



THIRD QUARTER FINANCIAL REPORT

Office of the
Ulster County Comptroller
March S. Gallagher



2022



ULSTER COUNTY OFFICE OF THE COMPTROLLER

2022 THIRD QUARTER FINANCIAL REPORT

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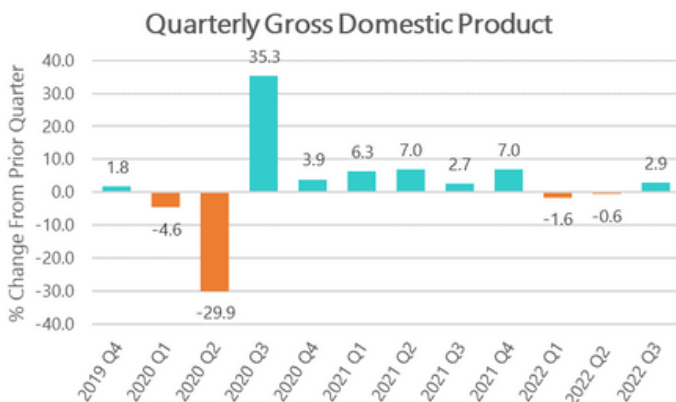
The third quarter of 2022 continues to leave the County in a strong financial position with continued growth in revenues.¹ The County recognized \$258.2 million or 73.1% of budgeted revenues through the third quarter. This mirrored the percentage of total budgeted revenues collected through the third quarter when compared to the previous year, though we collected \$13.6 million more in total dollars due to an expanded total budget. The County expended \$214.7 million, or 60.8% of budgeted expenditures compared to 57.0% through the same quarter last year. This increased percentage of total spending could be attributable to timing differences and increasing prices and costs. Due to the third quarter revenue amount over expenditures of \$43.5 million, we expect the year to finish with an overall addition to fund balance. This will be the third year in a row the County has had a surplus. The previous two years added \$51.5 million combined to fund balance and this year may add a considerable amount more.

Economic Outlook

The national economy continues to recover from the impacts of the COVID-19 pandemic. Gross domestic product has improved. Inflation continued to remain an issue through the third quarter. Job creation rebounds leveled off during the quarter. The potential for recession that would further impact sales and other consumer-driven tax revenues must be monitored closely.

Gross Domestic Product

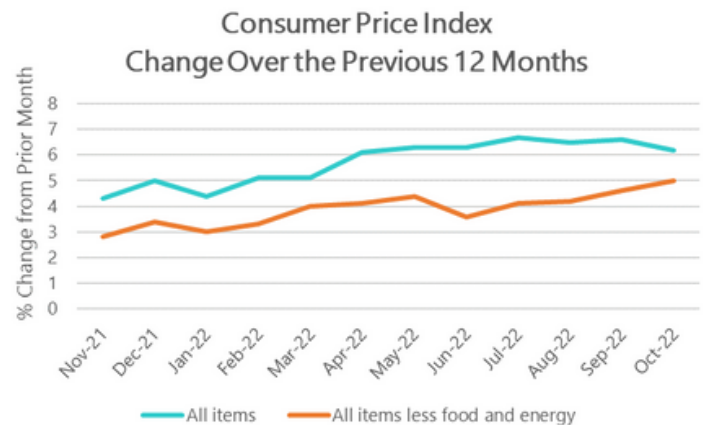
The third quarter of 2022 gross domestic product (GDP) improved substantially over the prior two quarters. This bolstered the opinion of the National Bureau of Economic Research's Business Cycle Dating Committee not to call formally for the designation of the economy in recession despite two quarters of negative GDP.



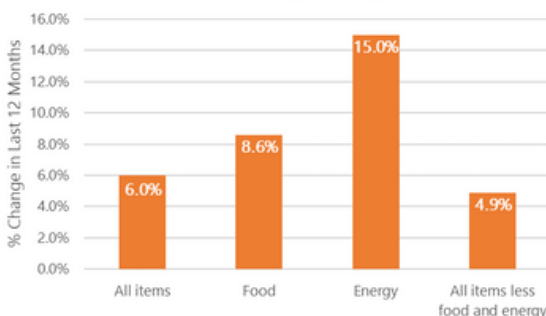
Bureau of Economic Gross Domestic Product (Second Estimate), GDP by Industry, and Corporate Profits (Revised), Third Quarter 2022 available at: <https://www.bea.gov/news/2022/gross-domestic-product-second-estimate-and-corporate-profits-preliminary-third-quarter>

Consumer Price Index (CPI)

Consumers and businesses are experiencing significantly higher prices which began to escalate after the third quarter of 2021. The 12-month percentage increase in prices across all items at the close of the third quarter of 2022 was 6.7%.



