



ULSTER COUNTY
COMPTROLLER'S OFFICE
Elliott Auerbach, Comptroller

Ulster County Fiscal Stress Assessment

2nd Quarter 2016

June 30, 2016

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 financial 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 2016 focused on the Annual Risk Assessment and Audit Plan. This report focuses on implementing the New York State Office of the State Comptroller (“OSC”) Fiscal Stress Test (“Test”) to assess the stress position of the County.¹

The OSC Fiscal Stress Test and Ulster County

In recent years, the failure of municipalities across the country to reasonably anticipate or manage fiscal stress has led them to radically reduce or eliminate various public services they provide or even declare bankruptcy. “Fiscal stress,” as defined by the OSC, is the inability of an entity to generate enough revenues to meet its expenditures within the current fiscal period.

The OSC has developed a Fiscal Stress Test to evaluate an individual municipality’s level of fiscal stress. The Test has been designed as a tool to encourage preventative action in those entities that are found to be in, or nearing, fiscal stress designations.²

As part of a 2012 report, our Office was among the first in New York State to apply the OSC Test to its municipal operations. Taxpayers should take comfort in knowing that, even in these challenging economic times, Administrative leadership and Legislative oversight have allowed Ulster County to avoid ever being categorized as operating under fiscal stress.

This report seeks to highlight the healthy position of the County through the lens of this objective state test. Additionally, it should provide taxpayers, administrators, and policymakers with an analysis as to unique events and trends impacting the stress factors so that long-term strategies and prudent fiscal planning may continue to be developed in order to avoid regression. To that end, the OSC Fiscal Stress Test is described in greater detail below, applied to Ulster County data, and finally analyzed to glean perspective pertinent to fiscally responsible management.

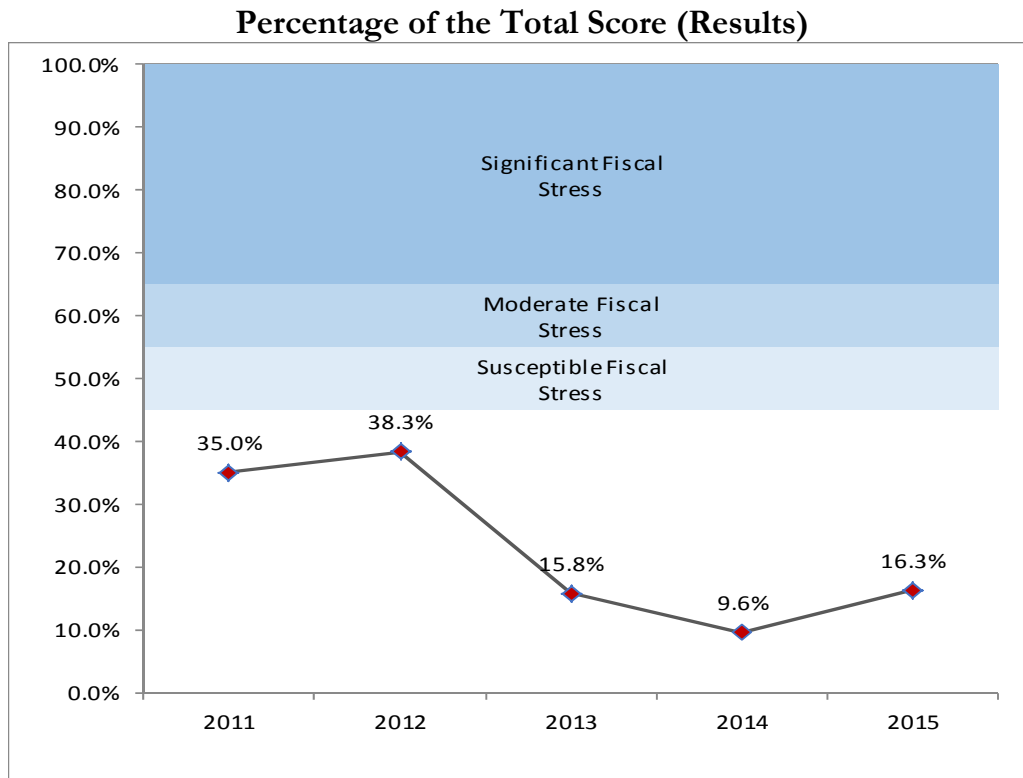
¹ The data presented herein relies upon the accuracy of Ulster County and national data available at the time of its preparation. This report is intended to inform taxpayers and local officials of general trends and Ulster’s positioning in the midst of those trends. Future reports will continue to identify 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 “Appendix A: Fiscal Stress Test Fundamentals” for more information on the OSC Fiscal Stress Test.

