

ULSTER COUNTY COMPTROLLER'S OFFICE

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Ulster County Fiscal Stress Assessment

2nd Quarter 2015

July 31, 2015

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 to the County Legislature and Executive on the financial condition, efficiency, and management of the County's finances, at least quarterly, 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 dual goals of (i) empowering County administration and lawmakers, and (ii) 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, on a recurring basis, specific financial issues or reports on timely topics impacting taxpayers. Our 2015 1st Quarter Report focused on the Annual Risk Assessment and Audit Plan. This report focuses on implementing the New York State Office of the State Comptroller (OSC) Fiscal Stress Test (the Test) to assess the stress position of the County.¹

The OSC Fiscal Stress Test and Ulster County

In recent years the failure to anticipate or manage fiscal stress has led to municipalities across the country declaring bankruptcy, or radically reducing or eliminating the services they provide. "Fiscal stress" as defined by the OSC is the inability of an entity to generate enough revenues within the current fiscal period to meet its expenditures.

To evaluate an individual municipality's level of fiscal stress, the OSC has developed a Fiscal Stress Test. The Test has been designed as a tool to encourage preventative action in those entities that are found to be in, or nearing, fiscal stress designations.

The Ulster County Comptroller's Office was among the first municipalities in New York State to apply the OSC Test to its operations, in a 2012 report. Taxpayers may be enormously proud that even in these challenging economic times, Administrative leadership and Legislative oversight have led to Ulster County never being categorized as operating under critical fiscal stress, and indeed, in the past two years the County's stress position has actually improved within the "healthy" range.

Our desire is to point out the healthy position of the County through the lens of this objective state test, but also to provide taxpayers, administrators, and policymakers with an added element of analysis as to unique events and trends impacting the stress factors so that long-term strategies and prudent fiscal planning may continue to be developed to avoid regression in this important regard.

¹ 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.

To that end, the OSC Fiscal Stress Test is described in greater detail below and applied to Ulster County data, then analyzed to glean perspective pertinent to fiscal management.

The OSC Fiscal Stress Test

The OSC Fiscal Stress Test takes into consideration both financial and environmental factors in its evaluation of each municipality and assigns points to each factor according to objective criteria.²

The financial indicators are calculated using data derived from the municipality’s Annual Update Document (AUD), which summarizes all financial information for the municipality during a given year and is submitted annually to the OSC.

Environmental factors are calculated using a variety of sources including data collected by the United States Census Bureau and various New York State Departments, in addition to information contained in the AUD. The test classifies the level of stress of the municipality based on these factors.

There are four possible levels of stress for the local governments. These are: “Significant Fiscal Stress,” “Moderate Fiscal Stress,” “Susceptible to Fiscal Stress” and “No Designation.” The “No Designation” classification simply means that the municipality did not generate enough points to be classified in one of the three critical fiscal stress categories, and does not necessarily indicate that the municipality is free from all fiscal stress.

The following chart shows the four Classifications of Fiscal Stress as outlined by the OSC and the corresponding Percentage of Total Points received on the Financial Indicators:

Local Government Classification of Fiscal Stress	
Percentage of Total Points	Classification of Fiscal Stress
65% -- 100%	Significant Fiscal Stress
55% -- 64.9%	Moderate Fiscal Stress
45% -- 54.9%	Susceptible to Fiscal Stress
0% -- 44.9%	No Designation

Stress levels are determined using a point system. There are a possible 29 points to be given for the financial indicators, and 27 points for the environmental indicators at the County level. These points are converted to a weighted average score for each portion, and a percentage total score is determined for both the financial and environmental portions.

² For more detailed information on the Test please refer to the OSC publication “Fiscal Stress Monitoring System.” A copy can be requested by emailing localgov@osc.state.ny.us.

