



**Office of the
Ulster County Comptroller
March S. Gallagher**



**ULSTER COUNTY
FUND BALANCE
REPORT
2022**



ULSTER COUNTY OFFICE OF THE COMPTROLLER

ULSTER COUNTY FUND BALANCE REPORT 2022

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Executive Summary

Why this review is important

Ulster County closed out 2021 with an \$84.9 million unassigned fund balance which is \$54.4 million above the County's current policy limits.

Fund balance is the excess of net revenues over net expenses for the given fund. The fund balance is broken down into non-spendable, restricted, committed, and assigned funds (funds the County has an intended purpose to spend) and unassigned funds (funds for which no restriction has been imposed).

The current Ulster County Fund Balance Policy requires a report to the Legislature by May 1st annually with a plan for addressing any fund balance in excess of the policy limits, but does not specify who should create the report. Fund balance planning can enable the County to plan for contingencies while maintaining a strong bond rating. Prudent use of these funds should enable the County to avoid interest expenses and generate investment income.

As a result of our analysis we have developed some recommendations on how our overage in unassigned funds should be allocated:

1. Increase policy limits of unassigned fund balance to 15% to align with Government Finance Officers Association (GFOA) recommendations and historical averages.
2. Reallocate unassigned fund balance amounts to Reserve Funds to protect the County from future financial shocks.
3. Pay callable debt or foregoing bonding. By paying down callable debt we are reducing our outstanding loans and interest expense.
4. Anticipate the \$3 million sales tax revenue reduction projected from the the gas tax holiday.
5. Additional tax cuts or tax rebates could be considered for any remainder over policy limits.

	10% Policy Upper Threshold	15% Policy Upper Threshold
Total General Fund Balance	\$ 107,561,957	\$ 107,561,957
Less: Nonspendable, Restricted & Assigned	22,688,684	22,688,684
Unassigned Fund Balance	84,873,273	84,873,273
2022 General Fund Budget	305,073,481	305,073,481
1. Increase Policy Upper Threshold Percentage	10.00%	15.00%
Less: Allowable Unassigned Fund Balance	30,507,348	45,761,022
Unassigned Balance over Allowable Amount	54,365,925	39,112,251
Recommendations		
2. Increase Reserve Funds for Future Use	32,500,000	20,000,000
3. Pay Callable Debt or Forego Bonding	12,500,000	10,000,000
4. Gas Tax Holiday	3,000,000	3,000,000
5. Additional Tax Cuts or Tax Rebates	6,365,925	6,112,251
Remaining Amount over Policy Limits	\$ -	\$ -

Additionally, extend the deadline for an annual plan for fund balance to May 31 to allow additional time and identify appropriate staff to evaluate any excesses/deficits after the annual update document (AUD) is filed with the State Comptroller.

Finally, the Fund Balance Policy should be updated to include limits for other Ulster County governmental funds (Special Revenue Fund, County Road Fund, Road Machinery Fund, Debt Service Fund) which contain fund balance amounts available for appropriation during the operating budget cycle to allow for an analysis of the amount of property taxes allocated in the annual budget to each of the governmental funds.

Fund Balance Fundamentals

Fund Balance is used to describe the net position of governmental funds and serves as a measure of the financial resources available in the fund.¹ The annual change in fund balance for each fund is determined by the amount of surplus (revenues exceeding expenditures) or the amount of deficit (expenditures exceeding revenues) for that fund for the year.

The following chart shows the changes in fund balance as a result of 2021 actual revenues and expenditures:

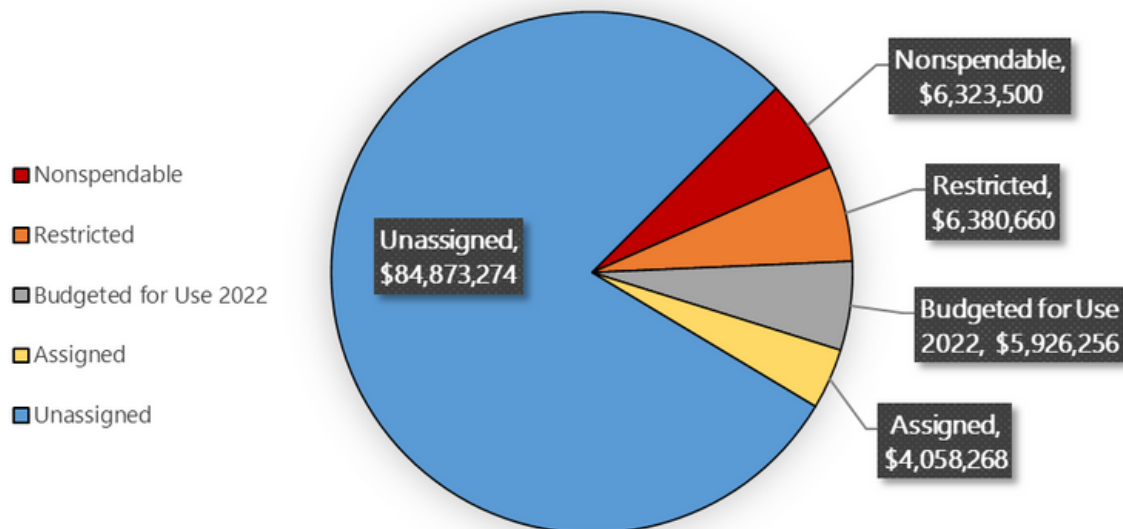
Fund	Total Revenues	- Total Expenditures	= Net Surplus (Deficit)	+ Beginning Fund Balance	= Ending Fund Balance
General Fund	\$ 317,910,745	\$ 272,043,135	\$ 45,867,610	\$ 61,694,347	\$ 107,561,957
Special Grant Fund	1,863,116	1,923,777	(60,662)	324,437	263,775
County Road Fund	14,489,123	16,931,110	(2,441,987)	4,882,430	2,440,443
Road Machinery Fund	659,154	3,358,629	(2,699,475)	3,291,206	591,731
Debt Service Fund	41,934,312	42,694,433	(760,121)	3,182,749	2,422,628
Total Governmental Funds	\$ 376,856,450	\$ 336,951,085	\$39,905,365	\$ 73,375,169	\$ 113,280,534

The 2021 adopted budget reflected a \$13.2 million deficit, or fund balance and reserve usage. Actual results however, provided a net surplus across governmental funds of \$39.9 million for 2021, creating a delta between actual and budgeted amounts of over \$53.1 million.

Comparatively, the 2020 similarly adopted budget planned for fund balance and reserve usage of \$13.2 million. Actual results yielded a net surplus across governmental funds of \$11.6 million, generating a delta between actual and budgeted amounts by approximately \$24.8 million. Over the last two years there has been a combined increase of \$51.5 million to the County's fund balance across governmental funds. This represents a 113% increase in total fund balance, meaning fund balance has more than doubled over the two-year period.

Not all fund balance is available to offset spending in future years. Non-spendable fund balance, such as inventories and pre-paid items, are not available for budgeting purposes. Going into 2022, we had a total fund balance of \$107.6 million in the General Fund. See the breakdown in the following chart:

General Fund Balance - \$107.6 Million as of 12/31/21



[1] The Comptroller's Office uses the Government Finance Officers Association (GFOA) definition of Fund Balance available at <https://www.gfoa.org/fund-balance-guidelines-general-fund>

Fund Balance Policy Limit: Is 10% Enough?

In September 2021, the Ulster County Legislature adopted Resolution 238, adopting a revised Fund Balance Policy for Ulster County. This policy designates a desired unassigned fund balance in the general fund of 5-10% of current general fund annual operating expenditures. The unassigned general fund balance as of 12/31/2021 was \$84.9 million or 27.82% of 2022 general fund operating expenditures, which is \$54.4 million higher than the policy limit of 10% of operating expenditures.

Ulster County's current Fund Balance Policy states "an unassigned fund balance above or below the minimum should be remedied within the succeeding year. If it is not possible or prudent to adequately adjust the value of unassigned fund balance in the succeeding year, a plan must be submitted to the Legislature by May 1 of the succeeding year to ensure compliance with the Fund Balance Policy."

The determination of whether it is possible or prudent to adjust the fund balance to align with policy threshold within one year depends on the course of actions taken in 2022 to reduce the percentage in unassigned fund balance below the policy limit. The plan should illustrate how the County intends to reduce the unassigned fund balance from 27.8% down to 10% of operating expenditures. According to the current policy, this would require a reduction of \$54.4 million in the unassigned category.

There are multiple strategies that can be utilized by the County to reduce unassigned fund balance in the general fund in accordance with by policy limits.

- Increase the upper threshold percentage of the policy.
- Create or add to existing reserve funds, designating the use for a future purpose and reclassifies the fund balance as restricted.
- Pay for capital expenditures that would normally be bonded.
- Utilize the unassigned amounts to pay off high interest debt.

The Legislature should first determine if 10% as an upper threshold for the policy remains prudent.

We recommend the legislature consider a 15% upper threshold based on Government Finance Officers Association recommendations which also align with Ulster County's five-year historical average of 14.17% of unassigned fund balance as a percentage of subsequent operating expenditures. If adopted, a 15% upper threshold would lower the unassigned fund balance reduction necessary to \$39.1 million.

