

**COUNTY OF ULSTER,
NEW YORK**

**Analysis and Review
of the
Proposed 2011 Budget**



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

November 9, 2010

The Honorable Frederick J. Wadnola,
Chairman of the Legislature
The Honorable Richard A. Gerentine
Chairman Budget and Finance Committee
Ulster County Legislature
County of Ulster
244 Fair Street
Kingston, New York 12401

Dear Chairman Wadnola and Chairman Gerentine:

In accordance with the Ulster County Charter, the Executive presents his budget for the subsequent year to the Legislature for consideration. The Executive has conveyed his policies, both mandated and discretionary, through the budget document. The Legislature is afforded the opportunity to adopt the budget as presented, or to make certain changes through budget modification.

The proposed spending plan for fiscal year 2011 is \$352.2 million, an increase of \$2.9 million (less than a 1% increase) as compared to the adopted budget for 2010. The budget as proposed contains no increase in the property tax levy. In addition, the County-wide Assessed Valuation increased, therefore, tax rates will decrease in 2011. The increase in Assessed Valuation would have allowed the County to raise the tax levy \$490,000 without increasing tax rates County-wide. Sales tax increased \$4 million, or 5% as compared to the adopted budget for 2010. Of course, since the County shares a portion of sales taxes with the City of Kingston and its Towns, an adjustment increasing the sales tax distribution has also been incorporated as a result

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of projected increased estimates in County collections. As of the date of the latest sales tax payment, 2010 collections have increased by 5.63% over 2009 collections. The County is anticipating this increase to continue through the end of 2010, and increase an additional 2% in 2011.

The 2010 budget funded 1857 benefitted positions while the 2011 budget funds 1,785 benefitted positions, excluding the Golden Hill Nursing Home. The proposed budget eliminates 75 positions, 33 positions that opted for the early retirement incentive, 36 vacant positions and 6 occupied positions. Three positions were added in the Jail in order to offset overtime. There are no amounts budgeted in 2011 for salary increases or retroactive salary increases on expired contracts. As of December 31, 2010, all labor contracts will be expired, including CSEA, the County's largest Union.

The proposed budget provides increased appropriations for the Golden Hill Health Care facility of \$3 million, \$5.2 million in Employee Benefits (State Retirement \$2.9 million and Hospital and Medical \$1 million) and \$3.2 million in Debt Service Payments. The increases in hospital and medical were offset by the proposal to switch to a self-insured plan, thereby saving approximately \$1.5 million.

In order to offset these increases, a variety of reductions are proposed as follows:

- Buildings \$ 864,446
- Social Services 1,516,667
- Mental Health 543,433
- Contingency 206,100

Exhibits 1(a) and 1(b) provide changes in appropriations and estimated revenues.

The proposed budget continues to rely upon the appropriation of fund balance (surplus accumulated from prior budget years) to help to provide resources to balance the proposed spending plan. A comparison of the 2011 and 2010 years is as follows:

	<u>2011</u>	<u>2010</u>
General Fund	\$ 12,000,000	\$ 5,806,357
Enterprise - Golden Hill	-	3,409,404
County Road Fund	-	820,000
Road Machinery Fund	-	369,044
Debt Service Fund	-	1,975,000
	<u>\$ 12,000,000</u>	<u>\$ 12,379,805</u>

As provided in the comparison of the proposed budget to the adopted budget, there is more reliance upon the use of fund balance in the General Fund, \$6,193,643 to help finance the proposed spending plan. However, reductions in use of fund balance in other funds of \$6,573,448 results in a net decrease in the use of fund balance of \$379,805. The \$12,000,000 of appropriated fund balance in the General Fund represents 23% of the tax levy for 2011. If this fund balance is not available to offset taxes in 2012, the General Fund tax levy will increase by 23%, assuming no other increases in spending in 2012.

As the appropriating and policy determining body, the Legislature is obligated to review and analyze the Executive's proposed spending plan and the methods of financing. It has been our charge from the Legislature to evaluate the budget with the understanding that the County's financial stability is of paramount importance. Our focus is financial in nature and does not encompass policy issues, which are the purview of the Legislature. Revenues are identified by source and include such major categories as sales tax, departmental revenue, and Federal and State support. Departmental revenues budgeted for fiscal year 2011 are compared to fiscal year 2010 estimates and significant variances are reviewed. Most Federal and State revenues are evaluated as part of our overall departmental reviews. Those, which are categorical in nature, are reviewed for reasonableness. Expenditures of significant departments and or programs within departments are also reviewed. Since personnel costs represent a major portion of expenditures, they are evaluated on an aggregate basis. Fringe benefits are similarly reviewed on a countywide basis.

Our review is not restricted to areas which may result in tax savings. We are cognizant of the Legislature's concern to maintain financial integrity and promote stability. For this reason, we not only review areas of potential savings, but also those areas, which may prove insufficient to provide adequate resources in light of current projections.

We look forward to meeting with the Legislature to discuss our findings.

Very truly yours,

O'Connor Davies Munns & Dobbins, LLP

O'Connor Davies Munns & Dobbins, LLP

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REVENUES

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REVENUES

Sales Tax Revenues

Sales tax revenues comprise the largest single component of the revenues segment of the budget. We project the County's share of sales tax revenue for 2010 to be \$81.4 million, which is approximately \$1.9 million more than the 2010 adopted budget of \$79.5 million. As of October 19, 2010, the date of the latest sales tax payment, collections from New York State were up an average of 5.63% from 2009. The first, second and year to date third quarters of 2010 experienced a 4.05%, 11.06% and (3.17%) increase (decrease) in collections from 2009 to 2010. Our 2010 projection through the remainder of the year assumes that payments in the fourth quarter will increase by 2% over 2009 amounts.

The County anticipates \$83.5 million from sales tax revenues in the 2011 budget. In deriving this estimate, the County projected a growth rate of approximately 2% above its 2010 projection of \$82 million, for a total of \$83.5 million.

In deriving our estimate for next year we also increased our 2010 projection by 2.0% for a total of \$83.5 million. Every one percent increase above our base 2010 projection represents approximately \$800,000. In summary, we recommend no change to the 2011 proposed budget for sales tax revenues.

