ULSTER COUNTY
COMPTROLLER'S OFFICE

Elliott Auerbach, Comptroller

April 1 - June 30, 2014

2nd Quarter 2014

The mission of the Ulster County Comptroller's Office is to serve as an independent agency of the people and to protect the public interest by monitoring County government and to assess and report on the degree to which its operation is economical, efficient and its financial condition sound.

Comptroller's Quarterly Reports

The Ulster County Charter § C-57(I) charges the Office of the Ulster County Comptroller with submitting reports on the financial condition, efficiency, and management of the County's finances, at least quarterly, to the County Legislature and Executive, and posting those reports on the County website. In furtherance of this charge, our Office regularly produces reports and audits which reflect upon the County's financial condition and the efficiency of its management, with the goal of informing Ulster taxpayers as to the issues which impact the expenditure of their tax dollars. All of our Office's reports and audits are posted on our website at youreyesonulster.com.

Notwithstanding the regularity of such reports throughout the year, it is our Office's practice to produce a Quarterly Report which highlights particular financial issues or reports on timely topics impacting taxpayers. This month's focus is on widely recognized financial indicators pertinent to Ulster County.

Revenue Indicators

Revenue Indicators provide insight into a municipality's ability to have "service-level solvency." Some key factors when considering these indicators are flexibility, growth, elasticity, dependability, diversity and administration. These factors outline how well a government is able to change its financial standing using the funds available, increase its operating capacity, adjust to changes in the economic landscape, support the community it governs, generate revenue from various sources, and manage its budget.

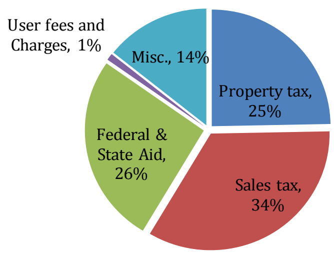
The change in the revenue structure over the past five years indicates whether some revenue sources are growing faster than others, if the revenue burden is shifting from one segment of the population to another, and if the growth in the rates of some revenues have not been keeping pace with others **(Table 1)**.

Table 1: Change in Significant Revenue Sources over a 5 Year Period

Revenue Source	2007	2008	2009	2010	2011	2012	5 year Delta ($)	5 year Delta (%)
Property tax	$ 71,021,015	$ 74,444,999	$ 75,730,451	$ 80,210,518	$ 78,848,343	$ 84,757,051	$13,736,036	19%
Sales tax	97,322,733	98,941,156	90,966,778	96,799,073	100,922,906	103,582,388	6,259,655	6%
Federal & State aid	75,315,635	79,499,000	86,112,163	83,648,628	80,229,265	93,366,413	18,050,778	24%
User fees and charges	2,745,402	2,649,285	2,451,997	2,754,393	2,779,509	2,881,007	135,605	5%
Miscellaneous	41,059,622	40,684,768	43,720,120	38,351,106	40,277,237	46,826,384	5,766,762	14%
Total Revenues	$287,464,407	$296,219,208	$298,981,509	$301,763,718	$303,057,260	$331,413,243	$43,948,836	

While the charts shown below demonstrate that the revenue structure (ie. The ratio of revenue sources) has not changed over the past five years, the revenues from these sources have significantly increased. Property Taxes have increased 19% or approximately $13.7 million, Federal and State Aid have increased 24%, or about $18 million, and the other sources of revenue, including sales tax, licenses, permits, fines, penalties and fees, have increased a total of 25% or $12.2 million.

12/31/2007



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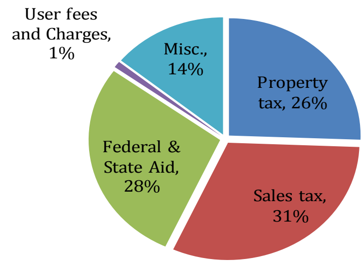


Revenue Per Capita

The amount of gross income which a municipality generates is an important factor in measuring its capabilities. Revenue per capita provides a more microeconomic view of the ability of the government to serve its people. Since this revenue is "per capita", it is easy to compare the abilities of two or more municipalities in providing services for its citizens, as it is done by measuring the funds available for each person, no matter the population of the municipality.

