The Rockland County Budget Crisis: How it happened, and plotting a course to fiscal health

NOVEMBER 12, 2012

A white-paper study commissioned by the Rockland Business Association in partnership with Hudson Valley Pattern for Progress
# Table of Contents

**Introduction**

ROCKLAND COUNTY’S BUDGET DEFICIT: HOW IT HAPPENED 3

MISSING THE MARK ON SALES AND MORTGAGE Tax 3

THE DANGER OF ONE-SHOT REVENUES AND OTHER PROJECTIONS 8

INCREASING SUBSIDIES TO SUMMIT PARK HOSPITAL AND NURSING CARE CENTER 10

FREE PRESCRIPTION DRUGS THROUGH THE SUMMIT PARK PHARMACY 14

HAVE DEMOGRAPHIC AND POVERTY CHANGES AFFECTED ROCKLAND? 15

ESTIMATING AND REDUCING OVERTIME COSTS 20

THE IMPACT OF MANDATED PROGRAMS 22

PLANNING AHEAD FOR TAX CERTIORARI PROCEEDINGS 24

RECOMMENDATIONS FOR ROCKLAND COUNTY 25

FINANCIAL ASSISTANCE AND OVERSIGHT 25

BUDGETING AND ESTIMATING REVENUES 29

MAKING HARD CHOICES ABOUT NON-MANDATED SERVICES 31

COUNCIL OF GOVERNMENTS 34

CONCLUSION 35
Introduction

On July 12, 2012, the Rockland Business Association (RBA) entered into an agreement with Hudson Valley Pattern for Progress to research Rockland County’s mounting fiscal crisis, along with developing recommendations to eliminate the deficit and prevent future budget shortfalls.

The growing size of the county’s deficit – at nearly $100 million as of the writing of this report – along with the depletion of its reserves, the downgrading of its bond rating to near junk-bond status, a highly critical audit by the New York State Comptroller, efforts by state lawmakers to craft legislation that would prevent more budget deterioration, and other factors all contributed to the RBA’s desire to find a path toward fiscal stability on behalf of the business community and county residents.

Pattern’s work on this study was met with limited cooperation by Rockland County officials. The County Executive’s Office provided the research team with some documents that were requested, and made it known that its staff was working on the budget and could not be made available to answer questions. Some County Legislators were able to meet with the research team, and the County Legislature staff provided Pattern with access to important budget reports. However, attempts to interview the Chair of the Legislature and the Legislature’s Finance Committee were unsuccessful.

During the course of our research, County Executive Scott Vanderhoef released his proposed 2013 budget and announced that he would not be seeking reelection. Regardless of who occupies that office, the RBA believes in its responsibility to help the County Executive repair budget shortfalls that might contribute to an uncertain business climate.

Pattern staff interviewed roughly two dozen town lawmakers, county officials, state employees, and financial experts in the private and public sectors across the state to better understand Rockland’s financial crisis and outline some hard but realistic solutions that might help restore balance to the county budget. Researchers also reviewed thousands of pages of documents that included audits, budget analysis reports, annual financial statements, proposed legislation, newspaper stories, and the county’s annual operating budgets from 2007-2012.

It is clear that Rockland County began digging a financial hole several years ago by overestimating revenues and underestimating expenditures. That pattern continued for several years as the Great Recession whittled away key revenue sources. As its own budgeting mistakes were exacerbated by the economy, Rockland County eventually found itself in a much deeper financial hole – one that is now far too deep to climb out of without help from the outside.

The County Executive’s proposed budget for 2013 budget looks more realistic than those preceding it. However, this initial assessment comes with several caveats.

First, this budget of deep cuts and large tax increases should be carefully reviewed, and many of its most painful suggestions should be adhered to. In recent meetings, County Legislators immediately reacted by suggesting they would like to restore some jobs and programs that are proposed to be cut in 2013. That is their prerogative. However, any additions to the budget must be met by realistic increases in revenue. This is where the county has fallen short too often. An
arbitrary increase in sales or mortgage tax projections will not work anymore – not when such actions have contributed nearly $83 million to the budget deficit from 2005-2011.

In assessing the plan before them, the County Legislature must understand that it is the ultimate arbiter of the budget, and it is the body that will ultimately make the decisions that pull Rockland County out of its financial crisis, or continue to dig that hole even deeper. Its continued failure to heed the warnings of financial audits, budget consultants and other experts is a very risky strategy for a county that cannot afford risks.

The County Executive has noted, with the benefit of hindsight, that better budget decisions by his office could have significantly prevented this financial crisis. The proposed 2013 budget represents direly needed reality check.

However, we must note that the County Legislature during the past several years has abdicated much of its oversight responsibility. The County Executive may have offered inaccurate revenue and spending projections, but County Legislators almost universally adopted those projections without change. The County Legislature’s response to the New York State Comptroller’s audit was telling. Where the County Executive accepted criticism and blame, the County Legislature said none of the crisis was its fault.

This is nothing short of nonsense. While the County Executive crafts and presents the budget, it is the County Legislature that has final say over the spending plan each year. Along with setting county policy, approving and reshaping the budget is one of the most sacred duties of the legislative branch. In recent years, members of the County Legislature have fallen short of that great responsibility. They have hired budget analysts who suggested changes with great accuracy, only for the County Legislature to ignore them almost every year. And they have gone along with inaccurate projections set forth by the County Executive – sometimes even increasing bad revenue targets – rather than serving as that critical check.

Given the publication date of this white paper, now is the time for the County Legislature to rise to the occasion by carefully reviewing the proposed budget and heeding the advice of its consultants, all while remembering that its budget decisions will happen against the backdrop of a huge deficit. This critique is not meant as a finger-pointing exercise. Everyone had a hand in creating this deficit. Now, everyone must have a hand in erasing it. In the pages of this paper, we offer a menu of possible action items. Many of them are painful, cutting deep into services that the county has long held worthwhile, or forcing the county to accept the help and oversight of financial experts from the outside.

