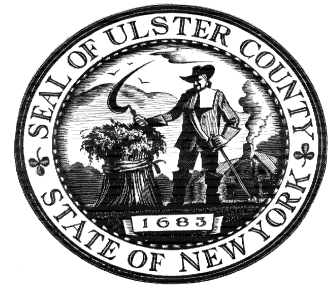


ULSTER COUNTY COMPTROLLER'S OFFICE

Elliott Auerbach, Comptroller



July 1, 2018

2018 First Quarter Financial Report

For the quarter ended March 31, 2018

Overview

This financial report will review the first quarter of 2018 (ending March 31st), including the following summaries and updates:

- Quarterly results of expenditures and revenues;
- The 2018 Budget outlook;
- Cash balances; and
- Selected national, state, and local economic indicators.

Note: To provide the most up-to-date and readily available financial data, we have used *unaudited* and *unofficial* amounts as reported within Ulster County's financial management system at the time the data was collected for the purposes of this report. Actual results may vary and are subject to change.

Expenditures

At the end of the first quarter, the County had expended approximately \$84 million from its 2018 adopted budget of \$324 million. Of the \$84 million in year-to-date expenditures and encumbrances, approximately \$18 million were attributable to capital projects. Encumbered amounts generally refer to funds that have been reserved for purchase requisitions. However, as capital projects may cross years and are often funded with long-term debt, these expenditures are not included in the annual adopted budget. For purposes of this analysis, we have separately reported and deducted these capital project totals when analyzing percentages of adopted budget amounts.

As shown in the graph below, the County spent approximately \$16.4 million on salaries ("Personal Services"), \$5 million for "Employee Benefits," \$43.7 million on "Contractual Expenses," and \$19 million on other charges such as payments between funds, capital outlays, and debt service payments. Based on the data reflected within the County's financial management system, the County expended about 20% of originally adopted budget expenditures as of 3/31/18 (after accounting for capital projects).

Expenditures by Category 3.31.18 YTD						
Category	Total YTD Encumbrances	Total YTD Transactions	Less: Cap Projects	Combined Total	Adopted Budget	% of Total Budget
Contractual Expenses	12,285,358	32,502,650	(1,113,899)	43,674,108	176,282,740	25%
Debt Service	-	(28,823)	-	(28,823)	10,647,977	0%
Employee Benefits	-	4,978,964	-	4,978,964	51,935,857	10%
Equipment & Capital Outlay	14,747,545	3,108,886	(16,918,978)	937,454	2,998,615	31%
Personal Services	-	16,374,793	-	16,374,793	81,962,334	20%
Transfers	-	1,026	(1,026)	-	-	-
Grand Totals	27,032,903	56,937,496	(18,033,903)	65,936,496	323,827,523	20%

From January 1 to March 31, the County paid over 6,000 invoices, totaling over \$44 million.¹ The largest of these payments were primarily attributed to taxes that are collected by the County on behalf of, and subsequently remitted to, local school districts. For a summary of amounts paid to vendors during this period, please see **Appendix A**.

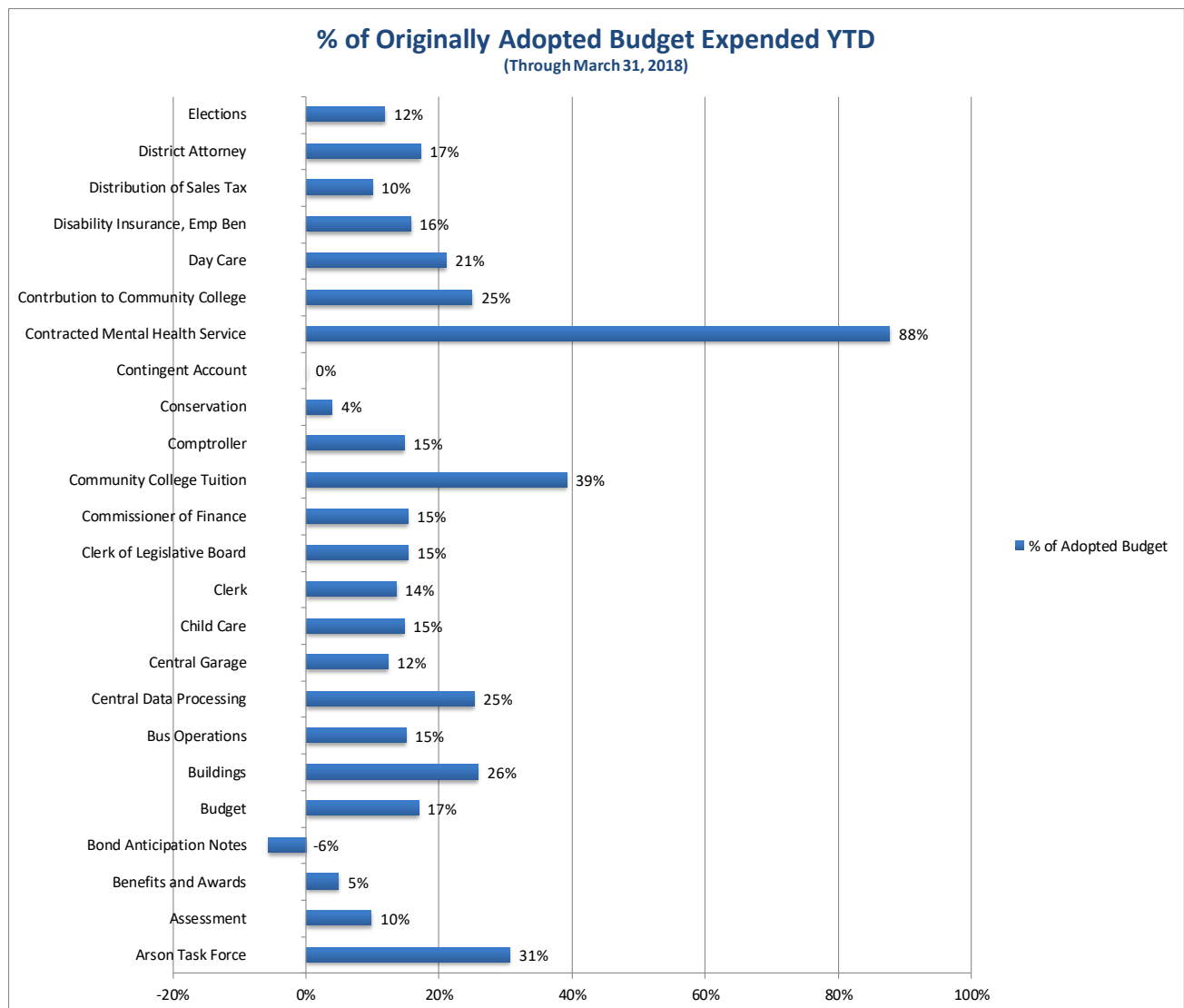
At the end of the first quarter, the County had expended approximately 26% of its budgeted expenditures, or \$84 million in encumbrances and transactions (including capital projects) of the originally adopted budget. These expenditures are in line with prior year results and expectations.