Applying the Test to Ulster County

Ulster County has remained in the “No Designation” classification since 2011. “No Designation” covers the percentage of total stress from 0-44.9%, which represents a wide range of results. Due to the fact that Ulster County has remained in the “No Designation” category – for which the Administration and Legislature are to be commended – the more useful analysis may be to assess trends of stress factors within that “healthy” range.

Trend analysis can be a powerful tool in analyzing a municipality’s performance over time, and it allows an entity to proactively address stress factors as they become apparent. The Test assists users by allowing them to track stress conditions over time and develop strategic approaches to managing local governments in the long-term. The following chart shows the percentage change from fiscal years 2011 through 2015 for Ulster County:

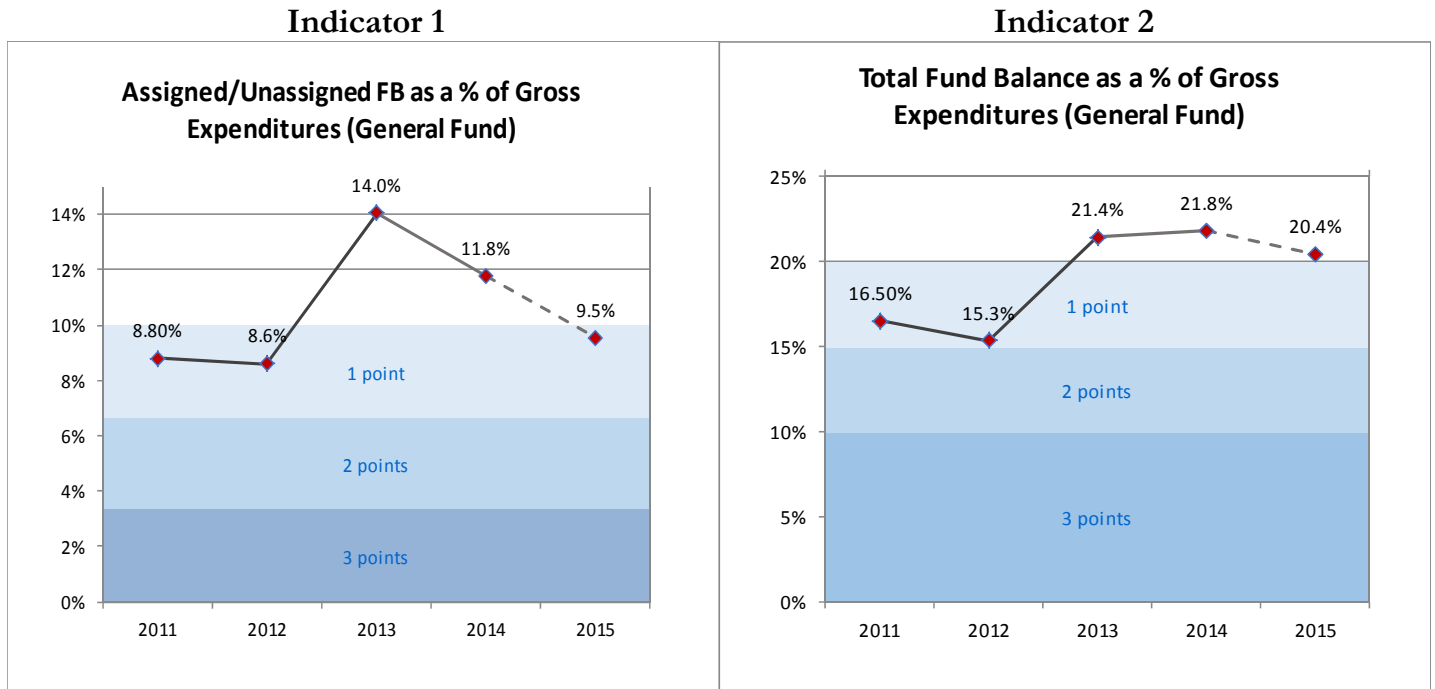


There were some notable changes from 2011 through the end of 2015. At the end of 2011 and 2012, Ulster County was nearing the “Susceptible to Fiscal Stress” designation. However, the sale of the County owned nursing facility, Golden Hill Healthcare Center (“GHHCC”), provided a large cash infusion coupled 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 percentage down from 38.3% (at its highest) to 9.6% (at the end of 2014). Deficit budgeting during 2014 and 2015 caused the percentage to rise (at the end of 2015) to 16.3%.

Fund Balance