12-Month Percentage Change in CPI



According to the October 2022 report by the Bureau of Labor Statistics ("BLS"), over the year, the index for all items less food and energy increased 5.0%. Over the year, the index for all items less food and energy increased 4.9%. Shelter prices, up 4.1%, included a 4.2% increase for owners' equivalent rent and a 3.3% increase for residential rent. Prices for new and used motor vehicles were up 12.9%. Medical care prices increased 7.9%.

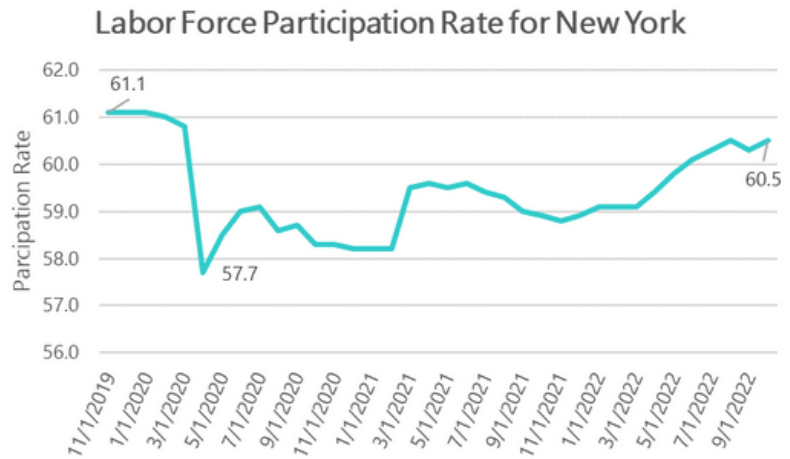
[1] We have used unaudited and unofficial amounts as reported within Ulster County's financial management system as of November 21, 2022 that was collected for the purposes of this review. This report does not include expenditures that are not approved by the Office of the Comptroller, such as payments made within the Welfare Management System managed by the Department of Social Services. Actual results are not final, may vary, and are subject to change. Financial information is not finalized until external audit procedures are completed, which may include audit adjustments.

Employment

Employment levels continue to increase in Ulster County with annual employment increasing by 1,700 jobs, representing 2.8% growth compared to 2021.² The largest overall increase was in Education & Health Services as well as Leisure & Hospitality sectors. Every other sector added between 100 and 400 jobs in the 12-month period except Construction and Professional & Business Services which remained flat compared to prior year figures.

Despite increases in total jobs by industry sector, the labor force participation rate nationally still lags pre-pandemic levels. Many employers report anecdotal difficulty in finding staff. The labor participation rate is still below its pre-pandemic level in the fall of 2019.

Category	Oct 2022	Oct 2021	Annual Change	% Year
Education and Health Services	9,400	9,000	400	4.4%
Leisure and Hospitality	8,700	8,300	400	4.8%
State Government	4,900	4,600	300	6.5%
Natural Resources, Mining, and Construction	3,000	2,900	100	3.4%
Retail Trade	8,400	8,300	100	1.2%
Professional and Business Services	4,800	4,700	100	2.1%
Other Services	2,800	2,700	100	3.7%
Local Government	4,300	4,200	100	2.2%
Local Government Education	4,800	4,700	100	2.1%
Manufacturing	3,400	3,400	0	0.0%
Wholesale Trade	1,500	1,500	0	0.0%
Transportation, Warehousing, and Utilities	1,600	1,600	0	0.0%
Information	900	900	0	0.0%
Financial Activities	2,000	2,000	0	0.0%
Federal Government	400	400	0	0.0%
Total Nonfarm Jobs	60,900	59,200	1,700	2.8%

