



**CITY OF LONG BEACH • NEW YORK**



# **Long Term Fiscal Recovery Plan**

**Presented by Jack Schnirman, City Manager**

*September 2013*

# In December 2011 The City of Long Beach was on the VERGE of becoming Detroit

---



*“The **City of Detroit** filed for **Chapter 9 bankruptcy protection** in federal court Thursday, laying the groundwork for a historic effort to bail out a city that is sinking under billions of dollars in debt and decades of mismanagement” – USA Today*

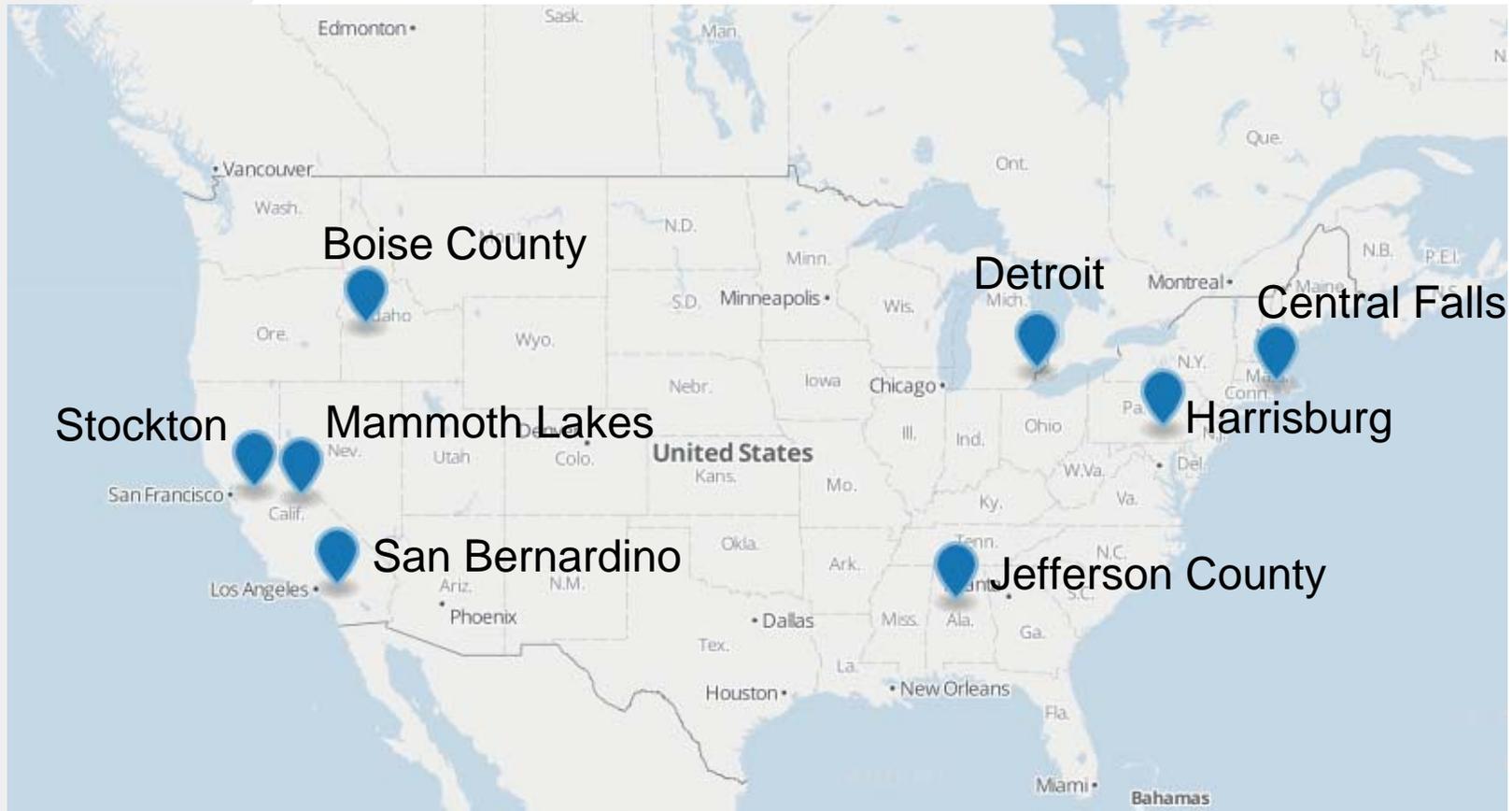


In December 2011 Moody's Downgraded the City's Bond Rating an Unprecedented Five Levels

The previous administration was running out of cash, leaving Long Beach on the verge of **BANKRUPTCY.**

## U.S. CITIES, TOWNS AND COUNTIES THAT HAVE FILED FOR BANKRUPTCY SINCE JANUARY 2010

*“The city of Detroit filed for bankruptcy protection...It is the largest U.S. city to do so. Cities, towns and counties that have filed bankruptcy since January 2010” – USA Today*



Source: USA Today

# WHAT WE INHERITED

---

**This administration has successfully managed it's way through the fiscal crisis we inherited and AVOIDED Detroit's fate.**

## **Two Independent Audits and the State Comptroller's Audit have uncovered...**

- Revenues Were Continually Overestimated
- Expenditures Were Underestimated
- \$18 Million Dollar Multi-Year Cumulative Deficit Was Created From Years And Years Of Financial Mismanagement
- In December 2011, Previous Administration Had To Borrow To Make Payroll

# DON'T JUST TAKE OUR WORD FOR IT...

---

*“Poor budgeting by the City of Long Beach’s former administration created an \$18-million, multiyear deficit and exhausted \$21 million in rainy day funds...By consistently adopting inaccurate budgets, the prior city administration created a significant deficit, depleted its surplus funds and went further into debt”*