In every case, we hope the findings and suggestions in this paper provide a starting point for productive discussions, clarity and a path forward. Rockland County is one of the most unique counties in this state and this country, sitting on the doorstep of the world’s biggest city while maintaining the suburban charm of its main streets. We believe its return to fiscal health will only build upon these strengths, helping to attract new businesses, residents and visitors for decades to come.
Rockland County’s Budget Deficit: How it Happened

The following sections of this white paper seek to explain how Rockland County accumulated a nearly $100 million deficit over the past several years.

Missing the mark on sales and mortgage tax

While lawmakers from every county spend much of their budget deliberations focusing on the property tax, several other revenue streams play an important role in creating a balanced and accurate budget. Sales tax and mortgage tax provide much of the remaining local share of taxes to any county government.

The same is true for Rockland County, which has depended heavily on sales tax in the past to balance its budgets and keep property taxes low. In 2007, for instance, sales tax accounted for roughly $164 million dollars, which equaled about 75 percent of the local share of taxes according to county budget documents. Mortgage tax also played an important role in 2007, pumping more than $7.4 million into Rockland County’s coffers.

Over the past five years, however, Rockland County’s reliance on sales and mortgage tax has shifted as both revenue streams were whittled by the recession.

In 2011, the county projected it would receive $175 million from sales tax, or roughly 64 percent of the local share. Its projections for mortgage tax fell to $4 million as the recession not only pushed sale prices down but also reduced the number of home sales. The County Executive’s proposed 2013 budget would further reduce the reliance on sales tax to roughly 60 percent of the local share of taxes.

The shift underscores an important fiscal reality: sales tax and mortgage tax must be carefully and conservatively estimated in county budgets because they are subject to the highs and lows of a volatile economy.

Unfortunately, the Rockland County Executive and Legislature have overestimated sales and mortgage tax revenues every year since 2005, building deficits into their budgets that have contributed to the current financial calamity. During that time, county administration and lawmakers overestimated sales tax by at least $4 million every year, and fell short on mortgage tax by at least $289,000 every year. Often, mortgage tax revenue was overestimated by several million dollars.

From 2005 to 2011, Rockland County overestimated its sales and mortgage tax by a combined $82.7 million.
The charts below show a year-by-year breakdown of Rockland County’s projected sales and mortgage tax revenue, along with the actual amount of revenue received.

**SALES TAX**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales tax budgeted</td>
<td>$156,500,000</td>
<td>$160,370,000</td>
<td>$168,250,000</td>
<td>$181,700,000</td>
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<td>Sales tax received</td>
<td>$148,457,536</td>
<td>$151,119,120</td>
<td>$163,931,696</td>
<td>$168,498,944</td>
</tr>
<tr>
<td>Percent difference</td>
<td>-5.42%</td>
<td>-6.12%</td>
<td>-2.63%</td>
<td>-7.83%</td>
</tr>
<tr>
<td>Dollar difference</td>
<td>(-$8,042,464)</td>
<td>(-$9,250,880)</td>
<td>(-$4,318,304)</td>
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**SALES TAX CONTINUED**

<table>
<thead>
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<th>YEAR</th>
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<th>2011</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>Sales tax budgeted</td>
<td>$183,000,000</td>
<td>$178,350,000</td>
<td>$175,000,000</td>
<td>$188,671,875***</td>
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<tr>
<td>Sales tax received</td>
<td>$162,439,744</td>
<td>$169,152,688</td>
<td>$169,265,205</td>
<td>NA</td>
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<tr>
<td>Percent difference</td>
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<td>-5.44%</td>
<td>-3.39%</td>
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<tr>
<td>Dollar difference</td>
<td>(-$20,560,256)</td>
<td>(-$9,197,312)</td>
<td>(-$5,734,795)</td>
<td>NA</td>
</tr>
</tbody>
</table>

***The County Executive's budget suggested keeping sales tax flat at $175 million for the 2012 budget, but the County Legislature adjusted it upward to the level shown in the chart, assuming it would receive approval for a rate increase.

**MORTGAGE TAX**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2005</th>
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<th>2008</th>
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<tbody>
<tr>
<td>Mortgage tax budgeted</td>
<td>$10,470,000</td>
<td>$11,350,000</td>
<td>$9,750,000</td>
<td>$8,300,000</td>
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<td>Mortgage tax received</td>
<td>$10,180,660</td>
<td>$9,217,795</td>
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<tr>
<td>Difference by percentage</td>
<td>-2.84%</td>
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<td>-62.25%</td>
</tr>
<tr>
<td>Difference by dollars</td>
<td>(-$289,340)</td>
<td>(-$2,132,205)</td>
<td>(-$2,333,470)</td>
<td>(-$3,184,456)</td>
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**MORTGAGE TAX CONTINUED**
<table>
<thead>
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<th>YEAR</th>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage tax budgeted</td>
<td>$6,000,000</td>
<td>$5,500,000</td>
<td>$4,000,000</td>
<td>$6,500,000</td>
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<tr>
<td>Mortgage tax received</td>
<td>$3,951,076</td>
<td>$3,537,937</td>
<td>$3,470,281</td>
<td>NA</td>
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<tr>
<td>Difference by percentage</td>
<td>-51.86%</td>
<td>-55.46%</td>
<td>-15.26%</td>
<td>NA</td>
</tr>
<tr>
<td>Difference by dollars</td>
<td>(-$2,048,92)</td>
<td>(-$1,962,063)</td>
<td>(-$529,719)</td>
<td>NA</td>
</tr>
</tbody>
</table>

During the years analyzed, the County missed its sales tax target by a combined $70.3 million, and its mortgage tax projections by a total of more than $12.4 million. This pattern of overestimated revenues contributed greatly to budget deficits each year. And those individual budget deficits, when combined over a period of time, helped create the current crisis.