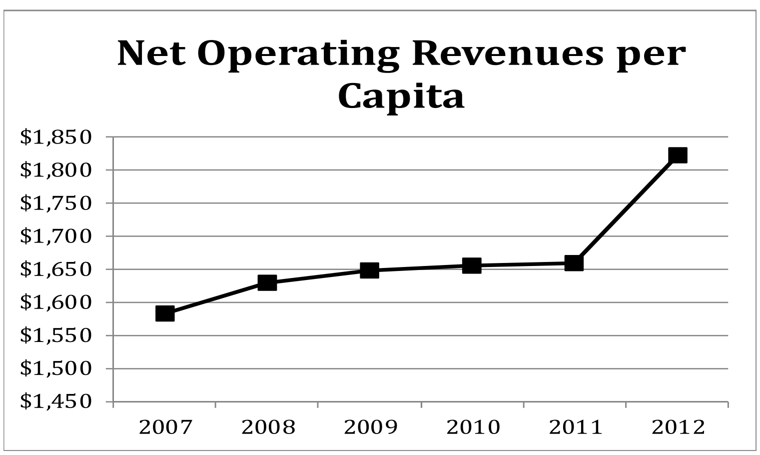
Higher revenue per capita indicates a higher standard of living, as it shows that the government has more funds available per person to provide services. More funds should result in an increase in quantity and/or quality of services. A municipality with higher revenue per capita may be able, for instance, to buy more equipment for its Department of Public Works, preserve or add staff to agencies in need of personnel to deliver services, or fund new infrastructure projects. At the same time, a municipality with high revenue per capita may have a higher tax rate than other municipalities. The services delivered by government and the value the individual taxpayer places on those services will determine whether that taxpayer views higher revenues per capita positively or negatively.

People may establish thresholds beyond which they are not willing to pay for services. High or increasing per capita revenue indicates a high or increasing level of service, which often comes at a higher cost to taxpayers. This could signal a need for the government to change policy regarding the structure of revenue sources. Taxpayers must realize that while lower revenue per capita may indicate a lower tax rate, it can also indicate a lowered standard in the level of services that can be provided. Increasing revenue per capita could also be a result of a population decrease that has not yet been accounted for, and vice versa. All indicators are balanced against each other to create a picture of the overall financial condition analysis.

Table 2: Net Operating Revenues per Capita over a 5 Year Period

Description	Fiscal year data						
	2007	2008	2009	2010	2011	2012	2013
Net Operating Revenues	$ 287,464,407	$ 296,219,208	$ 298,981,509	$ 301,763,718	$ 303,057,260	$ 331,413,243	Data not yet available
Population or other measure[1]	181,530	181,722	181,440	182,395	182,582	181,791	Data not yet available
Net operating revenues per capita	**$ 1,583.56**	**$ 1,630.07**	**$ 1,647.83**	**$ 1,654.45**	**$ 1,659.84**	**$ 1,823.05**	**Data not yet available**

[1]Information retrieved from:
https://www.google.com/search?q=ulster+county&oq=ulster+county&aqs=chrome..69i57j0l5.1588j0j7&sourceid=chrome&es_sm=0&ie=UTF-8#q=ulster+county+population&stick=H4sIAAAAAAAAAGOovnz8BQMDgxMHnxCHfq6-

