



THOMAS P. DiNAPOLI
COMPTROLLER

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

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

July 30, 2018

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

Report Number: B18-6-7

Dear Mayor Spano and City Council Members,

By letter dated July 10, 2018, 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 2018-19 and the related justification documents are in material compliance with the requirements of the Fiscal Agent Act (Chapter 488 of the Laws of 1976) (Act). Prior to this determination the City's budget is not effective and the City is not allowed to take action on the budget. However, it has come to our attention that the City took action on the budget prior to receiving approval by mailing tax bills in late June. Such action is not in compliance with the requirements of the 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 2018-19 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 2018-19 budget totals \$1.2 billion. The budget includes operating and debt service funding of \$615.6 million for the Yonkers Public Schools (District) and \$575.2 million for the City. The 2018-19 budget is \$36.5 million more than the City's budget for 2017-18, an increase of 3.2 percent.

Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Fund Transfers In/(Out)^a	Real Property Taxes
General Fund	(\$477,827,788)	\$387,652,456	\$18,261,008	(\$306,416,030)	\$378,330,354
Water Fund	(\$29,866,782)	\$41,766,467	\$0	(\$11,899,685)	\$0
Sewer Fund	(\$5,559,812)	\$8,579,102	\$406,166	(\$3,425,456)	\$0
Library Fund	(\$9,756,577)	\$150,610	\$506,733	\$9,099,234	\$0
Museum Fund	(\$250,000)	\$0	\$0	\$250,000	\$0
Yonkers Public Schools ^b	(\$615,616,354)	\$328,959,037	\$25,062,176	\$261,595,141	\$0
Debt Service Fund	(\$51,932,775)	\$0	\$1,135,979	\$50,796,796	\$0
Total	(\$1,190,810,088)	\$767,107,672	\$45,372,062	\$0	\$378,330,354

^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 2018-19 budget continues this practice of reliance on nonrecurring funding of \$59.2 million to finance operating expenditures.

Fund Balance – The City has projected a general fund balance of \$21.8 million at the end of the 2017-18 fiscal year. The City appropriated \$18.3 million, or approximately 84 percent, of the projected fund balance from the general fund in the 2018-19 budget.¹ The District appropriated \$24.1 million, or 100 percent, of the projected fund balance from the general fund in the 2018-19 budget. In addition, the City appropriated approximately \$2.1 million from the debt service fund, \$506,733 from the library fund, and \$406,166 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. It also exposes the City to 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. City officials will have to replace this nonrecurring revenue in the 2019-20 budget.

¹ To comply with the requirements of the Fiscal Agent Act, the City’s 2018-19 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 2016-17 fiscal year.

Fund	Fund Balance Appropriated	Projected Fund Balance Available	Percent Used	Fund Balance Available Per Act¹	Percent Used
General	\$ 18,261,008	\$ 21,814,837	83.7%	\$ 18,261,008	100.0%
Education	\$ 24,093,643	\$ 24,093,643	100.0%	\$ 24,093,643	100.0%
Debt Service	\$ 2,104,512	\$ 2,204,512	95.5%	\$ 3,427,755	61.4%
Library	\$ 506,733	\$ 573,631	88.3%	\$ 506,733	100.0%
Sewer	\$ 406,166	\$ 3,378,309	12.0%	\$ 3,267,029	12.4%

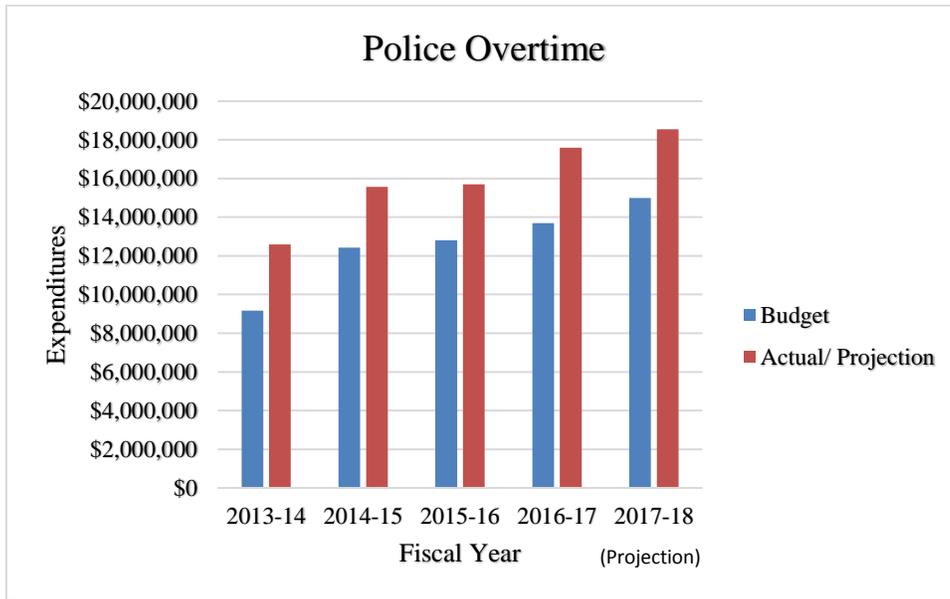
Additional Aid – The 2018-19 budget relies on additional State aid of \$8.8 million, authorized by Chapter 54 of the Laws of 2018, to provide municipal relief to the District. Although the aid will provide relief in the 2018-19 budget, this funding source may not be available in future years. The additional aid helped the District avoid layoffs and services cuts. However, the City’s reliance on additional State aid to finance District operating expenditures will likely create similar funding gaps in the future.