Fund Balance is weighted the most heavily of all financial indicators in the determination of fiscal stress. As discussed in the previous section, the effects of the sale of GHHCC and the resulting increase provided to Fund Balance levels have materially improved the County's fiscal stress score.

The following charts display two indicators used in the Test that relate to Fund Balance:



The first Indicator shows the levels of Assigned and Unassigned Fund Balance as a percentage of Gross Expenditures in the General Fund. Similar to the Total Fund Balance ratio, the County received one point in both 2011 and 2012, improving the percentage in the following years. The decrease from 2014 to 2015 was due to a planned budget deficit.

The second Indicator shows Total Fund Balance as a percentage of Gross Expenditures in the General Fund. During 2011 and 2012, the County received one point based on low levels of this percentage. As Fund Balance improved in 2013 and 2014, the County received no points for this Indicator. During 2015, the County received one point for being below the ten percent mark. This one point represents 6.3% of the total 16.3% Fiscal Stress percentage for 2015.

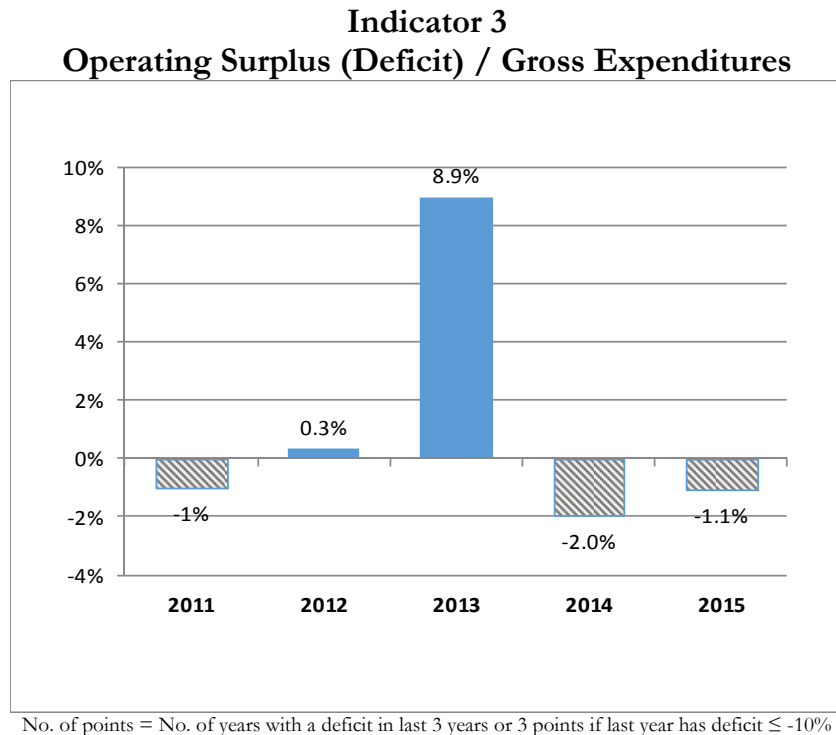
The Test also computes the above ratios using Combined Fund information, and it may award additional points if the Combined Fund calculation is less than the General Fund calculation.³ In 2014, the County received a point for the second Indicator based on this analysis. This one point represents 6.3% of the total 9.6% Fiscal Stress percentage for 2014. No additional points were received in 2015 based on this calculation.