The shortfalls illustrated in the chart speak to poor and sometimes irrational budget projections by Rockland County, including lax oversight on behalf of the County Legislature. Annual budget analysis reports issued to the County Legislature by the accounting firm O’Connor Davies Munns & Dobbins, LLP – which is in a unique position to understand Rockland County’s finances because it also produces the annual audit – suggest that county officials made a habit of projecting sales tax revenue based on an arbitrary increase over the previous year’s projections. For instance, if the county projected sales tax at X dollars in 2006, it would simply add 2 percent to that projection for 2007.

In their annual reports to the County Legislature, the accounting consultants warned every year from 2008-2012 that the County Executive’s projections for sales tax revenue were too high. They cautioned that the projections were too high by at least $3.3 million in 2008; $5.9 million in 2009; $14.2 million in 2010; and $8 million in 2011.

In 2012, the accounting consultants told the County Legislature that it should expect $174.75 million from sales tax. (The County Executive had budgeted sales tax to remain flat at $175 million.) But instead of heeding their advice, the County Legislature increased the sales tax projection to $188.67 million, assuming an increase in the sales tax rate that never came to pass. That would create a shortfall of more than $13 million if the sales tax receivables match the consultants’ projections.

The Legislature’s consultants have suggested that it is unrealistic to use last year’s budgeted sales tax projections as a basis for any future revenue projections. Instead, the financial consultants have repeatedly suggested that using year-to-date receivables, extrapolated through the end of the calendar year, would provide a sound basis for budget projections.

While it is probably true that some sales tax shortfalls were exacerbated by the recession, the county also overestimated sales tax in the years before and after the economy collapsed. What’s more, the County Legislature was warned on Nov. 26, 2007, as the county had begun to slip into recession, that relying too heavily on sales tax would be imprudent.
On that day, the financial consultants told them in a report: “The continued reliance on sales tax revenues to provide the major source of revenue exposes the county to variations in the economy.”

Inaccurate projections have also befallen Rockland County’s mortgage tax, as county officials missed their target every year since 2005, and three times missed the mark by more than 50 percent.

Again, this did not happen without warning. According to analysis reports, the same financial consultants from O’Connor Davies Munns & Dobbins, LLP, warned that projections were too high by $400,000 in 2008; $700,000 in 2009; $1.5 million in 2010; and $500,000 in 2011.

In 2012, the County Executive and County Legislature projected mortgage tax to rise significantly, from $4 million to $6.5 million, because of a desired 0.25 percent increase in the mortgage tax rate. That rate hike required the approval of the New York State Legislature, which never happened.

Financial consultants again warned the County Legislature that it should not bet on this increased revenue before legislation passed allowing the rate increase. “If the increase is not approved, or if it goes into effect later than anticipated, revenues could be significantly less than projected,” the accounting firm wrote to the Legislature during its budget review in November 2011. Ultimately, the warning was ignored.

On Oct. 12, 2012, The Journal News reported that the current Rockland County budget deficit was estimated at more than $96 million. While the use of reserves and other measures have sought to counterbalance the shortfalls in sales and mortgage tax revenue over the years, those shortfalls alone today would account for more than 86 percent of the current deficit. That does not count the current year of 2012, which is likely to show that Rockland County again overestimated these two revenue streams, once all the receivables are accounted for early in 2013.

Recommendations

The County Executive and County Legislature should work to correct this ongoing, poor budgeting practice, which was also highlighted as a major source of fiscal stress in the State Comptroller’s 2011 audit of Rockland County. The County Executive’s Office must propose sales and mortgage tax revenue projections that are more realistic, even if that means other revenue sources, such as the property tax, must be increased further to make up for conservative estimates.

It is also crucial that the County Legislature fully exercise its oversight duties, which are among the most important powers held by the legislative body. Given the budget reports received annually from its consultants, the County Legislature certainly had ample information to engage in better oversight. From 2007-2011, the Rockland County Legislature passed the County Executive’s proposed sales and mortgage tax budget lines without changing them at all. The County Legislature changed sales tax projections for the first time in 2012, adding an additional $13 million in revenue that is unlikely to be realized as the economy continues to sputter. These
Legislative actions – or inactions – came despite a red flag being waved every year by consultants who warned that the Rockland County Legislature should act to fix sales and mortgage tax revenue projections that seemed arbitrary, out of sync with economic conditions, and simply too high.
The danger of one-shot revenues and other projections

Over the past several years, Rockland County's budget deficit has been worsened by the projection of one-shot revenues or other revenues that failed to reach their target. In some cases, the revenue stream was never created at all.

The following are some examples of revenues that fell short:

- In 2011, Rockland County projected it would receive $17.8 million by creating a public benefit corporation (PBC) and selling its nursing home and hospital to that corporation. However, the New York State Legislature never allowed Rockland to create the PBC. At the time, budget consultants to the County Legislature warned that such a sale would require a certificate of need from the State Health Department, and that such a certificate often took at least one year to receive. That warning was ignored by the County Legislature, which went along with the County Executive’s plan. It also recommended using any such revenue to pay down the deficit instead of balancing the current year’s operating budget.

- In 2009, the county decided to budget $1.3 million in revenue as part of a “traffic enforcement program.” The program was to consist of cameras installed on traffic lights that would catch motorists who ran the red light, resulting in additional traffic tickets. However, the red-light cameras were never installed.

- In 2012, Rockland County projected it would receive $6.5 million from the mortgage tax as a result of a 0.25 percent increase that in the mortgage-tax rate that it hoped to receive from the State Legislature. However, the State Legislature never approved the rate increase. As a result, Rockland County mortgage tax is expected to fall well below projections, and the County Executive has set the estimated revenue for 2013 at $3.5 million. The County Legislature should listen carefully to its consultants to decide whether this is a good projection. It is likely accurate based on a housing market that is selling at lower prices and volumes.

- In 2012, Rockland County budgeted $17.7 million that it expected to save by negotiating several new union contracts that would include furloughs, layoffs, union concessions and the attrition of vacancies from the county workforce. When that revenue item was adopted late in 2011, it assumed a full year of savings from new union contracts. However, the contract was not adopted until October. The county's finance commissioner told County Legislators later that month that Rockland likely would not see $14 million of that $17.7 expected revenue.