Specialized State Aid – The 2018-19 budget includes \$5 million for specialized State aid from the New York State Financial Restructuring Board for Local Governments (FRB). The FRB offers grants or loans of up to \$5 million to fiscally eligible municipalities. The Board has approved the application to undertake a comprehensive review of the City and after preliminary work, City officials have been assured that approval of the full \$5 million in aid will be recommended to the FRB. However, the amount of funding for the City has not yet been formally approved by the FRB, as a result, there is a possibility that the City may not receive the \$5 million revenue during the 2018-19 fiscal year. In the unlikely event that the aid is not received, the City has developed a contingency plan to reduce appropriations to cover this funding gap. Also, since the timing of the revenue is unknown but will likely be at least halfway through the year, there is potential for cash flow shortages depending on the timing of the payment. While the funding will provide relief in the 2018-19 budget, this funding source will not be available in future years.

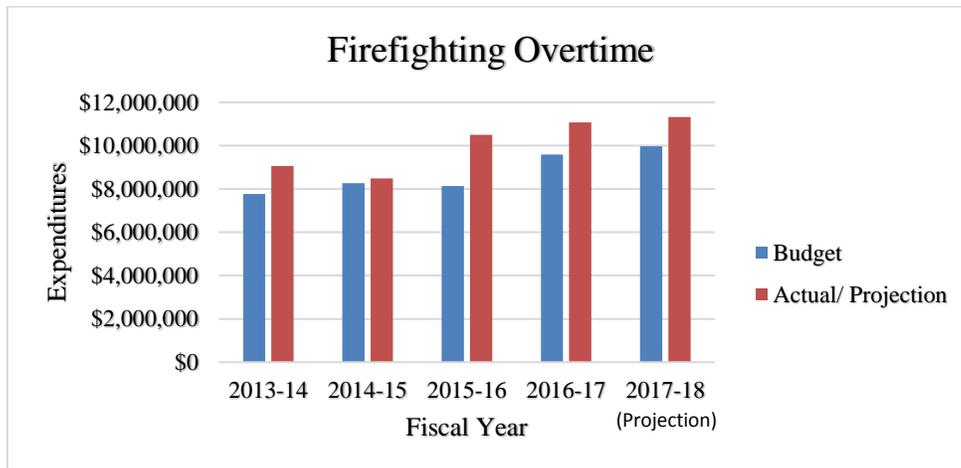
Overall, the City is relying on \$59.2 million of nonrecurring revenue to finance its 2018-19 operations. Although this funding provides relief in the 2018-19 budget, it will not be available in future years. Therefore, a potential significant funding gap will occur in the 2019-20 fiscal year that the City must address by finding an alternate source of revenue or by reducing appropriations.

Appropriations

Police Overtime – The City has routinely exceeded budgeted amounts for police overtime costs. The City’s 2018-19 adopted budget includes overtime funding of \$16.1 million for the Police Department. The City spent \$17.6 million on police overtime in 2016-17 and approximately \$17 million in 2017-18 (as of May 31, 2018). The City has not implemented procedures to reduce overtime so we expect the trend will continue. Based on our projections, the City will spend a total of \$18.6 million on police overtime in the 2017-18 fiscal year. If historical trends continue and overtime savings are not realized, the appropriation for overtime could be underestimated by as much as \$2.5 million.



Firefighting Overtime – The City has routinely exceeded budgeted amounts for firefighting overtime costs each year. The City’s 2018-19 adopted budget includes overtime funding of \$10.4 million for the Fire Department. The City spent \$11.1 million on firefighting overtime in 2016-17 and approximately \$10.4 million in 2017-18 (as of May 31, 2018). Based on our projections, the City will spend a total of \$11.3 million on firefighting overtime in the 2017-18 fiscal year. The City has not implemented procedures to reduce overtime so we expect the trend will continue. If historical trends continue and overtime savings are not realized, the appropriation for overtime could be underestimated by as much as \$949,000.