Financial Indicators

The five major categories of financial indicators are: Year-End Fund Balance, Annual Operating Deficits, Cash Position, Use of Short-Term Debt, and Fixed Costs. There are nine financial indicators within these categories. The categories and the corresponding financial indicators are outlined on the chart below:

Local Governmental Financial Indicators				
Category	Financial Indicator	Purpose	Max. Points	Scoring - Weighted Avg
1. Year-End Fund Balance	1. Assigned and Unassigned Fund Balance	To identify the amount of fund balance that is available in the general, special revenue, and/or enterprise funds to provide a cushion for revenue shortfalls or expenditure overruns.	4	50%
	2. Total Fund Balance	To identify the amount of fund balance that is available to be used to fund operations, provide a cushion for revenue shortfalls or expenditure overruns, and/or is reserved for specific future purposes.	4	
2. Operating Deficits	3. Operating Deficit	To identify local governments that are incurring operating deficits.	3	10%
3. Cash Position	4. Cash Ratio	To identify the ability of local governments to liquidate current liabilities.	3	20%
	5. Cash % of Monthly Expenditures	To identify the ability of local governments to fund the ensuing fiscal year's operations from available cash.	3	
4. Use of Short-Term Debt	6. Short-Term Debt Issuance	To identify the amount of short-term debt issued to meet obligations (cash flow).	3	10%
	7. Short-Term Debt Issuance	To identify the trend in the issuance of short-term debt.	3	
5. Fixed Costs	8. Personal Services and Employee Benefits %	To identify the amount that revenues are restricted to be used for salaries and benefits.	3	10%
	9. Debt Service % Revenues	To identify the amount that revenues are restricted to be used for debt service expenditures.	3	

Year-End Fund Balance (YEFB) is used to identify the amount of Fund Balance that is available in the General, Special Revenue, and Enterprise Funds to provide a cushion for future revenue shortfalls or unanticipated expenditures.

Operating Deficits (OD) are a negative outcome of the municipality's recent financial operations, precipitated by government spending in excess of revenues. Multiple years of "Operating Deficits" may indicate a poorly balanced budget and is often times a symptom of fiscal stress. This indicator evaluates the trend of "Operating Deficits" and determines whether the local government incurred a significant deficit in the most recent fiscal year.

Cash Position (CP) helps evaluate fiscal health by determining whether the entity has enough cash to pay bills on time. The municipality's Cash Position is a function of two considerations: The "Cash Ratio," which is used to evaluate the local government's ability to liquidate current liabilities, and "Cash as a Percentage of Monthly Expenditures," which is used to evaluate the ability to fund the ensuing year's operations from cash.

Use of Short Term Debt (UOSTD) "Short Term Debt" is any debt incurred by a municipality to finance government operations, the repayment of which is due within one year of issuance. The municipality's Short Term Debt position can be indicative of

fiscal stress as local governments who issue short-term debt in order to meet obligations are likely to do so due to unresolved cash flow issues. Both the amount of the Short Term Debt financed in the previous fiscal year, and the use of Short Term Debt on a trend basis, is considered in the calculation.

Fixed Costs, are represented by the amount of fixed expenditures necessary to regularly operate a local government. If a government’s fixed costs associated with its “normal course of business” are too great a percentage of total revenues, it may have difficulty covering unanticipated costs as they arise.

Environmental Indicators

Environmental indicators are based on various economic and demographic conditions affecting local governments represented by eight categories encompassing fourteen indicators. The following chart provided by OSC describes the environmental factors used in the calculation and the relative weight of each indicator:

Local Governmental Environmental Indicators				
Category	Environmental Indicator	Purpose	Max. Points	Scoring - Weighted Avg
1. Population	1. Change in Population 1990 to 2010	To identify local governments where total population has declined over the last two decades or significantly declined over the last decade.	3	15%
2. Age	2. Change in Median Age of Population 2000 to 2010	To identify local governments where the median age of their residents has increased.	3	10%
	3. Median Age of Population 2010	To identify the median age of the residents of a local government.	1	
3. Poverty	4. Child Poverty Rate 2010	To identify the child poverty rate of the local government.	3	10%
	5. Change in Child Poverty Rate 2000 to 2010	To identify local governments where the child poverty rate has increased.	1	
4. Property Value	6. Change in Property Value	To identify local governments where property values have declined.	3	25%
	7. Property Value Per Capita	To identify the property wealth of the local government.	3	
5. Employment Base	8. Change in Unemployment Rate	To identify local governments where the unemployment rate has increased.	1	10%
	9. Unemployment Rate	To identify the unemployment rate of the local government.	1	
	10. Change in Total Jobs in County	To identify local governments that are within counties in which the total jobs in the county have declined.	1	
6. Intergovernmental Revenues	11. Reliance on State and Federal Aid	To identify the dependence of the local government on State and federal funding.	3	10%
	12. Change in State and Federal Aid	To identify local governments where State and federal aid revenues have declined.	1	
7. Constitutional Tax limit	13. Constitutional Tax Limit Exhausted	To determine the extent to which a city or village has exhausted its tax limit.	0	0%
8. Sales Tax Receipts	14. Change in Local Sales Tax Receipts	To identify counties where local sales tax receipts have declined.	3	20%