*~ Office of the NYS Comptroller Audit  
July 2013*

*“Moody’s is also reviewing the City’s rating for withdrawal due to insufficient information given severe negative discrepancies between the City’s projections in August 2011 of reserve and cash positions....”*

*~ Moody's Investor Service Rating Review  
December 2011*

# THIS COULD HAVE BEEN AVOIDED

## Financial Restructuring Board for Distressed Local Governments

Governor Andrew M. Cuomo, Senate Majority Coalition Co-Leaders Dean Skelos and Jeff Klein, State Comptroller Thomas P. DiNapoli and Assembly Speaker Sheldon Silver announced an agreement on legislation that will create a Financial Restructuring Board for local governments (*which includes a fiscal stress monitoring system to sound early warnings signals of financial distress.*)

### Key Financial Indicators

- Year-End Fund Balance
- Operating Deficits
- Cash Position
- Use of Short-Term Debt
- Fixed cost, such as Personnel Services and Debt Service

The Prior Administration concealed these indicators of fiscal stress until Moody's unprecedented scathing 5 step rating downgrade revealed them.

City Manager Jack Schnirman testified at the State Senate hearings on fiscal distress in favor of the above legislation to assist other municipalities in avoiding the challenges Long Beach inherited.

# DECLARING A FISCAL CRISIS

---

On February 7, 2012 this administration took immediate action **FORMALLY DECLARING A FISCAL CRISIS.**

*“WHEREAS Moody’s Investors Service downgraded the City of Long Beach from an **A1 rating to a Baa3 rating** while additionally placing the City on a negative watch warning of a potential additional downgrade citing “the City’s deteriorating financial position since 2008 marked by a lack of a structural balance due to declining mortgage tax revenue and increasing expenditures.” Moody’s additionally cited the “projected deficit fund balance” inherited by this new City Council resulting in a “deteriorating cash position” and “near term liquidity strain.” Moody’s report continues that “Projections show the city’s cash balance is expected to decline further and may require additional cash flow borrowings in the near term which will require market access.”; ~ Excerpt from February 7, 2012 Resolution*

***\*5 notch downgrade ...Baa3 rating is just above junk status\****

# DECLARING A FISCAL CRISIS

---

The City Council directed and empowered the City Manager to immediately implement enhanced budget discipline and budgetary relief to assist the City in returning to fiscal stability, while ensuring the continuation of essential services.

The resolution further authorized the City Manager to accomplish the following:

**1. Implement Spending Control Policies and Procedures** to control spending as available in the City's budget and to items of operational necessity.

**2. Implement Fiscal Accountability Policies and Procedures**, including but not limited to; all Department Heads along with the Comptroller, will be responsible for verifying budget availability, all purchase requests will follow the proper chain of command prior to final approval by the City Manager and all purchases must be necessary to conduct City business.

**3. Implement Personnel Savings Policies and Procedures**, including but not limited to; establish a hiring freeze for all future hires with exception to the strategic hiring of a new management team dedicated to the re-engineering of process and procedures and changing the assumption of automatic backfilling of positions due to employee separations...reform and transparency agenda and to ensure public safety, establish an overtime policy which includes the requirement of all Department Heads to submit a pre-approval form prior to working any overtime unless an extreme emergency exists and that the City Manager hereby is authorized to work with the CSEA, PBA, and UFA on implementing cost saving measures.

# CORRECTIVE ACTIONS WERE TAKEN

---



## *Return to Fiscal Responsibility*

*As directed by the City Council in the resolution dated February 7, 2012 , the City Manager has **IMPLEMENTED AND ACHIEVED:***

- ✓ **Spending Control Policies and Procedures** to control spending as available in the City's budget and to items of operational necessity.
  - Despite rising fixed costs, the City has reduced spending by \$1.7 Million dollars to \$83.3 Million dollars, without cutting essential services; All expenditures will continue to go through the City Managers' office for approval.
  
- ✓ **Fiscal Accountability Policies and Procedures**, including but not limited to;
  - Monthly detailed departmental budget/variance reports, and instituting financial forecasting and trend analysis
  - All purchase requests follow the proper chain of command prior to final approval by the City Manager
  - Addressing internal and NYS Comptroller audit findings through a comprehensive corrective actions identification and tracking of all State & Federal grants; policies and procedures to account for the City's fixed assets.
  - Improved City Council oversight through the creation and adoption of the City's Fund Balance Policy and updates to the Procurement & Investment Policies