Included in the 2010 adopted budget and 2011 proposed budget is a "gross-up" of sales tax to be shared with the local governments within the County. This revenue that is to be shared with the various municipalities is offset by an expenditure included in the budget. Based on our 2010 revenue projection of \$81.4 million, we have projected the expenditure for the portion due to the various municipalities to be \$13.8 million, which is \$300,000 more than the adopted budget of \$13.5 million. Based on our 2011 revenue projection of \$83.5 million, we estimate the portion due to the local governments to be \$14.2 million, which approximates the proposed budget. Therefore

no change to this line item is proposed since any positive variances in expenditures will be directly offset by deficits in revenues.

Earnings on Investments

The County, for the 2009 fiscal year, generated approximately \$251,000 in General Fund earnings on investments. As a result of the economy we expect interest rates to remain low for the 2010 fiscal year and we believe the investment program of the County should generate approximately \$150,000 by year-end, which is \$150,000 less than the 2010 adopted budget of \$300,000.

County management has indicated that the interest rates earned on deposits in 2010 average .33% on cash and certificate of deposit accounts. We applied this estimated rate of return to the projected cash balance that will be available for investment during the 2011 year.

Our projections assume the average monthly balance available for investment will remain at approximately the same amount as in 2010, with an average interest rate of .33%. Based upon these two assumptions, we project interest earnings to be \$150,000 for 2011, which is \$50,000 less than the proposed budget. Therefore, we recommend a decrease of \$50,000 to earnings on investments for the 2011 fiscal year.

Interest and Penalties on Real Property Taxes

The 2011 budget includes an estimate of \$3.7 million for interest and penalties on real property taxes, which is unchanged from the amount budgeted in 2010. Revenues earned through September 30, 2010, are \$3.6 million. Based on these collections we anticipate that the County will collect \$4 million in 2010, which is approximately \$300,000 more than the amount contained in the adopted budget.

In deriving our 2011 estimate, we held our 2010 projection of \$4 million at the same amount due to the economy and the slow tax collections. Based on this method, we believe that 2011 estimated collections of \$4 million will exceed the proposed estimate of \$3.7 million by \$300,000. We therefore recommend an increase of \$300,000 to the 2011 budget.

Hotel/Motel Occupancy Tax

The 2011 budget includes an estimate of \$975,000 for hotel taxes, as compared to \$950,000 for the 2010 year. Based on nine months of collections, we project total revenues to be approximately \$950,000 during 2010, which approximates the adopted budget.

In deriving our estimate for the 2011 year, we utilized our 2010 projection and anticipated no growth. Based on this methodology we estimate the County's collections will approximate the 2011 budget of \$975,000. Therefore we recommend no changes to the 2011 proposed budget for hotel/motel occupancy tax.

Off-Track Betting

The 2011 budget includes a \$350,000 estimate for off-track betting ("OTB") revenues, which is unchanged from the amount budgeted in 2010. Revenues realized for 2009 were \$263,000, which were \$205,000 less than 2008. As of September 30, 2010, receipts totaled approximately \$256,000 approximately \$67,000, or 35% higher than the same period in 2009. Our projection through the remainder of 2009 provides for an estimate of \$350,000, which approximates the 2010 adopted budget. It is difficult to project OTB revenues, as receipts are often erratic from the various OTB regions. However, trends have reflected a downward amount in this revenue. This may be attributable to video terminals and increased internet usage. Based on our 2010 projection and 2009 actual revenues, we will concur with the 2011 proposed budget.

Gain on Sale of Tax Acquired Property

The 2011 budget includes a \$500,000 estimate for Gain on Sale of Tax Acquired Property, which is unchanged from the amount budgeted in 2010. Revenues realized for 2009 were \$509,000, which were \$13,000 more than in 2008. Moreover, revenues earned in the current year through September 30th are \$446,000, or \$54,000 less than the 2010 adopted budget. As indicated by historical figures, substantially all revenues are earned by September 30th, as most acquired properties are sold at an auction held annually in April. Therefore, we do not project any significant additional revenues related to these sales to be earned through year-end although we can not be assured due to the nature of the revenue source. Based upon the amount earned in the past several years, and the amount earned as of September 30th we concur with the 2011 budget estimate.

Deferred Taxes/Tax Overlay

Governmental accounting principles provide that real property taxes may be accounted for as revenue if they are collected within the current fiscal period or within sixty days subsequent to the end of the fiscal period. All property taxes not collected within this time frame cannot be reflected in the financial statements as revenue. The tax overlay in the 2010 and 2011 budget was \$125,000 and \$750,000, respectively. County management has indicated that this overlay represents an estimate of taxes that will never be collected rather than amounts that will not be collected within the sixty day availability period used for financial statement purposes. Management has also indicated that it has been the County's policy to fund all taxes not collected within the sixty day availability period from fund balance. The 2009 shortfall was \$2.8 million. Based on current economic conditions being experienced throughout the region, we believe that collections in 2010 will be similar. We therefore project a shortfall of \$2.8 million for 2010. This projected shortfall is net of the amount provided in the 2010 budget. We project that 2011 collections will improve since taxes are now beyond the two year due date that will enforce collectability. However, we still recommend that the

County include a greater tax overlay in the 2011 budget. This is of particular importance since the current practice of relying upon fund balance accumulated from prior years will serve to deplete the amount of undesignated fund balance rather quickly in this economic downturn. We, therefore, suggest that the County budget an additional tax overlay of \$500,000.

County Clerk Fees

The County Clerk collects a variety of fees for services rendered to the general public. These fees are related to mortgage recording and processing, deeds, passport applications, business certificates, notary public commissions and motor vehicle fees. County clerk fees are divided in the budget between the recording division and the motor vehicle division.

The 2010 adopted budget for the County Clerk fees in the recording division are \$2.3 million which approximates the 2009 budget. Our projected 2010 revenues of \$1.8 million are based on nine months of collections which were then annualized, resulting in an amount that is \$500,000 less than the adopted budget. Our 2011 projection is based on the 2010 projection with no growth which is \$200,000 less than the 2011 proposed budget of \$2 million. We therefore recommend a \$200,000 decrease to the proposed County Clerk fees for the recording division.

The 2010 adopted budget for the County Clerk fees in the motor vehicle division is \$900,000 which is \$150,000, or 20% greater than the 2009 budget. This increase is based on New York States estimated 2010 collections for the County which takes into account the Department of Motor Vehicles one time license plate re-issuing fee which is effective April 2010 for originals and for renewals expiring May 2010 or later. Our 2010 projections are \$1 million based on the amount collected as of September 30th which is \$100,000 more than the 2010 adopted budget. Our 2011 projection is based on the 2010 projection with no growth which is \$100,000 greater than the 2011

proposed budget of \$900,000. We therefore recommend a \$100,000 increase to the proposed County Clerk fees for the motor vehicle division for 2011.

