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April 16, 2013

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

Report Number: B6-13-6

Dear County Executive Vanderhoef and Members of the Legislature:

Rockland County (County) has been experiencing financial condition difficulties in recent years; its general fund has had fund balance deficits[1] in each of the last five years since 2008. The general fund deficit has increased from $31.5 million at December 31, 2008 to $96.5 million at December 31, 2011. These deficits were mainly caused by operating deficits ranging from $11 million in 2009 to $29.2 million in 2011. In addition to the deficit in the general fund, the County had unrestricted deficits of $109.5 million in the hospital fund and $17.2 million in the internal services funds as of December 31, 2011.

The exact amount of the deficit at December 31, 2012 was not determinable at the time of our review because the County was still closing its books and complete information was not available. However, based on the information available for significant revenues and expenditures, we estimate that the general fund deficit could increase to at least $110 million as of December 31, 2012.

A properly prepared and balanced budget can help maintain or improve the County's financial position. However, if the amounts budgeted are not reasonable or realistic, the County's financial condition and operations can be negatively impacted. The 2013 budget is $526 million for the general fund and $751 million for all funds, which represents an increase of 2.5 percent from the 2012 adopted budget. In addition, the 2013 tax levy of $96 million is an increase of

[1] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

approximately $14.9 million, or 18.4 percent, compared to the 2012 tax levy. Due to the County's continuing financial difficulties, we performed a review of the County's 2013 adopted budget to provide insight as to whether it is reasonable.

Demographic and Economic Factors

The County is the smallest county by area outside New York City, with the 2012 population estimated at 318,000. The County has a high home ownership rate (70.6 percent compared to 54.8 percent statewide), a higher-than-average median home value of $465,100 ($301,000 State median),[2] a high median household income of $84,661 (compared to the State median of $56,951), and a low individual poverty rate (11.6 percent compared to 14.5 percent statewide).

In June 2012, Standard and Poor's Ratings Services (S&P) lowered the County's long-term general obligation bond rating to 'BBB-' from 'BBB+' and rated the management practices as 'vulnerable' based on overly optimistic budgeting. S&P lowered the rating due to the ongoing erosion of the County's financial position and once strong reserves, coupled with projections for a continued negative unreserved, and total, general fund balance for fiscal years 2011 and 2012. S&P states that the decline began with a 2003 major tax certiorari filing and settlement, but in recent years, overly optimistic budgeting, primarily regarding sales and mortgage tax revenues, and a clear lack of willingness on the Legislature's part to take action to restore fiscal stability swiftly, compound these fiscal pressures.[3]

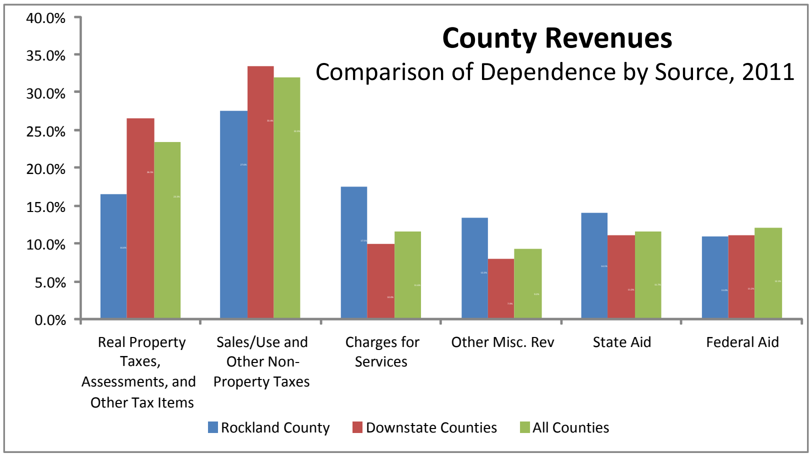
In December 2012, Moody's Investors Services (Moody's) maintained the County's bond rating at Baa3, and gave it a negative outlook. According to Moody's, the rating is based on the County's declining financial position, which is a result of an increasing fund balance deficit, continuing reliance on short-term borrowing, and ongoing liquidity concerns. Further, Moody's rating reflects the County's challenges which include closing a significant budget gap, continued pressures from the nursing home, dealing with unexpected expenses related to Hurricane Sandy, and ongoing liquidity concerns; it cites the County's strength is its large tax base with strong socioeconomic indices.[4]

As shown in Figure 1, in 2011 the County received just 16.6 percent of its revenues from real property taxes and similar sources, such as payments in lieu of tax (PILOTs), which is low in comparison to the average for downstate counties (26.5 percent) and in comparison to counties statewide, (23.3 percent).[5] Sales and other non-property taxes are also low, accounting for only 27.6 percent of revenue in the County, while they account for 32 percent of county revenues on average, and even more still for the downstate counties comparison group (33.4 percent). However, charges for services (mainly hospital and other health fees, but including fees for