The graphs on the following pages depict the percentage of budget expended by each County “Department” from the General Fund. For the purposes of this report, the term “Department” refers to a reporting unit as classified within the County’s financial management system but may not necessarily be a stand-alone unit of government for operational purposes. For more detailed information regarding expenditures of each “Department,” please see **Appendix B**.

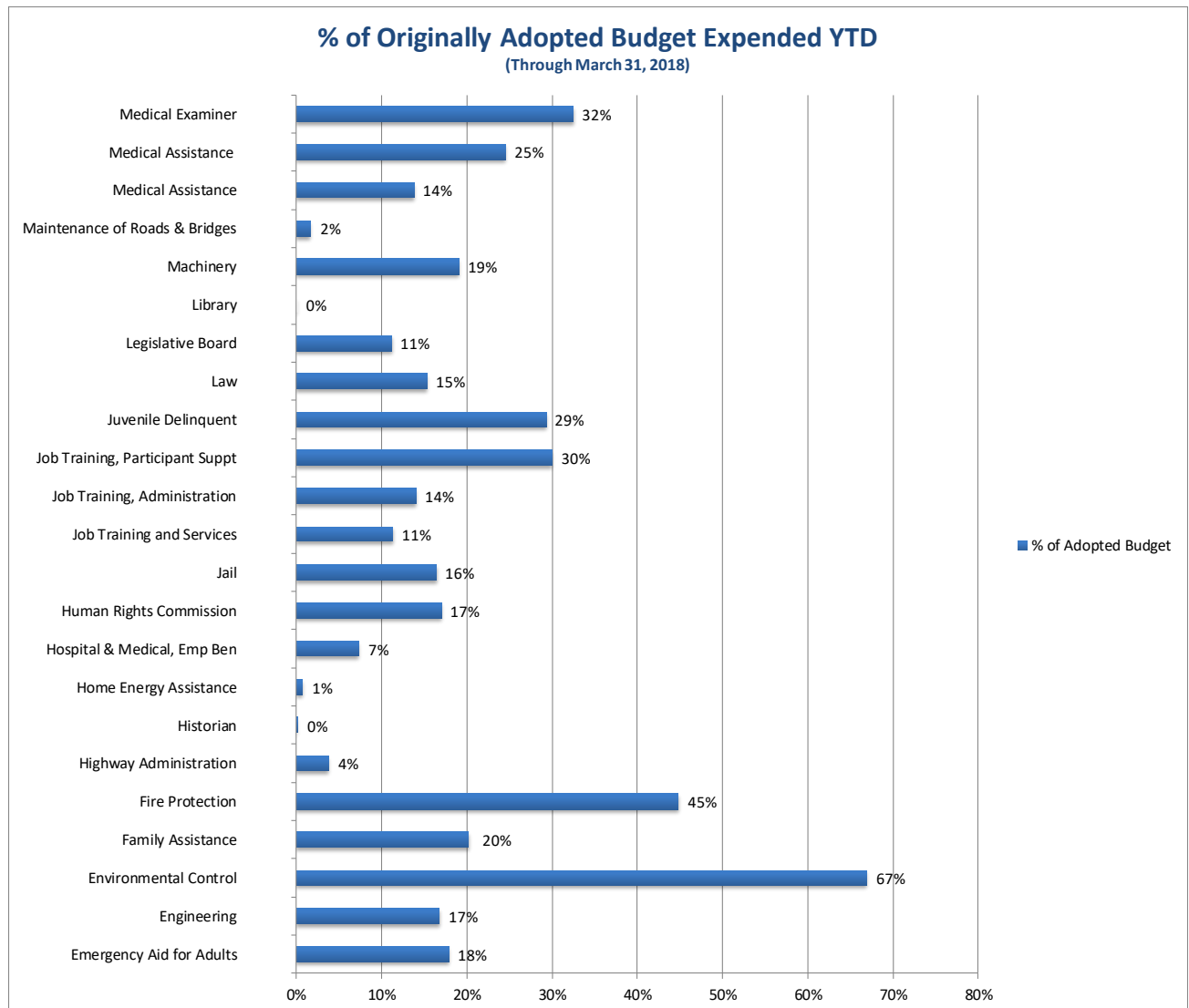
Note: For the purposes of this report, the “County Budget” reflects the original amounts found within the Adopted Budget (i.e. without amendments) and includes all operating and non-operating departmental budgets, internal service funds, enterprise funds, as well as miscellaneous budget units like Capital Projects and Debt Service. Year-to-date transaction totals are reported in addition to encumbered amounts. Preliminary financial information is presented for the purpose of analyzing whether year-to-date transactions correlate to originally adopted amounts found within the operating budget. Information is stated as it is reflected within the County’s financial management system as of the date reported, is not final, and is subject to change.

NOTE: The “Departments” reflected throughout the report reflect those reporting unites as created and maintained by the Executive’s Department, as are the same that are used in the Annual Budget Presentation. While they may not correlate to County Departmental Units, as they are generally known, we have maintained the information in this format for consistency and comparison purposes.

¹ This amount is based on actual payments made, which may not correlate to budgeted figures and may include payments made for prior year encumbrances.

