



ULSTER COUNTY, NEW YORK

ANALYSIS & REVIEW 2025 EXECUTIVE BUDGET



CMA
CapitalMarketsAdvisors,LLC
Strategic Consulting Group

November 6, 2024

OVERVIEW



■ **ENGAGEMENT**

- Analysis & Review of 2025 Proposed Budget

■ **CAPITAL MARKETS ADVISORS, LLC - STRATEGIC CONSULTING GROUP**

■ **WORKING TEAM**

- CMA Team Members – Margaret Guarino, Tom Vouzakis, Jack Annitto, Len Bernard and James Nytko
- County Officials – Amber Feaster and Natalie Kelder

BUDGETARY FOCAL POINTS



■ PRIMARY

- Budget Practices and Processes
- Revenues
- Expenditures
- Budgetary Variances
- Fund Balance and Reserves
- Indebtedness
- Capital Improvement Planning
- Fiscal Policies and Internal Controls

■ SECONDARY

- Department Level Analysis
- Demographic and Socioeconomic Environment

APPROACH & METHODOLOGY

(WHAT WE LOOK AT ...)



- **PHYSICAL DOCUMENTS (FINANCIAL & OPERATIONAL)**
 - Prior Year Budgets - (*The Projections*)
 - Audited and Unaudited Financial Statements – (*The Results*)
 - County Resolutions & Press Releases
 - Financial Documents of Other Governments (*Benchmarking*)
 - Documents of State and Industry Associations (*Best Practices & Forecasting*)

- **NONTANGIBLE (*THE STORY BEHIND THE INK...*)**
 - Departmental Interviews by Legislative Committees
 - Conversations with Peer Jurisdictions
 - Literature Review and Research
 - Industry Recognized Best Practices

APPROACH & METHODOLOGY

(THE PRIMARY CONSTRAINTS...)



■ ECONOMIC CONDITIONS

- Inflation
- Political Environment
- Interest Rates
- Employment Concerns (Attract & Retain)

The Forecasting Methodology Must Continue to Be Comprehensive & Multidimensional

APPROACH & METHODOLOGY

(THE TACTICS...)



- **1. TREND ANALYSIS**
 - Historic Data Provides Constructive Information To Identify Structural Imbalances and Predict Future Risks

- **2. BENCHMARK ANALYSIS**
 - Benchmarks Compare the County to its Peers

- **3. BUDGET VARIANCE ANALYSIS**
 - Identifies Trends of Forecast Accuracy

REVENUES



■ REVENUES – ECONOMIC RISK

- Revenue Risk Will Continue in the 2025 Budget.... *Why?*
- Significant & Unknown Factors Outside of the Direct Control of the County Could Impact Key 2025 Revenue Sources
- To Limit the Risk of Developing Structurally Imbalanced Finances, Revenues Should Remain as Conservative as Possible for 2025

REVENUES



■ REVENUES – SALES TAX

- Largest Source of Revenue, Consistent from 2024
- Extremely Sensitive to Economic Fluctuations
- **Using a three components approach, CMA projects that the County will collect approximately \$177.1 million in sales tax revenue in 2024. This amount is \$10.149 million more than what is in the 2024 Adopted Budget**
- *The 2025 Proposed Budget includes \$175.5 million in sales tax revenue, which seems reasonable based on the amount collected in 2023 and the projected amount to be collected in 2024. CMA does recommend, however, that the County closely monitor sales tax receipts moving forward to ensure receipts remain on-target*

REVENUES



■ REVENUES – REAL PROPERTY TAXES

- Formulation of Real Property Tax Levy
 - *In the future, the County should first budget all non-property tax revenues and all expenses and then fill the gap, as needed, with the Real property Tax Levy.*
- Trend of Stagnant Tax Levy – Consider Future Years
- Property Tax Cap
 - *Override the 2% real property tax cap even when not planning to exceed*
 - *2 Step process: 1. Pass a Resolution 2. Adopt a budget that exceeds the limit*
 - *Credit positive*