³ As applied to Ulster County, OSC defines "Combined Funds" as the General Fund, County Road Fund, Road Machinery Fund, and the Infirmary Fund.

Operating Deficits

In 2011 and 2014, Ulster County had an operating deficit. The County received one point for each year in which a deficit occurred and received an additional point if a deficit occurred in any of the three previous years, including the year under evaluation.

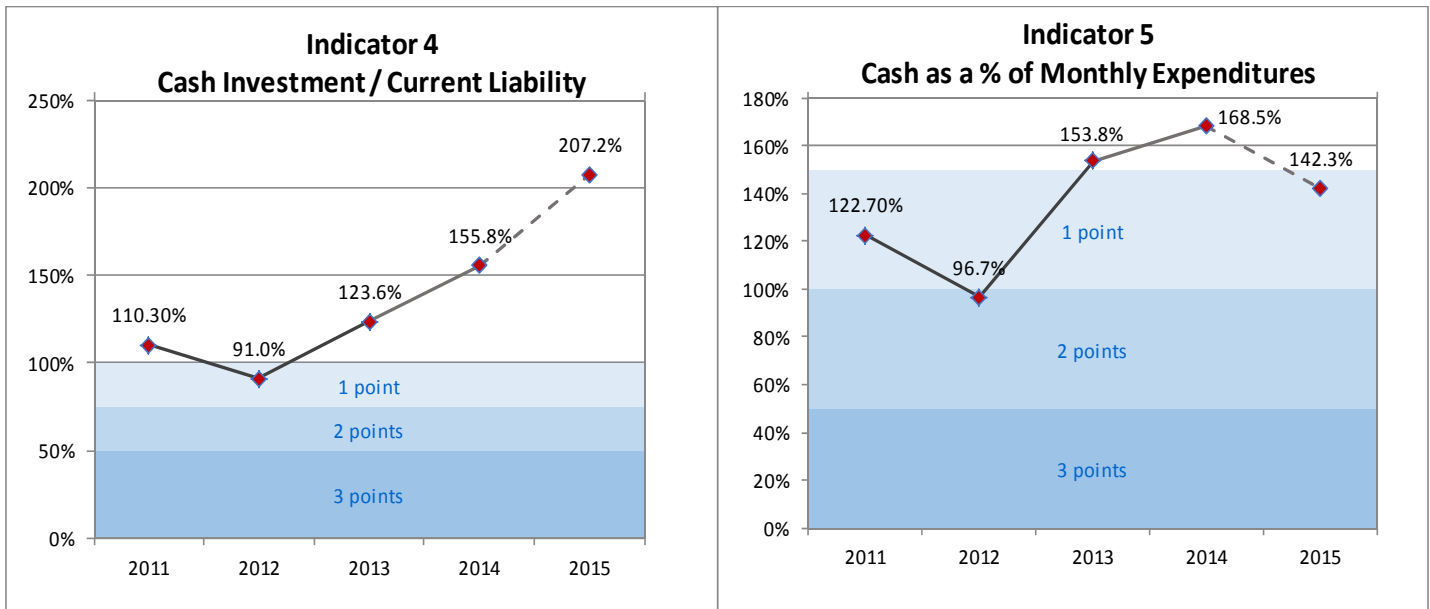
The following chart displays the operating surplus (deficit) as a percentage of gross expenditures:



In 2011, the County received two points in this category that accounted for 6.7% of the total 35% Fiscal Stress percentage. Based on this Indicator, the County received one point each year for the fiscal years 2012 through 2014. This point accounted for 3.3% of the percentage of the total score for each of those years. In 2015, the County received two points due to the budgeted deficits in both 2014 and 2015, which accounted for 6.7% of the total 16.3% Fiscal Stress percentage for 2015.