# CORRECTIVE ACTIONS WERE TAKEN

---



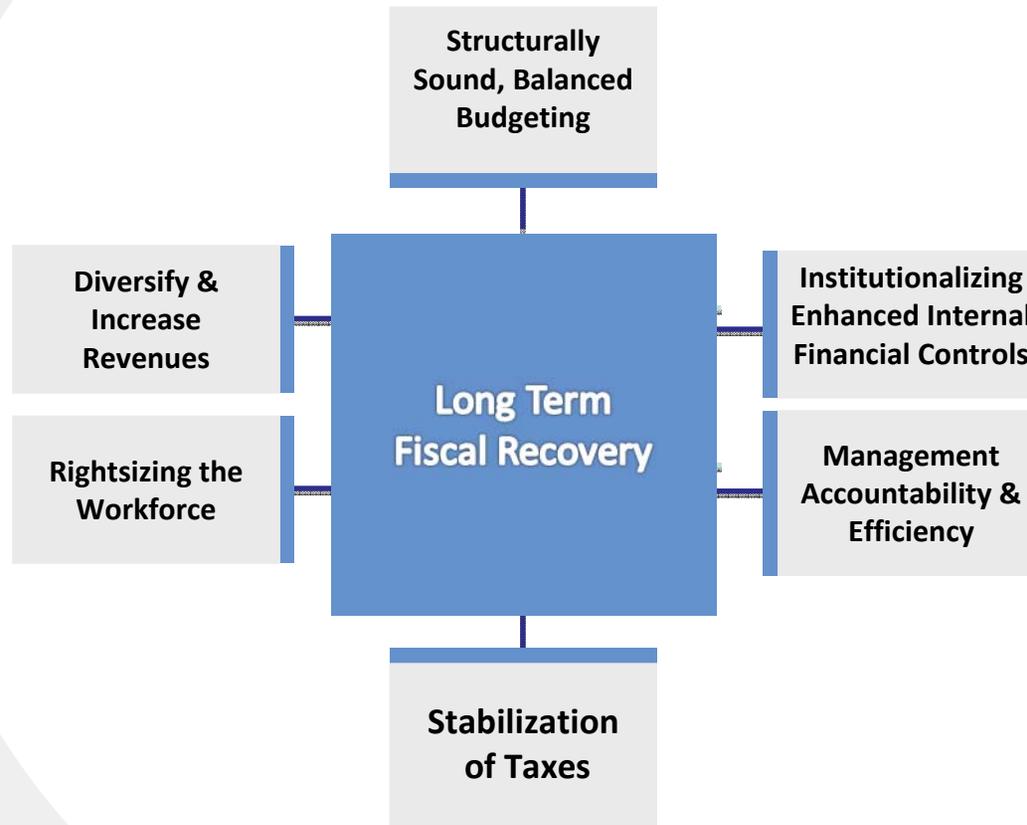
## *Return to Fiscal Responsibility*

- ✓ **Personnel Savings Policies and Procedures**, including but not limited to;
  - Reducing headcount by 12% to the lowest levels in over a decade; labor and personnel costs have been reduced from an unsustainable 83% of the budget to 63%
  - Overtime has been reduced and will continue to be tracked by department (excludes overtime for Sandy related projects)
  - Negotiated concessions with labor partners and saved over \$1 Million in overtime costs
  - Early retirement incentives were offered and management employees began paying a share of their healthcare premiums
  - For the past two years, the City Council has passed structurally sound balanced budgets which reflect accurate revenues and expenditure levels.
  
- ✓ **Moody's Investors Service Changes Outlook on Long Beach**
  - The August 2013 Moody's report cites the current administration's "improved financial controls and policies leading to balanced budgets" as reasons for the positive report and **outlook shift from "NEGATIVE" to "STABLE"**.

## REMOVING THE FISCAL CRISIS DESIGNATION

As a result of completing the tasks assigned by the City Council in the fiscal crisis resolution of February 2012, it is now prudent to **remove** the fiscal crisis designation, as the City has now entered into the **Long Term Recovery Phase**.

# CORE TENETS OF THE LONG TERM FISCAL RECOVERY PLAN



# LONG TERM FISCAL RECOVERY PLAN

---

*The Long Term Fiscal Recovery Plan Is KEY To Addressing The City's Continuing Challenges Head On...*

## **The Highlights of the Long Term Fiscal Recovery Plan:**

1. Structurally Sound, Balanced Budgeting
2. Diversify & Increase Revenues
3. Rightsizing the Workforce
4. Management Accountability & Efficiency
5. Institutionalizing Enhancing Internal Financial Controls
6. Stabilization of Taxes

# I. STRUCTURALLY SOUND, BALANCED BUDGETING

## *WE DID WHAT WE SAID WE WOULD...*

---

- ✓ For the past two years, the City Council has passed structurally sound balanced budgets. The FY 2012–2013 and 2013–2014 adopted budgets reflect sound and realistic revenues and expenditures estimates based on historical trends and forwarding looking economic forecasts.
- ✓ As a result the City’s finances are now established on sound reality based budgets which provides a ***realistic budgetary path for coming years***. The City Manager is currently working with the City Comptroller and advisors to draft a multi-year financial plan.

---

*Moody’s states, “New management has brought budgeted revenues more in line with historical revenues”... “Fiscal 2012-2013 marked the first balanced budget the City implemented in years with revenues and expenditures closer to historical results.” In addition, “The fiscal 2014 budget is also structurally balanced without the use of one-time revenues or expenditures, and includes a reduction in the City’s deficit.”*