Using Fund Balance - Plan for the Future

2022 General Fund Budget = \$305,073,481		
Upper Threshold Percentage	Allowable Unassigned Amount	Reduction Needed
10%	\$ 30,507,348	\$ 54,365,926
11%	\$ 33,558,083	\$ 51,315,191
12%	\$ 36,608,818	\$ 48,264,456
13%	\$ 39,659,553	\$ 45,213,721
14%	\$ 42,710,287	\$ 42,162,987
15%	\$ 45,761,022	\$ 39,112,252
16%	\$ 48,811,757	\$ 36,061,517
17%	\$ 51,862,492	\$ 33,010,782
18%	\$ 54,913,227	\$ 29,960,047
19%	\$ 57,963,961	\$ 26,909,313
20%	\$ 61,014,696	\$ 23,858,578

If it is decided that the permissible fund balance percentage limit remains in the best interest of the taxpayer, then legislature must determine a way to reduce unassigned fund balance by \$54.4 million in accordance with the policy. If the legislature opts to update the fund balance policy the table illustrates the amount unassigned fund balance would need to be decreased at various upper policy thresholds based on the unassigned fund balance levels on 12/31/2021 and the amount appropriated in the 2022 adopted budget. An inverse relationship exists, as the upper threshold percentage increases the amount of reduction needed to unassigned fund balance decreases.

Fund Reserves

Legislators should also review the reserve funds available under General Municipal Law and consider allocating some unassigned fund balance to reserve funds. Reserve funds are amounts set aside to meet future costs and obligations. Leadership should determine if additions to existing reserve funds are warranted, then decide if other reserve funds facilitate future County demands and the amount to designate to those reserves.

In good times, money not needed for current services should be set aside in reserves for future use; in times of uncertainty, reserve funds allow municipalities a secondary budget option to help mitigate the need to raise taxes or cut services. Reserve funds allow for separate savings for future projects and other future non-recurring expenditures and can reduce or eliminate the costs associated with debt issuance. We recommend funding reserves an additional amount up to \$20 - 32.5 million, depending on the policy threshold. After funding reserves and adjusting the policy limit, the remainder of \$19.1 - \$21.9 million above the expanded policy limit would still need to be addressed.

Reserve Type	Purpose
Capital Reserve Fund	Used to finance all or part of the cost of construction, reconstruction, or the acquisition of a capital improvement or items of equipment. Current balance \$2.4 million.
Contingency and Tax Stabilization Reserve Fund	Used to finance unanticipated revenue losses or unanticipated expenditures and to lessen projected increases in the amount of real property tax levy. These funds can be difficult to unlock as requirements are extremely specific. Current balance \$1.2 million.
Insurance Reserve Fund	Funds certain uninsured losses, claims, actions or judgments for which the local government is authorized or required to purchase or maintain insurance, with a number of exceptions. An insurance reserve fund may also be used to pay for expert or professional services in connection with the investigation, adjustment or settlement of claims, actions or judgments. Current balance \$130 thousand.
Repair Reserve Fund	Used to pay for certain repairs to capital improvements or equipment, provided these are not typical annually or in shorter intervals.
Snow and Ice Removal and Road Repair Reserve	Used to pay for the cost of removal of snow and ice from public thoroughfares and public places of a municipality, and the costs of repairing and maintaining roadways to the extent that such damage was caused by the removal of snow or ice, provided these are not typical annually or in shorter intervals.
Solid Waste Management Facility Reserve	Used to pay for the design, construction, and operation of solid waste management facilities owned or operated by a municipality, and for closure, or post-closure care, including operation and maintenance expenses of solid waste management facilities owned or operated by or on behalf of such municipality.
Employee Benefit Accrued Liability Reserve	Used to pay for any accrued employee benefit due upon termination of the employee's service. Including, unused sick leave, holiday leave, vacation leave, other payments due as required by law or collective bargaining, as well as, costs associated with the administration of the fund, including expert or professional services relating to the claims for accrued employee benefits.
Retirement Contribution Reserve	Used to cover the payment of retirement contributions, defined as all or any portion of the amount payable to either NYS ERS or the NYS PFRS retirement systems.

Pay/Avoid Debt

After contributing to reserve funds, remaining unassigned fund balance amounts above the policy threshold should be considered for paying off callable debt, or funding capital purchases with general fund appropriations to avoid bonding costs and future debt service payments. We recommend paying callable debt or foregoing bonding amounts of up to \$10 - \$12.5 million depending on the policy threshold.