Cash Ratios

The cash ratio calculations have performed similarly to the Fund Balance ratios discussed earlier, enjoying significant improvements in recent years. These ratios are relevant to our consideration of fiscal stress because they determine whether an entity has sufficient cash on hand to fund operations. “Cash and Investments as a Percentage of Current Liabilities” is represented by the following chart on the left, and “Cash as a Percentage of Monthly Expenditures” is represented by the following chart on the right:



The first ratio, Cash Investments as a proportion of Current Liabilities, reveals that Ulster County is currently in a positive cash position. In 2012, the County was in its worst cash position of the five-year period, which was primarily caused by a low level of Cash and Investments during that year. Cash and Investments in 2014 and 2015 respectively totaled \$40.6 million and \$34.2 million. During 2015, the County Cash and Investments in the Combined Funds decreased \$6.4 million, which would anticipate a decrease in Indicator 4. However, Current Liabilities (less Taxes Receivable) in Combined Funds decreased \$9.6 million, which caused the 2015 calculation to increase to an even healthier range for this indicator.

Indicator Five is calculated as Cash and Investments in the Combined Funds as an annualized percentage of gross expenditures (including transfers out). The same cash changes that were noted in the explanation of Indicator Four affect the calculation of the Indicator Five ratio. Further, the annual expenditures decreased from their highest of \$345 million (for 2012) to \$289 million (for 2014) – or from about \$28.75 million per month (in 2012) to \$24.08 million per month (in 2014). During 2015, expenditures continued to decrease slightly to \$287.7 million, which further decreases monthly expenditures to about \$23.98 million (in 2015). The 2015 ratio dropped and caused the County to receive a point on the Test due to lower cash and investments even though spending was reduced. This one point represented 3.3% of the total 16.3% Fiscal Stress percentage for 2015.

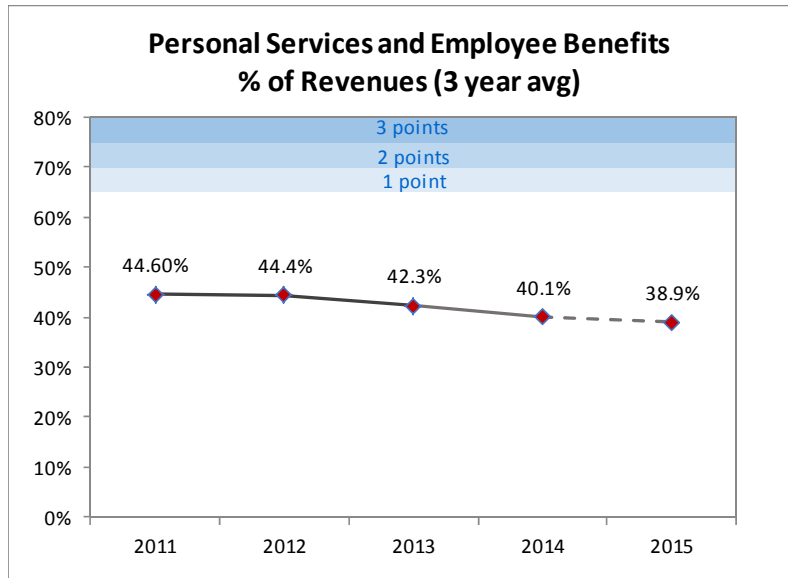
Short Term Debt

Ulster County has not utilized any forms of short term debt that are included in the Test calculation and therefore was not given any points for Indicators Six or Seven. We will forego displaying any data on these indicators, as they have no bearing on the application of the Test to Ulster County.