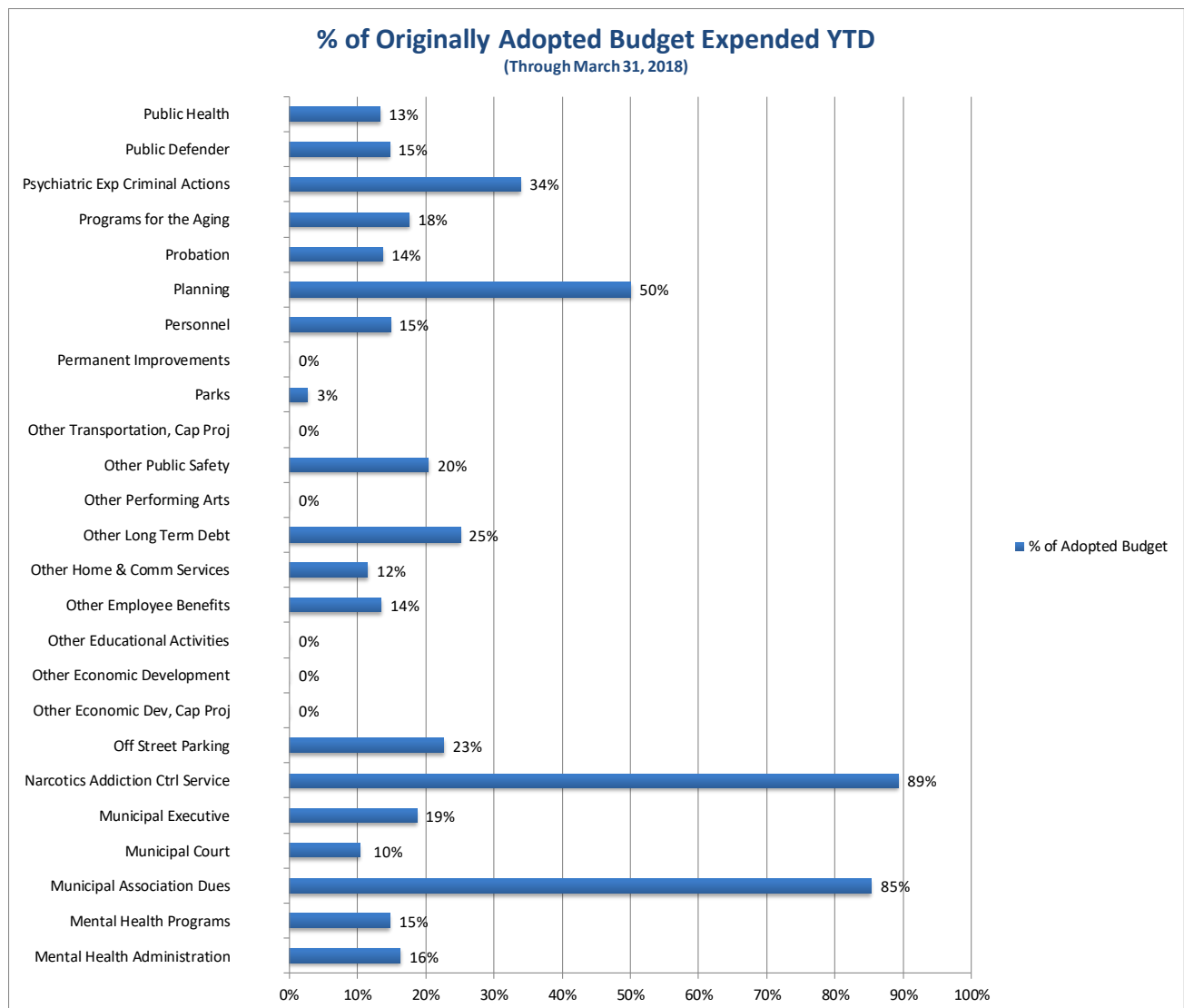


The majority of County “Departments” (as reported within the financial management system) are at or below 25% of adopted budgeted expenditures as of March 31, 2018, representing 25% of the County’s fiscal year. However, it is important to note that certain accounts do not expend monies evenly throughout the year and may fall above or below the 25% mark for a number of reasons. For example, “Community College Tuition” payments are generally paid throughout the year but tend to increase in volume during semester changes. Therefore, we would generally expect this reporting unit to have expended closer to 50% of its budget by the end of the first quarter. “Contracted Mental Health Services” on the other hand typically expends the majority of budgeted expenditures during the first quarter of the year, and 2018 results are in line with historical results and expectations.



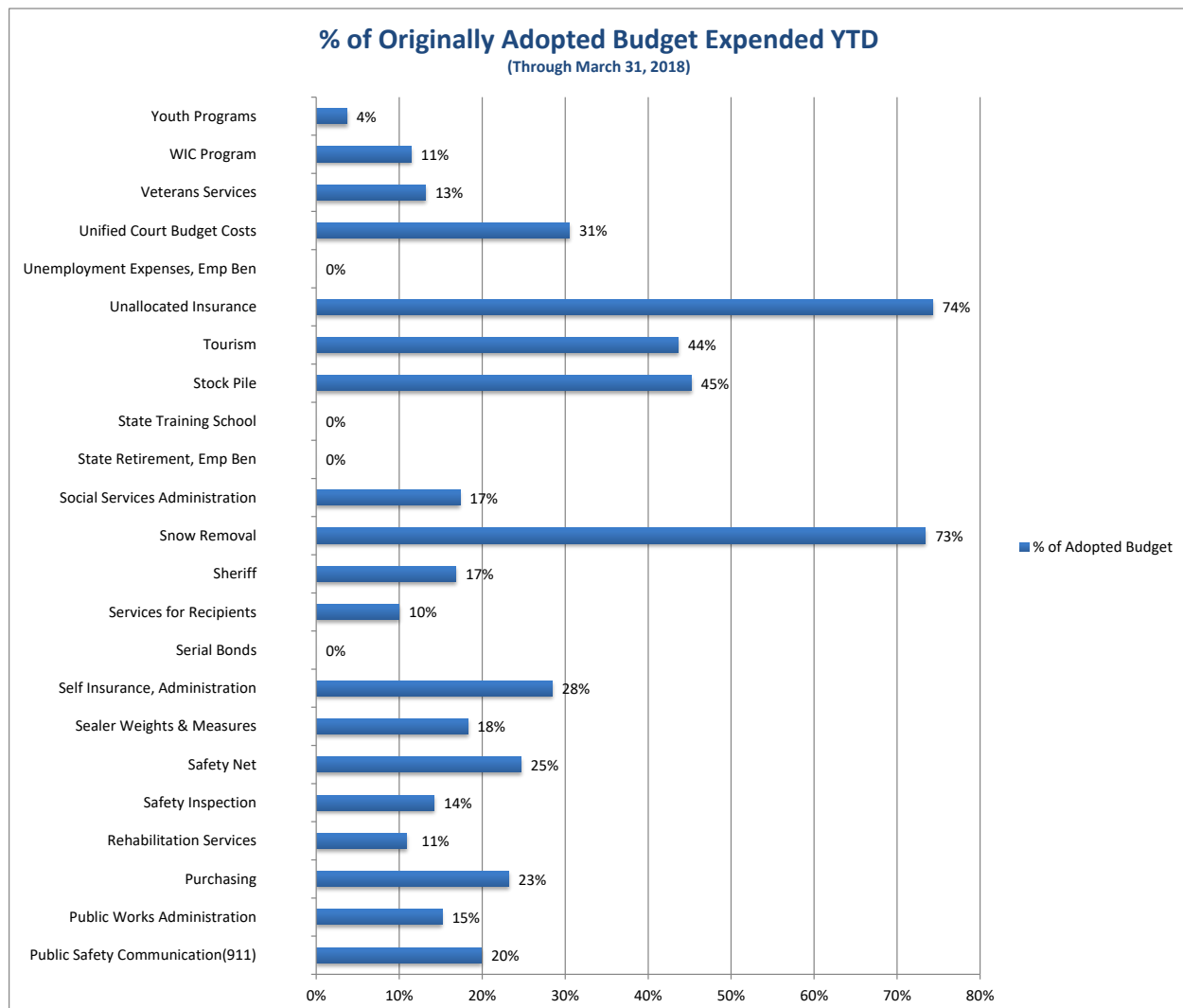
Other “Departments” also have seasonal components to spending that can be highlighted through this analysis. As another example, the “Maintenance of Roads & Bridges” shows a low level of expenditures during the first quarter of the year, which is primarily due to the fact that County road crews are unable to perform much maintenance during winter months and therefore have very low expenditures for this time period (at just 2% of adopted figures).