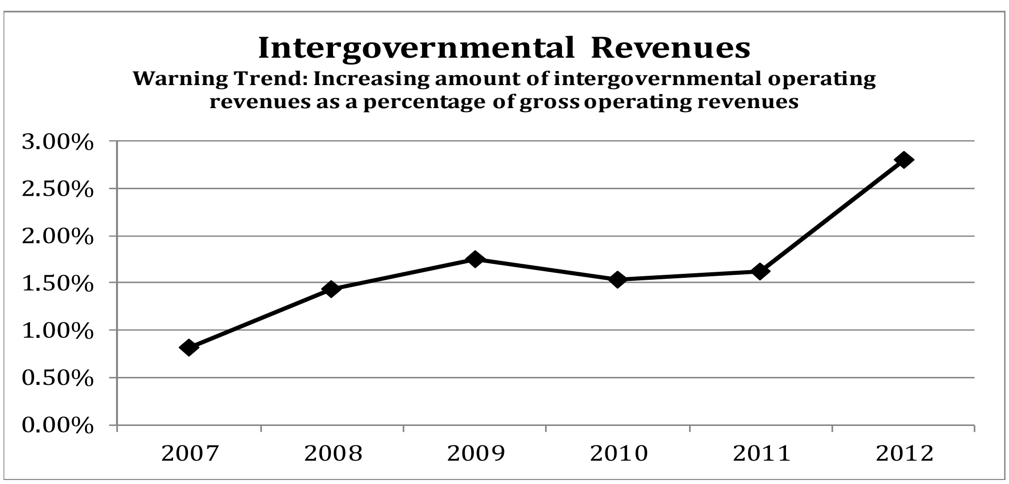


Intergovernmental Revenues

The revenue of a municipality is derived from many different sources. One possible source is other government entities outside of its jurisdiction. According to the U.S. Government Accountability Office, intergovernmental revenue "consists of monies obtained from other governments and can include grants, shared taxes, and contingent loans and advances." For example, the federal government may provide significant revenue to a municipality due to that area's need to fund a capital project on infrastructure. The Office also lists five major categories of intergovernmental revenue: public welfare, education, transportation, housing, and health. Local governments depend on the federal government for education funding more than any other category. Every municipality will depend on the federal government at some level, but a municipality that depends highly on intergovernmental revenue to keep itself functional runs a larger risk of default or bankruptcy in the event of a large-scale financial recession. The city of Detroit was highly dependent on the federal government in recent years, evident in the bailouts that were provided to the automotive industry, its greatest source of revenue. This risk ultimately doomed the city, as they filed for bankruptcy. A large percentage of intergovernmental revenue is a sign that the municipality is not in control of its own financial condition. The level of intergovernmental revenue necessary must be determined on a case-by-case basis.

Table 3: Intergovernmental Operating Revenues as a Percentage of Gross Operating Revenues Over a 5 year Period

Description	Fiscal year data						
	2007	2008	2009	2010	2011	2012	2013
Intergovernmental operating revenues	$ 2,329,517	$ 4,249,736	$ 5,248,585	$ 4,617,934	$ 4,903,658	$ 9,304,585	Data not yet available
Gross operating revenues	$ 287,464,407	$ 296,219,208	$ 298,981,509	$ 301,763,718	$ 303,057,260	$ 331,413,243	Data not yet available
Intergovernmental operating revenues as a percentage of gross operating revenues.	0.81%	1.43%	1.76%	1.53%	1.62%	2.81%	Data not yet available



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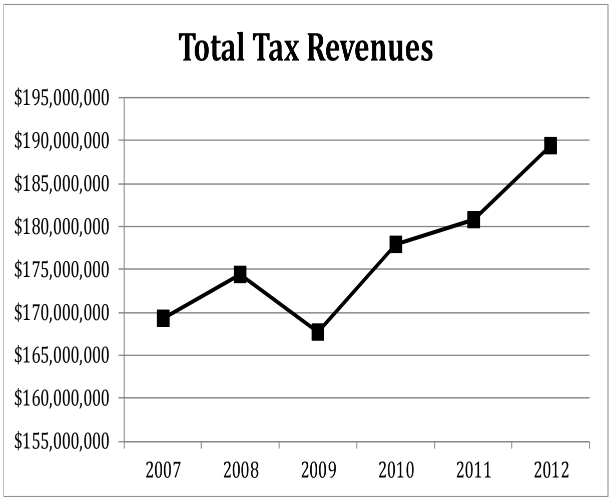
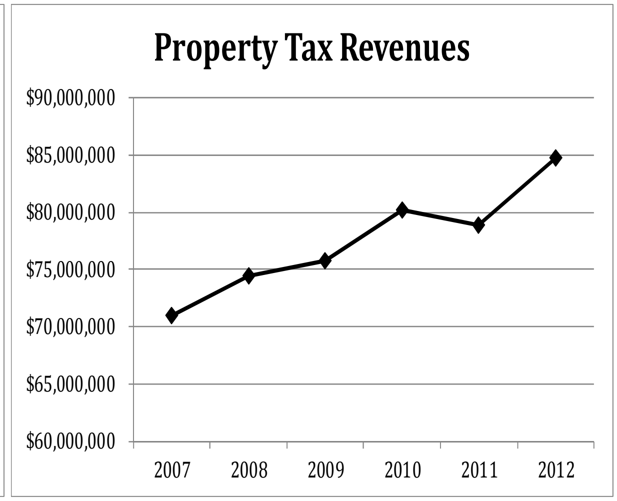
Tax Revenue