- In 2009, the county projected $2.565 million from a hotel/motel room tax. However, that tax was not created that year by the state and county legislating bodies.

The items listed above comprise more than $38.6 million in revenue that was projected by Rockland County officials but never realized.

The county has taken risks with other one-shot revenues that have sometimes paid off. This year, for example, the county budgeted $5.785 from the sale of county properties. At a recent meeting of the County Legislature, a representative from the County Executive’s Office said those properties were expected to sell for more than $8 million.
Regardless, the budgeting of these “one-shots” and other revenues has been a game of roulette that has often harmed Rockland County's finances.

Recommendations

When budgeting one-shot revenues or other revenue streams that are new to the county, Rockland should take the following steps to ensure the accuracy of its projections:

1) Rockland County should adopt a policy of **not budgeting for revenues until the mechanism by which to realize those revenues is in place.** For instance, the county should never again budget for a new tax, such as a hotel room tax, until that tax has been approved by the necessary legislative bodies. Revenue from red-light cameras should have never been budgeted until the cameras were purchased and installed. This should be the policy going forward.

2) Rockland County should allocate all its one-shot revenues (the sale of buildings, property, special assessments, etc.) to a dedicated reserve fund instead of using them to balance the current year's operating budget. This would achieve two important goals. First, it would avoid shortfalls in a given year's budget by not depending on revenue streams that are not guaranteed. Also, if that revenue is realized, it could then be used to pay down the accumulated deficit instead of balancing a given year's operations.

3) Rockland County should make its revenue streams more transparent. This is especially a concern about the county's creation of an “energy tax,” which is expected to raise some $14 million in 2013 by taxing residential electric bills. Pattern has written before about the practice of shifting taxes rather than directly accepting responsibility and adapting service delivery. In fact, Rockland County objected to this very practice when the Metropolitan Transportation Authority shifted the true cost of its service by creating fees and taxes for unrelated services (e.g. electric bills). Should the county find it necessary to raise taxes, Pattern believes it should be in the form of the property tax to create greater transparency that it is the county raising the funds. This will lead to a clearer debate about whether this was the best way to achieve fiscal stability.
Increasing subsidies to Summit Park Hospital and Nursing Care Center

Rockland County continues to own and operate its own nursing home and acute-care hospital, known as the Summit Park Hospital and Nursing Care Center. The nursing home is a 341-bed facility, similar to those operated by other counties throughout the state, and the hospital is a 100-bed acute, long-term care facility that is the only one of its kind in the region.

Together, their combined annual expenditures are estimated to be $95 million in 2013. The Home and Infirmary Fund is supposed to act as an enterprise fund, which means it should provide all the money required to operate the hospital and nursing home. That has not been the case for years.

The majority of that money is supposed to come from Medicaid reimbursements, however, several reports that analyzed Summit Park’s operations noted that those reimbursements have remained flat while the costs of care, salaries, benefits and post-employment benefits have continued to rise.

This growing imbalance has forced Rockland County to use taxpayer money from its General Fund to subsidize the operations of the nursing home and hospital. According to an audit by the State Comptroller, Rockland taxpayers subsidized operations at Summit Park by a total of $55.8 million from 2006-2010. In his 2013 budget proposal, the County Executive estimates that Rockland taxpayers will have to subsidize Summit Park in 2013 by more than $17 million.

The nursing home and hospital have incurred significant deficits over the past several years. The charts below show a year-by-year breakdown of operating deficits at the Summit Park Hospital and Nursing Care Center. Data from years 2006-2010 were compiled from the State Comptroller’s audit, while the shortfalls from 2011 and the estimate for 2012 were taken from news reports and the annual consultants’ budget analysis to the County Legislature.

**ANNUAL OPERATING DEFICITS AT SUMMIT PARK**

<table>
<thead>
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<th>YEAR</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING SHORTFALL</td>
<td>$20.32 million</td>
<td>$34.99 million</td>
<td>$8.8 million*</td>
<td>$19.64 million</td>
</tr>
<tr>
<td>YEAR</td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>OPERATING SHORTFALL</td>
<td>$25.24 million</td>
<td>$13 million</td>
<td>$17.4 million ***</td>
<td></td>
</tr>
</tbody>
</table>

*In 2008, the home and infirmary received a $19 million subsidy from the state.

*** The shortfall for 2012 is only an estimate. Rockland County expected to sell the nursing home and hospital and therefore only budgeted for operations through August, according to consultant reports filed with the Legislature.

In their May 2012 report, consultants from Toski & Co. noted that these shortfalls were caused, in part, by the high cost of employee benefits and post-retirement benefits, which are outlined for union employees in a collective bargaining agreement. These benefits have contributed to publically-owned nursing homes operating more expensively than similar homes run by private or nonprofit companies.
Toski & Co. also warned that if all variables remained constant, Summit Park would likely see operating deficits that regularly exceed $20 million in the near future. Even without the skyrocketing cost of employee and retiree benefits, the study team said operating deficits at the facility would likely hover around $9 million.

When analyzing the future cost of the nursing home and hospital, county officials must also consider necessary capital upgrades, legacy costs and debt. According to county budget documents, the Home and Infirmary Fund currently holds roughly $2.06 million in serial bonds. The 2011 audit by the State Comptroller’s Office also suggested that the Home and Infirmary Fund in the future would be expected to pay back the roughly $55.8 million it had borrowed from the General Fund for operations between 2006-2010. Toski & Co. said it would cost $19.2 million over a period of years to upgrade both facilities, including some upgrades that were deemed to have “immediate” need. And legacy costs – contractual payments toward retirement and other benefits – are estimated at $20 million annually even if the nursing home and hospital close.

What’s more, the nursing home at Summit Park has seen its occupancy rate drop to about 81 percent, which severely reduces any staff-to-patient efficiencies. Consultants have told the county that an occupancy rate that low is equal to a $4.1 million loss in revenue for the year. They’ve also suggested that upgrades to the home and a more aggressive marketing campaign might be the only way to improve occupancy rates – and both would force the county to spend more money during a time when it is trying to rein in spending.