Personal Service & Employee Benefits

The Test uses “Personal Service and Employee Benefits as a Percentage of Revenues” to determine if revenues are sufficient to finance the recurring employee related costs of the County. The percentage chart is displayed below:

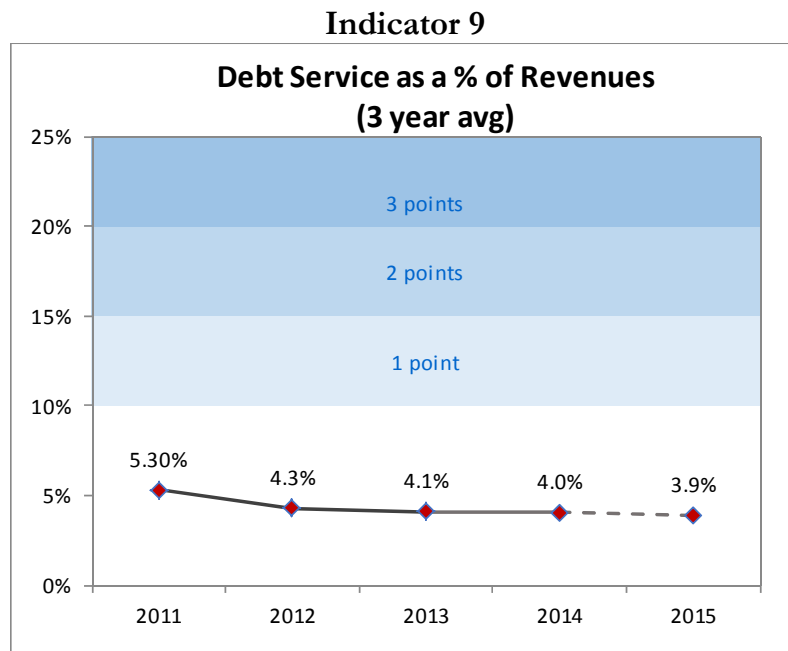
Indicator 8



The chart shows a fairly consistent percentage for this Indicator over the five years under analysis. The majority of employment and benefit costs included in the calculation is regulated by service contracts and therefore is not likely to experience significant changes.

Debt Service

The Fiscal Stress Test uses Debt Service as a percentage of revenues to determine if revenues are sufficient to finance the recurring Debt Service cost of the County. The percentage chart is displayed below:



The chart shows that Debt Service has also remained fairly consistent. The expenditures include all Debt Principal and Debt Interest payments, and the revenues include all revenues, excluding transfers in. It appears the result will remain close to the 4% range for 2016.

Environmental Conditions

Our application of the Test with respect to Environmental Conditions utilizes the OSC's information for Ulster County (labeled current as of August 31, 2015). Below is OSC's most recent determination of Ulster County's Environmental Indicators:

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

After using the data above, OSC classified Ulster County as having a “No Designation” level of environmental stress. The prior year data showed a weighted percentage of 36.7% and was calculated as “Susceptible to Stress.” Improvements in the Change of Unemployment Rate, a positive Change in Total Jobs in County, and additional State and Federal Aid highlight areas that improved since the prior year.

The economic and demographic factors considered in this analysis can have direct and indirect impacts on the fiscal health of a government. For instance, population often impacts property values, which impacts tax revenue. Also, median age and poverty levels impact both the cost of services and healthcare. Therefore, it is important for local governments to understand the ways in which these environmental factors affect fiscal health, while monitoring and addressing changes as they become apparent.

Conclusion

The Fiscal Stress Test is a useful tool for overseeing the performance of local 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.