Public Safety Administration - Emergency "911"

The County's records reflect that surcharges of \$.35 per month, per phone line and per Voice over Internet Protocol ("VOIP") phone line have been charged in 2010 and \$.30 per month, per cellular phone line have been charged in 2010.

The 2011 budget includes an estimate of \$670,600 for services provided in the "911" area, which is slightly under the 2010 budget of \$684,000. This estimate is based on the fact that the County expects revenues from this source to remain relatively consistent from this point forward. Based on nine months of collections, we project total revenues to be approximately \$624,000 during 2010, which is \$60,000 less than the adopted budget. Although there may be increases in cell phone lines and VOIP lines, there may be a decrease in land line usage. Additionally, surcharges are not expected to increase during 2011. The only factors that could affect these revenues are increases in population or economic growth. Based on our analysis, we believe the proposed budget is attainable, and recommend no changes.

Tobacco Revenues

In prior years the County sold its rights to tobacco revenue that it would have received, under the terms of the Master Settlement Agreement ("MSA"), to the Ulster County Tobacco Securitization Corporation ("UTASC"). In exchange for the sale of its future rights under the MSA, the County received proceeds from the bonds issued by UTASC, which it used to defease principal and interest on various outstanding serial bonds. In addition, the County was to receive, annually, any excess revenues received by the UTASC, after the payment of the debt on the UTASC bonds and administrative expenses (residual payments).

In 2003 and 2004 two separate “downgrade trapping events” occurred and as a result the County has not been entitled to receive any residual payments since that time. Since 2008 the trapping events have ended and the County was entitled to receive residual payments by the end of 2009. However, according to the audited financial statements at December 31, 2009, there were no residual amounts available to be used in the General Fund. Management has indicated that all the future residual payments are expected to remain in the UTASC and will not be recorded in the General Fund, therefore the County has not budgeted any amounts in the 2010 or 2011 budget for residual tobacco payments.

Jail

Inmate Board-Ins

The County receives funds from surrounding Counties and the U.S. Marshalls for housing inmates in its facility. In 2010 and 2011 Ulster County will receive \$102 per day from the U.S. Marshalls and \$85 per day from surrounding Counties for board-in revenues.

The County’s monthly average board-in population for 2010 is approximately 45 inmates; the U.S. Marshalls average 8 inmates and surrounding Counties average 37 inmates. Based on our calculation of average board-in inmates at their daily rates we project approximately \$1.45 million in revenues, or \$100,000 less than the 2010 adopted budget of \$1.55 million. The 2011 proposed budget of \$1.35 million is 13% less than the 2010 budget based on the County’s assumption of reduced board-in revenues from Dutchess County and the addition of beds in Albany and Rensselaer County jails, which resulted in board- in inmates to Ulster County jail decreasing. Our 2011 projection of \$1.25 million is based on the 2010 projection of approximately \$1.45 million with a rate of decrease of 13% which is consistent with the County’s assumptions. We therefore recommend a decrease of \$100,000 to the proposed budget.

Golden Hill Health Care Center

The Golden Hill Health Care Center (“the facility”) is an enterprise fund and is therefore operated separately from the operating funds of the County. The facility is a 280 bed nursing home providing rehabilitation and skilled nursing care services to residents. The operating revenues of the facility consist of Medicare, Medicaid and private pay reimbursements. Non-operating revenues consist of cash contributions from Ulster County, when necessary, as well as Intergovernmental Transfers (“IGT”).

Operating Revenues

For the 2009 fiscal year the operating revenues consisted of Medicare, Medicaid and private pay reimbursements in the amounts of \$3.3 million, \$15.8 million and \$4.1 million, respectively. The 2010 budget provides for \$3.1 million in Medicare reimbursements, \$13.6 million in Medicaid reimbursements and \$5.5 million in self pay reimbursements. We have examined year to date revenues for these three categories and projected them through the end of the year based on current census data and average rates provided by the facilities management. Based on our projections, these three categories will approximate the adopted budget. Our projections assume that the current census data for 2010 will continue for the remainder of the year and rates will not change through the remainder of the year.

The 2011 proposed budget contains estimated revenues of \$2.3 million for Medicare, \$14.4 million for Medicaid and \$5.3 million for self pay reimbursements. These three categories combined represent a decrease of \$.2 million, or 1% less than the 2010 budget. The 2011 proposed budget assumes annual bed usage of approximately 98,112, or 96% of the available beds with a client mix of 75% Medicaid, 8% Medicare and 17% self pay. Our projection of the bed usage for 2010 is 98,112, or 96% usage of the total beds. The current client mix is 77% Medicaid, 8% Medicare and 19% private pay.

The 2011 rate for Medicaid, the largest component of the operating revenues, is based on certain assumptions predicated by New York State that are outside of the control of the County. The assumptions that the County has used in estimating the Medicaid rate consisted predominately of using New York Association of Homes & Services for the Aging ("NYAHS") Medicaid rate estimator for the April 1, 2009 through March 31, 2010 and assuming the continuation of that rate through the end of 2010. As of July 1, 2011, New York State will be using a different rate methodology that incorporates a transition to new rates. The transition to these new rates will follow a phase out from the old rates. New York State will indicate the pattern of the transition to the new rates, but to date, this transition pattern is unknown. The best assumption the County can make regarding Medicaid rates for 2011 is to continue the rates through the end of 2010, which also are not yet finalized. In summary, given the uncertainty of the Medicaid rates for the 2011 year, we recommend no changes to the operating revenues in the 2011 proposed budget.

Intergovernmental Transfer (IGT) Revenues

The IGT program provides funding to the facility in exchange for payments from the Medicaid Management Information Systems ("MMIS") expenditure code within the Department of Social Services ("DSS"). The facility budgets the IGT expenditure within DSS as well as a transfer in from the facility. The result is no net effect to the DSS budget. The facility in turn budgets a transfer to DSS for the amount of the expenditures and revenue for the total amount to be received from the federal government.

