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November 25, 2013

C. Scott Vanderhoef, County Executive
Members of the County Legislature
Rockland County
Allison-Parris County Office Building
11 New Hempstead Road
New City, NY 10956

Report Number: B6-13-22

Dear County Executive Vanderhoef and Members of the Legislature:

Chapter 468 of the Laws of 2013 authorizes the County of Rockland (County) to issue debt totaling $96 million to liquidate the accumulated deficit in the County's general fund as of December 31, 2012. Additionally, Chapter 468 requires the County to submit to the State Comptroller each year, starting with the fiscal year during which it was authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, its proposed budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the County Legislature's vote on the adoption of the budget or the last date on which the budget may be finally adopted, whichever is sooner. The State Comptroller must examine the proposed budget and make recommendations for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the County.

The County Legislature, no later than five days prior to the adoption of the budget, must review all recommendations made by the State Comptroller and make adjustments to its proposed budget consistent with the recommendations contained in this report.

Our Office has recently completed a review of the County's budget for the 2014 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following question related to the County's budget for the 2014 fiscal year:

- Are the significant revenue and expenditure projections in the County's proposed budget reasonable?

To accomplish our objective in this review, we requested your proposed budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimates were realistic and reasonable.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

The proposed budget package submitted for review for the 2014 fiscal year consisted of the following:

- Budget Letter
- 2014 Proposed Budget
- Supplementary Information

The proposed budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	$532,193,070	$426,693,070		$105,500,000
County Road	$14,170,765	$14,170,765		
Road Machinery	$1,631,295	$1,631,295		
Hospital	$88,564,705	$88,564,705		
Sewer	$37,645,170	$34,315,140[a]	$3,330,030	
Internal Services	$30,588,075	$30,588,075		
Liability	$2,696,000	$2,696,000		
Unemployment	$275,000	$275,000		
Workers' Compensation	$5,657,715	$5,657,715		
Debt Services	$47,442,500	$42,792,500	$4,650,000	
Totals	**$760,864,295**	**$647,384,265**	**$7,980,030**	**$105,500,000**

[a] This includes $12,038,450 of sewer property benefit tax.

Based on the results of our review, except for the matters described below, we found that the significant revenue and expenditure projections in the proposed budget are reasonable.

Our review disclosed the following findings which should be reviewed by County officials for appropriate action. Good management practices require that County officials take prompt action concerning our recommendations. We believe that prompt action by County officials will help improve the County's financial condition.

Outstanding Deficit

The County had a deficit of $127.3[1] million in the general fund at the end of the 2012 fiscal year. Chapter 468 authorizes the County to borrow up to $96 million to reduce this deficit; therefore, a deficit of approximately $31.3 million remains. The County Legislature plans to adopt a local law to pay down this remaining deficit; however, no provisions for a pay-down are included in the 2014 budget. The County Legislature is considering two options, one which reduces the deficit by $10 million per year until it is eliminated, and the other which reduces the deficit by 10 percent or $3 million annually, whichever is greater. Because the proposed budget does not include provisions for either option, the County will not be able to begin reducing the remaining deficit in the 2014 year. The County should consider taking steps to address the $31.3 million deficit that remains and include provisions for such steps in the 2014 budget.

Estimated Revenues

Residential Energy Tax – This was a new revenue source for the County in 2013, at which time, $14 million was included in 2013 budget. We estimate that the County will receive approximately $8.7 million in residential energy tax collections by the end of 2013, a revenue shortfall of $5.3 million. The County included $14 million revenue for residential energy tax in the 2014 budget. We believe this estimate is overly optimistic given that only $8.7 million will likely be collected in 2013. The County could face a revenue shortfall if it does not revise the amount of revenue budgeted for the residential energy tax.

Premium on Obligations – The County has budgeted revenue of $2 million for premiums on short-term obligations such as tax anticipation notes (TAN) in the 2014 budget. In 2013 the County also budgeted $2 million for premiums on short-term obligations. However, in 2013 the County only received approximately $700,000 for these premiums, leaving a shortfall in revenue of approximately $1.3 million. We believe the County may be overestimating revenue from TAN premiums and could experience potential revenue shortfall if the budget is not adjusted.

