



ULSTER COUNTY FUND BALANCE REPORT

Office of the
Ulster County Comptroller
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ULSTER COUNTY OFFICE OF THE COMPTROLLER

2024 Ulster County Fund Balance Report

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Executive Summary

Ulster County's repeated large budget surpluses, despite projecting deficits, suggest that budgeting since the pandemic may have been too conservative. In 2023, the County's actual results exceeded projections by \$38.3 million. Over three years, the surplus was \$136.4 million higher than planned. A surplus of this magnitude, year after year, indicates that available resources are not being utilized as effectively as they could be. The County may be missing opportunities to invest in recurring infrastructure needs, social programs, or even reduce taxes.

Fund balance is the term given to the equity accounts of the governmental funds of an entity such as Ulster County. Like the retained earnings accounts of a corporation, fund balance represents the accumulation of all years of income and loss for a specific fund at a given point in time. Under the Governmental Accounting Standards Board (GASB) Statement Number 54, fund balance is broken down into five classifications: non spendable, restricted, committed, assigned, and unassigned. Unrestricted fund balance consists of the combination of all committed, assigned, and unassigned fund balance categories.

In 2023, the Ulster County Legislature adopted a new fund balance policy. We have determined that as of December 31, 2023, the General Fund is over the policy limit by \$31,097,456. However, we note that this figure includes \$15 million in the Housing Action Fund because assigned fund balance is included in unrestricted fund balance per policy calculations.

The County Road Fund is over the policy limit by \$1,153,492, and the Road Machinery Fund is over the policy limit by \$29,878. We have developed some recommendations on how our overage in unrestricted funds could be allocated:

1. Reallocate unassigned fund balance amounts to Reserve Funds to protect the County from future financial shocks.
2. Pay callable debt. By paying down callable debt we are reducing our outstanding loans and interest expense.
3. Paying other one-time expenditures. By paying for non-recurring expenditures with fund balance rather than borrowing, the County avoids the costs of bonding and interest over time.

Fund Balance

Fund Balance is used to describe the net position of governmental funds and serve as a measure of the financial resources available in the fund.¹ The annual net 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 2023 adopted operating budget projected a \$5.6 million deficit or fund balance usage. Actual results however provided a net surplus across those governmental funds included in the operating budget of \$32.7 million for 2023, resulting in a difference between actual and budgeted amounts of over \$38.3 million.

Over a three-year period covering 2021-2023 the adopted budgets projected a total of \$23.3 million in fund balance appropriations. Actual results however over the three-year period yielded a net surplus across those governmental funds included in the operating budget of \$113.2 million.

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>

The following chart shows a breakdown of 2023 governmental fund activity by fund:

Fund	Beginning Fund Balances, 1/1/2023	Net Change in Fund Balances	Ending Fund Balances 12/31/23
General Fund	\$ 140,580,108	\$ 30,568,872	\$ 171,148,980
Special Grant Fund	282,533	(36,609)	245,924
Capital Projects	(30,661,002)	6,921,995	(23,739,007)
County Road Fund	3,834,283	1,516,487	5,350,770
Road Machinery Fund	442,095	476,150	918,245
Debt Service Fund	2,712,900	211,960	2,924,860
Total Governmental Funds	\$ 117,190,917	\$ 39,658,855	\$ 156,849,772

As can be seen above, most of the County's fund balance is in the General Fund, which is the County's main operating fund. The Capital Projects fund is made up of multiple capital projects, and it is budgeted for in the County's five-year capital improvement program rather than the operating budget. Each project has its own accounting and will ordinarily carry a negative balance, as short-term borrowing (in the form of bond anticipation notes) for capital projects is reported as a current liability rather than a revenue. As bond anticipation notes are converted to long-term bonds or paid by the general fund the capital projects fund balance deficit will decrease. Additionally, when a project reaches completion, the total project amount is either bonded, paid by the general fund, or a combination of both and the negative fund balance should be closed to a zero balance.

Based on the audited 2023 financial statements, Ulster County finished 2023 with \$102.7 million of unrestricted fund balance in the general fund. This represents \$31.1 million above the County's current policy limits, which are 20% of the subsequent year's budgeted expenditures. Similarly, the County Road Fund and the Road Machinery Fund exceeded policy limits by \$1.2 million and \$30 thousand, respectively. These are the only 3 funds covered by the County's Fund Balance Policy.