In 2010 the facility budgeted \$4.46 million for IGT revenues and \$2.23 million for expenditures. For 2011, the budget for revenues are \$4.1 million and \$2.05 million for expenditures. The County has not received any correspondence from the New York State Department of Health to date regarding the Upper Limit Payment amount to be received. However, the legislation regarding IGT funds is still in effect, and therefore, the County will be receiving IGT funds in 2011. The County estimated the IGT revenue

for 2011 based on an average 5.42% increase in the IGT by State Fiscal Year from 2007-2010. Based on this information, we propose no changes to the amounts budgeted.

Department of Public Transportation

Auto Fuel Expenditures

The Department's 2011 proposed budget for auto fuel expenditures is \$503,000, which is consistent with the 2010 adopted budget of \$487,000. The 2010 adopted budget is approximately \$200,000 more than our projection of \$287,000. While the 2011 proposed budget is \$503,000, we have projected expenditures to approximate \$350,000, and thus recommend decreasing the budgeted amount by \$150,000.

Fare Box Revenues

The Department's 2011 proposed budget for transit fares is \$390,000, which represents a 7% increase, or \$25,000, from the 2010 adopted budget of \$365,000. The 2010 adopted budget of \$365,000 is approximately \$75,000 more than our projection of \$290,000. While the 2011 proposed budget is \$390,000, we have projected revenues to approximate \$360,000. While there are no new routes or rate increases there has been some route expansion and fee restructuring thus supporting the budgeted increase. Therefore, we will not recommend changes to the 2011 proposed budget.

Certified Home Health Agency (CHHA) and Long-Term Home Health Care Program (LTHHCP)

The County, in July 2010, approved the sale of the CHHA and LTHHCP licenses to a third party. The sale is expected to generate a total cash infusion of \$1.4 million, \$1.1 million when the sale is finalized and the remaining \$300,000 in 2012, plus interest. Because the proceeds from the sale were not budgeted and the sale is expected to be

finalized in 2010, the County is projecting this amount to create a \$1.1 million surplus in 2010. This projection is contingent on New York State Department of Health ("NYSDOH") approving the sale before the end of the 2010 fiscal year. County management has indicated the approval from NYS DOH and closing on the sale is expected to occur in December 2010. We therefore concur we the County's projection of a \$1.1 million surplus for 2010.

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EXPENDITURES

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EXPENDITURES

Personal Services

The primary purpose of government is the delivery of mandated and discretionary services. Many of the services provided are furnished directly by County employees. Personal service costs, inclusive of salaries and overtime, in 2010, to fund 1,854 benefited positions, are budgeted at a cost of \$97.2 million, which is inclusive of \$15.5 million for the Golden Hill Health Care Facility. The 2009 adopted budget totaled \$96.7 million to fund 1,940 benefited positions, which was inclusive of \$14.5 million for the Golden Hill Health Care Facility. Salary costs, inclusive of overtime approximates 26.69% of the 2011 proposed budget. The inclusion of fringe benefits, which are directly related to personal service expenditures, increases this percentage to 38.85%. The personal service categories provide County management with the greatest opportunity for flexibility. This flexibility results from the timing and control of filling vacant positions and adopting retirement incentives. Savings created from the personal service categories generate savings in the employee benefit categories, as well.

The first step in our approach to analyzing personal services is directed at determining additional savings. To accomplish this objective, we analyzed total personal service costs through the latest available payroll register and annualized this amount to project total personal service costs for the year. We compared the 2010 projected amount to the 2010 adopted budget to estimate the gross variance between projected actual salaries and the adopted budget for salaries for the year. Differences between projected salaries and the budget are usually attributed to various events such as elimination of previously funded positions, terminations and retirements. For example, included in the 2011 proposed budget is an Early Retirement Incentive, effective January 1, 2011. As of now, approximately 34 eligible County employees have indicated that they will be electing the early retirement incentive creating a savings in 2011. Five of the eligible employees have already taken the retirement incentive in

2010. In addition to the early retirement incentive, the elimination of 34 vacant positions and the elimination of 5 currently occupied positions will also result in additional savings. Upon further examination of vacant positions, there are 2 positions proposed for elimination were not vacant as of October, 2010 and therefore would not result in savings for the County. An additional 8 positions proposed for elimination were currently held for most of the year and subsequently became vacant and will also not be considered a savings for the County.

In summary, our analysis indicates that total salaries less overtime for 2010 will aggregate approximately \$76 million, exclusive of our projection for the Golden Hill Health Care Facility of \$14.7 million. Our projection for total salaries for 2010 exclusive of overtime and Golden Hill Health Care Facility is approximately \$2.9 million less than the 2010 adopted budget.

The second step in our approach is to compare our 2010 projected salaries, plus or minus any adjustments for contract settlements, step increases, positions not funded, etc., to the County's 2011 proposed budget. The 2011 proposed budget for salaries, less overtime is \$91.7 million, inclusive of the Golden Hill Health Care Facility of \$15.3 million. This is approximately \$950,000 more than our 2010 projected expense of \$90.7 million.

The final step in our approach is to compare the 2011 proposed budget to our 2011 projected salaries. The 2011 projected salaries less overtime is \$75.7 million, exclusive of the Golden Hill Health Care Facility of \$15.1 million. This is approximately \$650,000 less than the 2011 proposed budget. Additionally, the County has a vacancy factor of \$250,000 budgeted as revenue, which reduces the actual vacancy savings by this amount.

In summary, our analysis indicates that possible additional savings from salaries in 2011 will be approximately \$400,000. We also anticipate savings of approximately

\$375,000 in related fringe benefit costs (see retirement costs). In total, we anticipate a salary and fringe benefit savings of \$775,000 for 2011.

Overtime

The actual 2010 expense for overtime of \$1.7 million through the latest pay period, annualized for the entire fiscal year results in a total of \$2.2 million. Our 2010 projection has been compared with the 2010 adopted budget total of \$2.2 million resulting in no variance.

The 2011 budget provides for overtime of \$2.1 million is a net decrease of approximately \$76,000 over the adopted budget for 2010. Based on the County's reduced number of employees from the prior year, we anticipate that the overtime of current employees would increase in order to fill obligations left vacant by the decreased personnel. However, management has indicated that the County hired three new jail employees, which has historically been a major source of overtime. In summary, our projection for overtime in 2011 approximates the 2011 proposed budget of \$2.1 million, and therefore, we recommend no change.

