



ULSTER COUNTY
COMPTROLLER'S OFFICE
Elliott Auerbach, Comptroller

Ulster County Fiscal Stress Assessment

2nd Quarter 2017

July 31, 2017

The mission of the Ulster County Comptroller's Office is to serve as an independent agency of the people and to protect the public interest by monitoring County government and to assess and report on the degree to which its operation is economical, efficient and its financial condition sound.

Comptroller's Quarterly Reports

§ C-57(I) of the Ulster County Charter charges the Office of the Ulster County Comptroller (“Office”) with the task of submitting reports on at least a quarterly basis to the Legislature and Executive regarding the condition, efficiency, and management of the County of Ulster’s (“County”) finances, as well as posting these reports on the County website. In furtherance of this responsibility, our Office regularly produces reports and audits that reflect upon the County’s financial status and its managerial performance, with the dual goals of (1) empowering County administrators and lawmakers and (2) informing Ulster taxpayers as to the issues impacting the expenditure of their tax dollars. All of our Office’s reports and audits are also made available on our website (www.youreyesonulster.com).

Notwithstanding the regularity of such reports throughout the year, it is our Office’s practice to produce Quarterly Reports highlighting particular financial issues on timely topics impacting taxpayers. Our 1st Quarter Report of 2017 focused on positions of employment that were unfilled or otherwise vacant, associated savings that could result from staff turnover, and budgetary transfers from regular pay lines. This Report utilizes the New York State Office of the State Comptroller’s (“OSC”) Fiscal Stress Test (“Test”) to assess Ulster County’s financial health.¹

The OSC Fiscal Stress Test

As defined by OSC, “fiscal stress is [...] a local government’s [...] inability to generate enough revenues within its current fiscal period to meet its expenditures.”² In recent years, the failure of municipalities across the country to reasonably anticipate or manage fiscal stress has led them to reduce the public services they provide, eliminate certain non-essential activities, or even declare bankruptcy.

OSC has developed the Test to evaluate an individual municipality’s level of financial competence. The Test should be seen as a tool to encourage corrective or preventative action in those governmental entities that are found to be in, or nearing, fiscal stress designations.

The Test utilizes five categories, including nine financial indicators, to assess financial health: **Year-End Fund Balance** (Assigned and Unassigned Fund Balance, Total Fund Balance), **Operating Deficits** (Operating Deficit), **Cash Position** (Cash Ratio, Cash % of Monthly Expenditures), **Use of Short-Term Debt** (Short-Term Debt Issuance, Short-Term Debt Issuance Trend), and **Fixed Costs** (Personal Services and Employee Benefits % Revenues, Debt Service % Revenues). The following serves to describe each category and financial indicator, summarize and analyze trends, and apply each component to Ulster County’s operations.

¹ The data presented herein relies upon the accuracy of Ulster County and national data available at the time of its preparation. This report is intended to inform taxpayers and local officials of general trends and Ulster’s positioning in the midst of those trends. Future reports will continue to identify fiscal and performance issues relevant to the effective operation of government, with a constant goal of encouraging educated public discourse and decision making by voters and policy makers in Ulster County.

² See “Fiscal Stress Monitoring System,” by Office of the New York State Comptroller (October 2016) at page 2. Available at <http://www.osc.state.ny.us/localgov/pubs/fiscalmonitoring/pdf/fiscalstressmonitoring.pdf>

1. Year-End Fund Balance

What will this category tell me?

Fund balance can be defined as “a measure of the financial resources available in a governmental fund” – or “the net position of governmental funds.”⁴ Assessment of the availability of fund balance, or lack thereof, is important because it affects an entity’s ability to operate amidst various and unanticipated scenarios like shortfalls in revenue or increases in costs.⁵ Therefore, the Test analyzes whether a municipality has enough money at its disposal to provide a sufficient cushion if necessary and attaches the greatest weight to year-end fund balance as a gauge of fiscal health.

What will a trend in this category’s financial indicators tell me?