The eight environmental categories are each rated and then converted to a weighted total score, expressed as a percentage. If the County receives an overall score greater than or equal to 50% they are considered to have unfavorable environmental conditions, denoted by the “###” symbol. An overall score of over 40% but less than 50% will be considered to have environmental conditions similar to the “Moderate Stress” category of financial indicators, and is denoted by the “##” symbol. A score of greater than 30% but less than 40% is considered to have environmental conditions comparable to the “Susceptible to Stress”

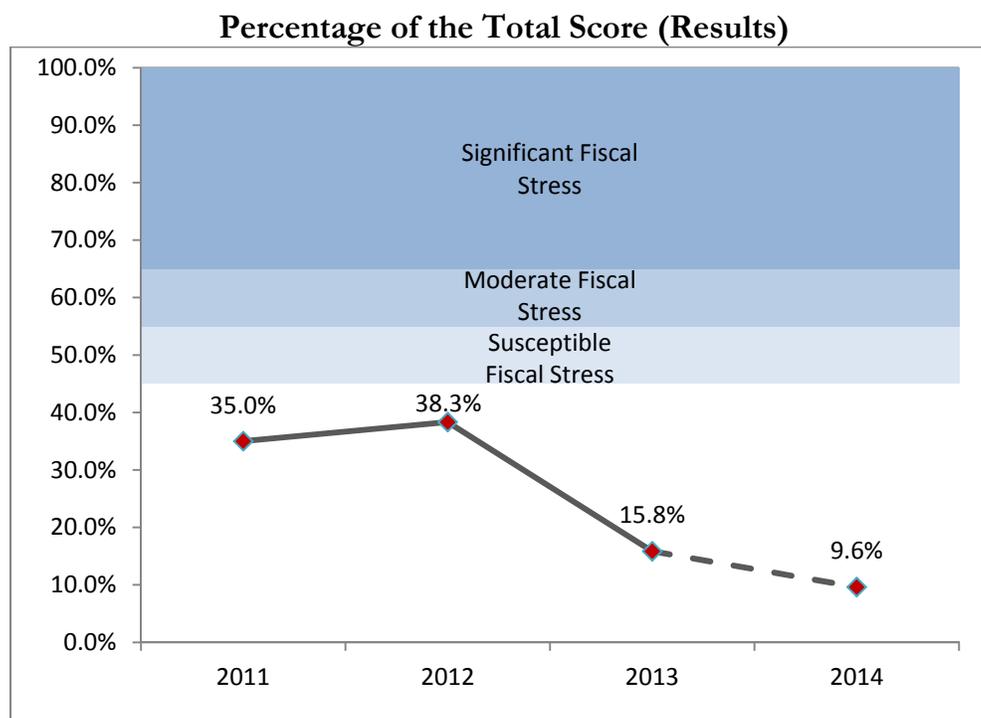
category, and is denoted by the “#” symbol. Any score less than 30% is classified as “No Designation” for environmental conditions.

Applying the Test to Ulster County

Since 2011 Ulster County has remained in the “No Designation” classification. However, there are some notable changes from 2011 through the end of 2014. “No Designation” covers the percentage of the total stress from 0-44.9%, which represents a wide range of results. Not only has Ulster County remained in the “No Designation” category since the Test was first developed, but, the percentage has shown improvement over time.

Since Ulster County has remained in the “No Designation” category, for which the Administration and Legislature are to be commended, the more useful analysis may be to assess trends of stress factors within that “healthy” range.

