



2013-2014

# City of Long Beach Budget Presentation

PART I

May 7, 2013



# 2013-2014 Proposed Budget

- ✓ This Budget Contains A Real And Significant Year-over-Year Cut In Expenses Without Cutting Essential Services Which Are Needed Now More Than Ever In The Wake of Superstorm Sandy.
- ✓ Expenses are \$83,944,654 compared to last years \$85,135,237

*A Reduction of \$1,190,583*

- ✓ Even with continually increasing fixed costs such as healthcare, payroll taxes, and contractual costs, that account for almost a \$3.5M in the upcoming fiscal year, this proposed budget continues to hold the line below last year's spending.



# 2013-2014 Proposed Budget

- ✓ Expected revenues have been reduced due to Superstorm Sandy – anticipated storm related loss of revenue (e.g., beach park, department fees, programs) is reflected in this budget.
- ✓ The City Council tasked this administration with staying within Governor Cuomo's New York State Tax Cap of 2.19%, and this budget accomplishes that goal. *The average additional cost per house equates to \$64. This is necessitated because of the circumstances detailed above.*



# Tackling the Fiscal Crisis Head On

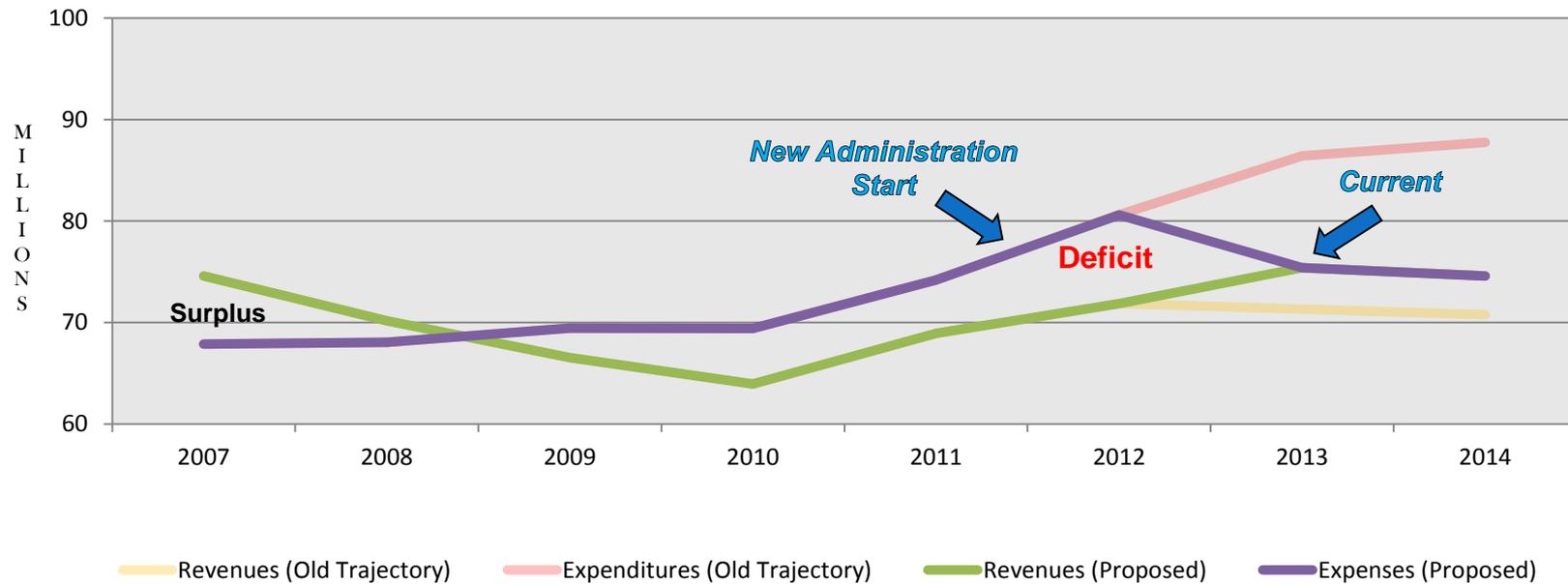
Upon taking office in January 2012 We Found:

- ✓ Revenues Were Continually Overestimated
- ✓ Expenditures Were Underestimated
- ✓ 10+ Million Dollar Deficit was Created from Repetitive Mismanagement of Finances
- ✓ In December 2011, Previous Administration had to Borrow to Make Payroll
- ✓ Moody's Downgraded The City's Bond Rating An Unprecedented Five Levels



# Prior Administration's Escalating Imbalance "RIGHT BALANCED"

City of Long Beach Revenues and Expenditures  
General, Water, & Sewer Funds



# On the Comeback Trail...

## Highlights of the 2013-2014 Proposed Budget

- Despite rising fixed costs, we've cut spending to \$1,190,583 below last year's levels, without cutting services.
- We have right-sized the workforce, reducing headcount by 12%, to the lowest levels in over a decade, reducing labor and personnel costs from 83% of the budget down to 63%, placing the cost structure of government on a more affordable and sustainable trajectory.
- The tax rate has been responsibly stabilized within Governor Cuomo's Tax Cap.
- The worst of the fiscal crisis is now over – the City's finances are on the comeback trail.