Ulster County has not been designated as operating under a critical stress category since the implementation of the Fiscal Stress Test. However, due to deficit budgeting, we can only expect future Fiscal Stress to increase based on decreasing fund balance amounts and a reduction in the amount of cash and investments on hand.

APPENDIX A:
Fiscal Stress Test Fundamentals

The OSC Fiscal Stress Test

The OSC Fiscal Stress Test takes into consideration both financial and environmental factors in its evaluation of each municipality and assigns points to each factor according to objective criteria.¹

The financial indicators are calculated using data derived from the municipality's Annual Update Document ("AUD"), which summarizes all financial information for the municipality during a given year and is submitted annually to the OSC.

Environmental factors are calculated using a variety of sources, including data collected by the United States Census Bureau, various New York State Departments, and information contained in the AUD. The test classifies the level of stress facing a municipality based on these factors.

There are four possible levels of stress for local governments in the following order of decreasing severity: "Significant Fiscal Stress," "Moderate Fiscal Stress," "Susceptible to Fiscal Stress," and "No Designation." The "No Designation" classification means that a municipality did not generate a high enough score to be classified within one of the three critical fiscal stress categories; it does not necessarily indicate that the municipality is free from all fiscal stress.

Stress levels are determined using a point system. There is a possible total of 29 points to be given for the financial indicators and 27 points for the environmental indicators at the County level. These points are converted to a weighted average score for each portion, and a percentage total score is determined for both the financial and environmental portions. The following chart shows the four classifications of fiscal stress as outlined by the OSC and their requisite percentage thresholds for total points received on the financial indicators:

Local Government Classification of Fiscal Stress	
Percentage of Total Points	Classification of Fiscal Stress
65% -- 100%	Significant Fiscal Stress
55% -- 64.9%	Moderate Fiscal Stress
45% -- 54.9%	Susceptible to Fiscal Stress
0% -- 44.9%	No Designation

Financial Indicators

The five major categories of financial indicators are: Year-End Fund Balance, Annual Operating Deficits, Cash Position, Use of Short-Term Debt, and Fixed Costs. There are nine financial indicators within these categories. The categories and their corresponding financial indicators are outlined on the chart below:

¹ For more detailed information on the Test, please refer to the OSC publication "Fiscal Stress Monitoring System." A copy can be requested by emailing localgov@osc.state.ny.us.

Local Governmental Financial Indicators				
Category	Financial Indicator	Purpose	Max. Points	Scoring - Weighted Avg
1. Year-End Fund Balance	1. Assigned and Unassigned Fund Balance	To identify the amount of fund balance that is available in the general, special revenue, and/or enterprise funds to provide a cushion for revenue shortfalls or expenditure overruns.	4	50%
	2. Total Fund Balance	To identify the amount of fund balance that is available to be used to fund operations, provide a cushion for revenue shortfalls or expenditure overruns, and/or is reserved for specific future purposes.	4	
2. Operating Deficits	3. Operating Deficit	To identify local governments that are incurring operating deficits.	3	10%
3. Cash Position	4. Cash Ratio	To identify the ability of local governments to liquidate current liabilities.	3	20%
	5. Cash % of Monthly Expenditures	To identify the ability of local governments to fund the ensuing fiscal year's operations from available cash.	3	
4. Use of Short-Term Debt	6. Short-Term Debt Issuance	To identify the amount of short-term debt issued to meet obligations (cash flow).	3	10%
	7. Short-Term Debt Trend	To identify the trend in the issuance of short-term debt.	3	
5. Fixed Costs	8. Personal Services and Employee Benefits %	To identify the amount that revenues are restricted to be used for salaries and benefits.	3	10%
	9. Debt Service % Revenues	To identify the amount that revenues are restricted to be used for debt service expenditures.	3	

Year-End Fund Balance (YEFB) is used to identify the amount of Fund Balance that is available in the General, Special Revenue, and Enterprise Funds to provide a cushion for future revenue shortfalls or unanticipated expenditures.