[2] Source: US Census Bureau State & County QuickFacts. The median home value as reported includes the five counties comprising New York City.
[3] Standard and Poor's Ratings Services, June 29, 2012
[4] Moody's Investors Services, December 11, 2012
[5] Comparisons to the "downstate counties" include: Dutchess, Orange, Putnam, Westchester, Rockland, Sullivan, Ulster, Suffolk and Nassau Counties. Comparisons to "all counties," "counties statewide" or "county average" refer to the aggregate (weighted average) values for all counties outside New York City.

sanitation, transportation, and other provisions) constitute a much larger share (17.5 percent) than either of the comparison groups, as do other miscellaneous revenues.[6]

Figure 1

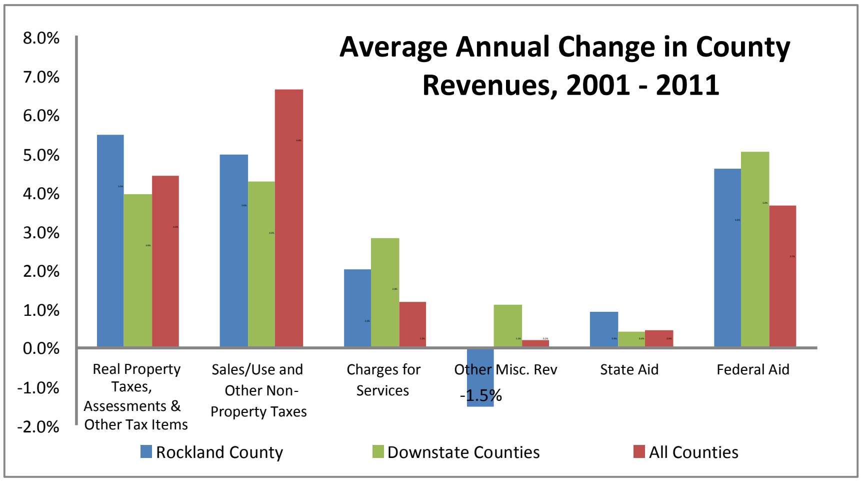


Over the past 10 years of reported financial data (2001 to 2011), the County's total revenues grew by just 2.7 percent on average annually, slower than the total for all counties in the State (3.5 percent annually), and more importantly, slower than its own expenditures grew during that same time (3.3 percent) During that time, property tax growth averaged about 5.5 percent per year, which was faster than the 4.4 percent average annual growth for counties statewide and counties downstate (3.9 percent). Sales and use taxes have grown by an average of 5 percent per year, slower than the statewide average increase of about 6.6 percent annually. State aid has increased at an average of less than 1 percent for all counties in the last decade, but Federal aid to the County has grown at a very quick pace of 4.6 percent per year, on average.[7] These shifts are linked to the current recession where State aid has been stagnant but Federal aid has been bolstered by temporary American Recovery and Reinvestment Act (ARRA) funds.

[6] Other miscellaneous revenues include charges to other governments, other local revenues, and use and sale of property.

[7] In this analysis, State aid includes Mortgage Recording Tax, which is classified as "State aid" for reporting purposes.

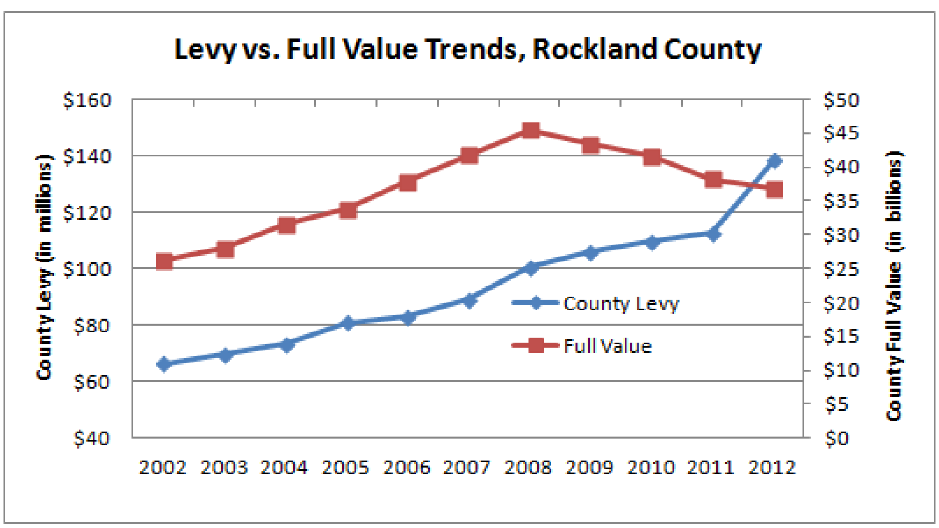
Figure 2



Between 2001 and 2011, the County's expenditures grew by 3.3 percent, mirroring the statewide average of 3.4 percent, but as previously mentioned, quicker than the growth of County revenues over those years.

