



ULSTER COUNTY, NEW YORK

ANALYSIS & REVIEW 2022 EXECUTIVE BUDGET



CMA
Capital Markets Advisors, LLC
Strategic Consulting Group

November 4, 2021

OVERVIEW



- **ENGAGEMENT**
 - Analysis & Review Of 2022 Proposed Budget

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

- **WORKING TEAM**
 - CMA Team Members – Margaret Guarino, Tom Vouzakis, Len Bernard and James Nyko
 - County Officials – Amber Feaster and Natalie Kelder

BUDGETARY FOCAL POINTS



■ PRIMARY

- Status of Prior Recommendations (Review of 2021 Executive Budget)
- Budget Practices and Processes
- Revenues
- Expenditures
- Budgetary Variances
- Fund Balance
- Indebtedness and Capital Improvement Planning
- Efficiency Strategies

■ SECONDARY

- Department Level Operations
- 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...*)**
 - Targeted Departmental Interviews
 - *To Fully Understand the Budget, You Must Understand the Operation(s) and What's Driving the Decision-Making Process*
 - Conversations with Peer Jurisdictions
 - Literature Review and Research

APPROACH & METHODOLOGY

(THE PRIMARY CONSTRAINTS...)



■ **THE COVID-19 PANDEMIC**

- Continued Complications, Such as Supply Chain Disruptions
- Risk of Resurgence Remains a Possibility in 2022 - *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 & Predict Future Risks

■ 2. BENCHMARK ANALYSIS

- Benchmarks Compare the County to its Peers

■ 3. BUDGET VARIANCE ANALYSIS

- Identifies Trends of Forecast Accuracy

REVENUES



■ REVENUES - COVID-19 RISK

- Revenue Risk Will Continue in the 2022 Budget.... *Why?*
- Significant & Unknown Factors Outside of the Direct Control of the County Could Impact Key 2022 Revenue Sources
- Opportunity - American Rescue Plan Act of 2021
- To Limit the Risk of Developing Structurally Imbalanced Finances, Revenues Should Remain as Conservative as Possible for 2022

REVENUES



■ REVENUES – SALES TAX

- Largest Source of Revenue, Large Increase for 2022
- **10 Year Actual Average % Sales Tax to Governmental Funds = 35.5%**
- **2022 Proposed Budget % Sales Tax to Governmental Funds = 41.3%**
- Extremely Sensitive to Economic Fluctuations
- *CMA cautions the County that the projection of \$143,000,000 for sales tax revenue in the 2022 Proposed Budget is too high based on the County's historic receipts.*

REVENUES



■ REVENUES – REAL PROPERTY TAXES

- State Imposed Real Property Tax Cap
 - *As a Credit Strategy, The County Should Consider Passing a Local Law Authorizing The Tax Cap To Be Exceeded, Even Though It Most Probably Will Not Be*
- The County Is Responsible For Uncollected Taxes To Certain Jurisdictions
 - *A Levy Below The 2% Tax Cap Appears To Be Both Conservative & Appropriate For 2022*

REVENUES



■ REVENUES – STATE & FEDERAL AID

- The County is Heavily Reliant Upon State/Federal Aid
- Historically - State and Federal Aid (Combined) = 25% to 30% of Total Revenues
- State / Federal Aid Are Not Reliable Revenue Sources in Uncertain Times
- *The Projection for State/Federal Aid in the 2022 Proposed Budget was Deemed to be Appropriate as They Were Generally Level or Reduced*

REVENUES



■ REVENUES – HOTEL OCCUPANCY TAX

- Comparatively Low – Most Counties Are Double The County’s Rate
- Individuals Subject To This Tax Would Mostly Reside Outside The County - An Increase Would Have A Negligible Negative Impact On County Residents
- *Hotel/Motel Occupancy Tax Should Be Increased To Match Other New York Counties (from 2% to 4-4.5% - Generating an Additional \$2+ Million of Recurring Revenue)*

REVENUES



■ REVENUES – DEPARTMENT REVENUES

- A Resurgence Of COVID-19 Could Impact Several Departmental Charges & Fees – Thus, Risk Is Present
- 2022 Proposed Revenue For This Source Exceeds the Average for Prior Years
- *To Be Conservative, Departmental Revenues Should More Closely Match Prior Years*

EXPENDITURES



■ EXPENDITURES - COVID-19 RISK

- Compared To Revenues, Expenditures Are More Easily Controllable
- Expenditures Can Be Strategically Increased To Match Revenues During 2022

EXPENDITURES



■ EXPENDITURES – GENERAL PERSONNEL FINDING

- *Using a conservative 50% of salaries to calculate future benefit costs, the estimated expense for benefits for the 59 positions is \$1,767,103, bringing the total estimate for salaries plus benefits for the 59 positions to \$5,301,309 for the first year, with contractual increases in future years.*
- *The County should carefully review the creation of the 59 positions with the goal being to only fund those positions that are deemed essential.*

