THOMAS P. DiNAPOLI
COMPTROLLER

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

STEVEN J. HANCOX
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

August 13, 2010

Honorable Philip A. Amicone
Mayor
City of Yonkers
City Hall
Yonkers, NY 10701-3886

Report Number: B8-10-18

Dear Mayor Amicone:

As you know, by letter dated July 26, 2010, the Office of the State Comptroller, as Fiscal Agent for the City of Yonkers (City), determined that the adopted budget of the City for the fiscal year 2010-11 and the related Justification Documents are in material compliance with the requirements of the Fiscal Agent Act (L 1976 ch 488, as amended) and the City's bond covenants incorporating the provisions of the that Act.

Generally, the Fiscal Agent Act and related bond covenants require the City to appropriate for each cost category at least as much as it 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 to budget additional miscellaneous revenue, it must provide to us a detailed justification supporting the proposed action. While we have determined that the 2010-11 budget 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 2010-11 adopted budget totals $894.1 million. The budget includes operating and debt service funding of $481.4 million for the Yonkers Public Schools and $412.7 million for the City. The 2010-11 budget is $1.9 million less than the adopted budget for the City's 2009-10 fiscal year. This decrease of 0.21 percent in spending equates to a decrease in appropriations of $2.7 million for educational purposes and an increase of $800,000 in funds for municipal purposes.

While the City's budget is in technical compliance with the Fiscal Agent Act during our review we identified a number of risks with the City's budget. The City's 2010-11 budget relies on non-recurring funding, and relies on the enactment of State legislation that will continue the City's authorization to accrue certain revenue. We also believe City officials may have over-budgeted revenue from income tax surcharges by as much as $5.2 million and under-budgeted police overtime by more than $2 million.

Further, the City's long-term fiscal health is threatened by its growing debt burden. The City's debt burden has increased substantially over the past 10 years, with its debt service costs rising 84 percent over that period. Adding to the threat, the City plans to continue paying the cost of tax certiorari refunds by issuing an additional $12 million in debt Tax certiorari refunds are a routine cost of doing business and should not be funded by debt. By bonding the cost of the refunds, rather than financing them through the current year's operating budget, City officials will incur additional debt and interest cost. Using debt for expenses that were previously paid for from operating funds is a clear indication of growing fiscal stress.

<u>Budget Risks</u>

Reliance on Non-recurring Revenue

In prior years, we have expressed concern about City officials' practice of financing recurring operating expenditures with non-recurring funding sources. The 2010-11 adopted budget again relies on approximately $20.8 million of non-recurring funding from the "spin–up" of future State aid (a spin-up allows an advance of aid which would not otherwise be available until the subsequent fiscal year). The City was scheduled to receive $110,813,067 in Aid and Incentive to Municipalities (AIM) funding during its 2010-11 fiscal year, but the State is providing a $20.8 million spin-up of AIM aid from the next fiscal year. Therefore, the City will face a potential revenue shortfall in 2011-12 of $20.2 million because of these actions. The City's multi-year plan projects AIM funding of $111.4 million for fiscal year 2011-12. This is $20.2 million less aid in fiscal year 2011-12 than in fiscal year 2010-11, as outlined in the table below.

State Aid	2010-11	2011-12 (projected)
AIM Funding	$110,813,067	
Spin-up AIM Funding	$20,808,903	
Total AIM Funding	$131,621,970	$111,430,673
Difference between FY 2010-11 and FY 2011-12 AIM Funding		$20,191,297

Authorization to Accrue Revenue

Historically, the State has statutorily authorized the City and the School District to accrue and record as revenue certain State aid that the public schools will not receive until the September following the end of the City's fiscal year. To help close a gap in the City's 2010-11 budget, City officials have assumed $36.4 million of state aid accruals. These accruals represent $21.4 million for salaries to be paid between April 1 and June 30, 2011 and $15 million for pension costs.

The Governor, however, has vetoed the legislation authorizing these accruals next year. Although State Legislative leaders and the Governor have pledged to restore this authorization before the end of the year, if the State fails to do so, the School District will have a $36.4 million gap in its 2011-12 budget. Accordingly, the City and School District should have a contingency plan in place in the event the authorization is not restored.

Income Tax Surcharge

City officials have budgeted $32.2 million in revenue from income tax surcharges. Currently, the City resident income tax rate is 10 percent of the net State tax, and the non-resident rate is one-half of 1 percent. The resident rate is scheduled to increase to 15 percent as of January 2011, a 50 percent increase in the surcharge. Although City officials anticipate receiving approximately $32.2 million by June 2011 in income tax surcharges, $27 million may be a more realistic estimate. The lower estimate is based on historical trends of income tax surcharge revenue receipts after a rate increase. Past trends indicate that a significant portion of the increase will not be realized until January 2012 when taxpayers begin to file their tax returns for 2011. Therefore, the City could face a shortfall of approximately $5.2 million in revenue.