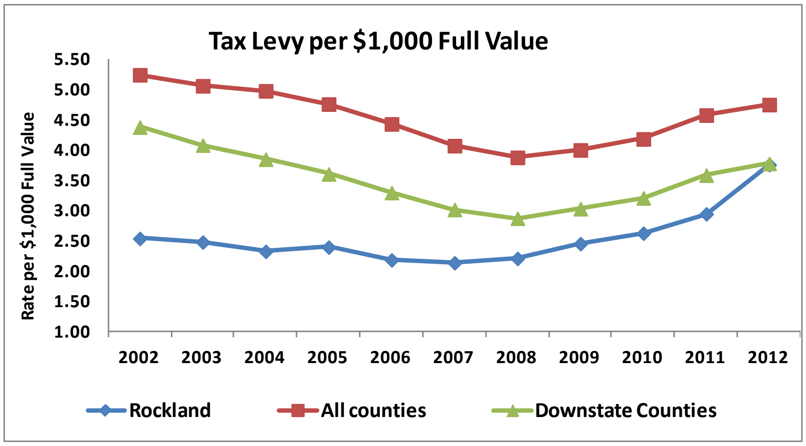
Figure 3 shows tax levies in the County compared with the full valuation of real taxable property from 2002 to 2012, and Figure 4 shows the resulting effective tax rate (levy per $1,000 of full value) compared with both the statewide effective county tax rate and with the downstate counties effective tax rate.

Figure 3



Between 2002 and 2008, the County tax rates remained fairly steady and even dropped slightly as increases in the County tax levy nearly kept pace (at 7.2 percent average annual increase) with rising property values (9.7 percent annual average growth). But as property values dropped during the housing crisis and its effects from 2008 to 2012, the County's tax levy continued to increase. Over the last four years, the County raised its total levy by a total of $37.8 million, with most of that increase ($25.8 million or 68 percent) occurring from 2011 to 2012. The County's 2013 adopted budget includes an 18.4 percent property tax levy increase, but does not have any expected increases in fees or charges in services.

Figure 4



Budget Review

Our Office has recently completed a review of the County's budget for the 2013 fiscal year. The objective of the review was to provide an independent evaluation of the adopted budget. Our review addressed the following question related to the County budget for the 2013 fiscal year:

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

To accomplish our objectives, we reviewed your adopted 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 estimate was realistic and reasonable. We also evaluated the amount of fund balance appropriated in the adopted budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose.

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 County's adopted budget is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	$ 526,014,535	$430,014,535	$ 0	$ 96,000,000
County Road	$ 13,638,375	$ 13,638,375	$ 0	$ 0
Road Machinery	$ 1,604,130	$ 1,604,130	$ 0	$ 0
Enterprise Hospital	$ 92,844,515	$ 92,844,515	$ 0	$ 0
Sewer	$ 35,698,730	$ 33,468,350	$ 2,230,380	$ 0
Internal Services	$ 29,682,260	$ 29,682,260	$ 0	$ 0
Liability	$ 2,692,000	$ 2,692,000	$ 0	$ 0
Unemployment	$ 50,000	$ 50,000	$ 0	$ 0
Workers' Compensation Consortium	$ 5,501,885	$ 5,501,885	$ 0	$ 0
Debt Service	$ 43,269,000	$ 40,269,000	$ 3,000,000	$ 0
Total	**$ 750,995,430**	**$649,765,050**	**$ 5,230,380**	**$ 96,000,000**

Based on the results of our review, we identified significant revenue and expenditure projections in the adopted budget that are not reasonable and could result in an increase in the County's accumulated deficit. We urge County officials to take prompt action to bring the County's budget into balance and improve the County's financial condition.

Fund Balance

The general fund reported an unassigned fund deficit of about $96.5 million as of December 31, 2011. The County had an operating deficit in the general fund for the 2012 fiscal year. At the time of our review, the County had not finished closing its books for the 2012 fiscal year and therefore, the exact amount of the operating deficit for 2012 was not known. Ultimately, the total general fund deficit could increase to at least $110 million. The home and infirmary (hospital) fund reported a deficit in unrestricted net assets of $109.5 million as of December 31, 2011, and an operating deficit of $13.4 million for 2012. This operating deficit will cause the hospital fund deficit to increase to approximately $123 million. These estimates are subject to change because, as of the end of fieldwork, the County was still closing its books and complete information was not available.

