ULSTER COUNTY, NEW YORK

ANALYSIS & REVIEW
2023 EXECUTIVE BUDGET

CMA
CapitalMarketsAdvisors,LLC
Strategic Consulting Group

November 2, 2022

OVERVIEW

- **ENGAGEMENT**
  - Analysis & Review Of 2023 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**
  - Status of Prior Recommendations (Review of 2021 & 2022 Executive Budgets)
  - 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…)

- **ECONOMIC CONDITIONS**
  - Forecasted Recession
  - Rising Interest Rates
  - Continued Supply Chain Disruptions
  - Forecasted Unemployment Increase

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 – ECONOMIC RISK

- Revenue Risk Will Continue in the 2023 Budget…. *Why?*
- Significant & Unknown Factors Outside of the Direct Control of the County Could Impact Key 2023 Revenue Sources
- To Limit the Risk of Developing Structurally Imbalanced Finances, Revenues Should Remain as Conservative as Possible for 2023

Revenues

▪ Revenues – Sales Tax

- Largest Source of Revenue, Large Increase from 2022
- Extremely Sensitive to Economic Fluctuations
- **Assuming the County does not experience reductions in the fourth quarter of 2022 compared to 2021, and collects the same amount as 2021, the County should end 2022 with about $163.8 million in sales tax collection for 2022**
- *CMA cautions the County of the projection of $167 million for sales tax revenue in the 2023 Proposed Budget in light of current economic forecasts. The County should consider projecting sales tax at a level not above what will be collected this year*

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 Likely Will Not*
- The County Is Responsible For Uncollected Taxes To Certain Jurisdictions
  - *A Levy Below The 2% Tax Cap Appears To Be Both Conservative & Appropriate For 2023*

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 2023 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

  - *Because of the possibility of a recession, higher unemployment, and high interest rates that impact credit charges, there is a certain level of expectation that the hospitality industry could be negatively impacted moving forward into 2023. CMA recommends that the County evaluate and consider current year occupancy tax receipts until a final decision is required to finalize the 2023 budget to ensure 2022 fourth quarter receipts are not trending downward. By doing this, the County can potentially avoid overestimating this revenue item for 2023. The rate remains comparatively low and should still be reviewed.*

Revenues

- **Revenues – Department Revenues**
  - Economic Recession Could Impact Several Departmental Charges & Fees – Thus, Risk Is Present
  - Most departments have accounted for this.
  - *CMA has concluded that the County has been careful and conservative in developing departmental income projections*

EXPENDITURES

EXPENDITURES - ECONOMIC RISK

- Compared To Revenues, Expenditures Are More Easily Controllable
- Expenditures Can Be Strategically Increased To Match Revenues During 2023

EXPENDITURES

- **EXPENDITURES – AGGREGATE DEPARTMENTAL SPENDING**
  - *Overall, departmental spending in the aggregate was found to be conservative. For example, the Commissioner of Finance total spending proposal for 2023 is the same $2.7 million it was in 2022.*

EXPENDITURES

▪ EXPENDITURES – FUEL & POWER

- *Fuel - Overall, the 2023 Proposed Budget properly accounts for auto fuel costs.*

- *Power - Some lines for larger buildings are expected to see substantial increases, but other lines show no increase or actual decreases (see Below)*

Department	2022 Budget	Proposed 2023	% Difference
Records Mgmt. Bldg.	$70,000	$75,000	7.14%
Veterans House Bldg.	7,500	9,000	20.00
Law Enforcement Center	450,000	505,000	12.22
South Manor Info. Center	75,000	50,000	-33.33
DPW Quarry and Substations	120,000	120,000	0.00
Mental Health Bldg.	85,000	85,000	0.00

EXPENDITURES

- **EXPENDITURES – EXPENSE LINE**
  - *Overall, CMA believes the 2023 Proposed Budget does take into consideration current and predicted economic conditions in budgeting expense lines. However, there are some lines for auto fuel, gas/electric, and cleaning supplies that should be reviewed to ensure that they are fully funded to meet the cost demands of higher prices that the economy has already experienced and could continue to experience moving forward into 2023. An additional review of expense lines, especially those most effected by current inflation and higher costs, is recommended.*