Trend analysis can be a powerful tool in analyzing a municipality’s performance over time, and allows an entity to proactively address stress factors as they become apparent. The Test assists users by allowing them to track stress conditions over time and develop strategic approaches to managing local governments in the long-term. The following chart shows the percentage change from fiscal years 2011 through 2014 for Ulster County:

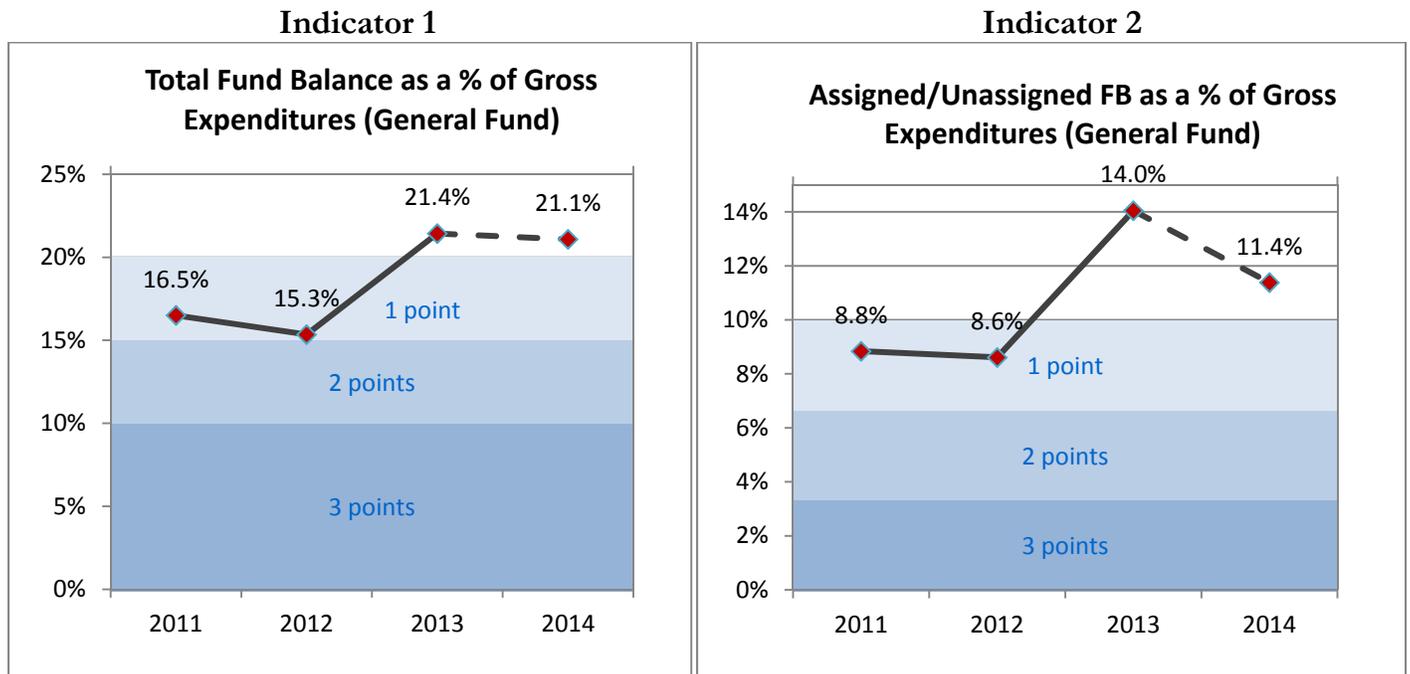


At the end of 2011 and 2012, Ulster County was nearing the “Susceptible to Fiscal Stress” designation. However, the sale of the County owned nursing facility, Golden Hill Healthcare Center (GHHCC), provided a large cash infusion coupled with a decrease in expenditures, which improved the County’s fiscal stress percentage. The additional cash received from the sale of GHHCC has helped to establish a healthy Fund Balance and has moved the overall percentage down from 38.3% at its highest, to 9.6% at the end of 2014.

Fund Balance

Fund Balance is weighted the most heavily of all financial indicators in the determination of fiscal stress. As discussed in the previous section, the effects of the sale of GHHCC and the resulting increase it provided to Fund Balance levels has materially improved the County's fiscal stress score.