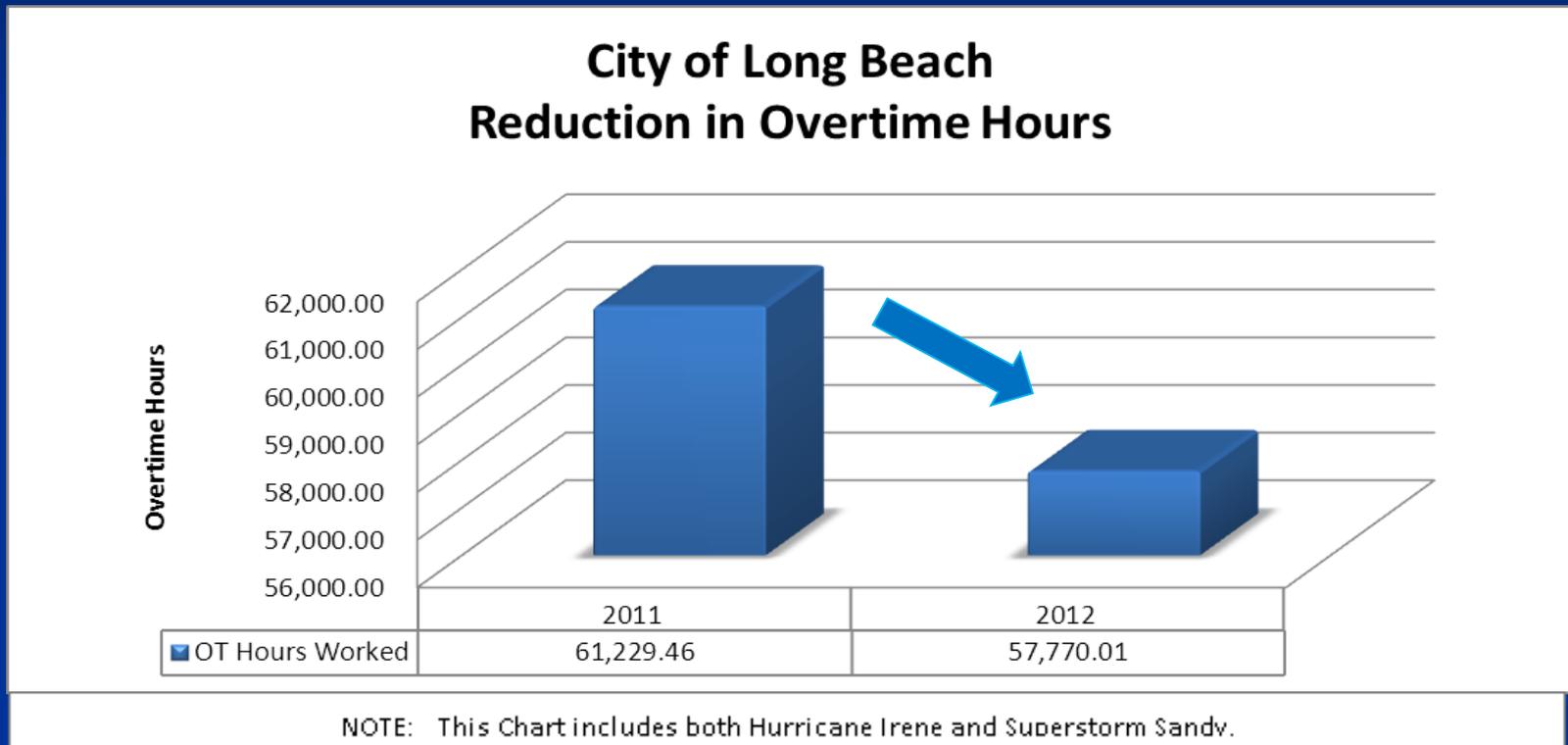
# A Return to Fiscal Responsibility

Actions Taken Immediately Upon Taking Office:

- Declared a fiscal crisis
- Implemented A Multitude of Policies and Procedures to Increase Accountability and Generate Much-Needed Cost Savings
  - Departmental Spending Was Slashed Across The Board
  - Reduced Overtime
  - Series Of Reforms Helped Streamline City Government
  - Negotiated Concessions with Our Union Partners
  - Early Retirement Incentives Were Offered
  - Additional Personnel Reductions Were Required
  - Management Employees Began Paying Into Their Healthcare