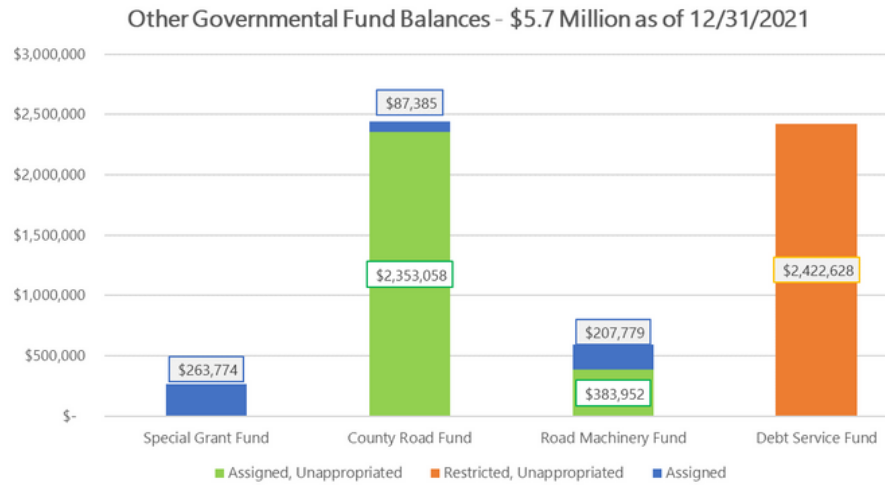
Help the Taxpayer

Once the above measures have been implemented, based on recommendations, the remaining unassigned amount of \$9.1 - \$9.4 million should be considered for implementing tax reductions. We note the legislature passed a reduction in sales tax on motor fuel from June 1, 2022 through December 31, 2022 and the resolution stated a potential financial impact of \$3 million, therefore we recommend considering the approximately \$6.1 - 6.4 million depending on the policy threshold remaining in unassigned amounts for additional tax reductions for County residents. Tax reductions through the budget must consider future tax cap implications.

Non-General Fund Fund Balance

Finally, the Fund Balance Policy should include limits for other Ulster County governmental funds (Special Revenue Fund, County Road Fund, Road Machinery Fund, Debt Service Fund). These funds contain fund balance amounts available for appropriation during the operating budget cycle. Ulster County allocates property taxes in the annual budget to other governmental funds.

Without stated thresholds, these funds could be over or underfunded.



The following chart displays the year-end fund balance available for appropriation in future years as a percentage of the 2022 Adopted Budget expenditures for each governmental fund:

Fund	Fund Balance Available for Appropriation in Future Years	2022 Budgeted Expenditures	% of 2022 Operating Expenditures
General Fund	\$ 84,873,274	\$ 305,073,481	27.82%
Special Grant Fund	-	3,246,445	0.00%
County Road Fund	2,353,058	17,216,892	13.67%
Road Machinery Fund	383,952	3,827,494	10.03%
Debt Service Fund	2,422,628	12,565,466	19.28%
Total Governmental Funds	\$ 90,032,912	\$ 341,929,778	26.33%

*Based on financial system data for 12.31.2021 available on 5.2.2022

The Debt Service Fund Balance is restricted for the use of debt service (i.e. bond and other debt related payments), but remains unappropriated if unspent/not budgeted for spending, therefore, it is available for appropriation in future years. The amount of fund balance available for appropriation includes all amounts that are unassigned, assigned – unappropriated, as well as unappropriated debt service restricted balances that can only be used for that purpose.

Glossary

Governmental Funds - typically account for activity that is tax supported. These funds report on the "modified accrual basis" of accounting, as is prescribed by the NYS OSC. The modified accrual basis reports cash and other financial resources available for use within a specified period as "assets," and amounts owed that are expected to be paid off within a specified period as "liabilities." OSC has described this specified period of availability to be no more than 60 days after year end - meaning if the funds necessary to complete the transaction are not available within that time-frame then the transaction should be recorded in the subsequent year.

Fund Balance - represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the fund. Fund Balance is categorized in a hierarchy that indicates the extent to which a government is required to observe spending constraints for each category, as follows:

- **Non-spendable** - Assets that are inherently non-spendable in the current period, as they are not in spendable form or are legally or contractually required to be maintained intact. This Fund Balance classification is commonly used for prepaid expenses and inventories.
- **Restricted** - Resources that are unavailable for appropriation or have legal limits to their use. Such limitations consist of restrictions imposed by creditors, grantors, contributors, or laws and regulations limiting the right to utilize the funds for certain purposes or imposing a time restriction.
- **Committed** - Funds that have a designated purpose constraint placed upon them by the municipality's highest level of decision-making authority and require the same level of formal action to remove the constraint. This restraint would be imposed, for instance, by the Legislature and could only be lifted by a subsequent act of the Legislature.
- **Assigned** - Funds that have a designated purpose constraint placed upon them by the municipality's highest level of decision-making authority, but unlike Committed Fund Balance, these funds do not require the same level of formal action to remove the constraint. Examples would be assignments for encumbrances and subsequent year expenditures.
- **Unassigned** - Resources that can be used for any purpose related to the fund in which the balance exists. This category is a surplus or a deficit, meaning either is available for future appropriation, or in cases of a negative Fund Balance, to be recouped over time by efficient surplus budgeting.