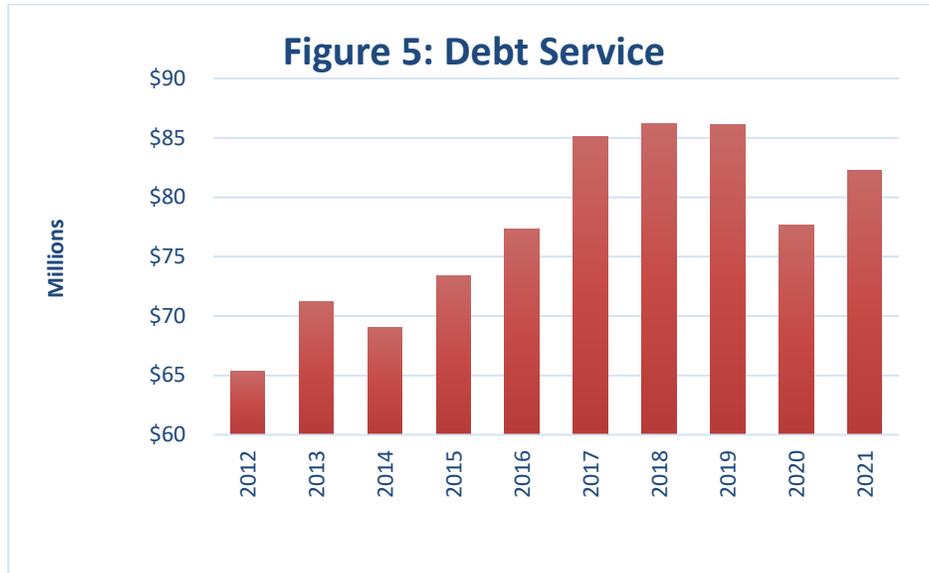
Termination Payments – The 2020-21 proposed budget includes a \$3.9 million appropriation for the payment of termination payments. The City spent \$3.2 million on termination payments in 2018-19 and approximately \$4 million in 2019-20 (as of April 30, 2020). Based on trends, we project the City will spend \$4.9 million in 2020-21. 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. As a result, the City’s estimate may be underestimated by approximately \$953,000.

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 to 2 percent of the five-year average full valuation of the City’s taxable real property. Under the 2020-21 proposed budget, the City will have exhausted 80.1 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.

Debt

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 25.6 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.



Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 (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 proposed 2020-21 budget includes a tax levy of \$393,732,589. However, the amount budgeted for Payments in Lieu of Taxes (PILOT) revenue may be underestimated by as much as \$193,849, which affects the tax cap calculation and would result in the proposed levy exceeding the tax levy limit established by the Law. City officials agreed with our findings and provided supplemental information that they were planning on amending the tax levy amount. In adopting the 2020-21 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 eliminate the \$22.5 million gap in the District’s budget request.
2. 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.
3. 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.

4. 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.
5. Work with District officials to develop a plan if State funding is not realized and amend the estimate as necessary.
6. Work with District officials to review the estimate for teacher retirement and amend as necessary.
7. Work with District officials to identify alternatives to borrowing funds to purchase textbooks and related software and equipment.
8. 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.
9. Review the estimate for sales and use tax including education and amend as necessary.
10. Develop a plan if AIM funding is not realized and amend the estimate as necessary.
11. Review the estimate for income tax and amend as necessary.
12. Review the estimate for sewer rents and amend as necessary.
13. Review the estimate for metered water sales and amend as necessary.
14. Review the estimate for utilities gross receipts and amend as necessary.
15. Review the estimate for consumer protection bureau and amend as necessary.
16. Consider adjusting the appropriation for tax certiorari payments and provide a financing source for tax certiorari settlements.
17. Review the estimate for firefighting overtime and increase it to an appropriate level.
18. Review the estimate for police overtime and increase it to an appropriate level.
19. Review the estimate for termination payments and increase it to an appropriate level.
20. Review the outstanding debt and review alternatives to borrowing to reduce the continuous increase in outstanding debt over the last 10 years.
21. Review the estimate for PILOTs and increase to an appropriate level.
22. Review the estimate for tax levy and either decrease to remain under the tax levy limit or adopt a local law to override the limit.

The City Council must:

23. Pass a resolution to approve the appropriation of fund balance for the District, identify alternative funding or lower appropriations.
24. Pass a resolution to raise sewer rents prior to the adoption of the budget or lower the estimate for sewer rents.
25. Pass a resolution to raise water rates prior to the adoption of the budget or lower the estimate for metered water sales.
26. Pass the necessary resolution for the fees in ETPA admin charge 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 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
Dr. Edwin Quezada, Superintendent of Schools
Rev. Steve Lopez, President, Board of Education
Judith Ramos Meier, Vice President, Board of Education
Andrea Brown, Trustee, Board of Education
Kevin Cacace, Trustee, Board of Education
Dr. John Castanaro, Trustee, Board of Education
Dr. Rosalba Corrado Del Vecchio, Trustee, Board of Education
Dr. Edward Fergus, Trustee, Board of Education
Abdool Jamal, Trustee, Board of Education
Dr. Ammir Rabadi, 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. Carl E. Heastie, Speaker, NYS Assembly
Hon. Crystal Peoples-Stokes, NYS Assembly
Hon. William Barclay, NYS Assembly
Shannon Tahoe, Interim Commissioner, NYS Education Department
Harold Coles, Superintendent Southern Westchester BOCES
Robert F. Mujica Jr., Director, NYS Division of Budget
Lisa Reynolds, Chief Examiner, Newburgh Regional Office