# Reduction in Overtime Hours Worked

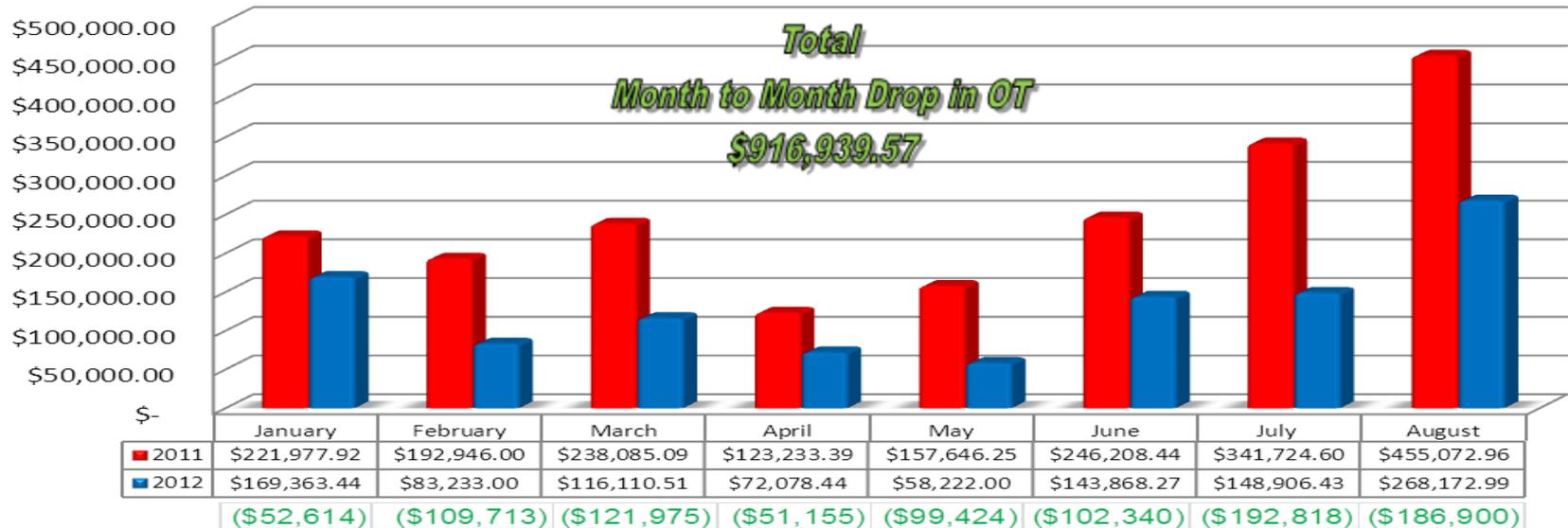


Productivity is **Up** and Overtime  
Hours Worked are **Down**.



# Overtime Numbers Without Storm Operations

**City Of Long Beach**  
Overtime by Payroll



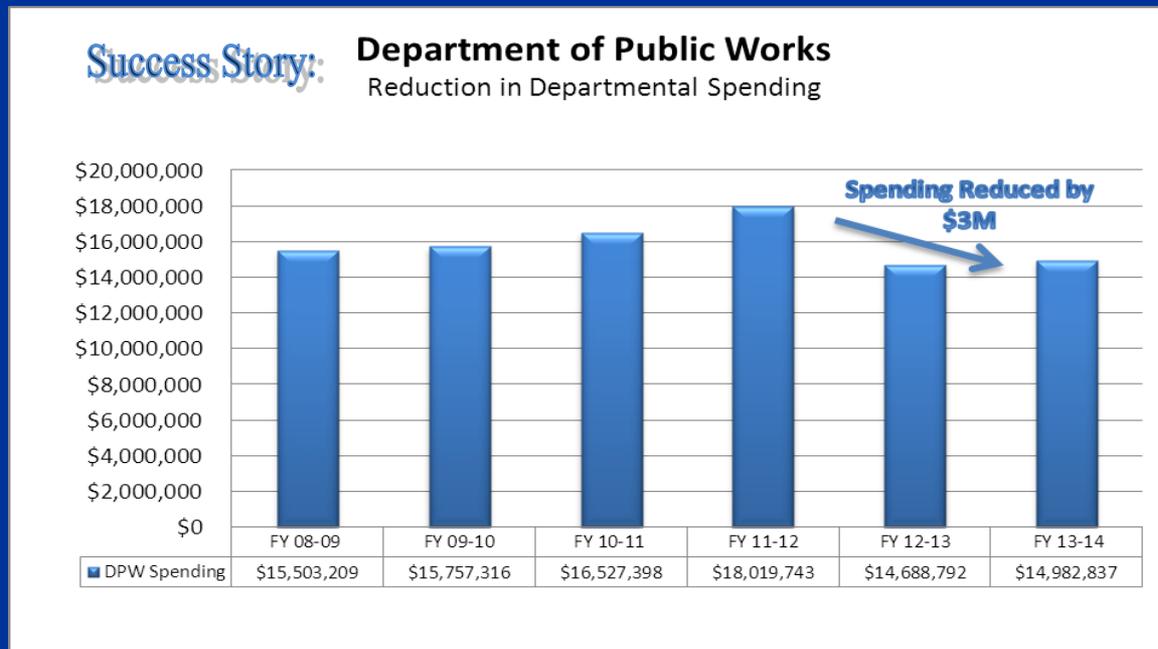
NOTE: This chart reflects regular City operations. Excluding Hurricane Irene & Sandy.



# Fiscally Responsible Budgeting

## Success Story

- By unifying all Department of Public Works divisions under the direction of the DPW Commissioner, the department has successfully reduced spending while increasing productivity.
  - Decrease in spending of over \$3M since fiscal year 2011-2012, bringing spending to a level lower than 6 years ago.



# Staffing Analysis

## In 2011-2012 Adopted Budget

- Staffing spiraled to an unsustainable level
  - Personnel costs were 78.33% of the ENTIRE budget or 83% of the General Fund budget