REVENUES



■ REVENUES – STATE & FEDERAL AID

- The County is Heavily Reliant Upon State/Federal Aid
- Historically - State and Federal Aid (Combined) = 27% in 2025 and 26% in 2024
- State / Federal Aid Are Not Reliable Revenue Sources in Uncertain Times
- *A line-by-line review indicates that budgeted aid in the 2025 Proposed Budget is appropriate but should be the subject of constant monitoring. As CMA stated in past budget reviews, moving forward the County needs to closely monitor State and Federal aid on a continuous basis, especially since it represents such a large portion of total revenues.*

REVENUES



■ REVENUES – HOTEL OCCUPANCY TAX

- Effective February 2024, the tax went from 2% to 4%
- *CMA believes the County should achieve its budgeted revenue projection of \$6.3 million for 2024. With a full 12 months at the new 4% rate the County should achieve the \$6.3 million contained in the 2025 Proposed Budget*

REVENUES



■ REVENUES – AMERICAN RESCUE PLAN ACT

- Obligation Deadline – December 31, 2024
- Based on the 3rd quarter project and expenditure report for 2024, the County reported approximately \$3.9 million of funds yet to be obligated.
- *With less than 2 months remaining prior to the obligation deadline of December 31, 2024, the County should confirm its plan to obligate funds meets all Federal requirement. Funds that do not satisfy obligation requirements remain subject to the possibility of recoupment / claw-back by the Federal Government.*

EXPENDITURES



■ EXPENDITURES - ECONOMIC RISK

- Compared To Revenues, Expenditures Are More Easily Controllable
- Expenditures Can Be Better Controlled To Match Revenues During 2025

EXPENDITURES



■ EXPENDITURES – HEALTH INSURANCE

- Health insurance costs for municipalities in New York State will be rising dramatically in 2025 based on most reports
- *Ulster's health insurance lines in the 2025 Executive Budget do show increases, but most of the increases are around 5% compared to what was actually spent in 2023 (during a time when net total employees has increased thus putting additional pressure on health insurance costs). Since most of the research points to double digit increases, CMA recommends that the County review insurance line budgets and the methodology used to determine increases and the amount to be budgeted in 2025.*

EXPENDITURES



■ EXPENDITURES – LINES REVIEW AND ANALYSIS

- CMA reviewed budget lines to determine if line amounts were reasonable in the 2025 Proposed Budget based on budgeted amounts in 2024 and 2025, and actual amounts in 2023
- *CMA found that, with the exception of the Health Insurance lines (discussed in the Health Insurance section), the revenue and expense lines in the 2025 Executive Budget are reasonable (two lines presented above should be reviewed as well as most Health Insurance lines that budget for 5% increases in costs at a time when most municipalities are reporting double digit percentage increases)*

EXPENDITURES



■ EXPENDITURES – RECURRING COSTS

- A continuing concern for any municipality is the creation of budget items that have specific revenue sources that are subject to change or could be cancelled in the future. New services and staff are often funded by outside aid (Federal and State) or other one-time revenues. In the case of the County the reliance on State and Federal aid is significant. In fact, State and Federal aid account for approximately 27% (\$117.2 million) of total revenues
- *The County should be vigilant in evaluating aid and financial assistance and the ability to sustain and pay for the programs and services if and when the aid ceases. Creating the possibility of unfunded, recurring costs should be avoided*

EXPENDITURES



■ EXPENDITURES – BUDGETING NEW POSITIONS

- The 2025 Proposed Budget contains a net of 18 positions (document may show 19)
- *CMA found that the new positions proposed on pages 35 and 36 of the proposed 2025 Executive Budget document are budgeted for the full fiscal year. CMA recommends the County conduct an analysis that includes the projected start dates for each position and use that projection to prorate the actual salary and benefits that will be needed to fund those positions in fiscal year 2025*