On the other hand, “Environmental Control” used approximately 67% of its originally adopted expenditures during the first quarter. The “Department’s” budget was increased by significant budget amendments, indicating that spending for the entire year was expected to be higher than originally anticipated. These amendments bring first quarter expenditures in line with the total budget for the year.



It is also important to note that employee benefits are not allocated to specific departments until the end of the year and have not been reflected in the figures above. Additionally, the County recently finalized rate increases for members of the Civil Service Employees Association (“CSEA”) and has begun making retroactive payments for pay increase adjustments, which affect 2017 and 2018 payroll amounts. The total retroactive pay adjustments for 2018 and 2017 wages were approximately \$450k and \$760k, respectively, for all affected employees. Adjustments for 2017 have been posted to the 2017 financial year, and 2018 payments will be reflected in the second quarter of 2018 financials.

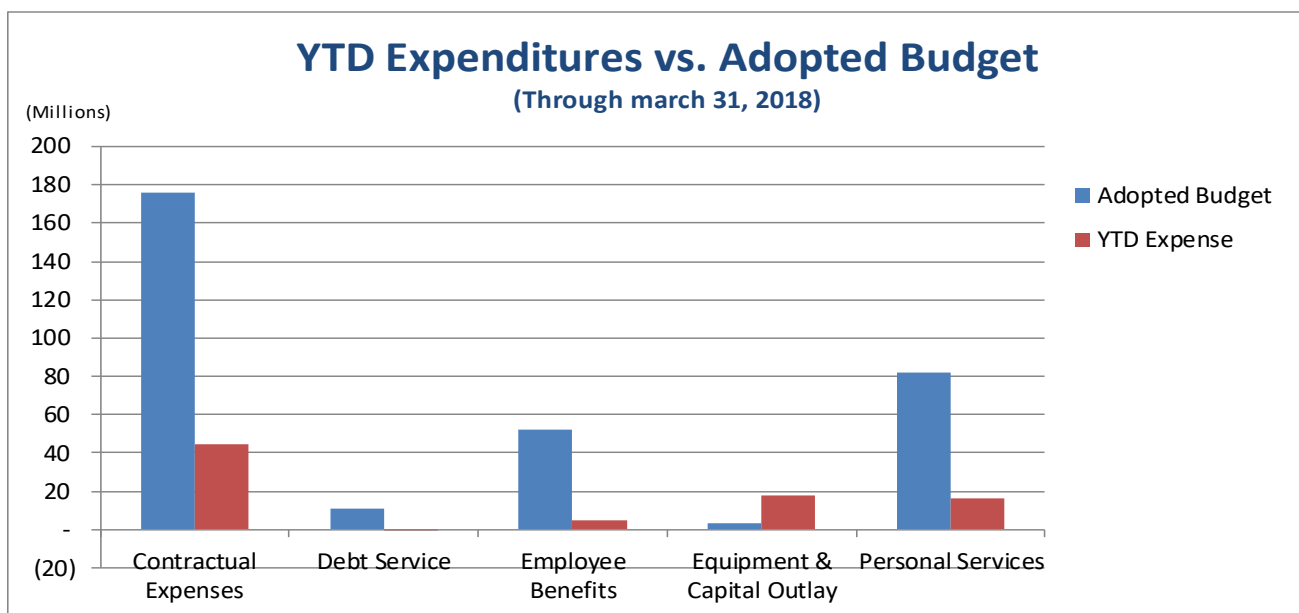
While “Maintenance of Roads & Bridges” are expected to have lower expenditures during the winter months, it is reasonable to expect that “Snow Removal” expenditures would fall at a much higher percentage of total budget by the end of the first quarter, as the majority of costs are incurred during that period.



Please see **Appendix B** of this report for more detailed information regarding each “Department” presented in the charts above, including the adopted and amended budgeted amounts and year-to-date spending information for first quarter results of both the current and prior year.

When analyzing expenditures by “Category,” we can see that “Contractual Expenses” fall in-line with expectations at approximately 25% of originally adopted amounts. “Personal Services” and “Employee Benefits” appeared to be below expected levels at 20% and 10% of adopted figures, respectively. In 2017, first quarter expended “Employee Benefits” were also at 10% of total budgeted amounts, and the County expended 95% of its total 2017 Budget for these costs by year

end. NYS retirement payments that are categorized as “Employee Benefits” costs are not made until late in the financial year, and a large portion of benefit related costs are not allocated to individual departments until later in the year, which further contributes to the deviation from expected results of 25%. As the County does not budget for “Equipment & Capital Outlay” in the same manner as the other categories of expenditures, we cannot apply the same analysis because there are no budgeted figures included in the adopted budget. Lastly, the majority of the County’s “Debt Service” payments are made in May and November based on maturity dates. Therefore, amounts expended in the first quarter are not expected to reflect 25% of budgeted amounts, and actual results are in line with expectations.



In sum, the topical review of expenditures in the first quarter of 2018 fall in line with expectations and prior year results. While there have been a number of budget amendments to reflect changes in the originally anticipated results, the County appears to be well within the adopted budget figures overall and in fiscally good standing as of the end of the first quarter.