Tax Certiorari – The adopted 2018-19 budget includes \$500,000 for payment of tax certiorari claims. In 2016-17 the City settled claims for approximately \$13.5 million and in 2017-18 the City has settled claims for approximately \$6.3 million. The City issued bonds in the prior years to pay for tax

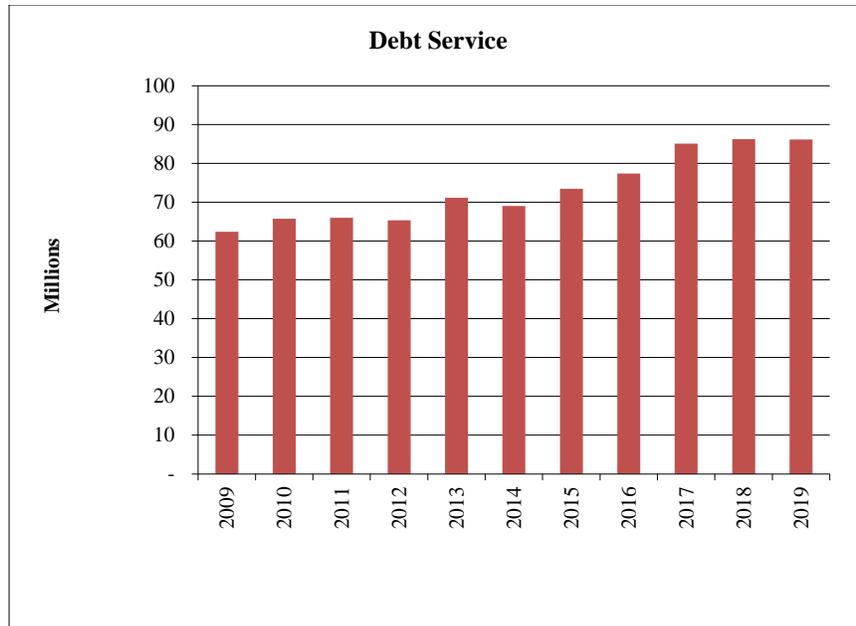
certiorari claims and plans to borrow up to \$15 million for tax certiorari settlements in the 2018-19 fiscal year. The continued practice of using debt to pay for these costs is imprudent. Tax certiorari claims are a recurring cost of doing business and should be paid from annual appropriations. The City will incur additional debt and interest costs by bonding the cost of tax certiorari claims instead of financing them in the operating budget.

Special Projects – The 2018-19 Executive Budget included \$8.7 million and \$2.1 million in funding for special projects in the water and sewer funds, respectively. However, the adopted 2018-19 budget eliminated this funding. According to City officials, similar special projects that have been removed are included in the capital budget, which will be funded through the issuance of debt. The City's adopted capital budget includes debt issuances of up to \$9.8 million for water fund improvements and none for the sewer fund. The City will incur additional debt and interest costs if it issues debt for these special projects.

Contingency Funds – The City's adopted budget does not include a contingency appropriation for the general fund. However, the budget includes a contingency appropriation of \$1.9 million for the water fund. In light of recent economic conditions, the significant budgetary concerns pointed out in this letter and the minimal remaining fund balance, it would be prudent for City officials to have contingency funding available for unforeseen increases in expenditures or revenue shortfalls. Any unused amounts in a contingency fund would help in starting to rebuild fund balance. City officials should establish a contingency appropriation at a level that would provide the City with flexibility in the event that it has to deal with unanticipated expenditures or revenue shortfalls.

Debt

The City's outstanding debt has grown over 16 percent during the last 10 years. Since 2010, the City's annual debt service obligations have risen 31 percent. The City will need \$86.1 million to service its debt obligations during 2018-19. This amount represents about 7 percent of the City's annual budget. 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. With the 2018-19 budget, the City will have exhausted 92.3 percent of its taxing authority. The City’s ability to increase property taxes may be limited in future years if property values do not increase. The governing board cannot override the Constitutional Tax Limit.

Tax Cap Compliance

In addition to the Constitutional Tax Limit, the New York 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 adopted 2018-19 budget includes a tax levy of \$378,330,354, which exceeds the allowable levy limit by \$16.3 million. To comply with the Law, the City Council adopted a local law overriding the tax levy limit.

If you have any questions on the scope of our work, please contact Ms. Tenneh Blamah, Chief Examiner of our Newburgh Office, at (845) 567-0858.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Vincent E. Spano, City Clerk
John Liszewski, Commissioner of Finance
Hon. Catharine Young, 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
Robert F. Mujica, Director, Division of Budget
Tenneh Blamah, Chief Examiner, Newburgh Regional Office
Andrew A. SanFilippo, Executive Deputy Comptroller