---

## STRUCTURALLY SOUND, BALANCED BUDGETING

### *Long Term Initiatives*

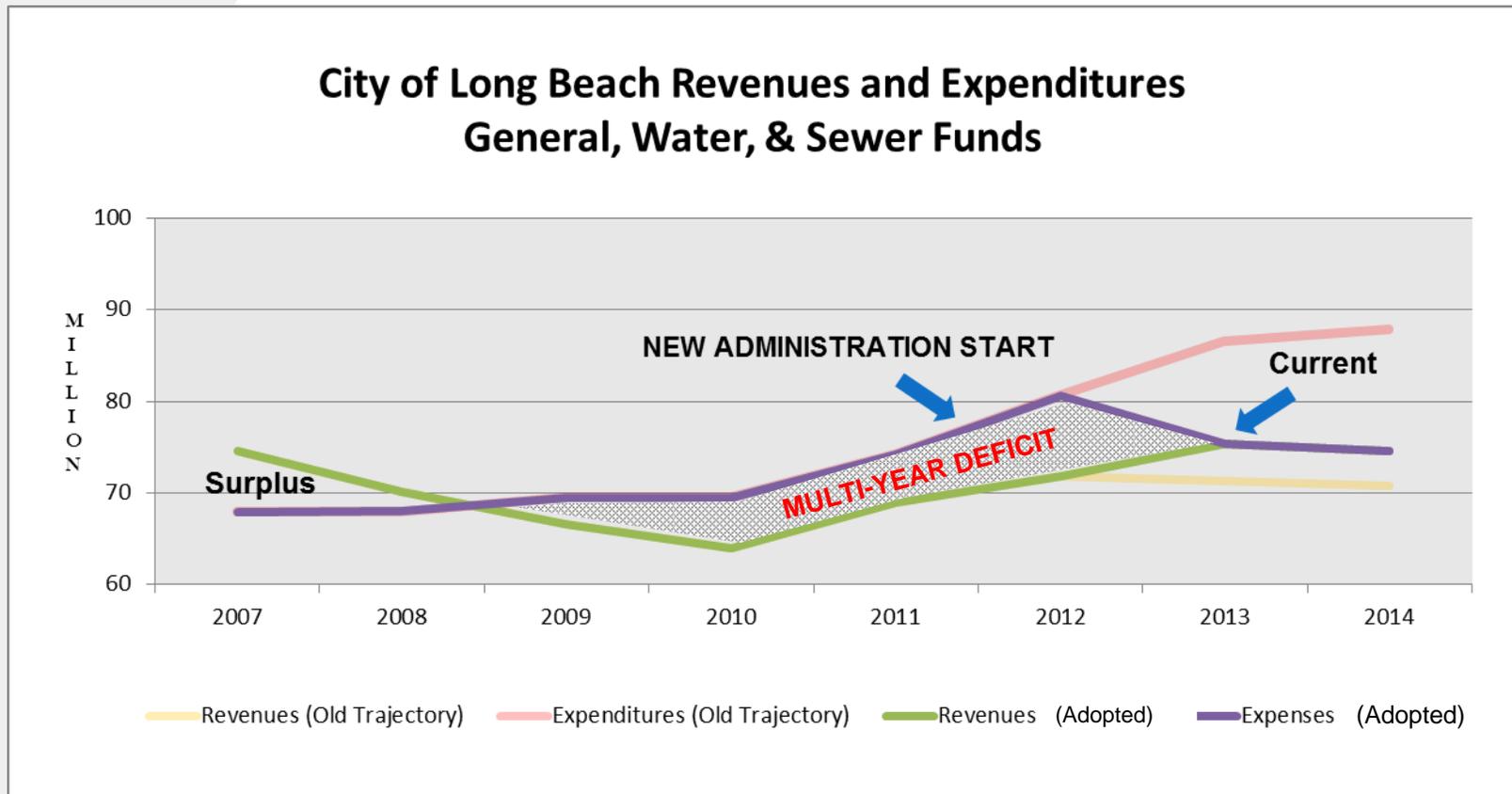
---

The budget reform initiatives that have taken place thus far will **CONTINUE** as we move forward into long term fiscal recovery phase.

- ✓ Adopting realistic budgets based on reliable data, such as historical revenues and expenditures and forward looking economic forecasts.
- ✓ Continuous monitoring of the adopted budget against actual revenues and expenditures throughout the year and instituting financial forecasting & trend analysis.
- ✓ The City Manager will continue to keep full transparency and immediately report to the Council if it appears revenues will be insufficient to meet the amounts appropriated.
- ✓ The City Comptroller will continue first certifying that there are sufficient funds available before covering any claim.
- ✓ City Manager is currently working with the City Comptroller and advisors to draft a multi-year financial plan.

# STRUCTURALLY SOUND, BALANCED BUDGETING

“Right Balanced” the Prior Administration's Escalating Imbalance



## STRUCTURALLY SOUND, BALANCED BUDGETING

### *MULTI-YEAR CUMULATIVE EXPENSE & REVENUE MISMANAGEMENT*

According to the chart below from the State Comptroller's Audit of the City's finances, the adopted budgets included underestimated expenses and overestimated revenues. This practice led the city into an **annual general fund deficit of \$8.1M and a four year multi-year cumulative operating deficit of \$15 million.**

General Fund Multi-Year Cumulative Operating Deficit					
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Total
<b>Over- Estimated Revenues</b>	(\$1,320,640)	(\$4,831,524)	(\$1,125,211)	(\$4,988,870)	(\$12,266,245)
<b>Under- Estimated Expenses</b>	(\$12,221)	\$1,943,085	(\$1,604,902)	(\$3,148,641)	(\$2,822,679)
<b>Operating Deficit</b>	(\$1,332,861)	(\$2,888,439)	(\$2,730,113)	(\$8,137,511)	<b>(\$15,088,924)</b>

**Source:** Office of the NYS Comptroller Division of Local Government & School Accountability July 2013 Report entitled City of Long Beach *Financial Condition and Cash Receipts from Recreation Activities.*



**4 Years Of Annual Deficits Decimated Long Beach's Finances,  
Bankrupted Savings And Left Long Beach \$15 Million In The Red.**

## STRUCTURALLY SOUND, BALANCED BUDGETING FORMER ADMINISTRATION DECIMATED CITY SAVINGS

According to the chart below from the State Comptroller's Audit of the City's finances, which highlights the multi-year fiscal mismanagement of the previous administration, the total unexpended<sup>1</sup> surplus in the three funds **fell to \$14.4 million in the red at the end of fiscal year 2011-12.**

Unexpended <sup>1</sup> Surplus Funds / (Deficits)				
Fund	2008-09	2009-10	2010-11	2011-12
General	\$6,046,021	\$4,891,338	\$225,865	(\$12,182,070)
Water	\$15,392	(\$55,080)	(\$528,452)	(\$642,498)
Sewer	\$16,168	(\$452,284)	(\$1,032,082)	(\$1,971,988)
<b>Total</b>	<b>\$6,077,581</b>	<b>\$4,383,974</b>	<b>(\$1,334,669)</b>	<b>(\$14,476,556)</b>

Notes: <sup>1</sup> Unrestricted, inappropriate funds

Source: Office of the NYS Comptroller Division of Local Government & School Accountability July 2013 Report entitled City of Long Beach *Financial Condition and Cash Receipts from Recreation Activities.*

# STRUCTURALLY SOUND, BALANCED BUDGETING

## **FUND BALANCE “Rainy Day Fund” POLICY**

The City has created and adopted a Fund Balance Policy. Management is currently working towards replenishing its unassigned fund balance by direct appropriation commencing with the next operating budget.