The indicators used as part of this analysis consider the fund balance available in relation to gross expenditures. Thus, we are able to determine a government’s ability to cover future expenses by evaluating how long the entity could operate without supporting revenue streams. Both indicators assume future expenditures will be similar to the prior year and do not adjust for fluctuations in expenses.

Indicator 1 is computed using only assigned and unassigned general fund balances and general fund expenditures. This indicator predicts how well the municipality can react to extraordinary events based on usable fund balance.

Indicator 2 uses a ratio of total general fund balances to total general fund expenditures. This indicator shows usable fund balance plus reserves to show how the government could pay for planned future events.

Decreasing indicators can be demonstrative of increasing expenditures and/or diminishing fund balance. Most importantly, a decrease shows that a municipality may have difficulties weathering future and/or unanticipated financial events.

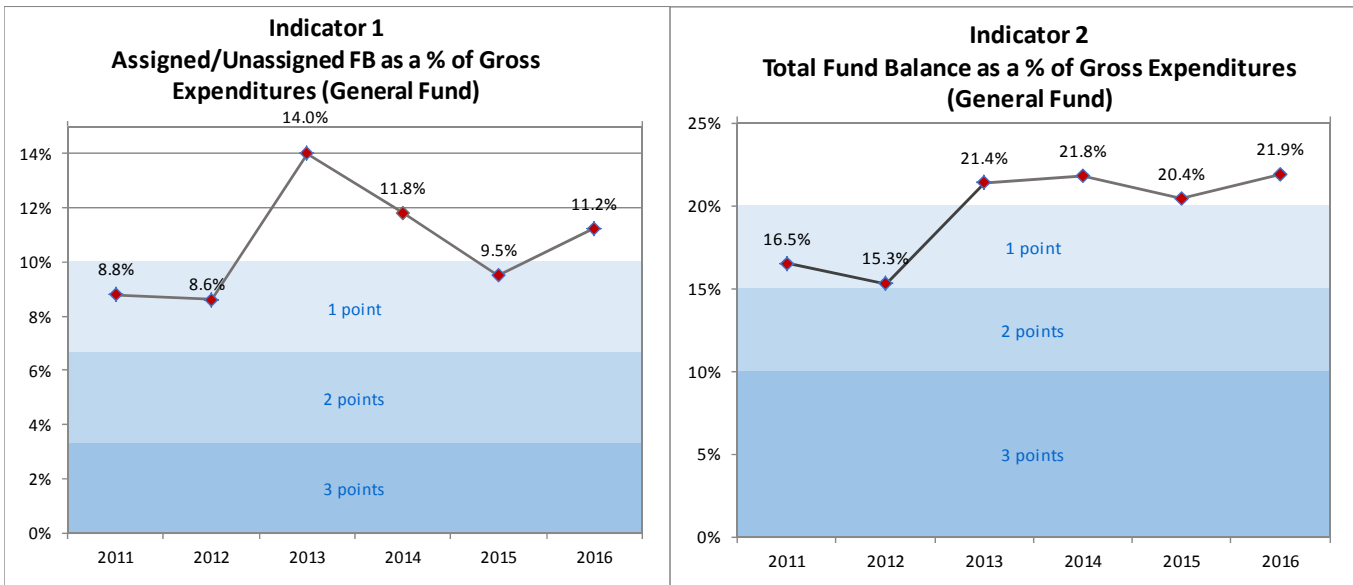
Increasing indicators generally demonstrate a healthy financial outlook, as a reduction in costs and/or an increase in fund balance may be occurring. This trend would indicate that a governmental entity is growing its “cushion” to address unexpected financial events and operating efficiently.

⁴ See “Fund Balance Guidelines for the General Fund,” by Government Finance Officers Association (September 2015). Available at <http://www.gfoa.org/fund-balance-guidelines-general-fund>

⁵ See “Fiscal Stress Monitoring System” at “Appendix A: Fiscal Stress Test Fundamentals.”