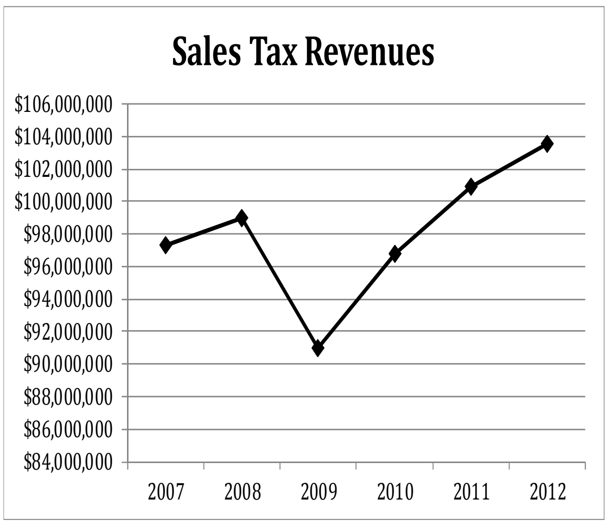
According to information provided by the World Bank, the U.S. as a whole saw a 2% rise in tax revenue as a percentage of overall Gross Domestic Product from the years 2009-2012. Tax revenue includes property, sales, and income taxes. Higher tax revenue indicates any or all three possibilities: increased property value, increased retail business activity, and an increase in income or jobs.

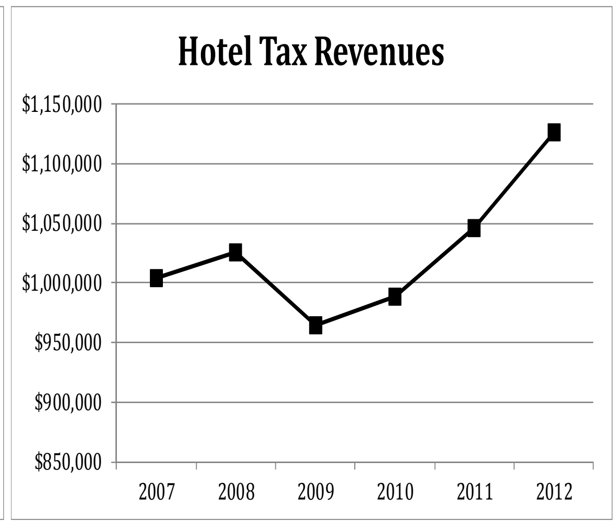
Increased tax revenue should be beneficial to overall municipal health. But for a municipality to generate revenue from taxes, their levels must be set at an optimal rate for the taxpayers, and they must provide a benefit to the people. If these taxes are not balanced at the proper level they could have an adverse effect on the municipality's ability to support healthy property values, business infrastructure, or quality jobs to the taxpayers. Sales tax that is too high will drive business elsewhere. Income tax that is too high will drive the job market somewhere else. High property tax will adversely affect the quality of life of citizens and force them to look to move to an area with lower taxes. However, higher tax revenue means that the municipality is more self-sufficient, which means that the citizens are in greater control of their governance. Overall, tax revenue is beneficial to the local municipality as it increases its ability to provide services and greater quality of life for its citizens, thus making it more solvent. However, there is a threshold reflecting how much citizens are willing to pay in tax revenue.

Description	Fiscal year data						
	2007	2008	2009	2010	2011	2012	2013
Property tax revenues	$ 71,021,015	$ 74,444,999	$ 75,730,451	$ 80,210,518	$ 78,848,343	$ 84,757,051	Data not yet available
Sales tax revenues	97,322,733	98,941,156	90,966,778	96,799,073	100,922,906	103,582,388	Data not yet available
Hotel tax revenues	1,004,369	1,025,522	964,038	988,583	1,046,017	1,126,428	Data not yet available
Total Tax Revenues	$169,348,117	$174,411,677	$167,661,267	$177,998,174	$180,817,266	$189,465,867	Data not yet available









Revenue Shortfalls/Surpluses

Before each year, a budget is proposed by the Executive to the legislature for its approval. This projected budget estimates all expenditures, what those expenditures will fund, as well as all revenues and their sources. Throughout a year in which a budget is in effect, amendments will be made to account for actual revenues and expenditures as a result of unforeseen changes.

Since a government is a non-profit entity, its goal is to match the projected budget exactly with the actual necessary expenses incurred and revenues received within a given year. Of course, such an exact projection is impossible. However, having material differences between the projection and the reality could represent a major economic event during the period, and consistent material differences over a period of years may indicate a fundamental flaw in estimating techniques or analysis.