Overtime Costs

In the past several years the City has routinely exceeded the budgeted amounts for police overtime costs. The City's 2010-11 general fund budget includes overtime funding of $9.8 million for the police department. The City spent $15.6 million on police overtime in the 2008-09, and approximately $16 million in 2009-10.

City officials have outlined a two-step plan to reduce overtime. The plan calls for not filling a vacant captain position, eliminating the Police Model City Program, releasing all eligible prisoners on their own recognizance (i.e., without bail), and eliminating a radio car at Yonkers raceway. These steps are projected to save the City approximately $2.1 million in overtime costs.

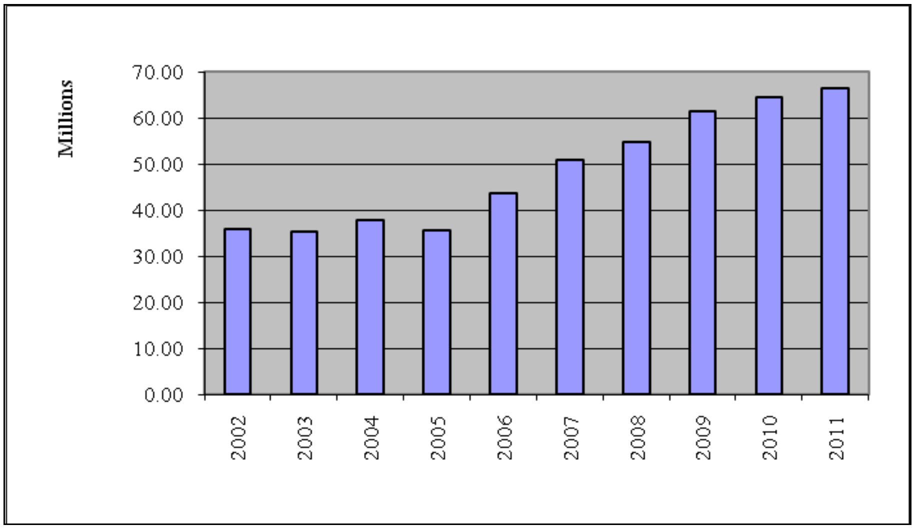
In addition, City officials plan assignment changes, including transferring two lieutenants, two sergeants and four police officers from the youth crime unit; transferring three K-9 officers and one sergeant from community affairs; and deploying emergency unit sergeants to patrol duty. Making these assignment changes and restructuring police work schedules is anticipated to save the City an additional $1.9 million, for a total savings of $4 million in overtime costs for the 2010-11 fiscal year.

If implemented, these savings will help reduce overtime. However, unless City officials identify additional measures to reduce overtime costs, overtime expenditures would still exceed the appropriations in the adopted budget by approximately $2 million.

Long-Term Concerns

Debt

The City's outstanding debt has grown approximately 105 percent over the last 10 years. During the same period, the City's debt service payments have risen 84 percent, as shown in the following chart.



Due to the increasing debt the City has taken on, it will need $66.4 million for debt service payments during the 2010-11 fiscal year, or about 7.2 percent of the City's annual budget.

Use of Debt for Tax Certiorari Refunds

City officials have previously funded tax certiorari refunds through the current year's operating budget. Beginning in fiscal year 2008-09, the City began issuing debt for tax certiorari refunds. The City settled claims for $5.8 million in 2008-09 and for $20.1 million in 2009-10. City officials have budgeted only $500,000 for tax certiorari claims in 2010-11. The City has authorized the issuance of $12 million in debt for tax certiorari refunds in 2010-11. By bonding the cost of the refunds, rather than financing them through the current year's operating budget, City officials will incur additional debt and interest cost. Using debt for expenses that were previously paid for from operating funds is a clear indicator of growing fiscal stress. Other municipalities have taken similar action as their finances deteriorated.

Conclusion

In total, there are over $63 million in potential risks or non-recurring revenues in the City's budget. Given the City's nearly exhausted financial resources and the uncertainty of the economy, City officials have very few options available to deal with any unforeseen occurrences or deviations from the budget. Therefore, we urge City officials to implement stringent fiscal oversight and controls to prevent further financial problems this year.

Should you have any questions or concerns, please do not hesitate to contact me at (518) 474-4037.

Very truly yours,
Thomas P. DiNapoli
State Comptroller

By

Steven J. Hancox
Deputy Comptroller

cc: Chuck Lesnick
Wilson Terrero
Dennis Shepherd
Patricia D. McDow
Joan Gronowski
John Murtagh
John Larkin
Honorable Jeffrey Klein
Honorable Andrea Stewart-Cousins
Honorable J. Gary Pretlow
Honorable Richard L. Brodsky
Honorable Mike Spano