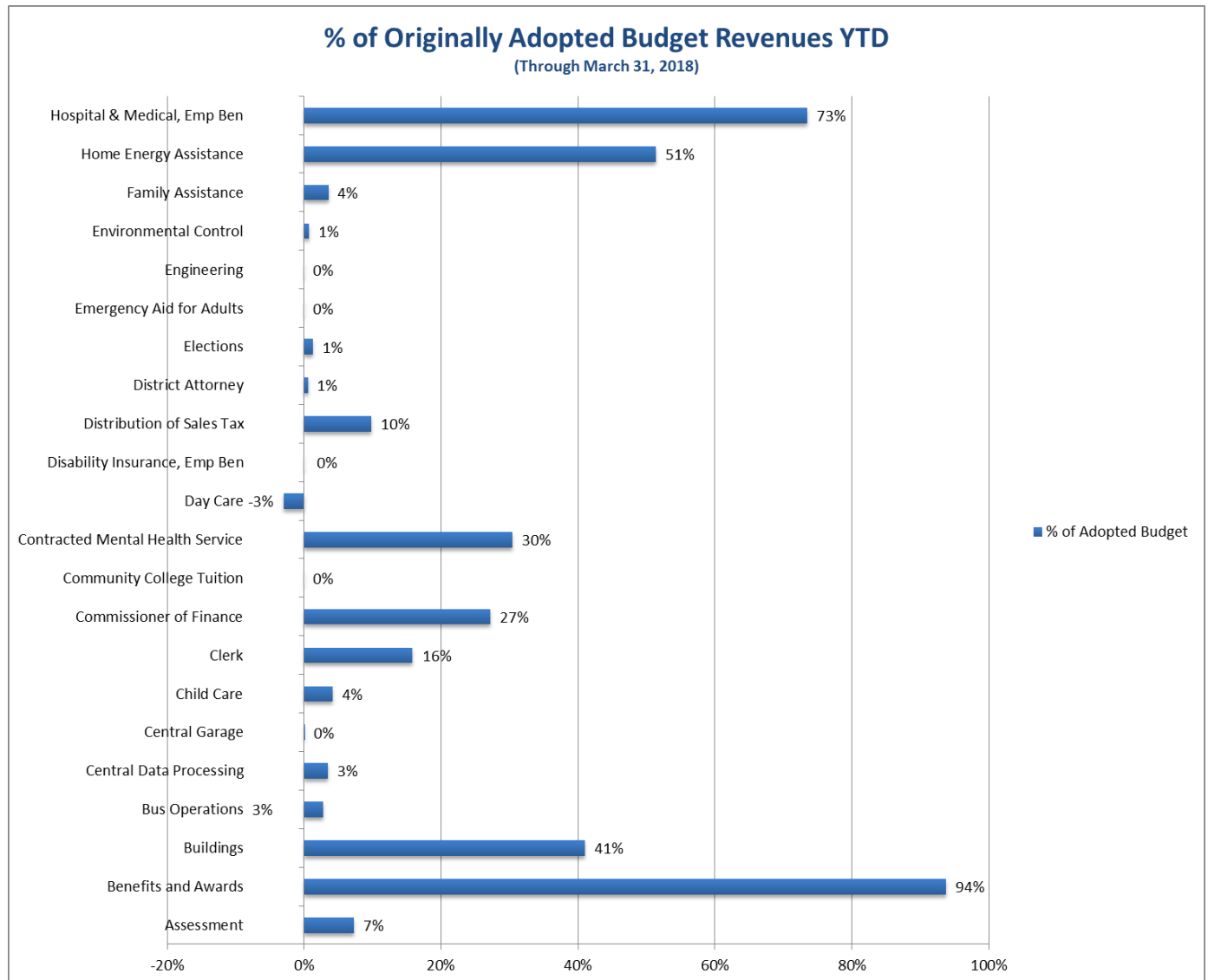
Revenues

During the same period, the County collected \$108.8 million in revenues with \$324 million total included in the adopted budget for the year. This figure includes a small amount of State, Federal, and Local Aid attributed to capital project activity that was not included in budgeted amounts. Overall, the County's year-to-date revenues as of the end of the first quarter represented approximately 33% of the originally adopted budget amount of \$324 million. One of the largest sources of revenue can be attributed to Real Property Tax collections made early in the year, representing 23% of total budgeted revenues. As of March 31, 2018, the County had recognized 100% of budgeted Real Property Tax revenues, as these payments are due in February. The following chart details the year-to-date revenues recorded and total budgeted amounts for the year:

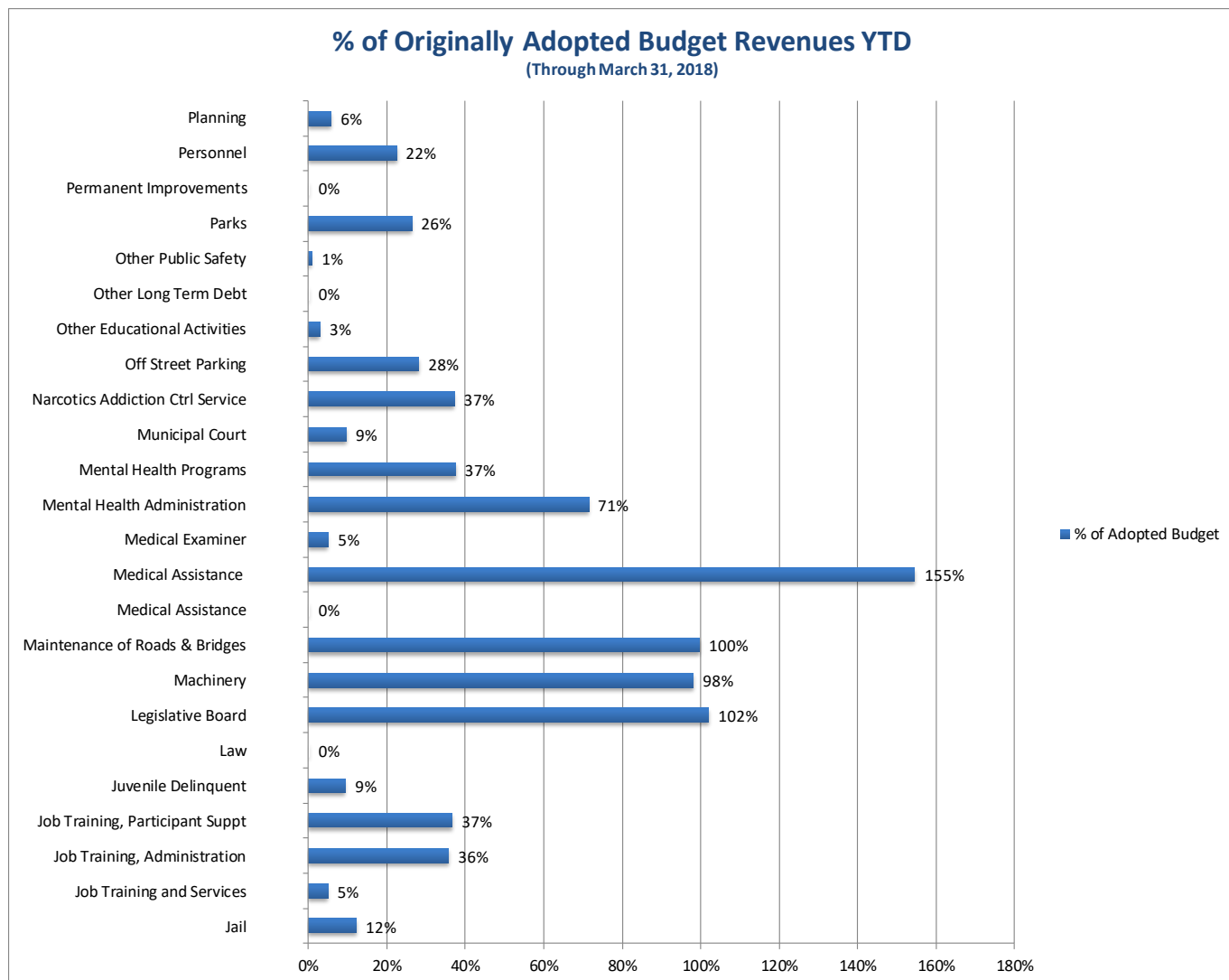
Revenues by Category 3.31.18 YTD			
Category	Total YTD Transactions	Total Adopted Budget	% of Total Adopted Budget
Departmental Income	2,078,411	9,853,697	21%
Federal Aid	521,933	35,723,360	1%
Fines and Forfeitures	87,707	527,364	17%
Interfund Revenues	3,379,270	5,361,252	63%
Interfund Transfers In	1,026	-	-
Intergovernmental Charges	6,607,101	7,416,974	89%
Miscellaneous Local Sources	246,995	1,003,600	25%
Non-Property Tax Items	12,229,234	121,063,268	10%
Other Financing Sources	-	13,009,279	0%
Proceeds of Obligations	-	-	-
Real Property Tax Items	1,985,681	5,700,000	35%
Real Property Taxes	76,700,783	75,700,783	101%
Sale of Property and Compensation for Loss	672,516	1,228,900	55%
State Aid	3,750,108	45,885,408	8%
Use of Money and Property	573,990	1,353,638	42%
Grand Total	108,834,757	323,827,523	34%