## In 2013-2014 Proposed Budget

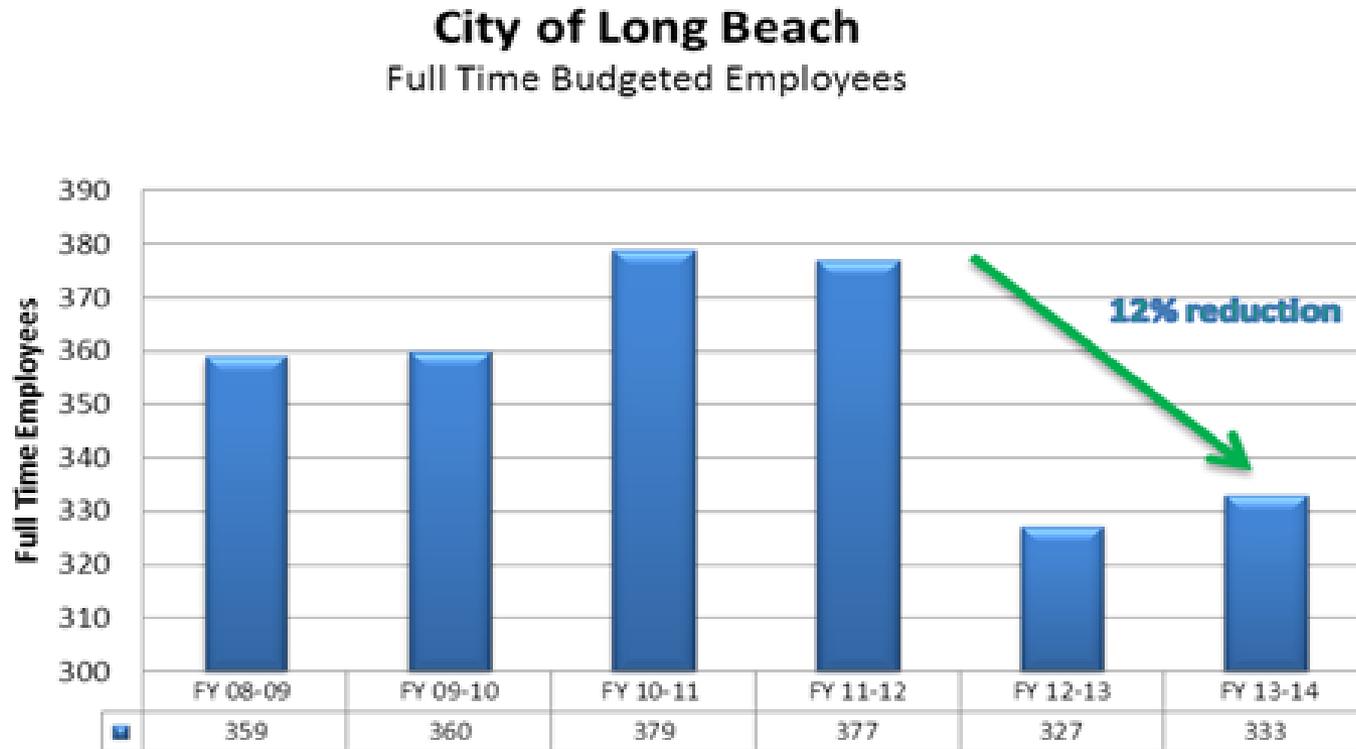
### **WE ARE RIGHT-SIZING THE WORKFORCE.**

- The City's workforce is at the lowest level in over a decade
  - A 12% reduction from last year
  - Labor and personnel costs have been reduced to just 63%

Long Beach's Cost Structure is on a Better Trajectory Going Forward.



# Right-Sizing the Workforce

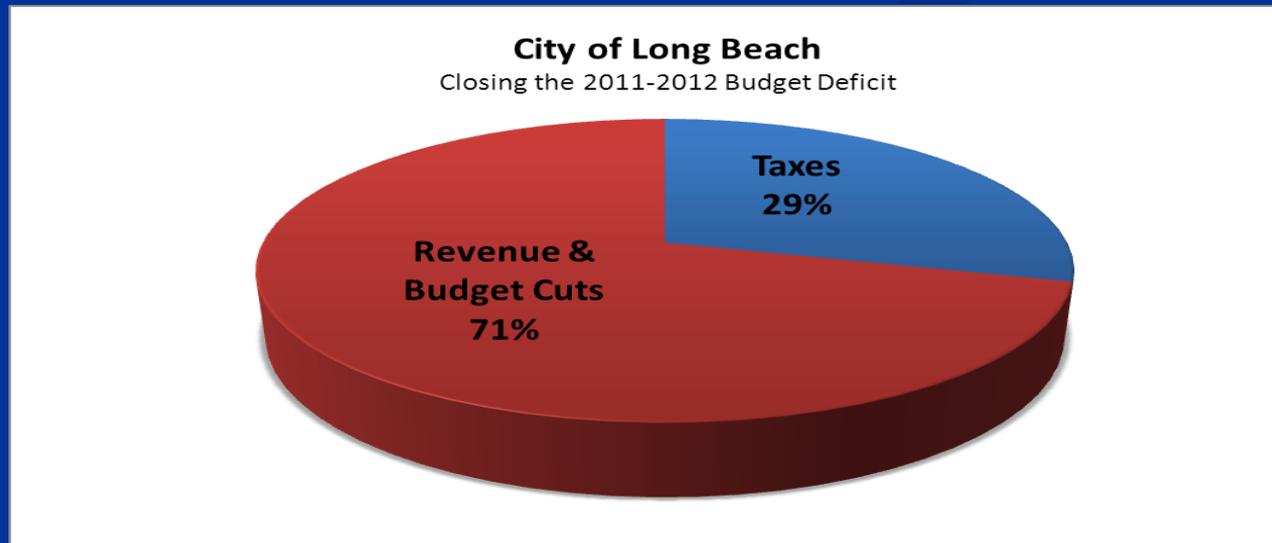


NOTE: 2013-14 reflects 5 Grant Funded Firefighters & Net of 1 Post Storm Reinstatements.