The following charts show the first two indicators used in the Test which relate to Fund Balance:



The first Indicator shows how Total Fund Balance has grown as a percentage of Gross Expenditures in the General Fund. During 2011 and 2012, the County received one point based on low levels of this percentage. As Fund Balance improved in 2013 and 2014, the County received no points for this Indicator.

The second Indicator shows the levels of Assigned and Unassigned Fund Balance as a percentage of Gross Expenditures in the General Fund. Similar to the Total Fund Balance ratio, the County received one point in both 2011 and 2012, and improved the percentage in the following years. The decrease seen from 2013 to 2014 was due to a planned budget deficit.

The Test also computes the above ratios using Combined Fund³ information, and may award additional points if the Combined Fund calculation is less than the General Fund calculation. In 2014 the County received an additional point based on this analysis. This one point represents 6.3% of the 9.6% total 2014 Fiscal Stress percentage.

³ As applied to Ulster County OSC defines Combined Funds as the General Fund, County Road Fund, Road Machinery Fund, and the Infirmary Fund.

Effects of Golden Hill on Fund Balance:

As a result of the sale of GHCC, the County received proceeds of \$11.25 million with a residual equity transfer of \$13.8 million. In addition, after the facility was sold, the County enjoyed expenditure savings of approximately \$16.4 million, as the facility only operated on the County books for half of that year. If we were to perform the Test without regard to the benefits associated with the sale, the first indicator would yield a percentage of 5.20%, putting Ulster County in the three point range for 2013. If the sale hadn't occurred, it is apparent there would have been a negative effect on the results of the Test.

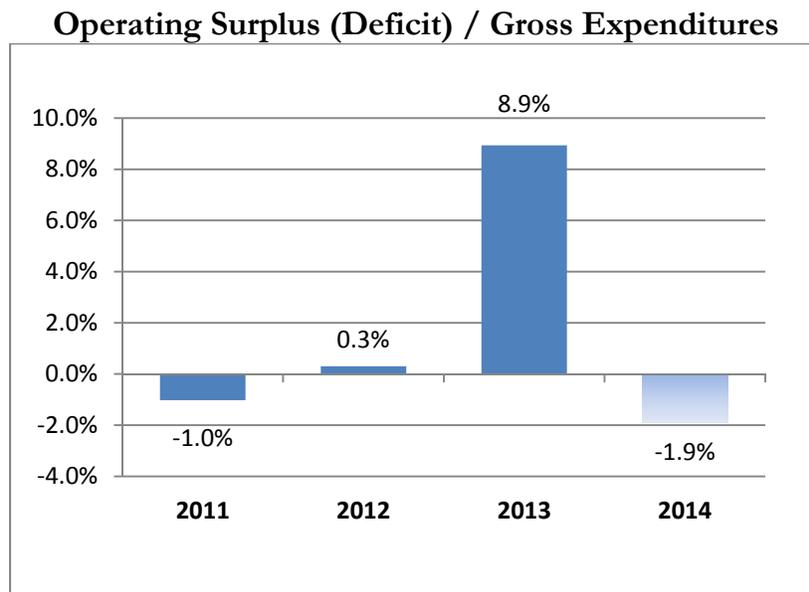
The sale of GHCC in 2013 would carry a residual effect in 2014, as a large majority of the additional funds received remain in the available Fund Balance. Furthermore, the reduction in expenditures expands to a full year.

Operating Deficits

In 2011 and 2014 Ulster County had an operating deficit. The County received one point for each year in which a deficit occurred, and received an additional point if a deficit occurred in any of the three previous years, including the year under evaluation. While the County has been able to cover current operating deficits by appropriating Fund Balance, this practice may not be sustainable over time, and may be an area of concern in future years.