“Departmental” revenues collected by the end of the first quarter totaled approximately 21% of budgeted revenues for the year. Similar to expenditures, revenue collections may be subject to some timing differences that cause fluctuations throughout the year. For instance, due to differences in budget cycles, “State Aid” is rarely received for programs until after the state budget has been finalized in April. “Non-Property Tax Items” include a variety of tax revenues, including hotel/motel room occupancy tax, sales and use taxes, and other surcharges collected by the County. As of the end of the first quarter, the County collected about 10% of these revenues compared to adopted budget amounts, which was in line with prior year results and represents an increase in total collections from the first quarter of 2017.

The following graphs detail the amount of revenues collected versus adopted budget amounts for each “Department” indicated within the County’s financial management system. For more detailed data on “Departments,” please see **Appendix C** of this report.

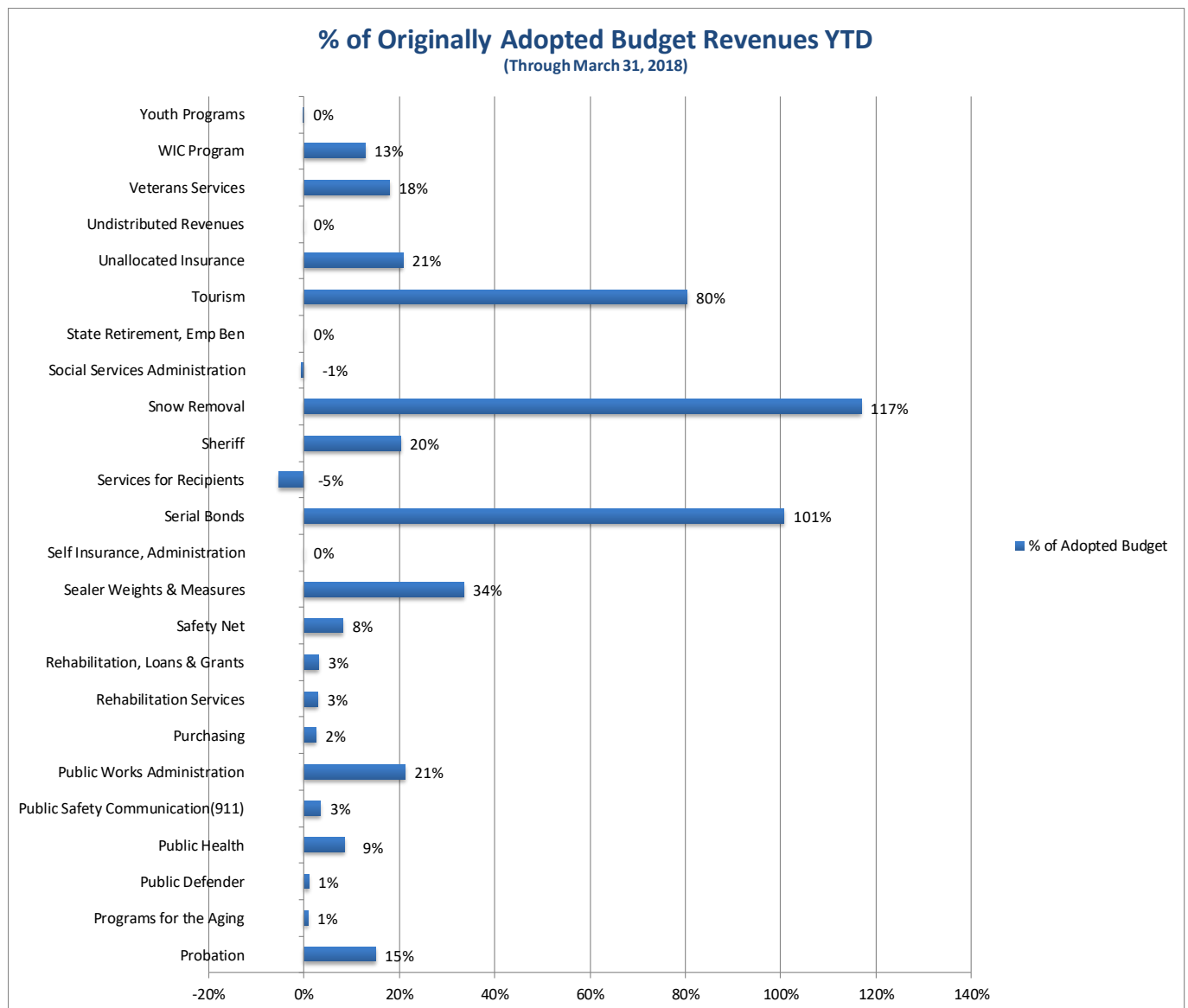


As previously mentioned, the majority of “State Aid” received by the County is not reflected in the first quarter results because monies are not received until later in the year; therefore, many of the programs that are partially supported by “State Aid” have yet to record much of the revenue budgeted. Other revenues that seem to deviate from expected year-to-date amounts are primarily due to timing differences.