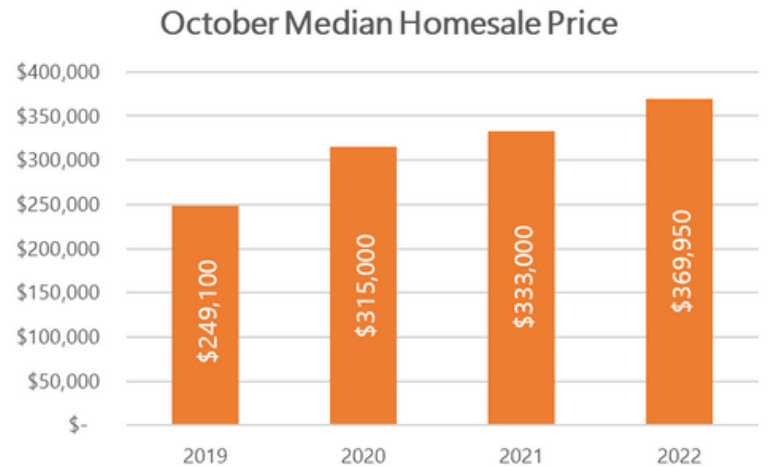


Source: Labor Force Participation Rate for New York, Percent, Monthly, Seasonally Adjusted, Federal Reserve Bank of St. Louis available at <https://fred.stlouisfed.org/series/LBSSA36>

Housing

The region has also seen unprecedented increases in the cost of housing. There has been a significant increase in median home sale price, as home sale prices have increased \$120,000 (or 49%) between October 2019 and October 2022. The County continues to experience a housing crisis with very limited rental and for sale inventory.

As of the end of October 2022 the Ulster County housing market had 4.3 months of inventory supply and the number of homes for sale decreased 12.6 % from a year earlier.³



Ulster County launched its Housing Smart Communities Initiative in the third quarter of 2022. The program seeks to lead municipalities through a series of certifications that will work to expand their housing supply by offering support and incentives. The program is one of five different strategies that comprise the Ulster County Housing Action Plan adopted in 2021. For more information, see the County's website at: <https://ulstercountyny.gov/planning/house-action>.

[2] Aggregated by the Ulster County Comptroller's Office from New York State Department of Labor Local Area Unemployment Statistics Program available at <https://labor.ny.gov/stats/laus.asp>

[3] New York State Association of Realtors, October 2022 Housing Market Report (available at www.nysar.com/wp-content/uploads/2022/11/NYSAR_MMI_2022-10.pdf).

Revenues

County revenues remained strong through the third quarter of the year, with the largest increases seen in sales tax and federal aid received. Actual revenues collected totaled \$258.2 million, versus \$244.5 million during the first three quarters of the previous year, a 5.6% increase. While nearly all County revenue categories saw an increase when compared to 2021, Use of Money and Property doubled in year-over-year collections with expected continued growth.

Revenues by Category Through September 30th						
Category	2021 YTD Transactions	2021 Adopted Budget	% of 2021 Adopted Budget	2022 YTD Transactions	2022 Adopted Budget	% of 2022 Adopted Budget
Non-Property Tax Items (incl. Sales Tax)	\$ 93,906,733	\$ 124,564,288	75%	\$ 102,574,574	\$ 147,880,000	69%
Real Property Taxes	76,317,761	75,567,758	101%	76,317,761	75,317,758	101%
State Aid	30,632,818	52,910,151	58%	32,695,304	50,307,888	65%
Federal Aid	16,010,527	33,837,478	47%	21,810,646	38,407,333	57%
Interfund Transfers In	-	-	0%	-	-	0%
Other Financing Sources (incl. Fund Balance)	-	13,213,967	0%	-	6,500,340	0%
Departmental Income	6,432,344	10,992,154	59%	5,489,556	10,527,690	52%
Intergovernmental Charges	7,052,432	7,762,387	91%	6,708,890	7,511,884	89%
Real Property Tax Items	3,979,662	5,681,911	70%	4,186,511	5,794,000	72%
Interfund Revenues	3,361,753	4,783,913	70%	3,494,065	4,666,812	75%
Sale of Property & Compensation for Loss	4,937,407	1,566,950	315%	1,084,213	3,156,950	34%
Use of Money and Property	800,548	1,558,637	51%	2,106,228	979,830	215%
Miscellaneous Local Sources	468,852	1,046,900	45%	973,271	1,115,100	87%
Fines and Forfeitures	230,073	376,000	61%	317,288	326,000	97%
Licenses and Permits	410,699	498,170	82%	393,934	475,160	83%
Grand Total	\$ 244,541,610	\$ 334,360,664	73%	\$ 258,152,242	\$ 352,966,745	73%