As financial circumstances improve the City will look to establish and fund a number of formal reserve funds, including but not limited to:

- ✓ Retirement Contribution
- ✓ Employee Benefit Accrued Liability
- ✓ Insurance
- ✓ Payment of Bond Indebtedness
- ✓ Snow/Ice Removal & Road Repair
- ✓ Contingency and Tax Stabilization
- ✓ Capital



# STRUCTURALLY SOUND, BALANCED BUDGETING

## *Super Storm Sandy*

---

- The enormity of Superstorm Sandy changed Long Beach forever.
- Management has estimated the costs incurred by Sandy to be as much as \$200M, as compared to the \$2M Hurricane Irene cost the City.
- There are ongoing FEMA reimbursements for storm damages, and those costs are being tracked separate from the City's operating budgets.
- As a result of the storm, we are seeing an expected temporary decline in revenues which was anticipated in the FY 2013-2014 budget.
  - The City has taken measures to offset lost revenue, including use of Community Disaster Loan Program.

*"Any asset valuation decline is expected to be short-lived as rebuilding from the storm has already begun." –  
Moody's Investor Services*



*"Despite the significant impact on revenues and expenditures of the storm, we do not believe it will have a material impact on its overall reserve position." –  
Moody's Investor Services*

## II. DIVERSIFYING & INCREASING REVENUES

---

A critical element for the City's long-term fiscal health depends upon continued development and diversification of the City's revenue base to alleviate the burden on Long Beach taxpayers.

This development will occur over time, and will be achieved by instituting ECONOMIC INITIATIVES like the following:

- ✓ **Marketing Campaign to Support the City's Businesses'**: Tourism is such a vital part of the local economy that the City felt a campaign was needed to let visitors know that the City and the Beach are open for business this summer, after Superstorm Sandy. This campaign helped to alleviate a potentially devastating economic downturn that would have shuttered storefronts and sharply impacted property values.
- ✓ In the near term, the focus will continue to be on promoting **economic development and supporting small business growth** through the recently formed Long Beach Local Development Corporation (LDC) and Economic Development Department.
- ✓ **Partnering with Sustainable Long Island** - The Business Support Center held its first seminar on Wednesday, August 28th with a speaker from the Small Business Development Center regarding NYS Sandy Funding and one-on-one case evaluation.

# III. RIGHTSIZING THE WORKFORCE

## *Tough Choices Can't be Avoided*

---

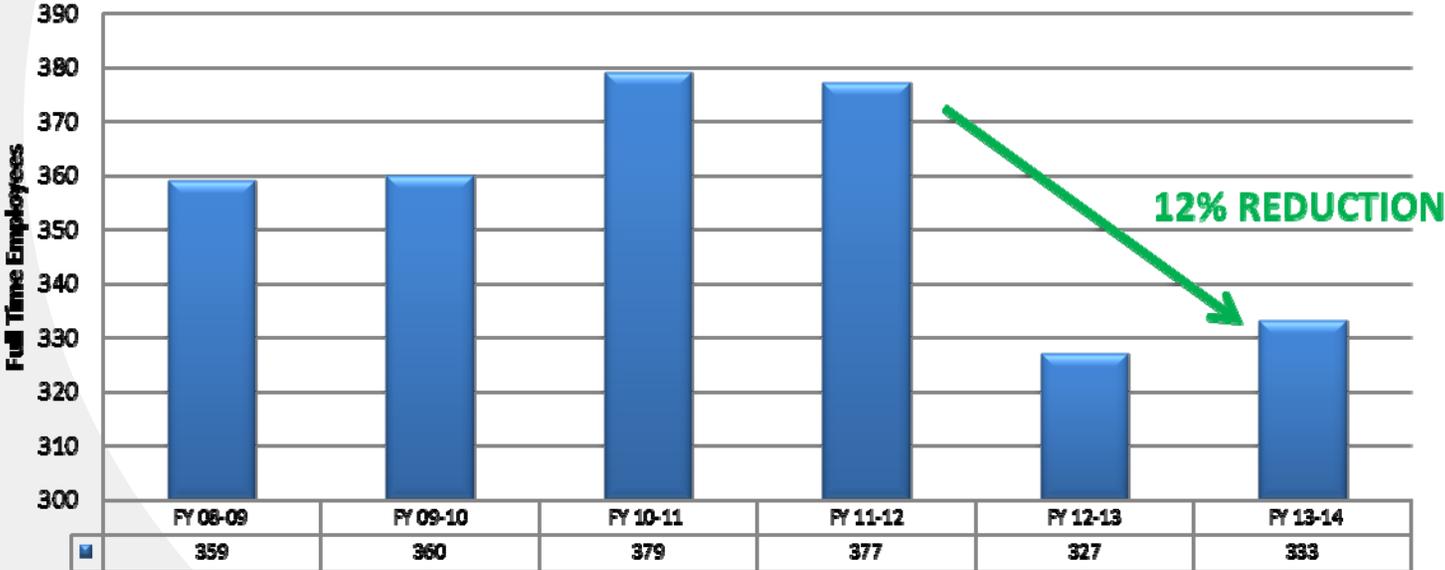
The City Manager has and will continue to take necessary steps in rightsizing the workforce:

- ✓ Reduced headcount by 12% to the lowest levels in over a decade. Labor and personnel costs have been reduced from an unsustainable 83% of the budget to just 63%; placing the City's cost structure on a better trajectory going forward.
- ✓ Overtime has been reduced and will continue to be tracked by department (excludes reimbursed overtime for Sandy recovery related projects.)
- ✓ Management has negotiated concessions with our union partners. The City has saved \$1M in non-union CSEA overtime costs.
- ✓ Early retirement incentives were offered to help reduce staffing levels.
- ✓ Healthcare costs will be reviewed for cost saving opportunities. Management employees have already begun paying a share of their healthcare premiums.