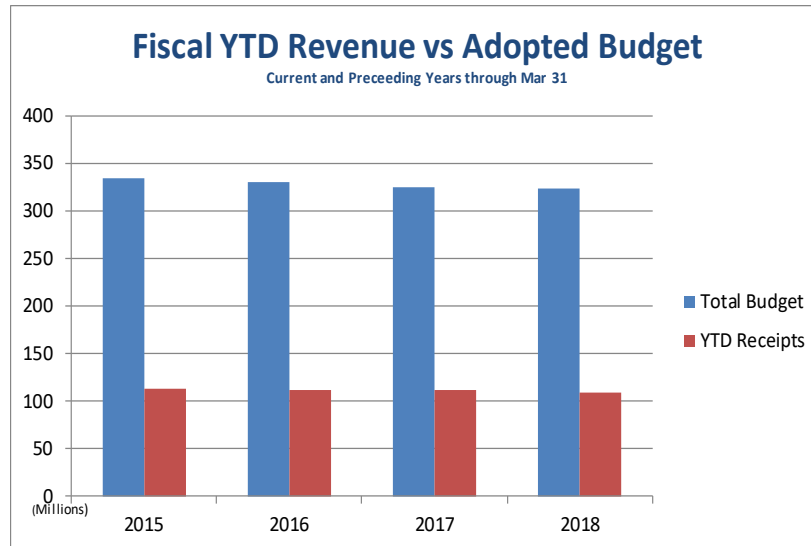


As indicated before, the County has already recognized 100% of budgeted real property tax revenues for the year. The majority of these revenues are allocated to the “Legislative Board” for reporting purposes and are offset by estimated Deferred Property Tax Revenues. The remainder of real property tax revenues are reflected within the revenues of the following “Departments”: “Maintenance of Roads and Bridges,” “Machinery,” and “Serial Bonds.”

“Medical Assistance” revenues account for repayments by recipients to the “Department.” As of the end of the first quarter, the County had collected more than 150% of the budgeted repayments for the year, which was significantly higher than last year’s first quarter results.



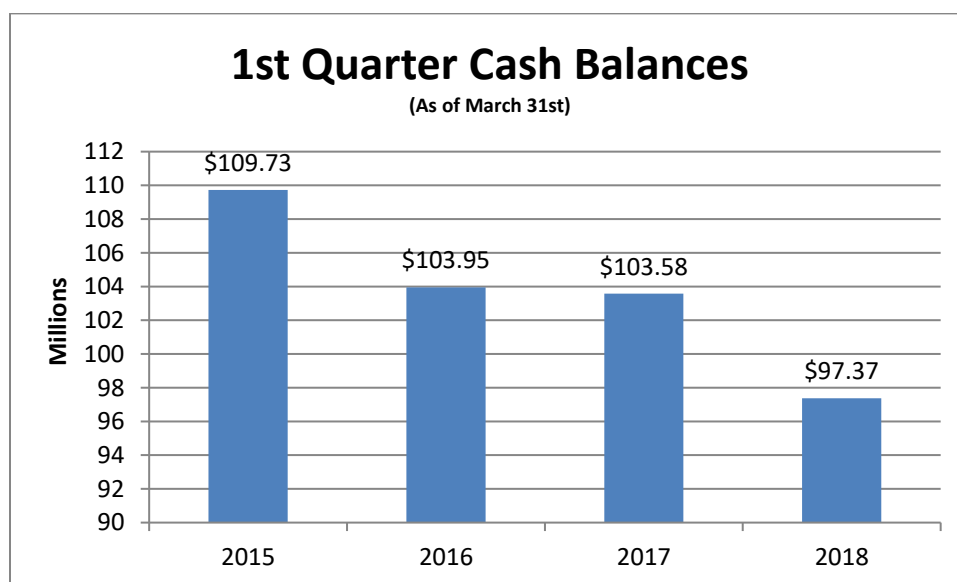
While it is common to find that timing differences may contribute to deviations from expected outcomes, the continued evaluation of actual results versus budgeted figures is an important exercise for County management. Significant and unjustified deviations from expected results should be investigated and addressed where necessary by County management and policymakers.



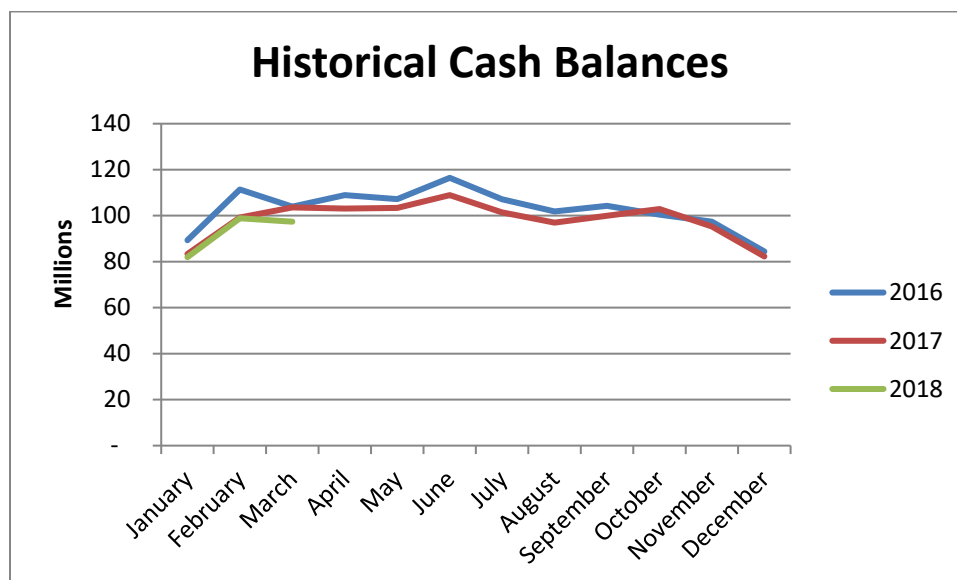
Overall, the revenues collected in the first quarter of 2018 are in line with expectations and prior year results.

Cash Balances

At the end of the first quarter, the County had its lowest cash balance of the previous three-year period at just over \$97 million. Cash balances were the highest at the end of the first quarter for 2015 at just under \$110 million, as compared to approximately \$104 million reflected in the financial records for both 2016 and 2017. As noted previously, the following amounts presented are those reflected within the County's financial management system at the time this report was drafted; amounts for 2017 and 2018 are unaudited and subject to change.