Tax Certiorari

The County budget indicates plans for the issuance of $5 million in serial bonds to cover the costs of tax certiorari claims in 2014. However, the proposed budget appropriates only $2 million for this purpose. Local Finance Law requires that the proceeds of bonds be expended only for the object or purpose for which the bonds were issued, or if not expended for that object or purpose, applied to the payment of debt service on those bonds. Because the $5 million being issued in serial bonds is greater than the estimated appropriation by $3 million, this amount should be transferred to a debt service fund and be restricted to pay debt service on the $5 million bonds and not used for other operating expenditures. Furthermore, the continued practice of using debt

[1] The deficit is based on the 2012 audited financial statements.

to pay for operating costs is imprudent. Tax certiorari claims are a routine cost of doing business and should be paid from annual appropriations. By bonding the cost of these tax refunds, rather than financing them through the current year's operating budget, County officials will incur additional debt and interest costs.

Tax Overlay

The County has not made an allowance for uncollectible taxes in the 2014 proposed budget. County officials feel that the $500,000 contingency appropriation in the proposed budget will cover any uncollected taxes. However, the average annual amount allocated to uncollected taxes from fiscal years 2009 through 2012 was $2.4 million. Therefore, it is unlikely that the contingency appropriation will be sufficient to cover uncollected taxes. In addition, using the contingency appropriation to cover uncollectible taxes will likely leave the County with little flexibility to address other revenue shortfalls or unforeseen expenditures.

Tax Cap Compliance

Chapter 97 of the Laws of 2011 established a tax levy limit on all local governments, which was effective beginning in the 2012 fiscal year. The law precludes local governments from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, unless the governing board adopts a local law to override the tax levy limitation.

The County's proposed budget exceeds the tax levy limit. The proposed budget includes a tax levy of $105.5 million which is 9.9 percent higher than the 2013 levy and exceeds the allowable tax levy limit increase of 1.66 percent. Therefore, the County Legislature must pass a local law overriding the tax levy limit before adopting the proposed budget.

Recommendations:

1. The County Legislature should decide on an amount to reduce the remaining deficit in the general fund after the issuance of the $96 million in bonds and include that amount in the 2014 adopted budget.

2. The County Legislature should reassess the estimate for residential energy tax revenue and adjust the budget accordingly.

3. The County Legislature should reduce the revenue estimate for premiums on obligations to a more realistic amount based on amounts received in previous years.

4. The County Legislature should place any excess proceeds from its proposed tax certiorari borrowing in a debt service fund and use those proceeds to pay down that debt.

5. The County Legislature should consider establishing a tax overlay account and include appropriations in the budget that will be sufficient to cover estimated uncollected property taxes in 2014.

6. If the County Legislature approves this budget, it must pass a local law to override the tax levy limit prior to adopting the budget.

The County Legislature has the responsibility to initiate corrective action. Pursuant to Chapter 468 of the Laws of 2013, the County Legislature must review the recommendations in this report and make adjustments to its proposed budget consistent with the recommendations contained in this report. In addition, pursuant to Section 35 of General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. We encourage County officials to make this plan available for public review in the County Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

We request that you provide us with a copy of the adopted budget.

We hope that this information is helpful to you as you adopt a budget for the County. If you have any questions on the scope of our work, please contact Ms. Tenneh Blamah, Chief Examiner of our Newburgh Office, at (845) 567-0858.

Sincerely,

Gabriel F. Deyo

cc: Stephen F. DeGroat, Commissioner of Finance
Steven J. Grogan, Deputy Budget Director
Laurence O. Toole, Clerk of the Legislature
Hon. Herman D. Farrell, Jr., Ways and Means Committee Chair, NYS Assembly
Hon. Kenneth Zebrowski, NYS Assembly
Hon. Ellen Jaffe, NYS Assembly
Hon. Annie Rabbitt, NYS Assembly
Hon. James Skoufis, NYS Assembly
Hon. John A. DeFrancisco, Finance Committee Chair, NYS Senate
Hon. David Carlucci, NYS Senate
Hon. William J. Larkin Jr., NYS Senate
Robert L. Megna, Director Division of the Budget
Andrew SanFilippo, Executive Deputy Comptroller
Tenneh Blamah, Chief Examiner