Year-End Fund Balance in Ulster County

The following charts display a six-year trend analysis regarding both fund balance indicators for Ulster County:



The indicators generally demonstrate that Ulster County’s available fund balance has been above the benchmark levels in comparison to County expenditures, allowing for a significant buffer available to cover unanticipated and/or future financial issues. Since 2013, the County has generally remained in the “healthy range” for both fund balance indicators, excluding Indicator 1 in 2015. Moreover, from 2015-16, the County was able to improve both indicators by increasing levels of fund balance at a faster pace than rising expenditures.

2. Operating Deficit

What will this category tell me?

The analysis of “[a]nnual operating results [offers] a good measure of [a] local government’s recent financial operations and the direction that its finances are headed.”⁶ A governmental body will generally operate with a surplus or a deficit. Accordingly, if expenditures exceed revenues then a *deficit* occurs; if revenues outpace expenditures then a *surplus* occurs.

Most importantly, “[l]ocal governments that have multiple years of operating deficits or a significant operating deficit in one fiscal year can face financial hardship[;] [several] years of operating deficits are a reliable sign that the local government’s budget is not structurally balanced – that its current revenues are not sufficient to support current expenditures.”⁷ The Test considers a government’s operating deficit from the three most recent years to evaluate fiscal health.

⁶ See id. at page 4.

⁷ See id.

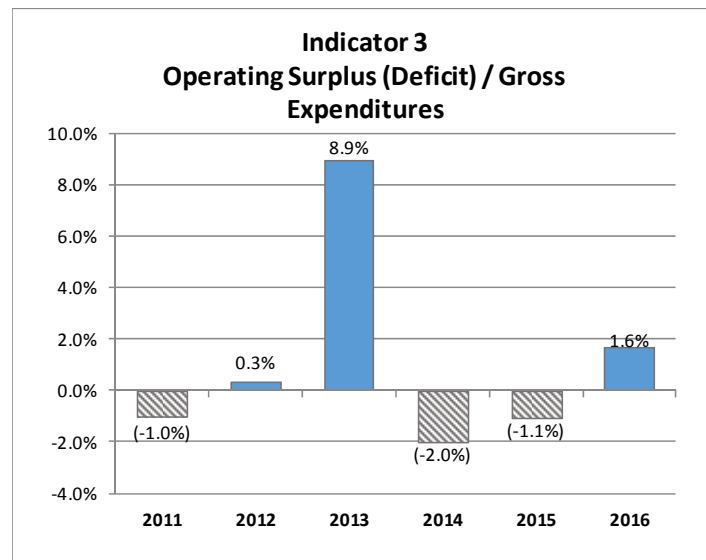
What will a trend in this category's financial indicators tell me?

If a municipality continually operates at a *deficit*, it likely means one of the following scenarios has occurred or a combination thereof: the government has budgeted to operate at a deficit, revenues were less than expected, and/or expenditures were more than what was planned. It is essential for management to be aware of a deficit so there is action taken to ensure that budgeting practices more properly align expenditures with revenues.

If a municipality continually operates at a *surplus*, it likely means one of the following scenarios has occurred or a combination thereof: the government planned to operate at a surplus to build reserves for future projects, revenues exceeded expectations, and/or expenditures were less than anticipated. Administrators should be mindful of a consistent operating surplus in addition to a healthy fund balance because it may be indicative that property tax levels may be higher than necessary.

Operating Deficit in Ulster County

The following chart displays Indicator 3 – the operating surplus (deficit) as a percentage of gross expenditures:



No. of points = No. of years with a deficit in last 3 years or 3 points if last year has deficit \leq -10%

While Ulster County had planned deficits in each of the past six years, deficits actually occurred within only three of them (2011, 2014, and 2015). The County usually budgets for an operating deficit due to fund balance levels being healthy, as well as a desire to not impose additional taxes upon County residents. Ulster County's budget is constructed very conservatively, and the actual results of operations usually absorb much less fund balance than expected.