The Following chart displays the operating surplus (deficit) as a percentage of gross expenditures:

Indicator 3



No. of points = No. of years with a deficit in last 3 years or 3 points if last year has deficit \leq -10%

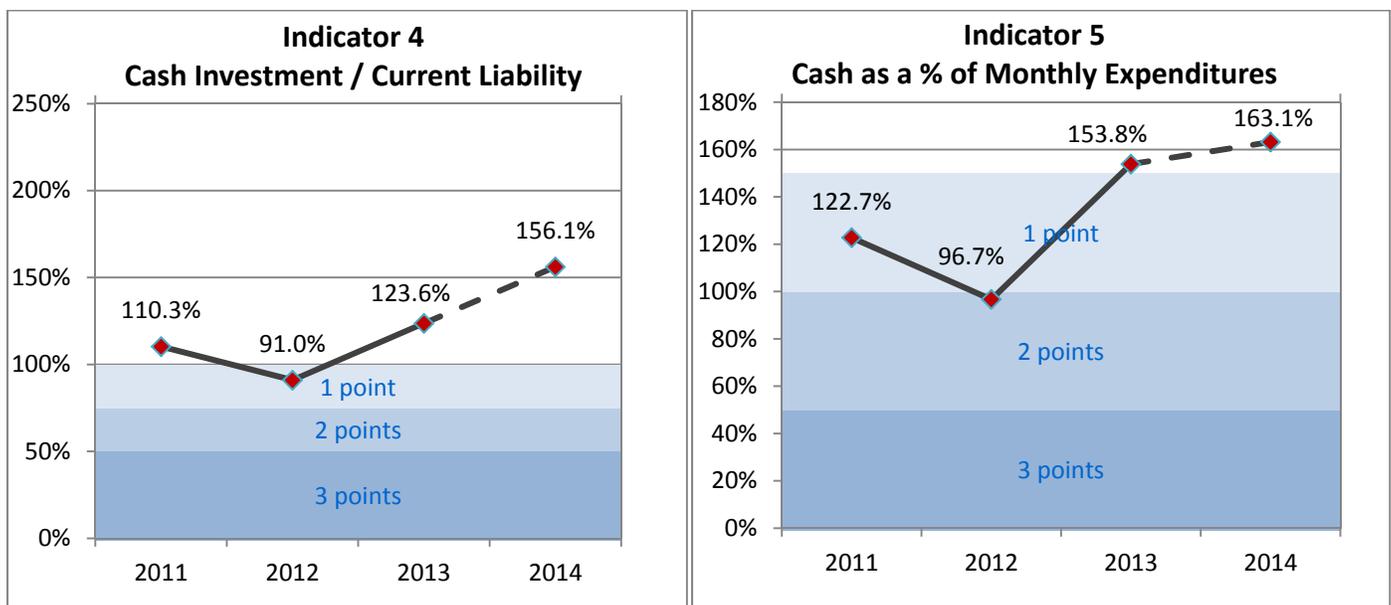
Based on this Indicator the County received one point each year for the fiscal years 2012 through 2014. This point accounted for 3.3% of the percentage of total score for each of those years. In 2011, the County received two points in this category which accounted for 6.7% of the 35% total fiscal stress percentage.

Effect of Golden Hill on Operating Deficits:

The GHHCC facility had been operating at a deficit for a number of years. Because the County carried the facility's operating results on its financial statements, the deficits incurred by GHHCC undoubtedly contributed to any deficits experienced by the County. While the facility's sale would eliminate the effects of its operating deficit on the County's financial statements, having a positive effect on this calculation, in 2014 the County planned a budget deficit to utilize some of the additional Fund Balance provided by the sale of GHHCC. If the County continues to budget deficits in an effort to deplete Fund Balance, they may continue to receive points in this and the Fund Balance category in the future.

Cash Ratios

The cash ratio calculations have performed similarly to the Fund Balance ratios discussed earlier, with significant improvements in recent years. These ratios are relevant to our consideration of fiscal stress as they determine whether or not an entity has sufficient cash on hand to fund operations. "Cash and Investments as a Percentage of Current Liabilities" is represented by the following chart on the left, and "Cash as a Percentage of Monthly Expenditures" is represented by the following chart on the right:



The first ratio, Cash Investments as a proportion of Current Liabilities, reveals that Ulster County is currently in a positive cash position. In 2012, the County was in its worst cash position of the four-year period primarily caused by a low level of Cash and Investments during that year.