Cash balances fluctuate throughout the year, reflecting various inflows and outflows, as demonstrated in the graph below:



As shown by the preceding graph, cash balances tend to decline toward the end of the calendar year before being replenished by the first installment of property taxes that are due by the following February. First quarter cash balances in 2018 are slightly less than in previous years but appear to be following expected trends in comparison to prior years' results.

NOTE: Cash balance information is as reflected within the County's financial management system as of the date indicated and based on the system's "Balance Sheet Listing" report. Reconciled amounts are subject to change and are presented as estimates for analytical purposes. Financial amounts for 2017 and 2018 are not audited, not final, and subject to change.

Economic Outlook

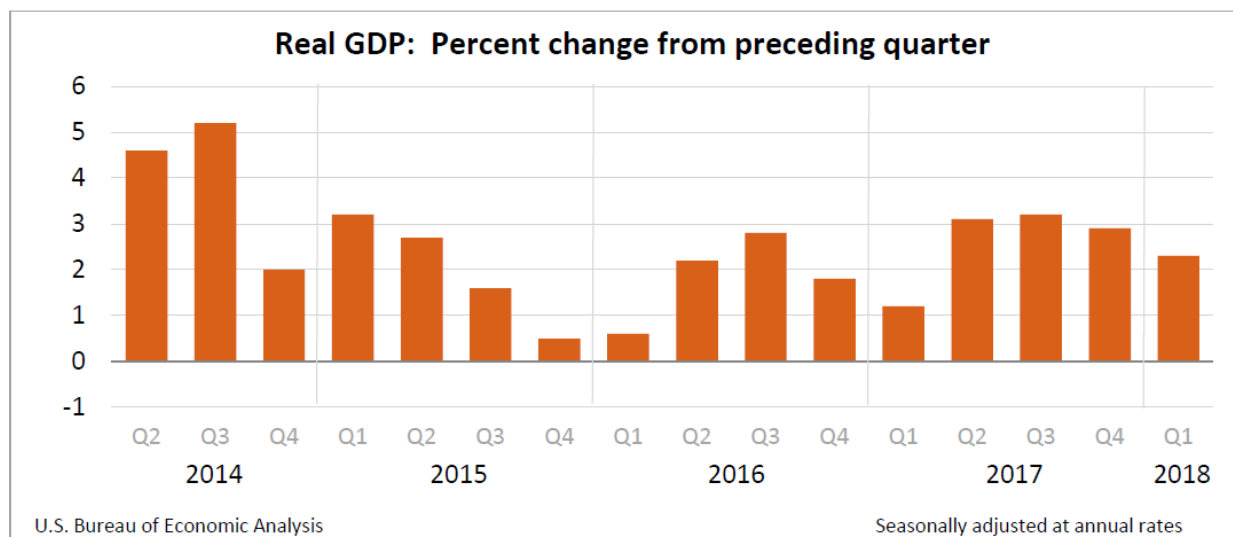
Gross Domestic Product:

U.S. Gross Domestic Product ("GDP") measures the market value of final goods and services produced within the country.² According to a report from the Bureau of Economic Analysis ("BEA"), the real GDP increased at an annual rate of 2.2% in the first quarter of 2018, compared to 2.9% in the fourth quarter of 2017.³

² See *gen* "Gross Domestic Product: An Economy's All," by Tim Callen. International Monetary Fund (updated July 29, 2017). Available at <http://www.imf.org/external/pubs/ft/fandd/basics/gdp.htm>

³ See "National Income and Product Accounts – Gross Domestic Product: First Quarter 2018 (Second Estimate); Corporate Profits: First Quarter 2018 (Preliminary Estimate)," by the United States Department of Commerce's Bureau of Economic Analysis (May 30, 2018). Available at https://www.bea.gov/newsreleases/national/gdp/2018/gdp1q18_2nd.htm

The following chart represents the %age change from the preceding quarter as reported by the U.S. BEA:⁴



Consumer Price Index:

The Consumer Price Index (“CPI”) is a measure of the average change of the prices paid by urban consumers for a “market basket” of consumer goods and services over a period in time.⁵ The CPI reflects spending patterns of consumers and is based on the expenditures of residents of urban or metropolitan areas. The CPI takes into consideration the changes in prices of goods and services, including but not limited to: food and beverage, housing, apparel, transportation, medical care, recreation, education, and communications. CPI does not include investment items, such as stocks, bonds, real estate, and life insurance.

Consumer Price Index for “All Urban Consumers” increased by 2.4 % from March 2017 to March 2018 – the largest 12-month increase since the period ending March 2017 and higher than the 1.6% average annual rate over the past 10 years. Consumer prices for food rose 1.3 % over the same period. “Food prices at home” increased by 0.4 % while prices for “food away from home” rose 2.5 %. Energy prices were 7.0 % higher in March 2018 than in March of the previous year. Consumer prices for all items less food and energy rose 2.1 % from March 2017 to March 2018, which was the largest 12-month increase since the period ending February 2017. Apparel prices were up 0.3 % from March 2017 to March 2018, but prices for new vehicles were 1.2 % lower. Consumer prices for shelter rose 3.3 % over the year.⁶

⁴ See id.

⁵ See “Consumer Price Index Frequently Asked Questions,” by the United States Department of Labor’s Bureau of Labor Statistics (last modified April 13, 2018). Available at https://www.bls.gov/cpi/questions-and-answers.htm#Question_1

⁶ See “TED: The Economics Daily – Consumer Price Index Rose 2.4 % Over The Year Ending March 2018,” by the United States Department of Labor’s Bureau of Labor Statistics (April 13, 2018). Available at

Unemployment:

The average unemployment rate for Ulster County during the first three months of 2018 was 5.3%, according to the Local Area Unemployment Statistics Program. This amount was an increase from the prior year's average of 4.6% and the prior year's first quarter results of 5.1%⁷.

Additionally, the first quarter County unemployment rate was higher than New York's as a whole, which was 5.0% for the first quarter of 2018. The NYS unemployment rate remains above that of the U.S., which was 4.1% as of December 2017.⁸

<https://www.bls.gov/opub/ted/2018/consumer-price-index-rose-2-point-4-percent-over-the-year-ending-march-2018.htm>

⁷ See *gen* Unemployment Rates of Ulster County and New York State, by the Local Area Unemployment Statistics Program of the NYS Department of Labor (received on June 22, 2018).

⁸ See "Databases, Tables & Calculators by Subject," by the United States Department of Labor's Bureau of Labor Statistics (stating unemployment rate statistics from 2008-2018). Available at <https://data.bls.gov/timeseries/LNS14000000>