But even an aggressive marketing campaign to fill beds might not work. There are 36 other nursing homes within a 20-mile radius, the recent study said, many of which have capacity to house more people. It should be noted that some of these other nursing home operators might be interested in acquiring Summit Park, especially because the Hudson Valley’s senior citizen population is expected to increase significantly over the next 20 years.

Other counties dealing with nursing home deficits

The nursing-home dilemma is not unique to Rockland County. Several other counties throughout the Hudson Valley and State of New York have begun discussing whether to sell their county-owned nursing homes, which have also realized huge deficits for the same reasons as Rockland’s.

Only 33 county-owned nursing homes continue to operate outside New York City. Three county-run nursing homes closed in 2012, according to an October presentation by the New York State Association of Counties. Another 14 have been the subject of some recent study by county officials who were deciding whether to close, sell or retain the home. These talks have become more common in recent years because nursing homes are one of the few expensive, non-mandated services that counties have been driven to cut because of financial stress, and because there is a significant private and nonprofit sector that offers the same services more efficiently. A recent report on National Public Radio reiterated this trend, noting that at least 10 county-run nursing homes have already been sold in New York, and as many as 12 more could be headed toward privatization.

Locally, those discussions have been most prominent in Orange and Ulster counties, where operating deficits similar to Rockland’s have sparked action. The Golden Hill Health Care Center in Ulster County had been running recent deficits of $4.4 million, according to recent
news reports, and Orange County’s Valley View Center for Nursing Care and Rehabilitation was expected to see operating deficits as high as $20 million.

The administrations of both counties have said their nursing homes must be sold because they are putting an undue stress on county budgets, and because private and nonprofit homes already exist in the region to deliver the same service.

It is well documented by now that Rockland County has tried unsuccessfully thus far to privatize its nursing home and hospital at Summit Park. The failed creation of a Public Benefit Corporation, which did not receive the necessary approval from state lawmakers in 2011, resulted in a $17.8 million shortfall in that year’s budget, which had to be covered by deficiency notes. In 2012, Rockland only budgeted for a partial year of operations at the nursing home and hospital, under the assumption again that it could sell the facilities. It only planned to operate Summit Park through August. According to budget analysts hired by the County Legislature, that mistake will have widened the county’s deficit by some $4.4 million – the cost of keeping Summit Park open for the balance of 2012.

**Recommendations**

The County Executive has made the correct decision by calling for the creation of a Local Development Corporation (LDC) in his 2013 budget proposal, which will eventually sell the hospital and nursing home at Summit Park.

The LDC model has been very successful thus far in Ulster County, where the government found interested buyers and is currently in the final stages of selling its nursing home through the corporation. In fact, Rockland County’s finance commissioner told the County Legislature on Oct. 24, 2012, that the administration is hoping to develop the LDC with legal assistance from the firm Harris Beach, which also developed Ulster County’s corporation.

The LDC comes with several advantages and potential pitfalls that can be avoided if the corporation’s bylaws are carefully crafted. The LDC would be created for the sole purpose of selling the nursing home and hospital.

The LDC is initially created through a resolution of the County Legislature. The resolution also outlines how the LDC’s Board of Directors will be appointed. In Ulster County, the board consisted of representatives from the County Executive’s Office, the County Legislature, the League of Women Voters, a private physician, and a local real estate expert. This ensured that the board would have medical and real estate expertise within its ranks, as well as a voice from the citizens of the county.

To gain control of the home, Ulster County’s LDC entered into a lease-leaseback agreement with the county, in which it signed a long-term ground lease with an option to buy the nursing home and then leased the home back to the county for the purpose of continuing to fund nursing home operations until the facility is sold.

Ulster County has said its LDC model allows for quicker decision making. Since the County Legislature already voted to lease and sell the home to the LDC, it does not have to vote to sell it again. The LDC can find potential buyers more quickly because it does not have to conform to the request-for-proposals regulations that governments must follow, and because its board must vote only once to sell the nursing home to an interested buyer.
However, there are also some potential pitfalls that should be avoided. For instance, the LDC is not required to make its meetings open to the public. Ulster County decided to open the doors of its LDC meetings to ensure the public and press could watch the process. (Of course, contract talks with potential buyers will still be conducted behind closed doors to ensure their confidentiality, just as they would be under Open Meetings Laws that allow executive sessions for such topics.)

We recommend that Rockland County follow this same path, which has proven to be an efficient and effective way to sell such facilities.

The LDC must also be paired with an aggressive marketing campaign, ideally handled by a real estate firm that has experience selling nursing homes and hospitals. It is important to remember that, despite the creation of the LDC, Rockland County must pay for nursing home and hospital operations until the facilities are sold.

That responsibility could continue through the lease-leaseback arrangement with the LDC for a year, which is the best case scenario, or for several years. That's why it is also crucial that Rockland County not repeat its mistakes from the recent past. The County Executive and County Legislature should not include in its budgets any revenue from the future sale of the nursing home and hospital until that sale is finalized and the revenue is received.

Such a conservative approach will ensure the county does not accidentally add to its deficit.

Rockland County officials must also be careful about how they ultimately use any proceeds from the future sale of their hospital and nursing home. Those proceeds should not go toward balancing a single year's budget.

Instead, the county should put any proceeds from a sale into a dedicated fund – set aside from the General Fund – that will go toward paying the debts and legacy costs of Summit Park. If the county does not set aside money from the sale for these purposes, we fear the General Fund will assume an increased financial responsibility for legacy and other costs associated with Summit Park, especially since Rockland will no longer realize the revenue from its operation. The General Fund may assume some of those costs in any case, but setting aside money from the sale would likely minimize the amount that taxpayers are compelled to contribute.
Free prescription drugs through the Summit Park pharmacy

All Rockland County employees and retirees who get their prescription drugs through the county pharmacy at Summit Park are entitled to have their co-pays refunded by the county. This practice – written into collective bargaining agreements with labor unions representing county employees – has the effect of providing all employees and retirees with free prescription drugs.