3. Cash Position

What will this category tell me?

According to OSC, “[a]nother way to evaluate fiscal health is to determine whether an entity has enough cash to pay its bills on time.”⁸ Further, “[a] local government with a low level of cash and short-term investments may not be able to pay its current obligations (insolvency).”⁹

What will a trend in this category’s financial indicators tell me?

Analysis of this category’s two financial indicators will “evaluate the local government’s ability to liquidate current liabilities and its ability to fund the ensuing fiscal year’s operations from available cash.”¹⁰

If Indicator 4 is trending downward then it likely is demonstrative of one of the following scenarios or a combination thereof: the government has decreasing cash, liabilities are increasing, and/or taxes receivable are diminishing. These reasons could be due to timing issues (e.g. the government incurred more liabilities at the end of the fiscal year and/or utilized its cash to pay off more liabilities at the end of the fiscal year) that result in a decreased cash balance.

If Indicator 5 is trending downward then it likely means the government has decreasing cash, increasing expenditures, or both.

Cash Position in Ulster County

The cash position calculations have performed similarly to the fund balance indicators discussed earlier, enjoying significant improvements in recent years.

Indicator 4 (cash investments as a proportion of current liabilities) reveals that Ulster County is currently in a positive cash position, as the ratio is literally off the charts at 351.3% for 2016. Thus, taxes receivable have increased, current liabilities have decreased, and cash investments have fluctuated over the last four years.

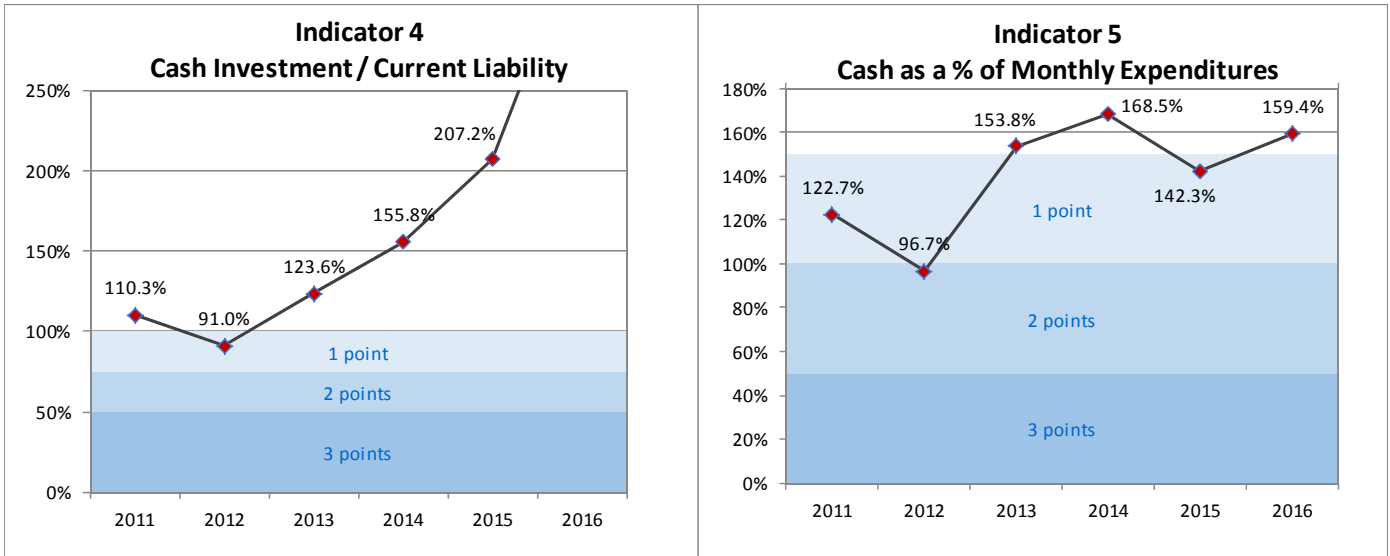
Indicator 5 (cash and investments in the combined funds as an annualized percentage of gross expenditures, including transfers out) shows that expenditures have generally decreased while cash investments have fluctuated over the past four years.