Calculation of Compliance with Policy			
Policy Provisions	General Fund	County Road Fund	Road Machinery Fund
12/31/2023 Total Fund Balance	\$ 171,148,980	\$ 5,350,770	\$ 918,245
Less: Non-spendable, Restricted portion	\$ (68,437,814)	\$ -	\$ -
12/31/2023 Unrestricted Fund Balance	\$ 102,711,166	\$ 5,350,770	\$ 918,245
2024 Operating Budget	\$ 358,068,550	\$ 20,986,391	\$ 4,441,834
Percentage of 2024 Operating Budget	<u>28.7%</u>	<u>25.5%</u>	<u>20.7%</u>
20% Unrestricted Fund Balance Allowed	71,613,710	4,197,278	888,367
Amount Over 20% Maximum Allowed by Policy	\$ 31,097,456	\$ 1,153,492	\$ 29,878

The Fund Balance Policy states that when the unrestricted fund balance exceeds the 20% ceiling, the Department of Finance will present a fund balance plan to the Legislature no later than the June Legislative Session to get back within policy limits. 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 expense caused by bonding.

Current Fund Balance Allocation in the General Fund

The following chart shows the categories of fund balance that the County has reported over the last 5 years, as well as the increases in total fund balance for each year in the General Fund:

Ulster County Fund Balance by Category - General Fund					
	2023	2022	2021	2020	2019
Nonspendable:					
Prepaid Expenditures	6,134,000	5,336,990	6,233,011	5,855,717	5,945,905
Inventory	105,352	80,670	90,489	105,262	105,204
Advances	10,605,756	4,000,000	-	-	-
Total Nonspendable:	16,845,108	9,417,660	6,323,500	5,960,979	6,051,109
Restricted:					
Tax Stabilization	10,058,520	5,999,888	1,148,359	1,146,795	2,581,059
Insurance Liabilities / Risk Retention	132,608	131,294	130,466	130,284	129,455
Future Capital Projects:					
Government Operations Center	18,000,000	-	-	-	-
Decarbonization	18,000,000	-	-	-	-
Other Capital Projects	-	-	2,450,000	2,450,000	2,700,000
Opioid Settlement	2,737,934	1,297,279	-	-	-
Other Purposes	2,663,644	2,792,048	2,651,835	2,546,989	2,227,874
Total Restricted:	51,592,706	10,220,509	6,380,660	6,274,068	7,638,388
Assigned:					
Purchases on Order (Encumbrances):	6,007,914	3,441,388	3,426,727	4,316,659	2,782,251
Planning Housing Action Plan	15,000,000	-	-	-	-
Other Purposes	591,321	635,213	631,541	368,745	319,751
For Subsequent Years Expenditures	14,694,164	5,577,697	5,926,256	5,605,782	9,717,742
Total Assigned:	36,293,399	9,654,298	9,984,524	10,291,186	12,819,744
Unassigned:	66,417,767	111,287,641	84,835,763	39,168,114	24,053,917
Total Fund Balance:	171,148,980	140,580,108	107,524,447	61,694,347	50,563,158
\$ Increase / (Decrease) from Prior Year:	30,568,872	33,055,661	45,830,100	11,131,189	(7,426,850)
% Increase / (Decrease) from Prior Year:	21.74%	30.74%	74.29%	22.01%	-12.81%