Indicator Five is calculated as Cash and Investments in the Combined Funds, as an annualized percentage of gross expenditures (including transfers out). The same cash changes that were noted in the explanation of Indicator Four effect the calculation of the Indicator Five ratio. Furthermore, the annual expenditures decreased from their highest of \$345 million in 2012, to a low of \$299 million in 2014.

Effects of Golden Hill on Cash Position:

The sale of GHHCC has also aided the cash position for both 2013 and 2014, improving the County's percentage ratios for both Indicators Four and Five. The County has also benefited from the reduction in expenditures associated with the facility, which has further improved the County's standing in regards to Indicator five.

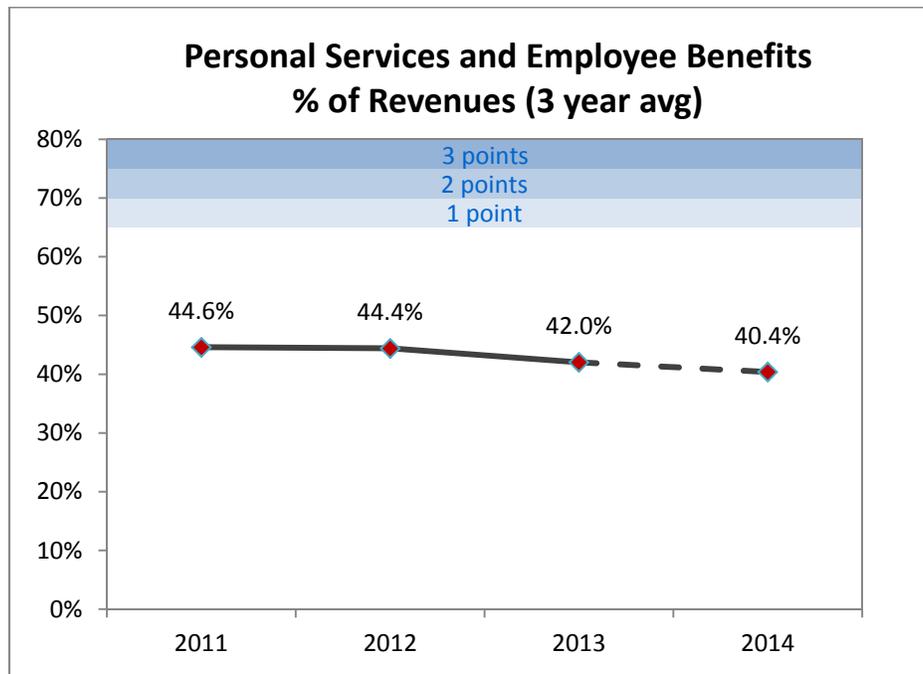
Short Term Debt

Ulster County has not utilized any forms of short term debt that are included in the Test calculation, and therefore was not given any points for Indicators Six or Seven. We will forego displaying any data on these indicators, as they have no bearing on the application of the test to Ulster County.

Personal Service & Employee Benefits

The Test uses "Personal Service and Employee Benefits as a Percentage of Revenues" to determine if revenues are sufficient to finance the recurring employee related costs of the County. The percentage chart is displayed below:

