Bond Case Briefs

Municipal Finance Law Since 1971

How Long Beach Found Itself in Financial Crisis.

The $102 million in state and federal emergency disaster funds given to Long Beach after superstorm Sandy masked financial problems that, with the relief money now drying up, led the city into a fiscal crisis, officials and analysts say.

Long Beach faces a $2.1 million shortfall after making retirement and management separation payments, potential layoffs of city staff, police and firefighters, and a budget that proposes a 12.3 percent tax hike to bridge a $4.5 million revenue deficit next year.

Taxpayers — and state Comptroller Thomas DiNapoli — are asking: How did it come to this?

Long Beach officials in 2017 touted a financial swing from the brink of bankruptcy to being $9 million in the black — a $24.2 million turnaround — but current and former city leaders say the previous collapse was never addressed and stayed hidden because of the disaster relief funds after superstorm Sandy.

"We're almost where we were before Sandy," Long Beach City Council President Anthony Eramo said of the current crisis. He also said problems the city faced before Sandy have not gone away. "We knew this would be a tough year and hard decisions would have to be made. . . . I knew the lack of Sandy money would make this a tough year."

Eramo, DiNapoli, and municipal finance analysts say city officials should have made more difficult decisions such as cutting services and making incremental tax increases in previous years to avoid the larger tax increase proposed this year. The City Council passed a 1 percent tax boost last year — an election year.

The proposed $95 million budget for the fiscal year starting July 1 will mean an average $400 increase for homeowners.

DiNapoli announced last week that his office would audit the city's finances.

"It is imperative that officials address the city's declining financial condition during the current budget cycle," his office said in the annual budget review.

The Wall Street bond rating agency Moody's Investors Service this month maintained the city's Baa1 rating — considered a moderate credit risk, but issued a negative outlook, citing cash flow challenges "following years of operating deficits and the City Council's failure to approve budgeted borrowing to pay for operating expenses."

Lower ratings can mean higher interest rates and costs of borrowing.

"Any time a local government borrows for operating expenses, we view that as a negative," Moody's vice president and senior analyst Rob Weber said.

Long Beach has borrowed to cover retirements and other payments for years.

"It's identical to putting your budget on a credit card," said Matt Fabian, a partner with Municipal Market Analysts, a municipal research and consulting firm specializing in the bond market. "It's not a sustainable practice."

Newsday

By John Asbury

May 10, 2018 5:16 PM