County employees and retirees who use any private pharmacy outside Summit Park have not been entitled to the reimbursement.

The cost of these reimbursements has increased slightly over the years we analyzed, but as of 2012 it was estimated by consulting accountants to be roughly $1.7 million.

While this benefit is wonderful for those who enjoy it, we should note that the research staff is unaware of any other county in the Hudson Valley that offers a similar reimbursement to its employees and retirees. Government employees are generally asked to cover their co-pays at the very least, and many are asked to contribute some percentage to their healthcare plan. (Rockland County did institute healthcare contributions for new employees in its latest collective bargaining agreement, which was passed this fall. It was unable to negotiate a change to the prescription drug reimbursements.)

The prescription co-pay reimbursements might be a very small portion of Rockland County’s overall appropriations – less than two-tenths of a percent of the budget – but it has nonetheless added to the county’s deficit as a result of poor budgeting decisions.

According to the annual reports by the accounting firm O’Connor Davies Munns & Dobbins, Rockland County failed to budget for the prescription co-pay refunds for several years in a row, under the assumption that county officials could eliminate the benefit during contract talks with labor unions. However, the benefits continued under the terms of the expired contracts.

Financial consultants said the budgets for 2010, 2011 and 2012 did not include any appropriation for drug reimbursement benefits. The combined cost or reimbursements during those years was expected to total roughly $4 million, the budget reports said.

Recommendations

The County Executive’s proposed 2013 budget would the county pharmacy. County officials have said that cutting the pharmacy would save Rockland County $2 million. It would presumably end the prescription co-pay reimbursement plan also.

We believe the County Legislature should adopt this provision as part of the 2013 budget. Even though the amount spent on drug reimbursements is relatively small compared to the overall budget and current deficit, it sends the wrong message to taxpayers, most of whom pay for some portion of their prescriptions. This message is particularly egregious given Rockland County’s ongoing financial crisis.
Have demographic and poverty changes affected Rockland?

As part of its study, Pattern for Progress was asked to analyze Rockland County’s shifting demographics to understand whether those population changes could have adversely affected the county’s financial health.

We began that analysis by looking at population changes from 2000-2010 in Rockland County. The charts below show those populations changes for each village and the portions of their respective towns that lie outside the village borders.

ROCKLAND COUNTY VILLAGE POPULATIONS

<table>
<thead>
<tr>
<th>Village name</th>
<th>Census 2000</th>
<th>Census 2010</th>
<th>% Change</th>
<th>in Town(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airmont village</td>
<td>7799</td>
<td>8628</td>
<td>10.63%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>Chestnut Ridge village</td>
<td>7829</td>
<td>7916</td>
<td>1.11%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>Grand View-on-Hudson village</td>
<td>284</td>
<td>285</td>
<td>0.35%</td>
<td>Orangetown</td>
</tr>
<tr>
<td>Haverstraw village</td>
<td>10117</td>
<td>11910</td>
<td>17.72%</td>
<td>Haverstraw</td>
</tr>
<tr>
<td>Hillburn village</td>
<td>881</td>
<td>951</td>
<td>7.95%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>Kasera village</td>
<td>3316</td>
<td>4724</td>
<td>42.46%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>Montebello village</td>
<td>3688</td>
<td>4526</td>
<td>22.72%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>New Hempstead village</td>
<td>4767</td>
<td>5132</td>
<td>7.66%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>New Square village</td>
<td>4624</td>
<td>6944</td>
<td>50.17%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>Nyack village</td>
<td>6737</td>
<td>6765</td>
<td>0.42%</td>
<td>Orangetown and Clarkstown</td>
</tr>
<tr>
<td>Piermont village</td>
<td>2607</td>
<td>2510</td>
<td>-3.72%</td>
<td>Orangetown</td>
</tr>
<tr>
<td>Pomona village</td>
<td>2726</td>
<td>3103</td>
<td>13.83%</td>
<td>Haverstraw and Ramapo</td>
</tr>
<tr>
<td>Sloatsburg village</td>
<td>3117</td>
<td>3039</td>
<td>-2.50%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>South Nyack village</td>
<td>3480</td>
<td>3510</td>
<td>0.86%</td>
<td>Orangetown</td>
</tr>
<tr>
<td>Spring Valley village</td>
<td>25464</td>
<td>31347</td>
<td>23.10%</td>
<td>Clarkstown and Ramapo</td>
</tr>
<tr>
<td>Suffern village</td>
<td>11006</td>
<td>10723</td>
<td>-2.57%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>Upper Nyack village</td>
<td>1863</td>
<td>2063</td>
<td>10.74%</td>
<td>Clarkstown</td>
</tr>
<tr>
<td>Wesley Hills village</td>
<td>4848</td>
<td>5628</td>
<td>16.09%</td>
<td>Ramapo</td>
</tr>
<tr>
<td>West Haverstraw village</td>
<td>10295</td>
<td>10165</td>
<td>-1.26%</td>
<td>Haverstraw</td>
</tr>
</tbody>
</table>

Village Population | 115448 | 129869 | 12.49%
The population charts show that much of Rockland County's growth during the period from 2000-2010 came in its villages, which accounted for 70 percent of the increased population. And much of that population increase occurred in villages that have traditionally been home to lower-income populations, such as Kaser, New Square and Spring Valley.

Not shown explicitly in the chart is Monsey, another such community whose growth could have impacted demand for social services. From 2000-2010, the Census Bureau said Monsey's population grew from 14,504 to 18,412—a 27 percent increase.

But these numbers only hint at part of the story. To understand whether Rockland's increasing populations led to deeper social service costs, it is important to analyze other data sets. The following charts help create a more complete picture of the demand for social services, Medicaid, and other factors that might help us understand whether Rockland County realized an increased responsibility for helping those in need.