Use of Money and Property

The Use of Money and Property account is already at 215% of the annual budgeted amount through the third quarter of 2022. The largest increase being due to a hike in interest earned which is up over \$945K, a 1,223% increase when compared to 2021. In March of this year, the Comptroller's Office issued a report on Ulster County's investment policy highlighting that interest revenues were not optimized as the County regularly maintained in excess of \$100 million in cash reserves at local banks in low interest bearing accounts. Detail of the improved investment strategy is discussed below in the discussion of Cash balances. Additionally, after the Comptroller's Office highlighted in their July 2019 Ulster County Government Facilities & Properties report that the NYS Department of Labor sublease for space at 535 Boices Lane property had never been executed and therefore no lease payments had been received. Those back payments of \$7,035 per month, for the period from November 2017 to September 2022 were received on August 31st of this year in the amount of \$415k. The lease term expires in October 2022, and a new agreement has yet to be reached although the NYS Department of Labor continues to occupy the space.

State and Federal Aid

Federal aid revenues were budgeted at \$33.8 million in 2021, and \$38.4 million in 2022, a \$4.6 million increase. The increase YTD was \$5.8 million, which makes sense based the increased budget amount and prior year results, as 2021 Federal Aid revenues underperformed budgeted amounts by \$2.3 million. Due to the amount of Federal Aid recognized in the fourth quarter it is difficult to determine if the 2022 budgeted amount will be achieved.

State aid revenues were budgeted to decrease \$2.6 million from \$52.9 million in the prior year to \$50.3 million in 2022. The amount collected through the third quarter was \$32.7 million or \$2.1 million more than the prior year, which slightly outperformed the annual budgeted amount. Although the YTD increase is a sign that the budgeted amount should be achievable, similar to Federal Aid, the majority of State Aid is recognized in the fourth quarter which makes it difficult to forecast.

Sale of Property and Compensation for Loss

This revenue category has returned to normal levels in 2022 through the first three quarters, after a significant increase occurred in 2021. That year, third quarter collections totaled nearly \$5 million due to a worker's compensation settlement received by the County for a one-time buyout settlement from the NYS WCB WAMO (Wholesale Agreement Management Office). The settlement was in reference to open claims that the State had been reimbursing the Self-Insurance Plan for from their Special Disability Fund when the claims met certain criteria. This category is generally difficult to predict as most of the revenues are due to unforeseen insurance settlements or recoveries, and for health insurance stop loss settlements.

Miscellaneous Local Sources

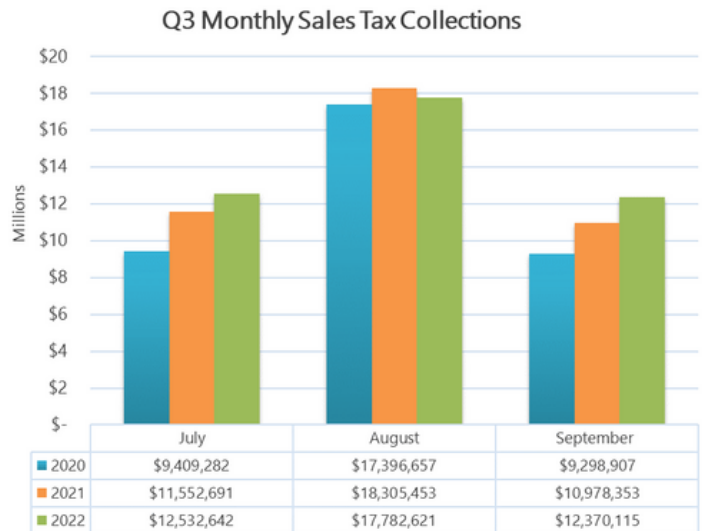
This area had a large collection increase compared to the prior year while the budgeted amounts from year to year were consistent. Collections in 2022 were \$973k or 87% of budgeted amount at the end of the third quarter compared to only \$469k in the prior year. The major variances in 2022 were proceeds from a refund of prior year's expenditures for about \$400k, an insurance claim of a totaled dump truck for \$208k, and electrician licenses for about \$90k, as well as a community solar payment of \$14k.