# RIGHTSIZING THE WORKFORCE

## Full Time Budgeted Employees

City of Long Beach  
Full Time Budgeted Employees

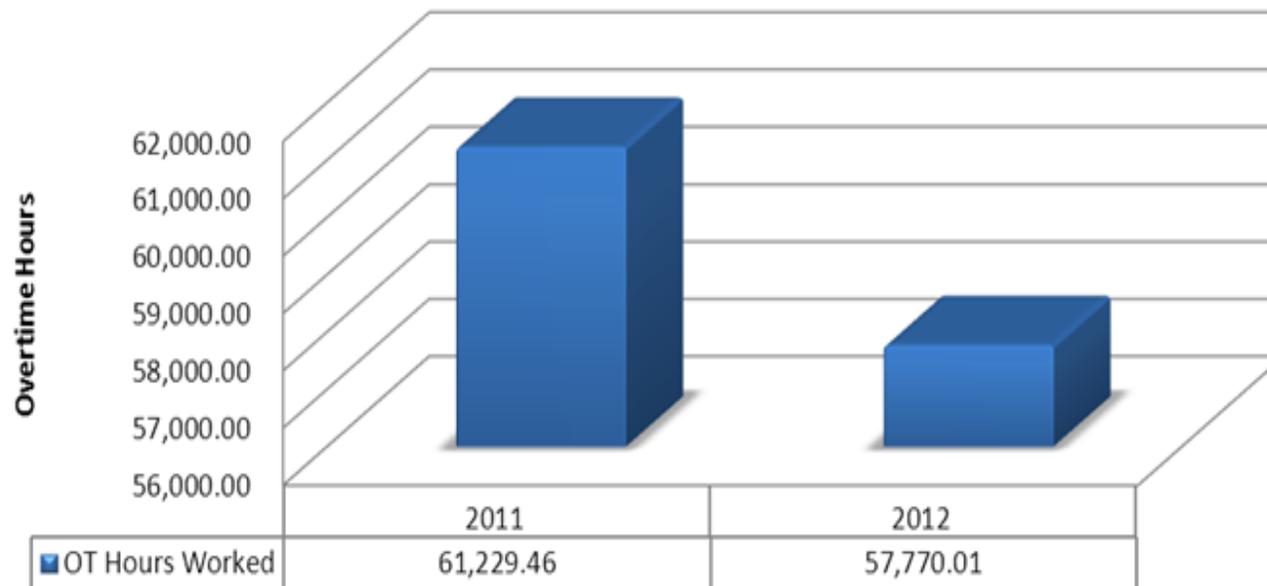


# RIGHTSIZING THE WORKFORCE

*Productivity is UP & Overtime is DOWN*

## Reduction in Overtime Hours

### City of Long Beach Reduction in Overtime Hours



**Note:** This Chart includes both Hurricane Irene and Superstorm Sandy

## **IV. MANAGEMENT ACCOUNTABILITY & EFFICIENCY**

---

Utilizing performance management metrics, the City continues to institute a series of reforms and policies to streamline the City's government with the objective of reducing costs and increasing efficiency.

### **The City's long term operational efficiency initiatives include:**

- Streamlining City Government to Deliver More Efficient Services
- Fiscally Responsible Budgeting
- Smart Government Management - The City has begun to phase in a "Long Beach Stat" Performance Management Initiative.
- Centralized Constituent Response
- Energy Efficiency Upgrades

## V. INSTITUTIONALIZING ENHANCING INTERNAL FINANCIAL CONTROLS

---

This plan will institute significant reforms, in which the City manages and institutionalizes best practices in its internal financial controls, from both policy and operational levels. Implementation of these actions are currently underway and include:

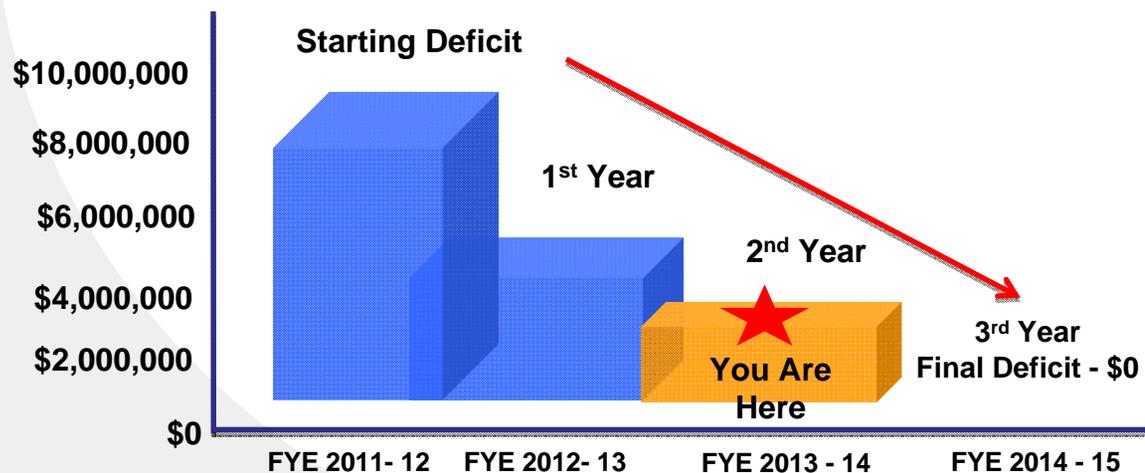
- Monthly detailed departmental budget/variance reports, and instituting financial forecasting and trend analysis
- Improved City Council oversight through the creation and adoption of the City's Fund Balance Policy
- Updates to the Procurement & Investment Policies
- Identification and tracking of all State & Federal grants
- Policies and procedures to account for the City's fixed assets
- Addressing internal and NYS Comptroller audit findings through a comprehensive corrective action plan

## VI. STABILIZATION OF TAXES

The inherited temporary deficit surcharge will expire after the third year as originally planned.