**MEDICAID ELIGIBILITY**

The charts below show the total number of county residents eligible for Medicaid from 2007-2010, including the year-over-year changes in eligibility.
MEDICAID YEAR-OVER-YEAR CHANGES

<table>
<thead>
<tr>
<th>County</th>
<th>'07-'08</th>
<th>'08-'09</th>
<th>'09-'10</th>
<th>'10-'11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rockland</td>
<td>4.69%</td>
<td>9.74%</td>
<td>10.57%</td>
<td>7.99%</td>
</tr>
<tr>
<td>Orange</td>
<td>5.99%</td>
<td>10.25%</td>
<td>9.67%</td>
<td>6.84%</td>
</tr>
<tr>
<td>Putnam</td>
<td>7.95%</td>
<td>11.88%</td>
<td>6.64%</td>
<td>-1.15%</td>
</tr>
<tr>
<td>Westchester</td>
<td>3.90%</td>
<td>8.68%</td>
<td>9.73%</td>
<td>7.40%</td>
</tr>
<tr>
<td>Dutchess</td>
<td>4.28%</td>
<td>12.50%</td>
<td>12.92%</td>
<td>8.20%</td>
</tr>
</tbody>
</table>

Source: NYS Office of Temporary and Disability Assistance

There are a few important trends to note in the charts above. First, the steadily rising number of Medicaid-eligible people in the Hudson Valley suggests the Great Recession had deep impacts here. The last year suggests a slowing of that growth.

It also appears that recession wounds were somewhat evenly distributed. None of the counties listed above, including Rockland, realized an increase in Medicaid-eligible citizens that was notably higher than any other.

*However, Rockland County continues to have more Medicaid eligible citizens by percentage of its population than any other county in the region. In 2011, more than 21 percent of Rockland County’s total population is eligible for Medicaid, suggesting that its poverty issue is greater than the counties that surround it.*

By contrast, the second highest percentage of Medicaid-eligible citizens was found in Orange County, where 17.8 percent of all residents were eligible for government assistance. That was followed by Westchester at 14 percent; Dutchess at 11.2 percent; and Putnam at 5.5 percent.

POVERTY AND INCOME

<table>
<thead>
<tr>
<th>Town</th>
<th>2000 % of families in poverty</th>
<th>2000 % of all people in poverty</th>
<th>2000 Median Household Income</th>
<th>2010 % of families in poverty</th>
<th>2010 % of all people in poverty</th>
<th>2010 Median Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarkstown</td>
<td>2.5%</td>
<td>3.8%</td>
<td>$82,107</td>
<td>3.3%</td>
<td>5.0%</td>
<td>$99,005</td>
</tr>
<tr>
<td>Haverstraw</td>
<td>8.1%</td>
<td>10.6%</td>
<td>$53,850</td>
<td>7.1%</td>
<td>10.9%</td>
<td>$66,633</td>
</tr>
<tr>
<td>Orangetown</td>
<td>2.4%</td>
<td>4.8%</td>
<td>$70,477</td>
<td>2.0%</td>
<td>5.6%</td>
<td>$91,264</td>
</tr>
<tr>
<td>Ramapo</td>
<td>11.5%</td>
<td>16.3%</td>
<td>$60,352</td>
<td>13.4%</td>
<td>18.6%</td>
<td>$68,819</td>
</tr>
<tr>
<td>Stony Point</td>
<td>1.9%</td>
<td>3.7%</td>
<td>$71,940</td>
<td>1.2%</td>
<td>4.1%</td>
<td>$95,748</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau and American Communities Survey

Note: The data above is for the towns and the villages that fall within their borders
The data above show the number of people “living in poverty” in each of the towns in Rockland County, along with the median household incomes for the years 2000 and 2010.

The poverty threshold set by the federal government changes annually. For instance, a family of four making less than $23,050 in 2012 was considered to be living in poverty. To be clear about the chart above, the family-of-four rate for 2000 was $17,050, and in 2010 was $22,314.

The chart shows that poverty rates ticked upward during the decade ending in 2010, especially in the Town of Ramapo, where nearly one in every five people was found to be living in poverty.

However, the median household income also increased by noteworthy amounts, with the median households of each town seeing at least an $8,000 increase in their pay.

TOTAL MEDICAID EXPENDITURES

The chart below shows the total Medicaid expenditures for five Hudson Valley Counties, including Rockland, for the years 2007-2011. Please note, the dollar figures reflect the total amount of federal, state and local expenditures on the various Medicaid services rendered in these counties. It does not reflect the dollar amount paid by the county governments themselves. (A breakdown of Rockland's local share can be found in the section of this report that focuses on mandates.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rockland</td>
<td>$572.1</td>
<td>$542.2</td>
<td>$497.7</td>
<td>$452.2</td>
<td>$421.2</td>
<td>35.83%</td>
</tr>
<tr>
<td>Orange</td>
<td>$564.2</td>
<td>$549.8</td>
<td>$505.8</td>
<td>$541.1</td>
<td>$411.2</td>
<td>37.21%</td>
</tr>
<tr>
<td>Putnam</td>
<td>$89.3</td>
<td>$88.2</td>
<td>$85.9</td>
<td>$77.6</td>
<td>$76.4</td>
<td>16.88%</td>
</tr>
<tr>
<td>Westchester</td>
<td>$1,505</td>
<td>$1,467</td>
<td>$1,383</td>
<td>$1,293.</td>
<td>$1,250</td>
<td>20.40%</td>
</tr>
<tr>
<td>Dutchess</td>
<td>$373.2</td>
<td>$363.7</td>
<td>$335.7</td>
<td>$305.1</td>
<td>$284</td>
<td>31.36%</td>
</tr>
</tbody>
</table>

*** Dollar amounts above are in millions
Source: NYS Health Department

The data above show several things, including the fact that spending on Medicaid programs has continued to increase drastically over the past five years.

Specific to Rockland County, the data show that the year-over-year increase of spending on federal welfare and health programs is greater than every county in the region except Orange.