Labor Contracts

Effective January 1, 2011 the following labor contracts will be expired:

Staff Association

CSEA

Sheriff's Association

Police Benevolent Association

NYSUT/Ulster County Staff Association

Superior Officers' Unit

It has been the past practice of the County to not budget for retroactive settlements of labor contracts and utilize fund balance to fund settled contracts.

Jail

The average prisoner census for the nine months during the current year has averaged 332 prisoners per month as compared to 305 prisoners per month for the same period last year. During the current year, the monthly average has been ranging from a low of 299 prisoners to a high of 347 prisoners.

A comparison of the prisoner population by month for the current and preceding year is presented as follows:

	<u>Average Monthly Prisoner Population</u>		
	<u>2009</u>	<u>2010</u>	
January	301	299	
February	323	318	
March	314	342	
April	315	347	
May	309	335	
June	307	329	
July	299	334	
August	299	344	
September	277	340	
October	267	324	estimated
November	288	324	estimated
December	<u>285</u>	<u>324</u>	estimated
Average	<u>299</u>	<u>330</u>	

Food Costs

The proposed 2011 budget includes an appropriation of approximately \$587,000 to provide food for the inmates and correction officers on each respective tour. The jail has contracted with Aramark to provide food services and has two County kitchen employees. The appropriation for food services in 2011 is based on a contracted per meal charge for inmates of \$1.46 and a per meal charge for staff of \$2.00. We based our 2010 projection on a monthly jail population of 330 inmates and a cost per meal for inmates of \$1.46 and a cost per meal for staff of \$2.00. We project 2010 food expenditures to amount to approximately \$630,000, which approximates the 2010 budget. Our 2011 projection of \$630,000 is based on the assumption that the average inmate/officer population will remain constant as compared to the prior years with a per meal charge for inmates of \$1.46 and a per meal charge for staff of \$2.00. The cost per meal is based on the number of inmates, and as the number of inmates increases, the cost per meal decreases. Our 2011 projected food expenditures are in line with the 2011 budget.

Certiorari

The County in recent years has incurred annual expenditures for assessment reductions through certiorari proceedings. During the past five years this cost has ranged from a high of approximately \$480,000, in 2009, to a low of \$15,000. Of the \$480,000 expended in 2009, \$467,000 was related to one tax certiorari claim. The average amount expended, exclusive of the \$467,000, over the past five years was approximately \$60,000. The current year expenditures through September 30th are approximately \$38,000. The Finance Department has stated that there are no pending certioraris that may materially affect the current 2010 expenditures. The County does not budget for potential certiorari expenditures, therefore we project that there will be a budgetary short-fall in 2010 of approximately \$50,000. Due to the unpredictability of requests for assessment reductions and their ultimate resolution in the courts, we can

not project 2011 expenditures. However, we do suggest that the County include an amount of \$75,000 in the 2011 budget so that funds are available if needed.

Retirement Costs

The County's contribution to the New York State Employees Retirement System (the "System") is dictated by the rates set by the System. For the New York State sponsored employee pension plan for the year ending March 31, 2012, which covers the majority of the County's employees, the rates range from 12.7% to 24.1% of covered salaries. These rates apply to the final nine months of the 2011 calendar year. For the plan year ending March 31, 2011, rates range from 11.3% to 18.4%, with more than 68% of salaries at the lower percentage.

Based on the analysis of estimated payroll costs for 2010 and applying a two year average rate, we project 2010 expenditures to be \$10.2 million. This is approximately \$800,000 less than the 2010 modified budget of \$11 million.

We reviewed the 2011 projected salaries which includes an overall reduction in the workforce of 76 positions as proposed by the County Executive. 34 of these positions are currently vacant and 40 positions would be eliminated through layoffs and the retirement incentive. In computing the estimated retirement costs for 2011 based on these assumptions, we project that the retirement costs would approximate \$10.37 million, which includes savings from the 34 county employees accepting the retirement incentive. This is approximately \$375,000 less than the amount in the 2011 proposed budget.

Health, Dental and Vision Benefits

Our approach in analyzing appropriations for employee benefits in the 2011 budget was to analyze both financial and participant information. Utilizing this information, we

projected costs for the 2010 year and reviewed assumptions made in preparation of the 2011 budget.

Health Insurance

In 2010 and prior years the County has provided health benefits under an Empire Blue Cross Blue Shield POS plan (point of service) and an Empire Blue Cross Blue Shield PPO plan (preferred provider organization) for employees as well as several other plans for retirees. Starting in January 2011, the proposed budgeted appropriation for health benefits is based on a change to a modified self insurance plan, which will be administered by the same providers. The benefits in the offered plans will remain the same under the modified self insurance plan. The benefits include health insurance for employees of the County, the College and their dependents. In addition, the County provides dental and vision insurance for all employees. However, for purposes of this budget, the County does not account for the College's share of health benefits.

To project 2011 expected costs for the self insurance plan, an actuarial firm provided the County with data based on a three year history. The expense to the County in 2011 will consist of actual claims incurred, an administrative fee and stop loss insurance for claims in excess of \$225,000. The County will not be liable for the amounts in excess of \$225,000 for any individual claim.

The 2010 budget appropriation for the health insurance plans for active employee enrollment of 1,502 and retiree enrollments of 651 is \$19.6 million. The projected expenditure for the current year is \$19.6 which approximates the budget. The 2011 proposed budget includes appropriations under the modified self insurance plan of \$20.9 million which is a \$1.3 million more, or a 7% increase over the 2010 adopted budget. Based on information from the New York State Department of Civil Service, the projected rates for the Empire plan for 2011 would increase from an "optimistic" rate of 13.3% to a "pessimistic" rate of 19.1%. Utilizing this information and information provided to us by the Budget Department, the cost to the County, if they remained in

the Empire Plan, would be approximately \$850,000 to \$2.0 million more than the cost under the modified self insurance plan. Based upon our analysis of the current year health benefit expenditures and 2011 assumptions, we project the 2011 expenditures to approximate the proposed budget.

Medicare Reimbursements

The 2010 budget appropriation for Medicare reimbursements to retirees and their spouses for 491 retirees is \$255,000. The projected expenditure for the current year is \$188,200, which is approximately \$67,000 less than the current year modified budget. The 2011 proposed budget includes appropriations for the Medicare reimbursement to retirees of \$255,000, which is equal to the current year modified budget. We project the 2011 expenditures to approximate \$294,600, which is in a reasonable range with the amount proposed. Therefore, we recommend no change to the proposed budget.