EXPENDITURES



- **EXPENDITURES – PAYROLL REDUCTION/ATTRITION SAVINGS**
 - The 2024 Budget introduced a new line item, “Payroll Reduction – Attrition Savings”, which has carried over to 2025. The line item does not provide the level of detail necessary to show what the value represents
 - *Negative expenditures are uncommon in a municipal budget*
 - *CMA recommends either two options:*
 - *Maintain the line item but include an explanation of the corresponding number of positions to be filled in the 2025 Proposed Budget.*
 - *Conversion of the negative expense number to a contingency line/account*

EXPENDITURES



■ EXPENDITURES – PAYROLL REDUCTION / ATTRITION SAVINGS

- In the 2024 Executive Budget, a new expenditure line titled “Payroll Reduction” was included for the first time. CMA pointed out in the 2024 budget review that negative expenditure lines are not common in municipal budgets
- *CMA recommends that the 2025 Proposed Budget document include an explanation of the “Payroll Reduction” line that includes the total number of budgeted and filled positions in the 2024 Adopted Budget and the corresponding total number of positions to be funded and filled in the 2025 Proposed Budget, as well as any and all information which produced the negative \$2,153,000 expense*

EXPENDITURES



■ EXPENDITURES – PURCHASE ORDERS

- *CMA found that encumbrances are being used more than in previous years. However, encumbrances should be used to the greatest extent possible to ensure more accurate and timely budget management*

EXPENDITURES



■ EXPENDITURES – USE OF CONTINGENCY

- *CMA found that the contingency line in the proposed 2025 Proposed Budget has been reduced by \$891,403 compared to the 2024 Adopted Budget, at a time when inflation is still high, when social services continue to be in great demand, when computer systems are under constant threat, and energy and power costs continue to rise. There continues to be the high potential for variances in expenses moving forward.*
- *CMA recommends the County reassess the amount budgeted for contingency to ensure that the amount is ample and adequate enough to meet the potential variances in expenses in 2025.*

EXPENDITURES



■ BUDGET TO ACTUAL VARIANCE

- Expenditures Budget Variance Findings Sharply Contrasted That of Revenues
- *Again, it is important to note the real property tax levy has been held constant for each of the past three years.*

FUND BALANCE - GENERAL



■ FUND BALANCE - UNRESTRICTED

CMA found that the County, although using a substantial amount of unrestricted fund balance to balance the 2025 budget, would stay within the surplus parameters established in the County's fund balance policy (5% to 10%). By using all the fund balance budgeted for appropriation in 2025 the County would need to either appropriate more fund balance in 2026 (potentially putting it in the position of getting closer to violate its own Fund Balance Policy revised in September 2021); or having to find more revenue sources and/or places to cut expenditures

- *CMA recommends that the County carefully review the need to appropriate \$18.4 million of fund balance in the 2025 Proposed Budget.*

DEBT– CASH FLOW



■ DEBT– CASH FLOW BORROWINGS

- The County has not issued debt for cash flow purposes in several years
- As a precaution, cash flow resolutions are annually adopted
- *Not having to issue cash flow notes is deemed a credit positive event.*

DEBT— NOVEMBER DEBT ISSUANCE



■ ISSUANCE OF DEBT

- As of the date of this Review, the County recently was in the process of issuing Bonds and Notes
- *The sale date for the issuance was October 31, 2024, with tentative closings scheduled for November 14, 2024. Since the November issuance will be sold prior to the adoption of the budget, the Legislature should confirm with the Commissioner of Finance that the debt service appropriations have been revised to reflect payments correlating to the issuance of debt in November 2024.*

CAPITAL IMPROVEMENT PLAN



■ LAGGING CAPITAL PROJECTS

- Concerns about projects not being completed in a timely manner. CMA recommends the implementation of the following:
 - *Establishment of a Capital Plan/Project Committee*
 - *Reaffirm all funding sources*
 - *Establish the position of Capital Project Manager*

CONCLUSION



- The findings and initiatives identified in the 2025 Review will assist the County to develop sustainable financial operations.
- Mid-year report.
- Ongoing dialogue.
- Throughout the Review, we have made several recommendations that CMA believes the County should further consider for implementation.

THANK YOU



QUESTIONS