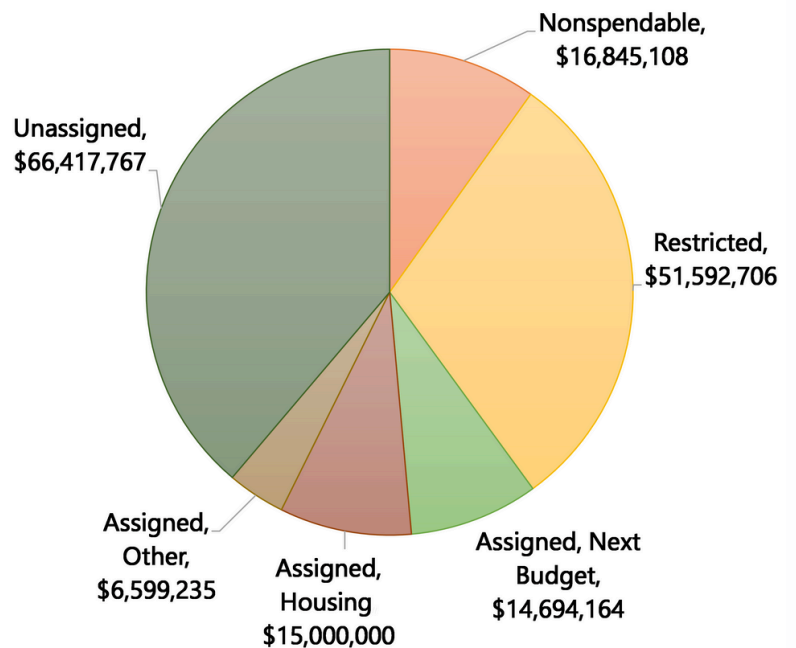
Total fund balance has increased by \$120.6 million, or 238.5% in the County's General Fund since 2019. Not all fund balance is available to offset spending in future years. Nonspendable fund balance, such as inventories and pre-paid items, are not available for budgeting purposes. Going into 2024, the County had a total fund balance of \$171.1 million in the General Fund.

Fund Balance Policy:

Since our previous report on this topic, the legislature has modified the fund balance policy by changing the desired levels of fund balance from unassigned to unrestricted fund balance, expanding the policy limits, and including the County Road Fund and the Road Machinery Fund.

In May of 2023, the Ulster County Legislature adopted Resolution 213, adopting a revised Fund Balance Policy for Ulster County. This policy designates a desired unrestricted fund balance in the general fund of 15-20% of current general fund annual operating expenditures.

12/31/23 - General Fund Balance - \$171.2 Million



Unrestricted fund balance is the total of unassigned, assigned and committed fund balances. The unrestricted general fund balance as of 12/31/2023 was \$102.7 million or 28.7% of budgeted 2024 general fund operating expenditures, which is \$31.1 million higher than the policy maximum.

The policy also creates an unrestricted fund balance ceiling of 20% in both the County Road and Road Machinery Funds. The calculation for each fund is independent of any other fund and is calculated in the same manner as the general fund. The County Road Fund exceeded policy limits by \$1.2 million and the Road Machinery Fund exceeded the policy limits by \$30 thousand.

Ulster County's Fund Balance Policy states "upon unrestricted fund balance reaching the 20% ceiling target, the Department of Finance will present to the Legislature, no later than the June Legislative Session, options for utilizing the excess... any fund balance in excess of this Policy for the County Road Fund and the Road Machinery Fund shall be used for the required purposes of said fund. It is the intent of the County to limit the use of these fund balances to address unanticipated, non-recurring needs, or unanticipated future obligations."

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

- Self-impose restrictions by creating or adding to existing reserve funds, which designates the use for a future purpose and reclassifies the fund balance as restricted.
- Pay callable debt. Paying down debt can reduce unrestricted fund balance while potentially saving on interest expenses related to maintaining debt.
- Pay for capital expenditures that would normally be bonded for with unassigned fund balance.

Since our previous report the legislature has acted to earmark fund balance with multiple resolutions to attempt to achieve a desired level of unassigned fund balance. In August 2023, the legislature passed Resolution 330 which moved \$15,000,000 from unassigned fund balance to an assigned fund balance for a housing action fund. Under the current fund balance policy, this assigned balance is still considered unrestricted fund balance for policy purposes.

In late 2023, as the 2022 financial statements were in draft form, and the legislature was aware of the excess surplus and the potential of another surplus in 2023, the legislature reallocated fund balance to reduce the unrestricted amount by creating reserve funds which are considered restricted. At the December 2023 legislative meeting several resolutions which combined to restrict approximately \$42 million were adopted, including:

- Resolution 702 created a decarbonization fund for \$18,000,000
- Resolution 364 created a capital reserve fund for \$18,000,000
- Resolution 765 increased the tax stabilization reserve fund by \$5,999,888.

Even after restricting all this unassigned fund balance, the County was still \$31.1 million over policy limits. The County had an unassigned fund balance amount of \$66.4 million, or 18.5% of the 2024 operating budget. Additionally, the county had assigned fund balance of \$36.3 million or another 10.1% of the 2024 operating budget.