- ✓ The tax trajectory is now on stable footing as expense controls and procedures have been implemented.
- ✓ The tax rate has been responsibly stabilized within Governor Cuomo's Tax Cap.

City of Long Beach  
Three-Year Paydown of Inherited  
Deficit Reduction Surcharge



# STABILIZATION OF TAXES

---

Given The Elements Of The Long Term Fiscal Recovery Plan,  
Expense Controls And Implemented Operational Procedures  
**The Tax Trajectory Can Remain On Stable Footing.**

## STABILIZATION



---

*“Moody’s expects the City’s **below average direct debt burden** will remain manageable given limited near-term borrowing plans”*

---

*“Debt is retired at an above average rate...”*  
~Moody’s

---

## **MOODY'S OUTLOOK CHANGE CREATES COST SAVINGS FOR LONG BEACH**

---

Moody's has changed the City's outlook to **STABLE** and states...

*“The stable outlook reflects improved fiscal controls and policies implemented by a new management team beginning January 2012. As a result of these new policies, management has improved budgeting practices which led to the declines in recent years.”*

***This OUTLOOK CHANGE is estimated to SAVE the City .25% or approx. \$100,000 on it's next borrowing.***

# MOODY'S CITES THE CITY'S STRENGTH & CHALLENGES

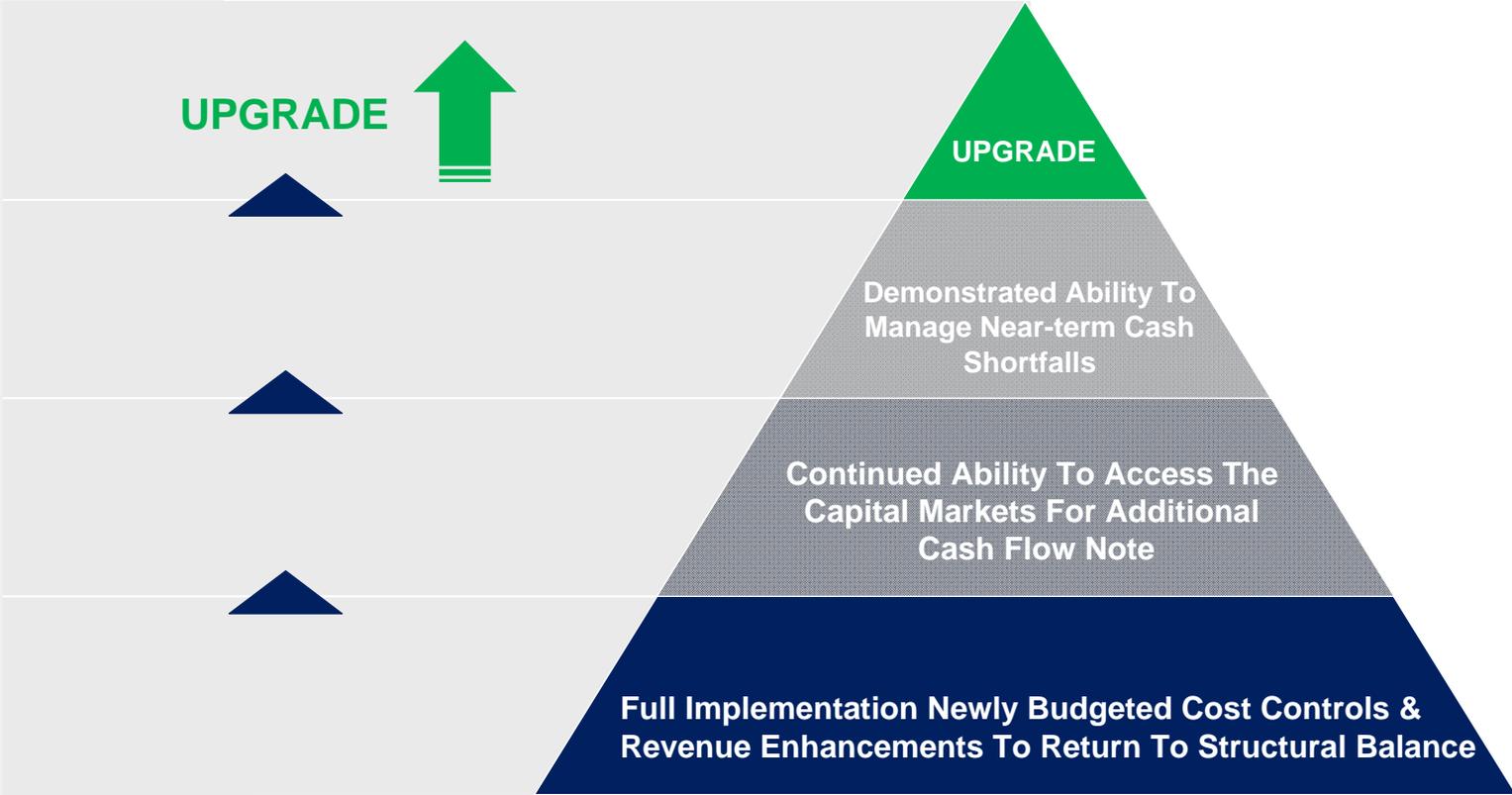
## Strengths

<b>▶ Financial Controls</b>	<b>▶ Debt Position</b>	<b>▶ Tax Base</b>
✓ Improved Financial Controls Leading To Balanced Budgets	✓ Manageable Debt Position	✓ Large tax base with above wealth levels