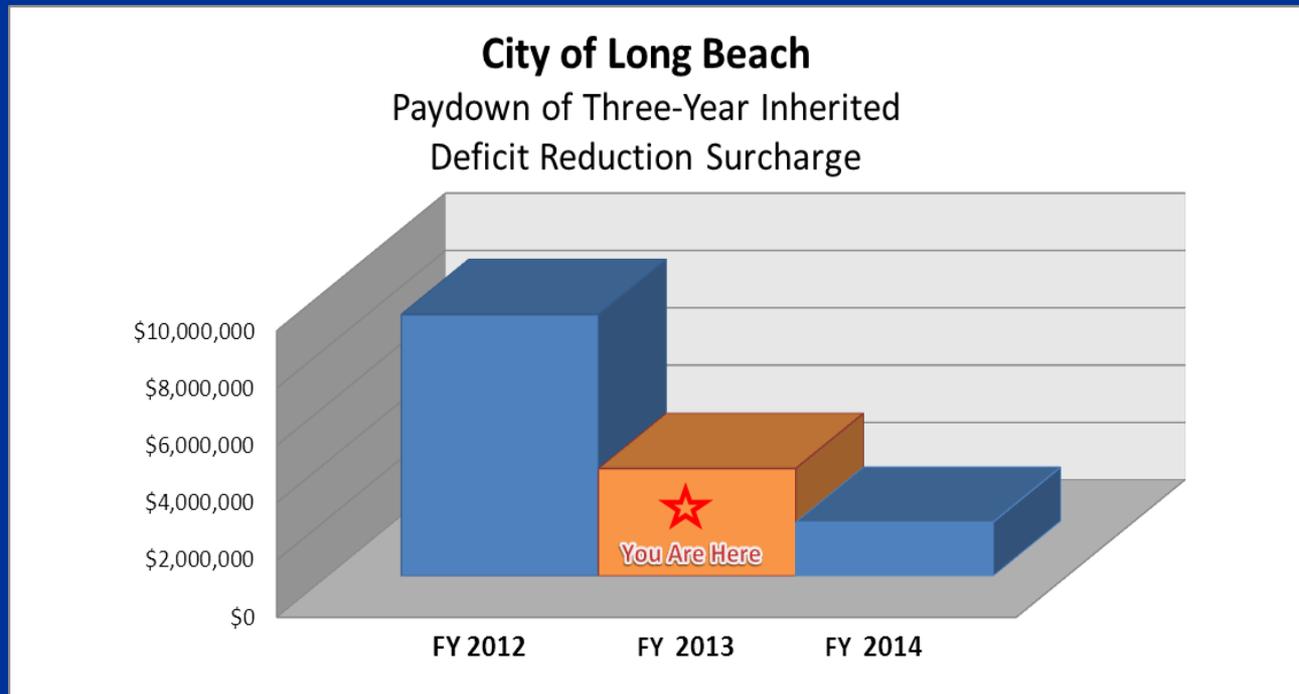
# Balanced Budget

- ✓ We Stopped The Bleeding, and Last Year The City Council Passed Long Beach's First Balanced Budget In Years.
- ✓ City's Credibility With Ratings Agencies And Moody's Removed The Immediate Threat Of Another Downgrade
- ✓ We Took A Cuts-first Approach To Turn Things Around
  - 71% of Gap Closed by Budget Cuts and New Revenue



# Paying Back the Inherited Accumulated Deficit

Temporary Surcharge, Which Appears on a  
Separate Tax Line.



# Restoring Credibility

- Moody's lauded the current administration for the response thus far - declaring a fiscal crisis and "*slowing expenditure growth*," specifically by saving the City millions of dollars in reduced overtime costs, departmental spending cuts, lower overall management salaries, and amortizing state pension payments.
- The road to recovery is a long one, but as Moody's stated in their last report on Long Beach's status, "*the City is on the right track and making progress on returning to structural balance.*"



5 Positive Progress Reports from Moody's



# Highlights from Moody's Rating Agency Commentary

- *“Positively, the city's declaration of a fiscal crisis in February gives the city manager greater control over expenditures which have contributed to year over year deficits. This action has already led to a reduction in overtime expenses by nearly 70%. Management also notes that since January the new administration has reduced expenditures by \$1.2 million from mid-year projected spending levels. Additionally, management is actively working with collective bargaining units to achieve savings including offering the CSEA an early retirement incentive.”*
- *The City's “NEW MANAGEMENT HAS REPORTEDLY STABILIZED THE CITY'S FINANCIAL POSITION.”*
- *The detailed credit discussion emphasizes that the 2012-2013 budget is “more conservative.” It mentions that “economically sensitive revenues, a primary driver of the city's deficit, have been significantly reduced in the fiscal 2013 budget. Sales tax (which represents 3% of revenue) was reduced by 8% from the fiscal 2012 budget, utility taxes (2%) were reduced by 51%, parking fees (1%) were reduced by 58%, and mortgage taxes (2%) were reduced by 40%. These revenues have been brought closer in line with what the city has historically received”.*
- *“The city's relatively new management team, which took control of the city's finances in January 2012, has demonstrated a commitment to improving financial operations in an effort to maintain structural balance and improving liquidity.”*



# Superstorm Sandy

- The enormity of the storm dwarfed the size of our fiscal crisis.
- Estimated costs incurred by Sandy at approximately \$200M
  - Compared to the \$2M Hurricane Irene Costs
- There will be FEMA reimbursements for storm damages, and those costs will be completely separate from this budget.
  - FEMA Cost Share is projected to be 90% FEMA and 10% City/State (split)
- We are planning for a temporary decline in revenues as a result of the storm.
  - We are taking measures to offset the lost revenue.
    - Including but not limited to:
      - FEMA Community Disaster Assistance Programs
      - New York Rising Program Assistance (Sandy Helps)



# Numbers Verified

## 2013-2014 Budget Was Prepared with Audited Numbers

- Internal Audit
  - Draft of 2011-2012 received in Early April, prior to proposed budget.
    - Sandy caused 6 week Delay in Audit Submission
  - Draft of 2011-2012 Audit confirms Deficit
- New York State Comptrollers Office Draft Audit
  - City Councils from 2009-2012 “did not adopt realistic budgets or take necessary actions to maintain the City’s financial stability”
    - Resulting in an approximate 15M fund change (decrease) over 4 years.