Indicator 8

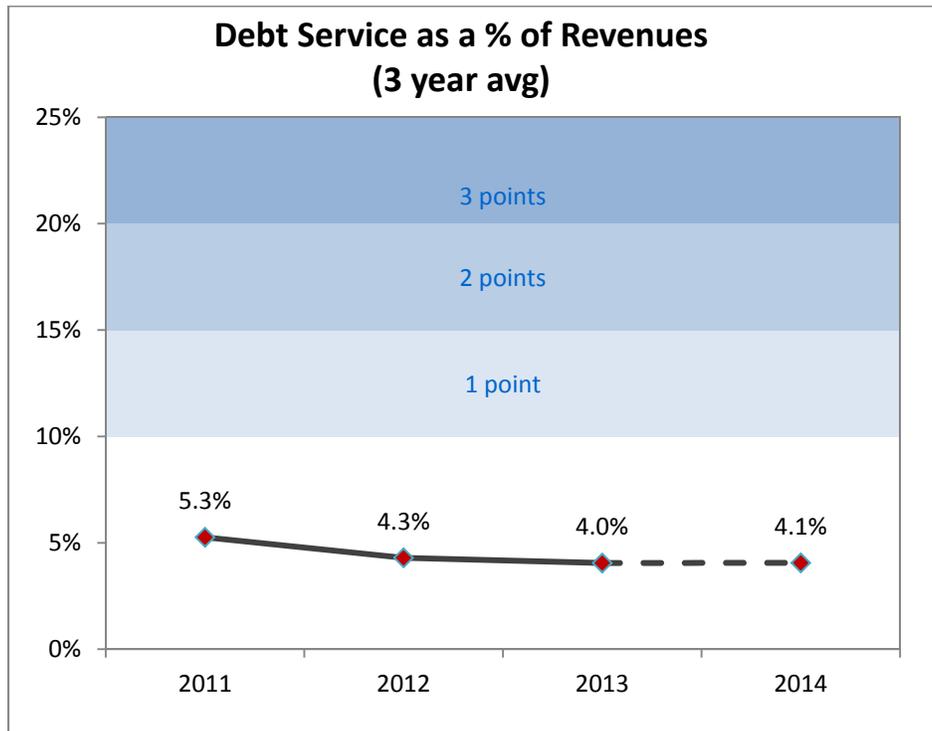


The chart shows a fairly consistent percentage for this indicator over the four years under analysis. The majority of employment and benefit costs included in the calculation are regulated by service contracts, and therefore is not likely to experience significant changes.

Debt Service

The fiscal stress test uses Debt Service as a percentage of revenues to determine if revenues are sufficient to finance the recurring Debt Service cost of the County. The percentage chart is displayed below:

Indicator 9



Debt Service has also remained fairly consistent as shown in the chart. The expenditures include all Debt Principal and Debt Interest payments, and the revenues include all revenues, excluding transfers in. It appears the result will remain close to the 4% range for 2015.

Environmental Conditions

Our application of the Test with respect to Environmental Conditions utilizes the OSC's information for Ulster County, labeled as current as of August 29, 2014. OSC classifies Ulster County as having a “#” level of environmental stress. Below is OSC's most recent determination of Ulster County's environmental indices.

Ulster County Environmental Indicators	Value	Score	Weight	Weighted Percentage
1 Change in Population	2.7%	0	15%	0.0%
2 Change in Median Age	9.9%	0	10%	0.0%
3 Median Age of Population	42	0		
4 Child Poverty Rate	14.6%	0	10%	2.5%
5 Change in Child Poverty Rate	0.9%	1		
6 Change in Property Value (4 year avg)	-3.7%	2	25%	8.3%
7 Property Value Per Capita	\$100,007	0		
8 Change in Unemployment Rate	0.6	1		
9 Unemployment Rate	8.8%	1	10%	10.0%
10 Change in Total Jobs in County	-0.4%	1		
11 Reliance on State and Federal Aid	23.2%	0	10%	2.5%
12 Change in State and Federal Aid	-9.3%	1		
13 Constitutional Tax Limit	N/A	N/A	0%	0.0%
14 Change in Sales Tax Receipts	0.0%	2	20%	13.3%
Totals		#	100%	36.7%

The economic and demographic factors considered in this analysis can have direct and indirect impacts on the fiscal health of a government. For instance, population often impacts property values, which impacts tax revenue. Also, median age and poverty levels both impact the cost of services and healthcare. It is therefore important for local governments to understand the ways in which these environmental factors affect fiscal health, and to monitor and address changes as they become apparent.

Conclusion

The Fiscal Stress Test is a useful tool for monitoring the performance of local governments as it proactively identifies potential areas of concern, and provides policymakers and administrators with useful data to assist in the management of fiscal resources.

Ulster County has not been designated as operating under a critical stress category since the implementation of the Fiscal Stress Test in 2012. Furthermore, even within the “No Designation” category, the County has improved its percentage score significantly over the past two years. The impact of the unique event of selling GHHCC must be taken into account in assessing the overall trends. However, Administrative oversight to date indicates careful attention to stress factors in its budgeting, and, with sound policy oversight from the Legislature, strategies for avoiding a high stress position should be continually attainable.