EXPENDITURES



■ EXPENDITURES – GENERAL PERSONNEL FINDING

- *The County must account for the terms of the recently settled labor contract with the CSEA. 2021 Seems to be appropriately funded, year-to-date. The County Executive notes that no funds have been budgeted for the settlements of the contract.*
- *Ignoring the impact of employee contract settlements essentially builds a deficit into the budget.*

EXPENDITURES



■ EXPENDITURES – OVERTIME

- Many overtime lines in the County’s budgets over the last several years needed budget amendments and/or have expenditures well above the original budgeted amounts.
- *CMA recommends that the overtime budget lines identified in Exhibit EXP-VI be evaluated and considered for adjustment in the 2022 Proposed Budget*
- *Also, the County should review all the overtime lines to determine if there are any others that might require adjustments based on knowledge not readily attainable from a review of budget reports alone.*

EXPENDITURES



■ EXPENDITURES – PURCHASE ORDERS

- The GFOA recommends purchasing cards as an efficient alternative to purchase orders for smaller and high-volume purchases.
- *The County should review its use of POs and encumbrances to ensure that budgeted funds are used for intended purposes and that budget lines are not overspent. See Exhibit EXP-VII for additional detail.*

EXPENDITURES



■ BUDGET TO ACTUAL VARIANCE

- Expenditures Budget Variance Findings Sharply Contrasted That of Revenues
- *Although A Small Annual Variance Would Be Appropriate, The Disproportionate Positive Expenditure Variances Are Suggestive Of Excessive Padding In The Budget.*

FUND BALANCE - GENERAL



■ FUND BALANCE

- Assuming the County's 2021 year-end projection for fund balance in the General Fund is accurate, by appropriating \$4,714,738 fund balance as called for in the 2022 Proposed Budget, the County's General Fund balance could possibly dip below the GFOA best practice minimum standard.
- *CMA therefore recommends that the County consider using less appropriated fund balance from the General Fund in the 2022 Proposed Budget*
- *The County's Fund Balance Policy, Which Was Recently Adopted In September, Should Be Re-evaluated To Address The Budgetary Appropriation Of Fund Balance During Challenging Economic Times*

DEBT– POLICY



■ DEBT – POLICY RECOMMENDATION

- As Of October 25, 2021, The County’s Net Indebtedness Was Approximately \$102.3 Million
- Despite This Debt, County Officials Advised There Is No Formalized Fund Balance Policy In Place
- *Sound Debt & Transparent Debt Management Practices Will Be Critical To Ensuring The Long-term Financial Success Of The County. The Development & Adoption Of Debt Management Policy Is Recommended.*

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

■ UPCOMING ISSUANCE OF DEBT

- As of the Date of this Review, the County was in the Process of Issuing Bonds and Notes
- *The tentative sale date for the issuance is November 4, 2021, with tentative closings scheduled for November 17, 2021. 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 and November of 2021.*

CAPITAL IMPROVEMENT PLAN



■ CIP– BOND ANTICIPATION NOTES (“BAN”)

- Summaries In The 2022 Capital Improvement Plan Exclude Funding Details
- *Over the period 2017 to 2021, spending estimates in the Capital Improvement Program have been relatively stable. By comparison, the Proposed Capital Improvement Program for 2022 shows an increase of approximately 53.24% compared to 2021.*

AMERICAN RESCUE PLAN ACT



- Under the ARPA, the County's allocation of funding was determined by formula. In accordance with the prescribed formula, the County's allocation of ARPA funding is \$34,491,474.
- Funding is subject to the requirements specified in the US Treasury's Interim Final Rule

AMERICAN RESCUE PLAN ACT



- *We caution the County, the inappropriate use of ARPA funds on ineligible projects or costs could result in claw-backs by the US Treasury. A claw-back of ARPA funds would have a direct and material negative impact on the County's finances. As such, with respect to its allocation of ARPA fund, it will be important for the County to:*
 1. *Develop a more comprehensive of the US Treasury's Interim Final Rule;*
 2. *Continually monitor how revenues have been and will continue to be affected by the pandemic-induced economic downturn;*
 3. *Avoid funding costs or projects that include long-term financial commitments and;*
 4. *Plan for the best and most strategic long-term use of its ARPA allocation.*

CONCLUSION



- The findings and initiatives identified in the 2022 Review will assist the County to develop sustainable financial operations.
- If key recommendation, as detailed in this Review, were to be initiated by the County, CMA believes the net tax impact to be in the range of \$3.5 million.

THANK YOU



QUESTIONS