# Internal Audit Summary

## 2011-2012 Operating Fund Deficit

	General	Water	Sewer	Debt Service
<b>REVENUES</b>	\$61,082,914.00	\$3,966,598.00	\$4,264,454.00	\$121.00
<b>EXPENDITURES</b>	\$65,457,851.00	\$3,356,898.00	\$3,987,629.00	\$5,790,075.00
<b>OTHER FINANCING SOURCES</b>	(\$3,762,574.00)	(\$723,746.00)	(\$1,216,731.00)	\$5,790,075.00
<b>TOTAL Net Change</b>	<b>(\$8,137,511.00)</b>	<b>(\$114,046.00)</b>	<b>(\$939,906.00)</b>	<b>\$121.00</b>
			<b>TOTAL Deficit</b>	<b>(\$9,191,584)</b>

March 2012 Projected Deficit of \$10.25M was drastically reduced by decreased departmental spending and overtime reductions.

\*Source: 2011-2012 City of Long Beach Draft Audit by AVZ



# Where Are We Now?

- Worst of the Fiscal Crisis is Over.
- We are on a Better Trajectory.
- We are Still Vulnerable Until We Reestablish Substantial Financial Reserves (“Rainy Day Fund”).

## Obstacles Affecting Our “Rainy Day Fund”

- Sandy Expenses
- Increased Contractual Labor and Healthcare Costs





# Budget Presentation

## Part II

Public Hearing: May 21, 2013



# Highlights of the 2013-2014 Proposed Budget

- ✓ This budget contains a real and significant year-over-year cut in expenses without cutting essential services which are needed now more than ever in the wake of Superstorm Sandy.
- ✓ Expenses are \$83,370,914 compared to last years \$85,135,237
- ✓ Even with continually increasing fixed costs such as healthcare, payroll taxes, and contractual costs, that account for almost a \$3.5M in the upcoming fiscal year, we've cut spending by \$1,764,324 below last years levels.
- ✓ The worst of the fiscal crisis is now over – the City's finances are on the comeback trail.



# Highlights of the 2013-2014 Proposed Budget

- ✓ We have right-sized the workforce, reducing headcount by 12%, to the lowest levels in over a decade, reducing labor and personnel costs from 83% of the budget down to 63%, placing the cost structure of government on a more affordable and sustainable trajectory.
- ✓ The City Council tasked this administration with staying within Governor Cuomo's New York State Tax Cap of 2.19%, and this budget accomplishes that goal now with a smaller than originally proposed, 1.49% increase.
  - *The average additional cost per house equates to \$43.*
  - *This is necessitated because of the continual increase of fixed costs such as healthcare, payroll taxes and contractual costs.*



# A Return to Fiscal Responsibility

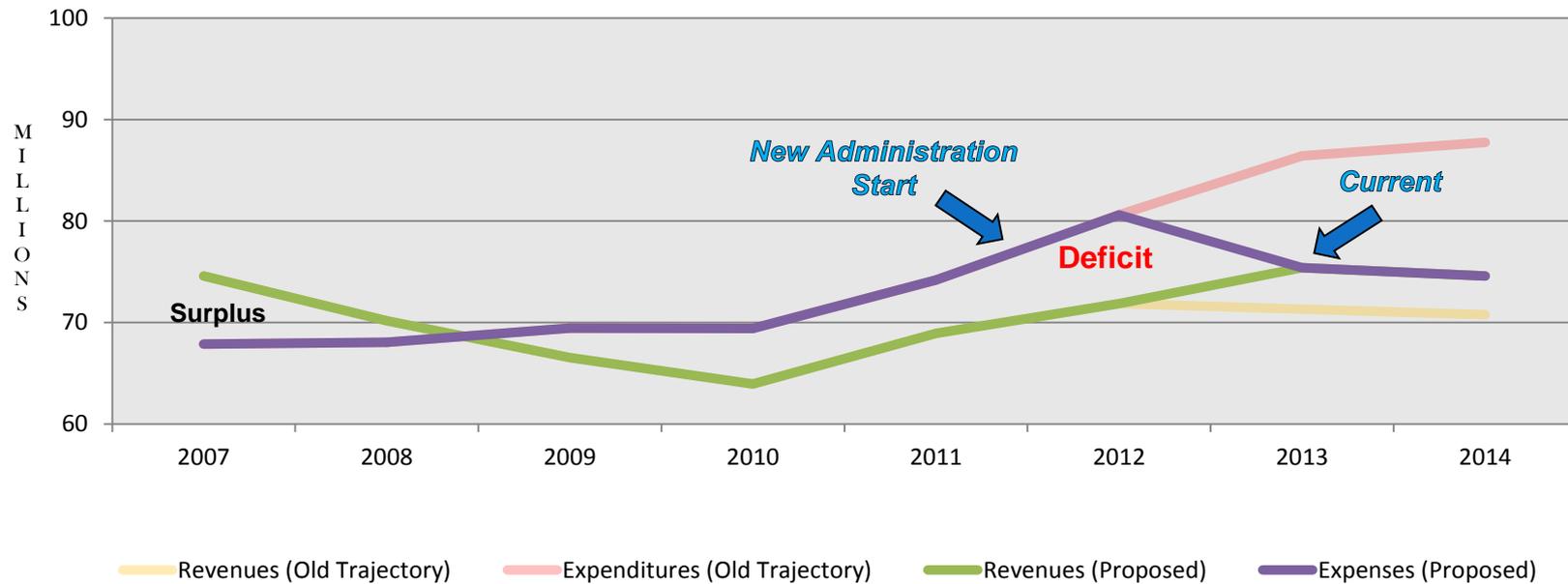
## Actions Taken Immediately Upon Taking Office:

- ✓ Declared a fiscal crisis
- ✓ Implemented A Multitude of Policies and Procedures to Increase Accountability and Generate Much-Needed Cost Savings
  - Departmental Spending Was Slashed Across The Board
  - Reduced Overtime
  - Series Of Reforms Helped Streamline City Government
  - Negotiated Concessions with Our Union Partners
  - Early Retirement Incentives Were Offered
  - Additional Personnel Reductions Were Required
  - Management Employees Began Paying Into Their Healthcare



