



## New York's Long Beach Faces Crisis After Overtime 'Bad Luck'

By Freeman Klopott  
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Feb. 3 (Bloomberg) -- Long Beach, New York, the Long Island city whose credit rating was cut five levels in December, is freezing hiring and cutting costs after a 66 percent increase in overtime and a \$500,000 payout to a retiring police commissioner forced officials to tap the bond market for cash.

The City Council will vote Feb. 7 on a resolution declaring the municipality of 36,000 to be in a fiscal crisis. The measure would give City Manager Jack Schnirman, hired last month to put finances back in order, the authority to reappropriate the \$60 million budget.

Schnirman, 34, a former management consultant with a master's degree from Harvard University, may face a difficult task. He said he found that city officials raised revenue projections "year after year" to match their desired spending. The jump in overtime was sparked in part by Hurricane Irene, which slammed Long Island's south shore in August, flooding roads, damaging beaches and forcing workers to clean up debris.

"When you do something wrong over a period of time, bad luck exposes it," Schnirman said in a Jan. 24 telephone interview. "The city had a structural imbalance in the way it planned revenue and expenses over a period of years, and it was using its surplus to rectify that imbalance. The city ran out of time and surplus."

### Overtime Budgets

Midway through the current fiscal year, eight departments had exceeded their overtime budgets by \$544,016, or almost 41 percent, said Schnirman, who previously was chief deputy supervisor of Brookhaven in Long Island's Suffolk County. Since 2006, overtime costs have gone up \$900,000, or 66 percent, he said.

From California to New Jersey, state and local governments targeted overtime and public-worker benefits as they reined in costs amid the worst recession since the Great Depression. **Revenue hasn't returned to the peak reached in the months after the recession started in December 2007, according to a study by the Albany, New York-based Nelson A. Rockefeller Institute of Government.**

"All over the country, municipalities were having problems and buckling down, and I wondered what makes us so different that we can just keep spending," newly elected City Council President Fran Adelson said in a Jan. 31 telephone interview. "Are we not part of the world?"

### Moody's Steps In

On Dec. 20, Moody's Investors Service dropped the city's rating on \$48.3 million of general-obligation bonds to Baa3, the lowest investment grade, from A1. Earlier that month, Long Beach borrowed \$4.25 million to meet its monthly payroll, according to data compiled by Bloomberg and an offering statement.

Reserves were depleted by overtime and the \$500,000 payment to Police Commissioner Thomas Sofield Sr., former City Manager

Charles Theofan said in a December interview. Sofield gave his retirement notice within a week of his son, Council President Thomas Sofield Jr., losing a re-election bid, Schnirman said.

Two other police officers followed, raising the total retirement payouts to \$1.4 million. The payments are a portion of the \$23.3 million the city will owe its more than 300 workers when they retire, according to an annual audit obtained by Bloomberg News. The audit is expected to be released before the Feb. 7 meeting, Adelson said.

Sofield Sr.'s former secretary, Carolyn Eaton, said in a telephone interview that he couldn't be reached. His home telephone number is unlisted. Calls to a number listed for Sofield Jr. weren't returned.

### **Taken by Surprise**

The borrowing caught Moody's analysts Robert Weber and Geordie Thompson by surprise.

"There was no expectation of any cash-flow problems," Weber said in a telephone interview. "We specifically asked them, and four months later they were in need of cash."

There also were "severe negative discrepancies" between projections of reserves and cash flow given to Moody's in August, and un-

audited budget documents provided to the analysts in December, Weber wrote in his Dec. 20 ratings rationale.

"They're not budgeting in a way that by end of the year ends up coming to fruition," Thompson said.

For the current fiscal year, which ends June 30, Long Beach projected \$66 million in revenue, \$7 million more than it collected in fiscal 2008, before the financial crisis, according to the preliminary official statement. The city expected a \$6 million surplus, the statement said.

Weber said Long Beach, about 30 miles (48 kilometers) east of Manhattan, probably will need to borrow again before June 30. Schnirman has stopped overtime, frozen hiring and also is reviewing Long Beach's finances.

Among his findings: Theofan gave out almost \$400,000 in pay raises and promotions before resigning at the end of December.

Schnirman is being paid \$157,988 a year, 5 percent less than Theofan.

"The borrowing did not stop unbudgeted personnel moves," Schnirman said. "We're reviewing all of them to determine whether they were proper or affordable."