Dental Benefits

The 2010 budget appropriation for dental benefits is \$1.07 million. The projected expenditure for the current year is \$1.13 million an amount that is approximately \$60,000 greater than the budget appropriation. The 2011 proposed budget includes appropriations for dental benefits of \$1.07 million, an amount approximating the 2010 appropriation. Based upon our analysis of the current year expenditures for dental benefits and 2011 assumptions, we project the 2011 expenditures to approximate the proposed budget.

Vision Benefits

The 2010 budget appropriation for vision benefits is \$238,270 which approximates the projected expenditures of \$243,233. The 2011 proposed budget includes appropriations for vision benefits of \$230,600, which amount is consistent with the 2010 budget appropriation. Based upon our analysis of the current year vision benefits

expenditures and 2011 assumptions, we project the 2011 expenditures to approximate the proposed budget.

Social Security Benefits

Social security benefits are comprised of two components; a social security rate of 6.2% and a Medicare rate of 1.45% for a combined rate for 2011 of 7.65%. This is the same rate as in 2010. For 2011, the social security rate of 6.2% will be applied to a maximum of \$106,800 of wages, while the Medicare rate of 1.45% has no taxable base limitation.

We anticipate that the 2010 expenditures for social security and Medicare will be \$7.05 million which is approximately \$350,000 less than the adopted budget of \$7.4 million.

The County's total budgeted payroll costs for social security benefits for 2011 are \$7.2 million. Based upon the amounts budgeted for personal services in 2011, along with the rates which will be in effect for 2011, we project the social security and Medicare costs to approximate the proposed budgeted. Therefore, we recommend no change to the 2011 proposed budget.

Department of Social Services

The Department of Social Services ("DSS") provides mandated services to those residents who are unable to fully provide for themselves. DSS provides those services under three broad categories:

Medical Assistance
Public Assistance
Children's Services

The 2011 proposed budgeted expenditures of \$109.153 million for DSS is 31.00% of the total proposed County budgeted expenditures. New York State mandates define the majority of the services provided. Therefore, the County must continue its efforts to screen eligibility and to encourage participants to utilize the most cost effective of the services offered in order to control costs. The State has issued block grants for certain programs, and has also converted certain costs back to the counties in order for the State to meet federal welfare reform thresholds. Currently, it is prudent for the County to conservatively estimate its State and Federal revenues as well as the amount of program expenditures.

The methodology we used to evaluate the proposed 2011 budget consisted of analyzing both financial and participant information. Utilizing this information, we identified trends, projected costs and reviewed the assumptions made in preparation of the budget.

Revenues

Each service category has a distinct reimbursement rate based upon current rules and regulations promulgated by both the Federal and State governments. In addition, the State and Federal Governments have created block grants to fund the operations of certain programs.

The following schedule summarizes total DSS revenues (000's omitted):

Dollars

<u>Type</u>	<u>2009 Actual</u>	<u>2010 Original Budget</u>	<u>2011 Proposed Budget</u>
Federal	\$ 33,215	\$ 28,758	\$ 27,453
State	24,130	25,715	27,225
Other	9,268	9,683	10,269
County Taxation	<u>41,057</u>	<u>45,723</u>	<u>44,206</u>
Total	<u>\$ 107,671</u>	<u>\$ 109,878</u>	<u>\$ 109,153</u>

<u>Percentage</u>		2010	2011
Type	2009 Actual	Original Budget	Proposed Budget
Federal	30.85%	26.17%	25.15%
State	22.41%	23.40%	24.94%
Other	8.61%	8.82%	9.41%
County Taxation	<u>38.13%</u>	<u>41.61%</u>	<u>40.50%</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Expenditures:

Medical Assistance

Medical assistance is composed of two categories Medicaid Management Information System ("MMIS") and Medical Assistance. The proposed budgeted, \$34.5 million of medical assistance expenditures represent 31.6% of the total DSS budget.

Medicaid Management Information System

MMIS is the County's share of medical care and services to eligible participants. The costs are billed through New York State's Medicaid Management Information System. The County has no control over these costs and must fund 100% of this program.

Beginning with calendar year 2006, New York State inaugurated a new methodology for charging the local share of Medicaid. Counties will be charged a level weekly amount based on expenses incurred in calendar year 2005. The final calculation of the County's base expenditure for 2005 by New York State totaled \$29,791,186. This cap will be increased by 3.5% in 2006, 3.25% in 2007, and 3% each fiscal year thereafter. This growth rate is applied in a non-compounded manner. Should actual expenditures for any of these years total less than the capped amount, New York State will reimburse the County for the difference.

The payments to New York State for MMIS weekly shares will total approximately \$29.2 million in 2010. In addition to the expenditures included in the cap are expenditures for the County's share of intergovernmental Transfers totaling \$2.2 million for total MMIS expenditures of approximately \$31.4 million.

These costs are being offset by the additional Federal Medical Assistance Percentage ("FMAP") payments to New York State by the Federal government through December 2010, which are allocated to the counties based on their share of Medicaid expenses as of September 2008. The offset in 2010 is estimated to total \$5.3 million, with 20% of the allowable FMAP offsets being withheld by New York State pending reconciliations. These reconciliations had not been issued at the time of our engagement. The resulting savings to the County is \$1.3 million from the adopted budget.

The MMIS base will be increased by 3.00% in 2011, not compounded. This will result in capped expenditures of \$35.4 million. With estimated intergovernmental transfers of \$2.1 million, total expenditures for MMIS in 2011 are expected to total \$37.5 million. On August 10, 2010, the President signed Public Law 111-226, which enacted a six month extension of the FMAP. In general, the FMAP matching rate will be about 25% lower in the first quarter of 2011 and about 40% lower in the second quarter of 2011 as compared to 2010. The New York State Association of Counties ("NYSAC") in conjunction with Senator Schumer's Office have developed estimates on what the dollar impact might be from the recently enacted six month extension. Offsets are estimated at \$2.5 million for Ulster County. Based on the estimated FMAP, the net cost to the County would be \$35 million. These projections would result in savings of \$100,000 from the proposed budget of \$35.1 million.

It should be noted that in 2011, although a six month extension was granted, FMAP rates will be lower and MMIS costs will be higher unless an additional provision for increased FMAP is extended.