## Challenges

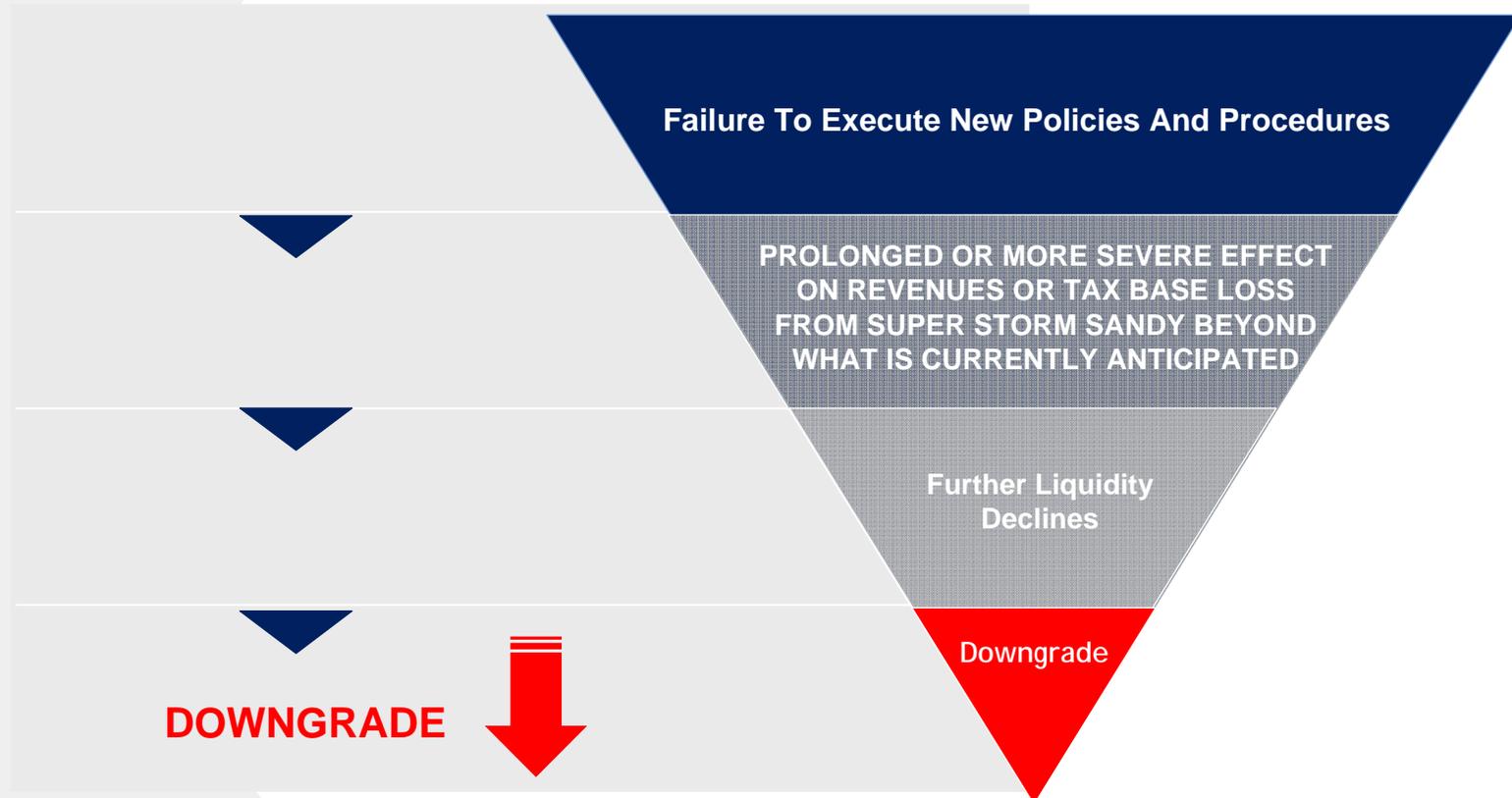
<b>▶ Weakened Financial Position</b>	<b>▶ Superstorm Sandy</b>	<b>▶ Cash Position</b>
➤ Significantly weakened financial position due to past structural imbalance	➤ Managing the effects of Superstorm Sandy	➤ Narrow cash position which requires market access to ensure sufficient liquidity for daily expenditures

# OUTLOOK: WHAT COULD CHANGE THE RATING - UP



## OUTLOOK: WHAT COULD CHANGE THE RATING - DOWN

---



# HIGHLIGHTS FROM MOODY'S COMMENTARY

---

- *“The Baa3 rating reflects the city's accumulated deficit fund balance in fiscal 2012 and a cash position that has significantly declined over the past four years... The rating also factors the city's sizable tax base with above average wealth levels and **A MANAGEABLE DEBT BURDEN**”*
- *“Since the declaration was announced, city management has reduced expenditures by \$1.7 million, lowered headcount by 12% and labor and personnel costs from 83% of budget to 63% of budget. The city reduced overtime costs, which had been a significant driver of the city's fiscal stress, despite the significant effect of Hurricane Sandy in October 2012. In addition, new management has brought budgeted revenues more in line with historical revenues resulting in balanced budgets.”*
- *“In addition to improved budgetary controls, management has implementing a fiscal recovery plan to complement various policies. The fiscal recovery plan includes ongoing reduction in workforce, diversification of revenue streams, and additional expense cuts, among other initiatives.”*

## HIGHLIGHTS FROM MOODY'S COMMENTARY

---

- *“The city council recently approved and codified into the city charter a fund balance policy to maintain a minimum of 5% unassigned”*
- *“Full implementation and adherence of the policies will be important factors in the credit rating moving forward.”*
- *“Any assessed valuation decline is expected to be short-lived as rebuilding from the storm has already begun.”*
- *“Despite the significant impact on revenues and expenditures of the storm, we do not believe it will have a material impact on its overall reserve position.”*