Non-Property Tax Items Revenues Through September 30th						
Non-Property Tax Items	2021 YTD Transactions	2021 Adopted Budget	% of 2021 Adopted Budget	2022 YTD Transactions	2022 Adopted Budget	% of 2022 Adopted Budget
Sales & Use Tax	\$ 90,125,788	\$ 120,559,288	75%	\$ 98,437,802	\$ 143,000,000	69%
Occupancy Tax	2,199,430	2,000,000	110%	2,635,664	2,875,000	92%
Automobile Use Tax	984,858	1,200,000	82%	887,491	1,200,000	74%
Emergency Phone System Tax	596,658	805,000	74%	613,617	805,000	76%
Non-Property Tax Items Total	\$ 93,906,733	\$ 124,564,288	75%	\$ 102,574,574	\$ 147,880,000	69%

Sales Tax

At the end of the third quarter, the County had a 9.2% increase in sales tax revenues when compared to 2021 collections. We anticipate that sales tax revenues will greatly exceed budgeted amounts for 2022. YTD collections reported on the Non-Property Tax Items chart are for collections received on purchases made from January through July of the current year, as payments received for August and September were not received until the fourth quarter. Payments received by the County for these months continued to show increases in collections, but the overall percentage increase YTD went down to 7.7%.

The amounts collected in August and September by the County totaled more than \$30 million, bringing total YTD collections to \$128.5 million, which is 90% of the \$143 million total budgeted for 2022, with three months of collections remaining. High rates of inflation and the possibility of a recession make the remaining months of the year unpredictable, though YTD collections have remained strong. The Adopted 2023 budget projects sales tax revenues of \$167 million. The County will need to finish the year with an overall 7.85% increase in sales tax revenues from the prior year to achieve \$167 million budgeted for 2022. Monthly collection data for the three most recent years is presented in the chart to the right.



Occupancy Tax

The County's occupancy tax collections have also continuously grown, and through the third quarter the County saw a 20% increase in year over year collections. The County collected \$2.6 million in occupancy tax dollars YTD, which is 92% of the annual budget and \$436k more when compared to the same period in 2021. The 2023 Adopted Budget forecasts this revenue category at \$3.15 million, which may be conservative considering 2021 finished with \$3.35 million in bed tax collections and 2022 revenues are well above what was collect in 2021.

Expenditures

Spending through the third quarter of 2022 increased substantially when compared to the previous year, with an additional \$24 million in total spending across all categories. The 2022 expenditures through the third quarter were \$214.7 million, 61% of the budgeted amount, representing an \$18.6 million increase in spending from the \$334.4 million budgeted in the prior year.

Expenditures by Category Through September 30th						
Category	2021 YTD Transactions	2021 Adopted Budget	% of 2021 Budget	2022 YTD Transactions	2022 Adopted Budget	% of 2022 Budget
Contractual Expenses	\$ 107,844,681	\$ 180,608,675	60%	\$ 122,401,590	\$ 185,404,957	66%
Personnel Services	57,858,788	85,617,312	68%	67,771,460	97,782,105	69%
Employee Benefits	21,868,643	51,632,092	42%	22,000,775	53,089,021	41%
Debt Service	1,560,188	14,145,698	11%	1,289,200	13,865,466	9%
Equipment & Capital Outlay	1,445,175	2,356,887	61%	1,207,792	2,825,196	43%
Grand Total	\$ 190,577,474	\$ 334,360,664	57%	\$ 214,670,817	\$ 352,966,745	61%

Contractual Expenditures

Contractual expenditures through the end of the third quarter of 2022 was \$122.4 million compared to \$107.8 million in the previous year. The annual budget for the area only increased \$4.8 million, while there is a \$14.6 million actual increase by the end of the third quarter. Sales tax distributions for 2022 to County towns and the City of Kingston are up \$2.7 million to \$15.8 million compared to \$13.1 million in the prior year through the third quarter as these amounts are directly correlated to the sales tax revenue received by the County. During 2021 the County received sales tax revenues over the high watermark of \$128.6 million listed in the distribution contract, which stipulates that a meeting no later than May 1 of the following year must occur between the County and City of Kingston to discuss "the allocation of the amount in excess of \$128,561,331, and to consider increasing the allocation of the excess to the Towns, subject to approval of the Ulster County Legislature and the City of Kingston Common Council." An agreement was reached, and an additional distribution of \$1.5 million was disbursed to the towns in August 2022. Sales tax revenues have already surpassed the high watermark in 2022, meaning an additional meeting must be scheduled prior to May 1, 2023, to discuss an additional allocation.