The 2013 budget lacks provisions for decreasing these fund deficits. We encourage County officials to develop and implement a long-range financial plan to eliminate these fund deficits.

Sales Tax

The County has budgeted $175 million revenue for sales and use tax in the 2013 fiscal year, which is an increase of approximately $6.8 million or 4 percent over the actual amount received in the 2012 fiscal year. The amount budgeted may be optimistic and is not supported by any specific details or analysis. For 2012, sales tax collections are projected to decrease by 0.6

percent and in 2011 sales tax collections only increased 0.1 percent from the prior fiscal year. As a result, the County could potentially face a significant shortfall in revenue if the County does not receive the projected amount of sales tax revenue. Absent any supporting documentation for the County's projection, we recommend that County officials use a more conservative growth rate to project sales tax revenue for 2013.

Tax Certiorari

The 2013 adopted budget includes an appropriation of $1 million for the payment of tax certiorari refunds. However, the County made payments of over $1 million in each of the last two years and has a known payment of over $3.1 million, of which $2 million is expected to be reimbursed by the Town of Orangetown, for the 2013 fiscal year. The amount budgeted for tax certiorari refunds does not appear adequate given the historical expenditures. We recommend that County officials review this appropriation and consider adjusting it. If the Town of Orangetown does not reimburse the County during the 2013 fiscal year, the County will have an additional revenue shortfall of $2 million.

In addition, the County budgeted for the issuance of $5 million in serial bonds to cover the costs of tax certiorari claims. The continued practice of using debt 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 the refunds, rather than financing them through the current year's operating budget, County officials will incur additional debt and interest costs.

Sale of Real Property

The 2013 fiscal year adopted budget includes estimated revenues of $2.4 million from the sale of property. Revenue from the sale of property is non-recurring (one-shot) revenue that will be received in one year, but will not likely recur in the following year. This type of revenue should not be used to fund recurring operating expenditures, but rather to reduce debt or to fund non-recurring expenditures, such as the purchase of equipment or construction of capital assets. If the property is not sold, the County will experience a revenue shortfall of $2.4 million in 2013.

Tax Overlay

The County has not made an allowance for uncollectible taxes in the 2013 adopted budgeted. County officials feel that the $500,000 contingency appropriation in the adopted budget will cover any uncollected taxes. However, the average annual amount allocated to uncollected taxes from fiscal years 2008 through 2011 was $2.2 million. Therefore, it is unlikely that the contingency appropriation will be sufficient to cover uncollected taxes. This will probably leave the County with no flexibility to address other revenue shortfalls or unforeseen expenditures. The County should consider adjusting the budget to include a reasonable amount for uncollected taxes.

Personal Services

The 2013 budget appropriation of $158 million for personal services appears to be insufficient. County officials have consistently underestimated personal services costs in the past and then over-expended the budgeted amounts, with the largest over-expended amounts in the general and hospital funds. For the five year period 2008 through 2012, the County over-expended personal services for the general fund by an average of $8.1 million and the hospital fund by an average of $2.1 million. If personal services remain at the 2012 level for 2013, the County will over-expend the amount budgeted for 2013 by a total of $7.4 million for the general and hospital funds[8] and by $9.3 million for all funds. However, these amounts do not include the savings budgeted for the early retirement incentive discussed below. County officials should reassess personal service costs and take necessary action to ensure that costs will be in line with appropriations.

Early Retirement Incentive

The County is offering an early retirement incentive for the 2013 fiscal year. The County budgeted salaries as if no employees were taking the incentive and then accounted for a savings of $4.3 million in a separate budget account as a negative expenditure amount. Once employees take the incentive, the savings will be allocated depending on the department from which the employees retired. County officials will need to monitor this closely and take necessary actions to reduce other appropriations if it does not achieve the $4.3 million in early retirement savings.

The Legislature has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, the Legislature 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 the Legislature 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.

Very truly yours,

Steven J. Hancox
Deputy Comptroller
Division of Local Government and
School Accountability

cc: Stephen F. DeGroat, Commissioner of Finance
Steven J. Grogan, Deputy Budget Director
Laurence O. Toole, Clerk of the Legislature
Tenneh Blamah, Regional Chief Examiner

[8] Subsequent to the end of fieldwork, the County provided an estimate showing the personal service shortage for the general and hospital funds at $6.5 million as of April 10, 2013, which is $900,000 less than our estimate.