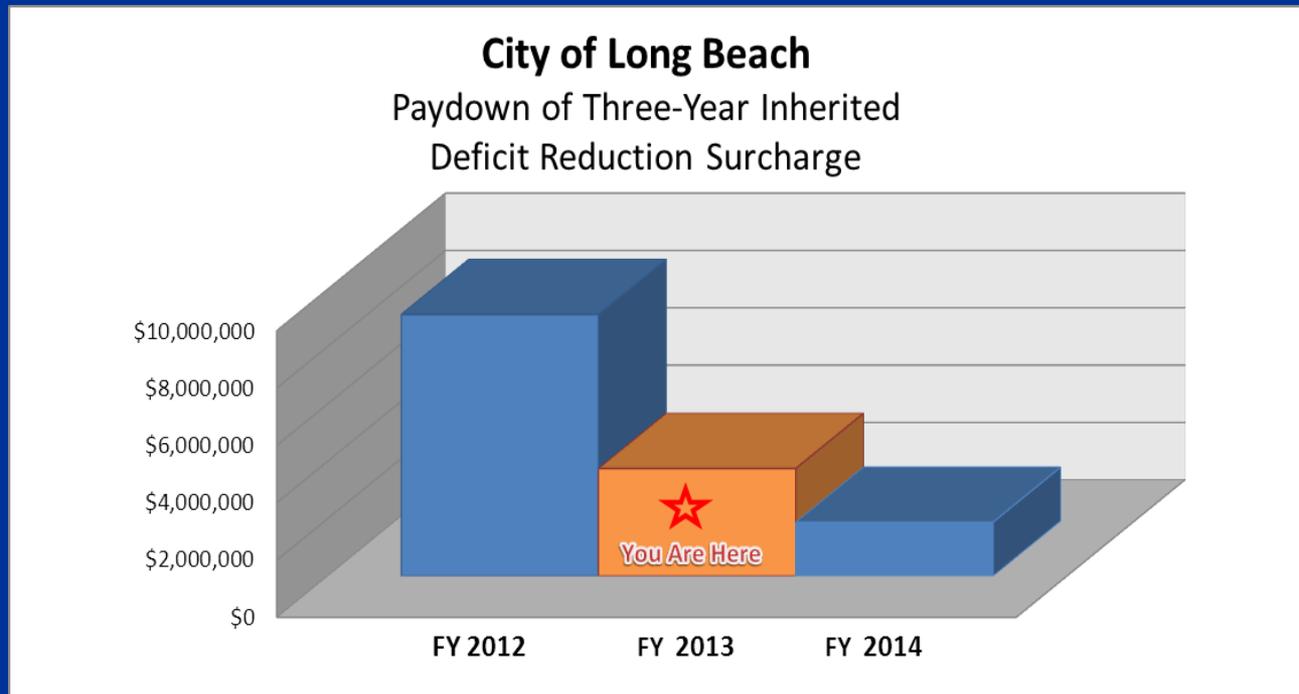
# Prior Administration's Escalating Imbalance "RIGHT BALANCED"

City of Long Beach Revenues and Expenditures  
General, Water, & Sewer Funds



# Paying Back the Inherited Accumulated Deficit

Temporary Surcharge, Which Appears on a  
Separate Tax Line.



# Restoring Credibility

- Moody's lauded the current administration for the response thus far - declaring a fiscal crisis and "*slowing expenditure growth*," specifically by saving the City millions of dollars in reduced overtime costs, departmental spending cuts, lower overall management salaries, and amortizing state pension payments.
- The road to recovery is a long one, but as Moody's stated in their last report on Long Beach's status, "*the City is on the right track and making progress on returning to structural balance.*"



5 Positive Progress Reports from Moody's



# Numbers Verified

## 2013-2014 Budget Was Prepared with Audited Numbers

- Internal Audit
  - Draft of 2011-2012 received in Early April, prior to proposed budget.
    - Sandy caused 6 week Delay in Audit Submission
  - Draft of 2011-2012 Audit confirms Deficit
- New York State Comptrollers Office Draft Audit
  - City Councils from 2009-2012 “did not adopt realistic budgets or take necessary actions to maintain the City’s financial stability”
    - Resulting in an approximate 15M fund change (decrease) over 4 years.



# Internal Audit Findings Summary

- 31 Findings Found Financial Statements Audit
  - 19 Material Weaknesses
  - 12 Significant Deficiencies



# Audit Findings

Finding	Type	# of Findings	Corrective Action Plan
APPROPRIATIONS IN EXCESS OF BUDGETED AMOUNTS	Material Weakness	1	✓
CAPITAL PROJECTS	Material Weakness	1	✓
INTERFUND TRANSACTIONS	Material Weakness	1	✓
PROCUREMENT	Material Weakness	1	✓
POLICE DEPARTMENT MAINTAINED BANK ACCOUNTS	Material Weakness	1	✓
FINANCIAL CLOSE AND REPORTING AND MONITORING OF GENERAL LEDGER	Material Weakness	1	✓
PAYROLL DEPARTMENT – SEGREGATION OF DUTIES	Material Weakness	1	✓
CASH - MATERIAL WEAKNESS	Material Weakness	1	✓
REVENUE RECOGNITION	Material Weakness	1	✓
EXPENDITURES, ACCOUNTS PAYABLE AND ACCRUED EXPENSES	Material Weakness	1	✓
COMPENSATED ABSENCES	Material Weakness	1	✓
CAPITAL ASSETS	Material Weakness	1	✓
PRIOR PERIOD ADJUSTMENT	Material Weakness	1	✓
INVESTMENT POLICY	General Finding	1	✓
LENGTH OF SERVICE AWARD PROGRAM (LOSAP)	General Finding	1	✓
SUPPORTING DOCUMENTATION	General Finding	1	✓
JOURNAL ENTRIES	General Finding	1	✓
SOFTWARE	General Finding	1	✓
INVENTORY	General Finding	1	✓
ENCUMBRANCES	Significant Deficiency	1	✓
PREPARATION OF SCHEDULE OF FEDERAL AWARDS	Material Weakness	1	✓
DISASTER GRANTS – PUBLIC ASSISTANCE, FEMA 4020 DR NY –CFDA No. 97.036	Material Weakness (3)	3	✓
COMMUNITY DEVELOPMENT BLOCK GRANT – CFDA No. 14.218	Material Weakness (2)	7	✓

