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November 10, 2015

Edwin Day, County Executive
Members of the Rockland County Legislature
Allison-Parris County Office Building
11 New Hempstead Road
New City, NY 10956

Report Number: B6-15-21

Dear County Executive Day and Members of the Legislature:

Chapter 468 of the Laws of 2013 authorized 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 its adoption or the last date on which the budget may be finally adopted, whichever is earlier. 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 (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 2016 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 2016 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 2016 fiscal year consisted of the following:

- Budget letter
- 2016 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	$539,530,750	$426,210,750		$113,320,000
County Road	$14,386,575	$14,386,575		
Road Machinery	$1,602,565	$1,602,565		
Hospital	$31,001,580	$31,001,580		
Sewer	$38,761,940	$37,807,180[a]	$954,760	
Internal Services	$25,893,670	$25,893,670		
Liability	$1,448,500	$1,448,500		
Unemployment	$0	$0		
Workers' Compensation	$4,285,600	$4,285,600		
Debt Services	$70,351,500	$65,228,500	$5,123,000	
Totals	**$727,262,680**	**$607,864,920**	**$6,077,760**	**$113,320,000**

[a] This includes $12,412,985 of sewer property benefit tax.

Based on the results of our review, except for the matters described in this letter, 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 $29.9[1] million in the general fund at the end of the 2014 fiscal year that was not liquidated by the obligations issued pursuant to Chapter 468 of the Laws of 2013. County officials project the deficit will be approximately $24.7 million at the end of the 2015 fiscal year. In 2014, the Legislature adopted a local law to pay down the outstanding deficit by $4 million annually until the deficit was extinguished. Irrespective of the validity of that local law, the County must have a plan to reduce this deficit over a specific period of time. The 2016 proposed budget does not include provisions for this. County officials stated that they intend to use the 2015 projected surplus of $12 million to reduce the deficit. In addition, they stated that any surplus from the 2016 budget will be applied to the deficit.

Sale of Real Property

The 2016 proposed budget includes estimated revenues of $4 million from the sale of property, which is non-recurring (one-shot) revenue. It is not a sound financial practice to fund recurring expenditures with one-time revenues. As of the end of fieldwork, the property for anticipated sale has not yet been appraised for market value or listed for sale. As a result, the sale may not be finalized by the end of the 2016 fiscal year. If the property is not sold, the County will experience a revenue shortfall of $4 million in 2016. If this revenue is not realized, County officials will either have to find another revenue source or reduce appropriations accordingly.

Chargebacks

The 2016 proposed budget includes estimated revenues of $1.8 million for chargebacks to other governments for costs associated with out-of-county community college costs. These costs are incurred when a resident of Rockland County attends a New York State community college outside of Rockland County. The proposed budget includes a provision to bill the town of residence for each student to recoup this cost. The legality of this revenue source is in dispute between the County Executive and the Legislature. We make no comment on whether, under the Rockland County Charter, the County Executive and/or Finance Department may collect community college chargebacks from towns without approval of the Legislature. However, if this revenue is removed from the budget, County officials will either have to find another revenue source or reduce appropriations accordingly.

Early Retirement Incentive

The County is offering an early retirement incentive for the 2016 fiscal year. Appropriations for salaries in the proposed budget do not include a reduction for those employees who may take the incentive. Instead, the proposed budget includes a separate line item of $2.5 million, shown as a negative expenditure amount, which is the estimated salary savings expected for employees who participate in the incentive. The savings will be allocated to appropriate County departments when an employee takes the incentive and retires. County officials will have to monitor this closely and take necessary actions to reduce other appropriations if the $2.5 million in early retirement savings is not achieved.

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[1] The deficit amount is based on the 2014 audited financial statements.

Pension Costs

The County's 2016 proposed budget contains $30.4 million for payments due to the New York State and Local Retirement System (NYSLRS). NYSLRS allows municipalities to amortize certain pension costs as part of a stabilization program which spreads payments over several years. The County elected to participate in the program. However, the minimum payment permitted under the program for 2016 is $30.9 million. Therefore, the proposed budget underestimates pension costs by approximately $500,000. County officials should increase the appropriation for this expenditure to the required minimum payment. Such an increase will require County officials to find additional revenue or reduce other existing appropriations.

Hospital Fund

The County's 2016 proposed budget for the hospital is based on the anticipated closure of the hospital and nursing home by December 31, 2015. The closure plan submitted to the New York State Department of Health was approved on October 22, 2015. However, the possibility remains that the facility will not be fully closed by the end of 2015. Should this happen, the County will have to cover the associated operating costs which are not in the current budget.

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 $113.3 million which is 4.9 percent higher than the 2015 levy and exceeds the allowable tax levy limit increase of 0.73 percent. Therefore, the County Legislature must pass a local law overriding the tax levy limit before adopting the proposed budget or reduce the tax levy to comply with the law.

Recommendations:

The County Executive and the Legislature should:

1. Develop and implement a formal plan that will result in the elimination of the County's accumulated deficit over a specified period of time.
2. Consistent with a plan to reduce the remaining deficit in the general fund, ensure that the 2016 adopted budget will result in a decrease of the deficit.
3. Assess the likelihood of the planned sale of property being completed by the end of the 2016 year. Consider replacing this revenue with other revenue or reducing appropriations if necessary.
4. Monitor the early retirement incentive closely and take necessary actions to reduce other appropriations if it does not achieve the projected $2.5 million in savings.

5. Assess the sufficiency of the appropriation for employee pension costs and increase the appropriation as necessary.
6. Assess the hospital closure plans and consider including an appropriation in the budget to cover potential costs if it does not close as planned.

As noted previously, the Legislature has the responsibility to initiate corrective action to address the recommendations in this report. We request that you provide us with a copy of the adopted budget.

In addition, pursuant to Section 35 of New York State 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 hope that this information is helpful to you as you adopt the upcoming budget for the County. If you have any questions on the scope of our work, please contact Ms. Tenneh Blamah, Chief Examiner of the Newburgh Office, at (845) 567-0858.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Stephen F. DeGroat, Commissioner of Finance
Steven J. Grogan, Deputy Budget Director
Paul Piperato, County Clerk
Members of the Rockland County Legislature
Laurence O. Toole, Clerk of the Legislature
Hon. Herman D. Farrell, Jr., Chair, NYS Assembly Ways and Means Committee
Hon. Kenneth Zebrowski, NYS Assembly
Hon. Ellen Jaffe, NYS Assembly
Hon. James Skoufis, NYS Assembly
Hon. Karl Brabenec, NYS Assembly
Hon. John A. DeFrancisco, Chair, NYS Senate Finance Committee
Hon. David Carlucci, NYS Senate
Hon. William J. Larkin Jr., NYS Senate
Mary Beth Labate, Director, Division of the Budget
Andrew A. SanFilippo, Executive Deputy Comptroller
Tenneh Blamah, Chief Examiner