Operating Deficits (OD) are negative outcomes of the municipality's recent financial operations, precipitated by government spending in excess of revenues. Multiple years of "Operating Deficits" may indicate a poorly balanced budget and is often a symptom of fiscal stress. This indicator evaluates the trend of "Operating Deficits" and determines whether the local government incurred a significant deficit in the most recent fiscal year.

Cash Position (CP) helps evaluate fiscal health by determining whether the entity has enough cash to pay bills on time. The municipality's Cash Position is a function of two considerations: (1) "Cash Ratio," which is used to evaluate the local government's ability to liquidate current liabilities; and (2) "Cash as a Percentage of Monthly Expenditures," which is used to evaluate the ability to fund the ensuing year's operations from cash.

Use of Short Term Debt (UOSTD) is any debt incurred by a municipality to finance governmental operations, whose repayment is due within one year of issuance. The municipality's Short Term Debt position can be indicative of fiscal stress, as local governments who issue short-term debt in order to meet obligations are likely to do so out of unresolved cash flow issues. The amount of the Short Term Debt financed in the previous fiscal year and the use of Short Term Debt on a trend basis are both considered in the calculation.

Fixed Costs are represented by the amount of fixed expenditures necessary to regularly operate a local government. If a government’s fixed costs associated with its “normal course of business” account for too high of a percentage of total revenues then it may have difficulty covering unanticipated costs as they arise.

Environmental Indicators

Environmental indicators are based on various economic and demographic conditions affecting local governments. They are represented by eight categories, encompassing fourteen indicators. The following chart provided by OSC describes the environmental factors used in the calculation and the relative weight of each indicator:

Local Governmental Environmental Indicators				
Category	Environmental Indicator	Purpose	Max. Points	Scoring - Weighted Avg
1. Population	1. Change in Population 1990 to 2010	To identify local governments where total population has declined over the last two decades or significantly declined over the last decade.	3	15%
2. Age	2. Change in Median Age of Population 2000 to 2010	To identify local governments where the median age of their residents has increased.	3	10%
	3. Median Age of Population 2010	To identify the median age of the residents of a local government.	1	
3. Poverty	4. Child Poverty Rate 2010	To identify the child poverty rate of the local government.	3	10%
	5. Change in Child Poverty Rate 2000 to 2010	To identify local governments where the child poverty rate has increased.	1	
4. Property Value	6. Change in Property Value	To identify local governments where property values have declined.	3	25%
	7. Property Value Per Capita	To identify the property wealth of the local government.	3	
5. Employment Base	8. Change in Unemployment Rate	To identify local governments where the unemployment rate has increased.	1	10%
	9. Unemployment Rate	To identify the unemployment rate of the local government.	1	
	10. Change in Total Jobs in County	To identify local governments that are within counties in which the total jobs in the county have declined.	1	
6. Intergovernmental Revenues	11. Reliance on State and Federal Aid	To identify the dependence of the local government on State and federal funding.	3	10%
	12. Change in State and Federal Aid	To identify local governments where State and federal aid revenues have declined.	1	
7. Constitutional Tax limit	13. Constitutional Tax Limit Exhausted	To determine the extent to which a city or village has exhausted its tax limit.	0	0%
8. Sales Tax Receipts	14. Change in Local Sales Tax Receipts	To identify counties where local sales tax receipts have declined.	3	20%

The eight environmental categories are each rated and then converted to a weighted total score, expressed as a percentage. If the County receives an overall score greater than or equal to 50% then it is considered to have unfavorable environmental conditions, as denoted by the “###” symbol. An overall score of over 40%, but less than 50%, will be considered to have environmental conditions similar to the “Moderate Stress” category of financial indicators and is denoted by the “##” symbol. A score of greater than 30%, but less than 40%, is considered to have environmental conditions comparable to the “Susceptible to Stress” category and is denoted by the “#” symbol. Any score less than 30% is classified as “No Designation” for environmental conditions.