## 31 Findings in 23 Subject Areas



# Internal Audit Summary

## 2011-2012 Operating Fund Deficit

	General	Water	Sewer	Debt Service
<b>REVENUES</b>	\$61,082,914.00	\$3,966,598.00	\$4,264,454.00	\$121.00
<b>EXPENDITURES</b>	\$65,457,851.00	\$3,356,898.00	\$3,987,629.00	\$5,790,075.00
<b>OTHER FINANCING SOURCES</b>	(\$3,762,574.00)	(\$723,746.00)	(\$1,216,731.00)	\$5,790,075.00
<b>NET (DECREASE)/ INCREASE</b>	<b>(\$8,137,511.00)</b>	<b>(\$114,046.00)</b>	<b>(\$939,906.00)</b>	<b>\$121.00</b>
			<b>TOTAL Deficit</b>	<b>(\$9,191,584)</b>

March 2012 Projected Deficit of \$10.25M was drastically reduced by decreased departmental spending and overtime reductions.

\*Source: 2011-2012 City of Long Beach Draft Audit by AVZ



# Audit Confirms

## Unassigned Fund Balance

### “Rainy Day Fund” Issue-*General Fund*

	<u>DATE</u>	<u>“Rainy Day Fund” FUND TOTAL</u>
	6/30/11	\$107,127
<i>New Administration Start</i>	1/1/12	(\$12,182,070)

### Reduction in Fund Caused by:

- |   |             |
|---|-------------|
| 1. Over Estimated Revenues/ Underestimated Expenses | \$9,088,702 |
| 2. Loan to Water/Sewer Fund (Deficit)               | \$3,200,495 |



# Summary of Major Findings

During Fiscal Year July 1, 2011-June 30, 2012

## INTERFUND TRANSACTIONS

### FINDING:

- Repayments of cash advances among city funds were not made within the required time periods set forth in general municipal law.

### RESOLUTION:

- The City is currently working on restoring the fund balances to the Water and Sewer funds and to eliminate the interfund advances as soon as is practicable.
- The City has begun to charge the Water and Sewer funds interest on the amounts advanced as recommended by your report. This interest charge was made in the 2011-12 FY (including catch up interest for prior years).
- This very important finding was helpful in providing an explanation as to how the depth of the city's financial problems was submerged prior to December 2011.



# Summary of Major Findings

## During Fiscal Year July 1, 2011-June 30, 2012

### COMMUNITY DEVELOPMENT RECORD KEEPING POLICIES

#### FINDING:

- City records were improperly destroyed and therefore the City is unable to locate records regarding whether or not certain expenditures were reimbursed with grantor funds.

#### RESOLUTION:

- Upon taking office in January the Acting Director of Community Development made us aware of missing files.
- The City initiated an investigation of the missing documentation in coordination with the Nassau County District Attorney's Office.
- The City has instituted a policy to ensure the safekeeping of all vital records in order to prevent unauthorized destruction/removal of City's records in all departments.
  - All Department Heads are responsible for the proper file retention and must follow the proper records management policies.



# Summary of Major Findings

During Fiscal Year July 1, 2011-June 30, 2012

## CITY TRACKING POLICIES

**FINDING:** The City does not have an adequate system in place to properly record, classify, and update:

- Capital Projects
- Fixed Assets
- Inventory
- Community Development
  - Timely Reporting of Program Expenses & Income
  - Accurate Reporting of Program Expenses & Income

### RESOLUTION:

- The City has recently procured from MUNIS, our current accounting software vendor, a project tracking module that will resolve this matter.
- The City has begun to institute new policies and procedures to ensure the proper tracking of all City projects, fixed assets and inventory.
- All Community Development Programs are now tracked and reported accurately.



# Summary of Major Findings

During Fiscal Year July 1, 2011-June 30, 2012

## PROCUREMENT POLICY

### FINDING:

The City Council should review and approve the purchasing policy annually. The City should review and revise as necessary the procedures in place to ensure that each purchase complies with the City's purchasing policy and that procedures are in place to aggregate purchases of similar items.

- There were several instances where the current purchasing policy was not followed.

### RESOLUTION:

- The City has already begun to update and draft a Procurement Policy to be submitted to the City Council for review and adoption.
- The City has begun to draft policies and procedures to ensure that all department heads understand and follow the procurement policy.



# Where Are We Now?

- Worst of the Fiscal Crisis is Over.
- We are on a Better Trajectory.
- We are Still Vulnerable Until We Reestablish Substantial Financial Reserves (“Rainy Day Fund”).

## Obstacles Affecting Our “Rainy Day Fund”

- Sandy Expenses
- Increased Contractual Labor and Healthcare Costs



# For More Information or a Copy of the Proposed Budget and/or Audit

Visit the City's website

at

[www.longbeachny.gov](http://www.longbeachny.gov)