Many DSS programs have had an increase in spending as Medicaid, Family Assistance, Preschool and Safety Net expenditures are up a combined \$4 million from year to year through the third quarter. Workers' compensation awards are up \$1 million, road improvements are up \$1.8 million, and special rehabilitation grants and loans are up \$880k from the prior year. Many other contractual areas have also increased in spending in 2022 compared to 2021 through the third quarter.

Payroll Expenditures

In the third quarter of 2022, the County paid \$25.4 million in gross earnings to employees as compared to \$19.7 million in Q3 of 2021. The increase can be attributed to an increase in employee count as well as pay rate increases. The 2022 Q3 amount includes \$1.62 million in overtime, \$85k in vacation time paid out, \$45k in sick time paid out including deferred sick time payouts, and over \$312k in health insurance buyout payments. The County also paid \$155k to employees who were required to quarantine and unable to work, compared to \$48k in the third quarter of 2021. At the end of the third quarter, the County had 1,395 active employees on payroll, compared to 1,378 at the same time in the prior year. The corresponding increase in employee benefits is due to the increased level of payroll expenditures.

The Adopted 2023 Operating budget includes the addition of 54 new positions. A portion of these positions are intended to return the County to pre-retirement incentive operating levels, while others are entirely new positions for the County. The 2023 Proposed budget includes a \$7.1 million increase in personnel expenditures due to added positions, increases in salaries, and union contract increases. The budget includes an associated \$1.7 million increase in related employee benefits.

Surplus Analysis

County revenues through the third quarter of \$258.2 million and expenditures of \$214.7 million means the County had a YTD surplus of \$43.5 million through the end of the third quarter. At the end of the third quarter in 2021 the surplus was \$54 million and the year closed with an actual surplus of \$39.9 million. Through the third quarter in 2020 the surplus was \$26.6 million and the year finished with a surplus of \$11.6 million. The most recent year with an annual deficit was 2019 which finished with a \$7.2 million deficit but had a \$0.2 million surplus through the third quarter.

	2019	2020	2021	2022*
Q3 YTD Surplus	\$ 219,026	\$ 26,647,515	\$ 53,996,802	\$ 43,481,425
Q4 Activity	\$ (7,427,530)	\$ (15,047,175)	\$ (14,091,441)	\$ (18,400,000)
Total Year	\$ (7,208,504)	\$ 11,600,340	\$ 39,905,361	\$ 25,081,425

Since the majority of County revenues are received during the first three quarters of the year, the fourth quarter typically reduces the County's expected surplus. Even if County fourth quarter results in an operating deficit on par with recent years, the County can expect a significant surplus at the end of 2022. Using the third quarter results YTD and prior years performance as a guide we can confidently expect a surplus again in 2022. If the fourth quarter of 2022 has a deficit of \$18.4 million or less, which is a conservative estimate, the year end surplus for 2022 would be over \$25 million.

Cash

The average cash balance for all County accounts in the third quarter of 2022 was \$217.5 million compared to \$160.7 million in the third quarter of 2021. The increase in cash balances can be attributed to prior year surplus amounts and the receipt of the second half of ARPA funds, which have yet to be expended.

In March 2022, the Comptroller's Office issued an audit report on the investment policy which highlighted the importance of utilizing cash as an asset to maximize interest earnings. Subsequently, on April 4, 2022, the County opened a Deposit PLUS account with initial transfer from the Deposit account of \$70 million and an initial yield of 0.50%. In May 2022, the County transferred an additional \$33 million to the Deposit PLUS account as the yield percentage rose to 0.90%. At the end of the second quarter the County had invested \$103 million in the deposit PLUS account.

In the third quarter of 2022, Cash reserves held by the County and maintained in the County's "Deposit account" had an average value of \$91.7 million, which indicates this account had excess cash available for investment that would have generated more interest revenue in other investments. The Deposit account had a 1.00% average annual percentage yield for the quarter. The Deposit PLUS account had an average value during the third quarter of \$108.9 million and a 1.78% average annual percentage yield. In August 2022, the yield percentage increased to 2.43% and the County transferred an additional \$10 million. The rates in the fourth quarter rose even further and interest revenues have increased directly.