Family Assistance

This program provides financial assistance to eligible families with children deprived of parental support due to health, illness or other reasons. Although the number of cases in the non-service areas of family assistance and foster care have dropped sharply over the past ten years due to welfare-to-work efforts and five-year limits for coverage established by the Federal government, the number of cases has begun to level off in the past three years, and began to climb again in 2008. The number of cases in 2010 increased by 13% through September, and expenditures through September 2010 decreased by 10% in comparison to the same period in 2009. The County's case mix can result in an increase in the number of cases with a decrease in the number of expenditures, as noted above, due to the cost per case for the different types of cases. Based on the number of cases as of September 30, 2010 and the County's average cost per case we have projected 2010 expenditures for this program to be \$11.6 million, which is 4% lower than 2009, and \$900,000 lower than the adopted budget of \$12.5 million. The net savings to the County would be \$225,000.

The 2011 proposed budget of \$11.5 million reflects an 8% decrease from the 2010 adopted budget. Based on case counts increasing by 10% and the County's projected 2011 average case cost we project program expenditures of \$12.1 million which is approximately \$600,000 greater than the proposed budget, for a net shortfall to the County of \$150,000.

Safety Net

This program is a mandated program whereby eligible participants receive basic living grants. Burials are also expended from this relief category. This program serves Family Assistance participants who have reached the end of their eligibility for that program while still needing aid. The current growth in this program is driven by the amount of unemployment and the increase in eligible participants. Total expenditures increased by 32% in 2009 and are projected to increase by another 9.5% in 2010 to

\$7.5 million which is \$200,000 more than the 2010 adopted budget. This does not result in any additional cost to the County.

The 2011 proposed budget is \$7.4 million, a 2% increase from the 2010 adopted budget. The number of cases have increased 37% and 19% as of September 2009 and 2010, respectively. If the number of participants continues to increase, assuming a 10% increase in the number of cases at the County's 2011 projected average cost per case would result in expenditures of \$8.2 million, which is \$800,000 greater than the proposed budget. The State and Federal governments cover 50% of the basic living grants and the City of Kingston and the towns cover the remaining 50%, therefore we recommend no change to the 2011 budget.

The cost of burials is partially paid by New York State, but the remainder is paid by the County. Burials costs in 2008 and 2009 approximated \$300,000. Based on burials and burial costs as of August 2010 we concur with the 2011 proposed budget and recommend no change.

Childcare Division

Childcare is a broad category that includes Foster Care, Institutionalized Youth, Adoption Subsidies and Medical Maintenance. Also included in this department are: Handicapped Children program (school-age chargebacks from local schools), Pre-Kindergarten Handicapped Children, Early Intervention, and Medicaid adjustments to claims filed with New York State.

Child Care Program

Expenditures in 2009 were \$6.3 million which was an increase of 11% from 2008 and exceeded the 2009 adopted budget by \$1 million. The 2010 adopted budget is \$6.5 million, a 22.6% increase from 2009 adopted budget. Based on census date through September 30, 2010, which remained flat from the same period in 2009, we project

2010 expenditures to be \$6 million, a savings of approximately \$500,000 and a net savings of approximately \$100,000. We anticipate enrollment for 2011 to remain flat and using the County's average rate per enrollee we project expenditures to approximate \$6 million. Therefore, we are projecting a \$500,000 gross savings in the 2011 proposed budget of \$6.5 million with a net savings of \$100,000. New York State will set a new Maximum State Aid Rates ("MSAR") rate in April 2011 which will be retroactive back to June 2010. The MSAR rate has been increasing over the years and the department projects that the new April 2011 rates will be increased and the \$500,000 projected savings will be offset by this retroactive rate increase. We therefore propose no change to the 2011 proposed budget.

Handicapped Children Program

This program includes the charges by school districts for the expenses of the committees on special education for handicapped children. Charges in 2009 amounted to \$3.4 million which exceeded the 2009 adopted budget by \$400,000. The 2010 adopted budget is \$3.75 million, an increase of 25% from 2009. Based on the charges through September 30, 2010, which was 3% lower from 2009, we anticipate charges will amount to \$3.3 million. This projection results in a savings of \$400,000 and a net savings of \$150,000. Our projections for 2011 indicate that expenditures will approximate the 2010 projection. This is a reduction of \$400,000 from the proposed budget, which produces a net savings of approximately \$150,000.

Early Intervention Program

The Early Intervention Program serves children with developmental disabilities from birth through two years of age and provides remedial services in the child's natural environment, either at home or in a daycare center.

As part of our review of this Department, we looked at the trends of active enrollment in this Program. The average number of children actively enrolled in early intervention

increased by 4.7% from 2008 to 2009. The average number of children enrolled as of June 2009 was 403 and the average number enrolled as of the same period in 2010 is 392, a decrease of approximately 2.8%. Our projection for 2010 provides for no decrease in active enrollment and approximates the 2010 adopted budget of \$3.4 million.

Based on our evaluation of enrollments remaining flat and County's projected rates we project that expenditures for 2011 will total \$3.2 million which approximates the budget. We therefore propose no change to the 2011 proposed budget.

Handicapped Preschool Program

The preschool program serves handicapped children ranging in age from three to five years. The State has recommended that children be treated in the least restrictive environment as appropriate, beginning with services provided in the home or in daycare centers, then in integrated programs serving both handicapped and non-handicapped children, and finally in self-contained classrooms serving only handicapped children.

When a child requires transportation to a treatment location, the County must provide the resources. Nearly half the children in the preschool program are served at treatment centers and are transported by bus. In addition to those who receive center-based therapy, approximately half of the children served are treated by itinerant therapists who go to the child's home or daycare center to provide services. An evaluation is required for each child within the program, and progress is monitored by a service coordinator throughout the year.

As part of our analysis, we examined expenditures relating to the center-based programs, as well as itinerant services, costs of evaluations and one-to-one aides, all of which are included in our projections. Tuition rates charged by center-based programs are difficult to predict because New York State has not approved the final

rates on a timely basis. Year to date expenditures have been recorded on the basis of approved rates, which are from several years ago, rather than on provisional rates. We have analyzed expenditures as of September 30, 2010 and projected program costs of \$13.0 million, which is \$250,000 less than the 2010 adopted budget of \$13.25 million resulting in a net savings of \$50,000. For 2011 we project these costs to be \$13.5 million, based on estimated enrollment increases of 3%, which is \$250,000 greater than the 2011 budget of \$13.25 million. Our projection would result in a net cost to the County of approximately \$50,000.