EXPENDITURES

- **EXPENDITURES – PERSONNEL INCREASES**
    - *The 2023 Proposed Budget's proposed increase in personnel appears appropriate to deal with public demand for services, including demand related to a recessionary economic environment with potential job loss. CMA recommends that the County review these positions as they are created and filled to ensure they are adequate to address issues that might arise related to unemployment and the effects of recession.*

Expenditures

- **Expenditures – Non-Union Management Positions**
  - *The State provides flexibility to reclassify positions. Nevertheless, the County could improve controls relating to changes made to non-union management positions. Practices relating to these changes should be reviewed and internal controls should be developed.*

EXPENDITURES

- ## EXPENDITURES – PURCHASE ORDERS
  - *CMA's review of encumbrance use in monitoring and administering the 2022 adopted/amended budget indicates that purchase orders and encumbrances could be used more often and improve the budget monitoring process by (as UC-Irvine states) "avoiding budget overspending by showing open commitments as part of projected expenses." Use of encumbrances remains important for the remainder of 2022 and moving forward in administering the 2023 County budget, especially in a period of uncertain economic conditions*

Purchase Order and Encumbrance Use in the Current 2022 Budget Year - Budget Performance Report - 9/30/22*

2022 Adopted Expense Budget	2022 Amended Expense Budget**	2022 Year-to-Date Encumbrances	2022 year-to-Date Transactions	Pct. of Amended Bud. Lines Encumbered	Pct. of Bu Lines w Encumbran
$352,988,745	$468,575,669	$14,277,358	$223,823,475	3.05%	1(

*Source: Ulster County Report - Budget Report, Fiscal Year To Date 9/30/22 - Include Rollup Account and Rollup to Object

** Includes amending budget lines for ARPA projects and other capital projects; and of the approximate 2,500 expense lines about 250 have encumbrances

Expenditures

- **Expenditures – Workers' Compensation**
  - *As a result of pending State legislation, workers' compensation should be monitored closely and, if signed into law before the adoption of the Budget, should be amended accordingly.*

EXPENDITURES

- **EXPENDITURES – CONTINGENCY PLAN**
  - *In light of revenues and expenditures being negatively impacted by a recession during 2023, a contingency plan or a budget strategy to prioritize expenses and reduce the budget as necessary based on explicit criteria if needed is recommended.*

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**

  - *Despite recent revisions to the County's Fund Balance Policy, the document lacks guidelines relating to unrestricted funds. The adoption of a policy that includes both unassigned and unrestricted fund balance guidelines is recommended.*

  - *As per GFOA best practices, "in some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed."*

FUND BALANCE - GENERAL

- **TAX STABILIZATION RESERVE**
  - *In light of the forecasted economic turbulence, the large surplus funds would be best suited for deposit into the tax stabilization reserve. This will assist the County to hedge against volatility in its primary source of revenue, sales tax, which by all accounts will be impacted during 2023. This is the approach other counties in New York State have taken.*

DEBT– POLICY

- **DEBT – POLICY RECOMMENDATION**

  - As Of October 25, 2022, The County's Net Indebtedness Was Approximately $113.6 Million

  - Despite This Debt, County Officials Advised There Is No Formalized Debt Management Policy In Place (*Although Development is in Process*)

  - *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 if Issuing Bonds and Notes

  - *The tentative sale date for the issuance is November 3, 2022, with tentative closings scheduled for November 16, 2022. 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 2022.*

CAPITAL IMPROVEMENT PLAN

- **CIP– BOND ANTICIPATION NOTES ("BAN")**
  - Summaries In The 2023 Capital Improvement Plan Exclude Funding Details
  - *Over the period 2018 to 2023, inclusive, spending estimates in the Capital Improvement Program have been relatively stable. By comparison, the Proposed Capital Improvement Program for 2023 shows an increase of approximately 13.9% compared to 2021 and nearly 100% since 2018.*

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.

- *The County should utilize the prescribed U.S. Treasury formula to calculate its 2021 revenue replacement. This would increase the flexibility of uses and streamline future reporting requirements.*

CONCLUSION

- The findings and initiatives identified in the 2023 Review will assist the County to develop sustainable financial operations.

- If key recommendations, 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