⁸ See id. at page 5.

⁹ See id.

¹⁰ See id.

The results of these indicators are below:



4. Use of Short-Term Debt

What will this category tell me?

Municipalities that may be “in fiscal stress are more likely to issue short-term debt in order to meet obligations [thereby] [i]ncreasing reliance on the issuance of short-term debt [and] indicat[ing] that the local government has cash-flow issues that are not being resolved.”¹¹

What will a trend in this category’s financial indicators tell me?

This category’s financial indicators “evaluate the amount of short-term debt that was issued in the last fiscal year and the trend in the issuance of short-term debt.”¹²

If the indicators trend upward then the municipality has increased its reliance on short-term debt, revenues have decreased, or both. This outcome could be a result of timing (e.g. the government needed to obtain more short-term cash flow due to the timing of anticipated revenues and those revenues have trended upward).

Use of Short-Term Debt in Ulster County

Ulster County has not obtained any forms of short-term debt pertaining to relevant Test calculations. Therefore, no points were given for Indicators 6 and 7. We will forego displaying any data on these indicators or related analysis, as it does not apply to Ulster County’s current state of operations.

¹¹ See id.

¹² See id.

5. Fixed Costs

What will this category tell me?

A municipality's "level of [...] fixed costs determines the local government's flexibility in responding to economic changes."¹³ Therefore, "[a] local government with a high level of fixed costs has more difficulty adjusting service levels if resources decline."¹⁴

What will a trend in this category's financial indicators tell me?

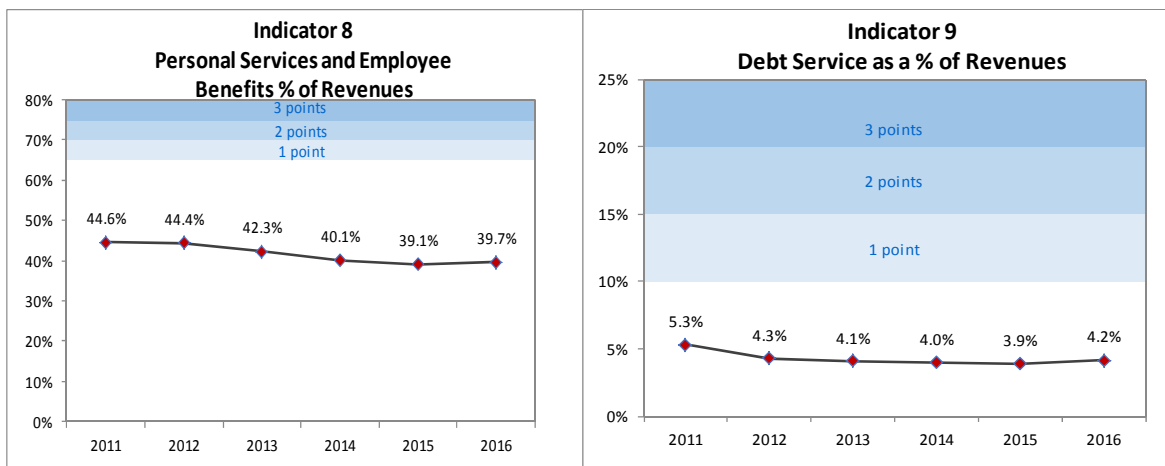
Indicators 8 and 9, respectively, "determine the amount that revenues are restricted to be used for personal services and employee benefits, [as well as] for debt service (both are of a fixed nature)."¹⁵

If Indicator 8 trends upward then personal services and employee benefits are increasing, total revenues are decreasing, or both. A downward trend indicates the opposite.

If Indicator 9 trends upward then debt services are increasing, total revenues are decreasing, or both. A downward trend demonstrates the opposite.