Debt Service

The proposed 2011 operating budget reflects a budgetary provision of \$10.117 million for the redemption of indebtedness on serial bonds. Included in this amount are the principal and interest payments on outstanding serial bonds as of December 31, 2009, amounts due for principal and interest payments on the serial bond issued in 2010, and estimated principal and interest payments on serial bonds to be issued in November 2010. The most recent serial bond issued was in November 2009 consisting of a \$3.55 million for various purposes.

The budget for the 2010 borrowing that has not yet occurred was estimated by the County based on similar debt issued in 2009. We agree with the County's projection and propose no changes to serial bond expenditures.

The 2010 adopted budget provided for \$325,000 of interest expense on \$13.924 million of BANs currently outstanding. Our calculations yield interest expense of approximately \$210,000, or \$115,000 less than the 2010 adopted budget.

The County has, in addition to the payments on the serial bond indebtedness, included \$2.075 million in the 2011 proposed budget for principal and interest payments for bond anticipation notes ("BANs"). Our calculation of the interest payments at an expected rate of 2% yields annual interest expense of \$145,300, which is less than the

2011 budget by \$154,700. Therefore, we recommend decreasing the 2011 budget by \$150,000.

Department of Public Works

Buildings and Grounds

Electricity/Gas

A substantial portion of the budget for Buildings and Grounds is for electricity/gas expenditures. The 2011 recommended budget for Buildings and Grounds includes provisions for electricity/gas in the aggregate amount of \$1.62 million, which is a decrease of approximately \$300,000 from the 2010 adopted budget. Our projection of 2010 expenditures through year-end is approximately \$1.35 million, which is \$570,000 less than the adopted budget. It should be noted that, due to instability in energy markets, energy costs rose sharply during 2008 and then declined precipitously in 2009. This decline was unanticipated and, as a result, the 2010 adopted budget for electricity/gas was higher than necessary as costs ultimately stabilized.

We anticipate 2011 electricity/gas expenditures to approximate \$1.4 million. This estimate was derived based on an expected rate increase of up to 4.1%, as indicated by the County's utilities provider. If rates stabilize in 2011 and remain substantially the same as in 2010, the County will have savings of approximately \$220,000.

Real Property Leases

The 2010 adopted budget for leases relating to the 16 Lucas Division and the Westbrook Lane Division are \$300,000 and \$96,072 respectively. We project 16 Lucas Division lease expenditures to approximate \$291,000, which is comparable to the budget. This projection is based on the actual lease agreements applicable to 2010, the actual 2010 property tax bill, and the 2009 school tax with an estimated 3%

increase. Our projection for 2010 relating to the Westbrook Lane Division is approximately in agreement with the 2010 adopted budget. Furthermore, our projections relating to these leases for 2011 are in agreement with the proposed budget.

Heating Fuel

The 2010 adopted budget for heating fuel in the Law Enforcement Division is \$310,000. Actual expenditures for heating fuel as of September 30, 2010 are \$167,244, an increase of 46% compared to expenditures at the same time in 2009. Assuming relative stability in prices for the last quarter, we project that 2010 cumulative expenditures will also be up about 46% compared to 2009. Therefore, since total expenditures at December 31, 2009 were \$200,361, we project final 2010 expenditures to be approximately \$290,000, which approximates the 2010 budget.

The 2011 proposed budget for heating fuel in the Law Enforcement Division is \$262,500, which is a \$47,500 decrease from the 2010 adopted budget. Assuming usage remains relatively stable, the 2011 proposed budget anticipates that the County expects fuel prices to be approximately 15% lower on average than they were in 2010. Moreover, the 2011 proposed amount is 10% less than our projection for total 2010 expenditures. Therefore, using a more conservative estimate of 10% for the anticipated 2011 price decrease produces an expenditure projection of \$264,000. This projection approximates the 2011 proposed budget.

Community College Tuition

The proposed budget provides for payments of tuition for County residents attending community colleges other than Ulster County Community College. The average expenditures for 2008 and 2009 were \$3.2 million. The adopted budget for 2011 is \$3.3 million. Through nine months of 2010, the County has expenditures totaling \$1.7 million. Based on the past two years of activity through nine months the expenditures

incurred approximate 53% of the total expenditures for the year. Based on this trend, we anticipate the 2010 expenditures to approximate the 2010 adopted budget. The 2011 proposed budget is \$3.3 million, an amount which approximates our current year expenditure projection. Based upon past trends and current tuition chargeback rates we anticipate the 2011 expenditures to be \$3.3 million which approximates the 2011 proposed budget. Therefore, we concur with the Counties proposed Community College Tuition expenditures.

Assigned Counsel Services

Assigned Counsel Services provide legal assistance to those defendants that cannot afford their own attorney. The expenditures related to these legal services are expended in a uniform manner throughout the year. The actual amount expended for Assigned Counsel Services totaled approximately \$1,118,000 and \$970,000 in 2009 and 2008, respectively. We project 2010 Assigned Counsel Services to be approximately \$975,000 using expenditures as of September as a basis for our calculation. Based on an average growth rate of 15%, we anticipate 2011 Assigned Counsel Services to approximate \$1.12 million, which approximates the 2011 budgeted amount.

CONTINGENCY

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CONTINGENCY

The 2010 budget was adopted with contingency funds in the amount of \$1,656,100. At the time of our analysis of the budget, approximately \$624,898 was transferred to various budget lines including contract agencies. The balance of \$1,031,202 remains unexpended, and will be used as needed.

The General Fund proposed budget for 2011 provides for a contingency appropriation of \$1,450,000. The majority of the balance of the proposed amount, within the General Fund proposed budget, is for a general contingency of \$900,000, which is less than 1.0% of the entire proposed budget. In addition, amounts have been allocated for the anticipated implementation of a new financial system, reductions in the funding related to the Federal Medicaid Assistance Program and possible shortfalls in targeted savings from the early retirement incentive.

We believe that it is prudent for the County to have funds available for unforeseen needs that may arise throughout the year. The amount for contingency purposes in the 2011 proposed budget represents .41% of total appropriations. We, therefore, do not recommend a change to the budgeted amount.

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