The result of the difference between the projected and actual revenue is a shortfall or surplus. A shortfall represents a shortage in revenues needed to cover expenditures, while a surplus represents an excess of funds needed to cover expenditures.

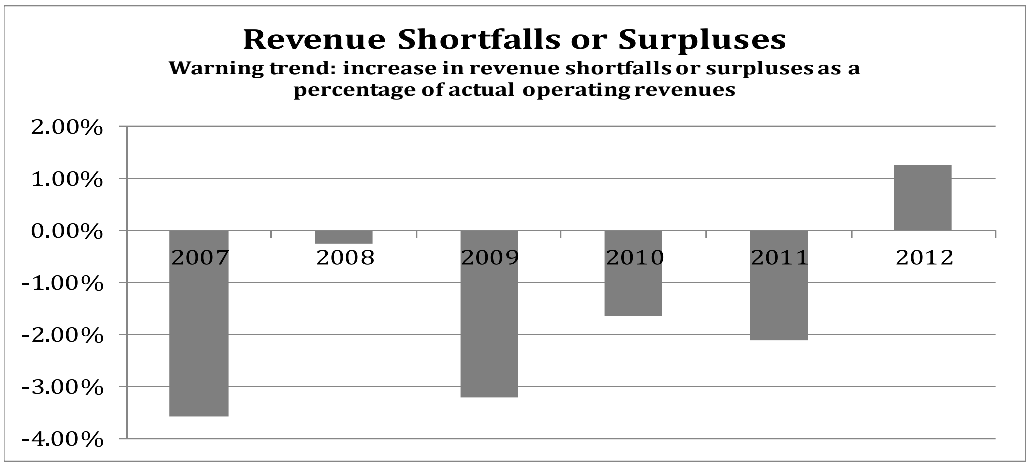
A surplus or a shortfall from a previous year may affect the balance of projected expenditures and revenues going into the next year. For example, a shortfall may mean that the government will need to increase tax revenue for the subsequent year to compensate for losses. A surplus could provide the flexibility to lower or maintain tax levies, the ability to maintain increased cash reserves, or an increase in services or service quality, according to an administration's policy choices.

Long periods of shortfall usually have adverse effects, including poor municipal credit rating, poor municipal bond performance, and cuts in services. Consistent surpluses, especially without the reduction of taxes or an increase in services, may reflect an over-cautious approach.

When Standard & Poor's reviews the quality of financial management in a local government, the final results are compared to the original budgeted expectations. Based on the data in the chart below (focusing solely on the projected *revenues* reflected in the approved budgets for Ulster County), from 2007 to 2011, revenue was originally over budgeted. Based on the information contained in the Ulster County Comprehensive Annual Financial Reports (CAFR), Ulster County has had shortfalls in 5 of 6 years, and in every year, over-budgets their general fund net operating revenues even after budget amendments have been made. This can be seen by reviewing the CAFR and determining the variances between the final budgeted amounts and the actual amounts. The variances seen between the actual and original budget, are an indicator of management's financial planning accuracy and/or reflect its fiscal policy.

Whether ending in surplus or deficit, the County's budgets during the last 6 years demonstrate a significant gap between the original budgetary expectations and actual results. An analysis of what factors have caused these variances should be conducted and utilized in crafting future budgets in an effort to mitigate significant variances.

Description	Fiscal year data						
	2007	2008	2009	2010	2011	2012	2013
Actual net operating revenues	$ 259,831,115	$ 271,020,454	$ 271,147,645	$ 275,697,931	$ 278,954,716	$ 298,972,938	Data not yet available
Budgeted net operating revenues	269,074,596	271,683,915	279,852,949	280,223,448	284,848,241	295,188,323	Data not yet available
Revenue shortfalls or surpluses	(9,243,481)	(663,461)	(8,705,304)	(4,525,517)	(5,893,525)	3,784,615	Data not yet available
Revenue shortfalls or surpluses as a percentage of actual net operating revenues	-3.56%	-0.24%	-3.21%	-1.64%	-2.11%	1.27%	Data not yet available



Conclusion

The data presented herein relies upon the accuracy of Ulster County and national data available at the time of its preparation. This report is intended to inform taxpayers and local officials of general trends and Ulster's positioning in the midst of those trends. Future reports will continue to identify fiscal and performance issues relevant to the effective operation of government, with a constant goal of encouraging educated public discourse and decision making by voters and policy makers in Ulster County.