Fixed Costs in Ulster County

The fixed costs in Ulster County remain in a healthy position and the indicators do not forecast major upticks in the near future, as demonstrated below:



¹³ See id.

¹⁴ See id.

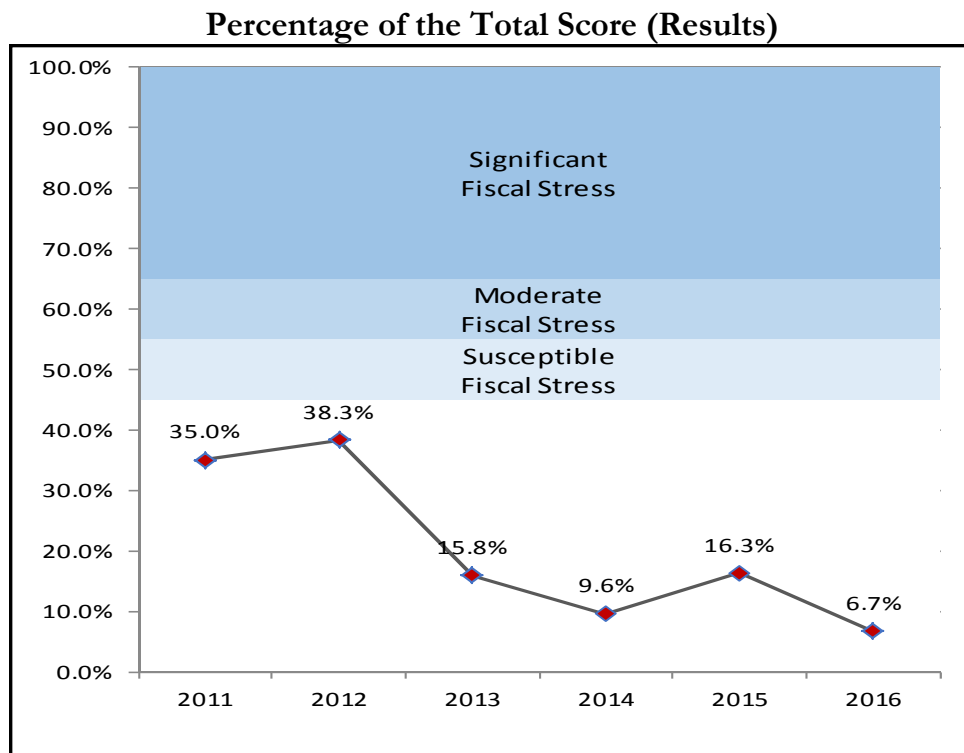
¹⁵ See id.

Total Score Results of Ulster County

This Test provides residents and administrators with an analysis regarding unique events and trends impacting the aforementioned stress factors so that long-term strategies are developed and prudent fiscal planning is continued. Taxpayers and policymakers should take comfort in knowing that Ulster County has avoided ever being categorized as operating under fiscal stress.

Since 2011, Ulster County has remained in the “No Designation” classification that covers the percentage of total stress from 0-44.9%. Due to the fact that Ulster County has remained in the “No Designation” category for so long, the more useful analysis may be to assess trends of stress factors within that “healthy” range.

The Test assists users in analyzing municipalities’ performance over time by allowing them to track trending stress conditions and develop strategic approaches to managing their operations in the long-term. The following chart shows the percentage change of the total fiscal stress score across fiscal years 2011-16 for Ulster County:



There were some notable changes from 2011 through the end of 2016. At the end of both 2011 and 2012, Ulster County was nearing the “Susceptible to Fiscal Stress” designation. However, the 2013 sale of the County owned nursing facility, Golden Hill Healthcare Center (“GHHCC”), provided a large cash infusion. The sale was coupled with a decrease in expenditures, which improved the County’s fiscal stress percentage. The additional cash received from the sale of GHHCC helped to establish a healthy fund balance and move the overall stress percentage down from 38.3% (at its highest) to 9.6% (at the end of 2014).