The assigned fund balance includes \$15.0 million in the housing action fund, which in future years is likely to be transferred to a special revenue fund, separate from the general fund. Also included in assigned fund balance is \$14.7 million of fund balance appropriated in the 2024 budget, however based on historic trends it is unlikely the County will have actual results to match this budgetary appropriation. If the policy were to use unassigned fund balance rather than unrestricted fund balance as the metric, the County would be in compliance. That said, the current policy's use of unrestricted is in line with GFOA best practices for fund balance.

In addition to the steps already taken, the Legislature should review the reserve funds currently available and consider allocating more 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

In addition to the steps already taken, the Legislature should review the reserve funds currently available and consider allocating more 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.

Reserve Fund Type	Purpose and Relevance for Ulster County	12/31/23 Balance
Capital Reserve	The Capital Reserve Fund is used to finance all or part of the cost of construction, reconstruction or the acquisition of a capital improvement or items of equipment. Ulster County has two separate capital reserve funds, the Government Operations Center Fund and the Decarbonization Fund. Both funds have equal value of \$18 million each.	\$ 36,000,000
Contingency & Tax Stabilization Reserve	The Contingency and Tax Stabilization Reserve Fund is used to finance unanticipated revenue losses or unanticipated expenditures and to lessen projected increases in the amount of real property tax levy. Ulster County may wish to expand the Tax Stabilization Reserve Fund to prepare for future uncertain times. However, These funds can be difficult to unlock as requirements are extremely specific.	\$ 10,058,520
Insurance Reserve	The Insurance Reserve Fund can fund 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. Ulster County may wish to expand its Insurance Liabilities / Risk Retention Fund to address the future potential financial risk of litigation.	\$ 132,608
Repair Reserve	The Repair Reserve Fund is used to pay for certain repairs to capital improvements or equipment, provided these are not typical annually or in shorter intervals. Ulster County may wish to establish a Repair Fund for future expected costs such as bridges and roofs.	\$ -
Snow & Ice Removal & Road Repair Reserve	The Snow and Ice Removal and Road Repair Reserve Fund is 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. Ulster County could have used this fund to address the 2022 ice storm impacts and might establish this fund for future unexpected road repairs related to snow plow damages.	\$ -
Solid Waste Management Facility Reserve	The Solid Waste Management Facility Reserve Fund is used 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. Ulster County could consider a Solid Waste Management Facility Reserve to support the reuse innovation center proposed or other solid waste capital costs such as upgrades to the MRF or a potential landfill.	\$ -
Employee Benefit Accrued Liability Reserve	The Employee Benefit Accrued Liability Reserve is 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. Ulster County could establish an Employee Benefit Accrued Liability Reserve to address potential future early retirement incentives.	\$ -
Retirement Contribution Reserve	The Retirement Contribution Reserve is used to 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. Ulster County could contribute to a Retirement Contribution Reserve to offset future pension contribution responsibilities that may come due during more constrained financial times. Additionally, a Retirement Contribution Reserves is the most versatile reserve to transfer unexpended balances of other reserve funds.	\$ -
RESERVE FUND TOTAL		\$ 46,191,128

After funding reserves, the remaining amount above the expanded policy limit would need to be addressed. The County should perform an analysis and investigate the appropriateness of paying off callable debt. A separate analysis should be performed to determine if funding capital purchases with general fund appropriations and avoiding bonding costs and future debt service payments is appropriate.

Once the above measures have been exhausted, and pending the analysis indicates paying callable debt and/or paying for non-recurring expenditures is appropriate, the remaining unassigned amount over the policy limit should be considered for implementing tax reductions for County residents.

Debt Service Fund Balance

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.

Fund	Unappropriated, Fund Balance 12/31/23	2024 Budgeted Expenditures	% of 2024 Budgeted Expenditures
Debt Service Fund*	2,924,860	14,374,652	20.3%

The Debt Service Fund has \$2.9 million available to be appropriated in future budget years which represents 20.3% of the 2024 budgeted operating expenditures in that fund.

*The Debt Service Fund is not included in the current fund balance policy

Appendix A – Municipal Accounting Fundamentals

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 timeframe 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 such as opioid settlement funds.

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.