Deficit budgeting, which causes a reduction in fund balance, caused the percentage to rise again in 2015. Although the practice of deficit budgeting continued in 2016, the County was able to operate at a surplus for that year, which helped raise fund balance levels and reduce the fiscal stress

percentage down to 6.7%. At the close of 2016, the County was the least fiscally stressed it had been over the six-year period.

Environmental Conditions

The other portion of the Test separately analyzes environmental indicators within the community. The economic and demographic factors considered have direct and indirect impacts on the fiscal health of a governmental entity. For example, population often impacts property values, which impact tax revenue. Also, median age and poverty levels impact both the cost of services and healthcare. Therefore, it is important for municipalities to understand the ways in which these environmental factors affect fiscal health, while monitoring and addressing changes as they become apparent.

The Test results for this section utilize OSC’s information for Ulster County (labeled current as of August 31, 2016). The chart below highlights OSC’s two most recent determinations of Ulster County’s Environmental Indicators for the fiscal years of 2015 and 2016:

Ulster County Environmental Indicators	2015				2016			
	Value	Score	Weight	Weighted Percentage	Value	Score	Weight	Weighted Percentage
1 Change in Population	2.7%	0	15%	0.0%	2.7%	0	15%	0.0%
2 Change in Median Age	9.9%	0	10%	0.0%	9.9%	0	10%	0.0%
3 Median Age of Population	42	0	10%	0.0%	42	0	10%	0.0%
4 Child Poverty Rate	14.6%	0	10%	2.5%	14.6%	0	10%	2.5%
5 Change in Child Poverty Rate	0.9%	1			0.9%	1		
6 Change in Property Value (4 yr avg)	-3.8%	2	25%	8.3%	-2.7%	2	25%	8.3%
7 Property Value Per Capita	\$96,913	0			\$96,438	0		
8 Change in Unemployment Rate	-1.0	0			-2.0	0		
9 Unemployment Rate	7.8%	1	10%	3.3%	5.8%	0	10%	0.0%
10 Change in Total Jobs in County	0.2%	0			2.3%	0		
11 Reliance on State and Federal Aid	23.5%	0	10%	0.0%	24.2%	0	10%	0.0%
12 Change in State and Federal Aid	1.1%	0			2.5%	0		
13 Constitutional Tax Limit	N/A	N/A	0%	0.0%	N/A	N/A	0%	0.0%
14 Change in Sales Tax Receipts	0.2%	2	20%	13.3%	4.1%	0	20%	0.0%
Totals			100%	27.5%			100%	10.8%

Previously for 2014, OSC calculated a weighted percentage of 36.7% for Ulster County, labeling it as “Susceptible to Stress.” However, since 2014, environmental indicators have improved for two straight years. Significant improvements were made to the “Change in Unemployment Rate,” “Change in Total Jobs in County,” “Change in State and Federal Aid,” and “Change in Sales Tax Receipts.” Due to progress within these indicators, the environmental stress level for Ulster County decreased markedly in 2015 and 2016, leading OSC to classify the County as having a “No Designation” level in each of the past two years.

Conclusion

The Fiscal Stress Test is a useful tool for overseeing the performance of governments, as it proactively identifies potential areas of concern and provides policymakers and administrators with useful data to assist in the management of fiscal resources. While it was briefly characterized as “Susceptible to [Environmental] Stress,” Ulster County has the positive distinction of never being designated as operating under a fiscal stress category.

At the close of 2016, Ulster County was the most fiscally stable it has been since OSC implemented the Test. The current administration should be commended for being able to find efficiencies within deficit budgets and manage a surplus to increase the fiscal stability of the County.

Despite the County’s successes, Ulster should strive to pass budgets with true structural balance in order to maintain the current level of fiscal fortitude. If deficit budgets continue to be adopted and govern operations, the County’s fund balance will decrease and future fiscal stress may increase.