Since Rockland County and all other counties in New York must pick up a defined portion of Medicaid expenditures, it is fair to assume that the huge increase in Medicaid spending over the last half of the past decade put additional stress on Rockland County's budget. But it is also important to note that counties in New York are capped to pay 3 percent of that increase, and legislation that goes into effect in 2015 will force the state to pay for all future increases, further limiting the burden on counties.
CONCLUSIONS

Over the past decade, Rockland County has seen a noteworthy increase in the number of low-income county residents who are dependent upon services that are paid for by the federal, state and local government, including the county.

This is a topic that is all-too-often avoided in our public discourse. As county officials continue to deal with their budget crisis, they should also consider partnering with additional smart, benevolent people throughout the Rockland County who might share good ideas to prevent future increases in poverty and demands for the associated services.

How can Rockland County partner with private companies and nonprofit agencies to prepare its low-income and unemployed citizens for the job market? How can the county encourage job growth and entrepreneurship? What role does SUNY Rockland, the community college, play in training people for new jobs? How can Rockland work with its booming but impoverished villages to help their residents improve their lives and become independent of government services?

These are some of the questions Rockland County should explore with its business and nonprofit leaders. We strongly urge the creation of a small taskforce of people from the community who work in human services, job training and business development, that might help to ignite this conversation in a tangible and productive fashion.
Estimating and reducing overtime costs

Overtime is another relatively large expenditure that has been underestimated by Rockland County officials during the past several years, adding to their budget woes.

The chart below shows the amount of money appropriated for overtime payment to county workers, and the amount that was actually paid based on budget analysis reports to the County Legislature.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>OT BUDGET</td>
<td>$4.9 million</td>
<td>$6.6 million</td>
<td>$6.5 million</td>
<td>$6.1 million</td>
<td>$6.2 million</td>
</tr>
<tr>
<td>OT ACTUAL</td>
<td>$7.8 million **</td>
<td>$8.5 million</td>
<td>$6.9 million</td>
<td>$7.5 million</td>
<td>$9.3 million **</td>
</tr>
</tbody>
</table>

** Exact actuals were not available for these years, but consultants to the County Legislature provided projections in their reports based on year-to-date spending through October of the given year.

While the data above show that overtime has cost more than projected, it is important to understand that overtime comes with other consequences, and overtime payments often happen as a result of other decisions made by county lawmakers.

Because the state pension system includes overtime pay in its calculation of retiree benefits, overtime can drastically affect the long-term amount of retirement contributions that Rockland County and other communities are forced to make. Rockland knows well the skyrocketing cost of contributions to the pension system. In 2010, Rockland County's share increased by 61 percent. It increased by 38 percent in 2011, and 18 percent in 2012. The state's creation of Tier 6 for the pension system might reduce this impact in future years, but that is still to be determined.

By increasing the annual computed salaries of senior employees now, overtime accrued today can actually hurt Rockland County's finances in the future.

We think overtime could become more of a burden in the years ahead, as the county has cut its employee levels to historic lows.

In his proposed 2013 budget, the County Executive has recommended cutting the number of county employees to roughly 2,143 – the lowest level in at least 30 years. These cuts have happened as a response to the ongoing budget crisis.

However, because the workload for the county has not lessened, the reduction in staff could result in additional overtime costs. It is important for the county to consider that factor when making these staff cuts. Are the savings from layoffs and attrition – benefits and pensions included – greater than the associated increase in overtime? This is something the county should track carefully to ensure that cost-cutting policies are actually achieving their intended purpose.

**Recommendations**

The county should consider all avenues to reduce overtime costs. That might include adopting a
“no-overtime” policy for departments where that is practicable.

For the departments where such a policy would be more difficult – jail officers and the county police unit, for instance – Rockland should consider creating a pool of qualified employees who could fill in for sick and vacation days on a part-time basis, at standard rates of pay. That pool of workers might include recent retirees who could be tapped periodically.

Also, the overtime dilemma highlights why it is important for Rockland County to eliminate some of the non-mandated services that can be provided by the private and nonprofit sectors. If Rockland County can eliminate some of these services, instead of merely reducing staff, the county can continue to whittle its employee ranks without leaving the workload for those who remain, and without affecting the county’s overtime budget. The county and its employees and residents should also recognize that some of these cuts to services might not last forever, but only until the economy and the county’s financial standing improves.

In the interim, county officials should adopt more realistic projections for overtime to ensure shortfalls are not adding to annual deficits.
The impact of mandated programs

When county officials across New York assess their annual budgets, practically everyone points to state mandates as a chief source of financial stress.

The story is no different in Rockland County, where the County Executive has been very vocal about the impact that unfunded mandates have on the county budget. The term “unfunded mandates” refers to a wide array of programs that are created by the state and federal government but funded, partially or wholly, by the county governments.

In different public forums throughout 2012, the Rockland County Executive said that mandated programs comprised about 75 percent of the county budget. Such programs include Medicaid, contributions to the state pension system, early intervention services, special education pre-K and more. In his budget message this fall, the County Executive noted that these programs alone would account for $30 million in new spending for 2013.

Many of these programs have realized huge spending increases in recent years. Some examples:

- In Rockland County alone, the local share of Medicaid services alone has nearly tripled, from $25.7 million in 1997, to roughly $73.4 million in 2012.

- Local contributions to the state pension system have jumped by as much at 61 percent for Rockland County in recent years. The Rockefeller Institute said the annual growth trend for pension contributions is about 31 percent.

- Temporary Assistance for Needy Families (TANF), special education pre-K, youth detention and other programs are all following similar trend lines. The average annual increase for TANF has been 5.6 percent; special education pre-K at 8 percent; and youth detention at nearly 7 percent.

These large increases have forced several reactions at the county level. For some, the increased mandate costs have made it harder to meet the state’s 2 percent tax cap. Many have laid off workers and cut or privatized non-mandated programs, such as nursing homes and mental health services, to counterbalance the mandated costs and attempt to keep taxes low.

State lawmakers have taken some actions to slow the growth of these programs. Perhaps the most noteworthy was for the state to assume all future increases in the Medicaid program by 2015, a move that is estimated to save counties roughly $1.2 billion over five years.

Conclusions

It is absolutely true that unfunded mandates passed down by the state of federal government have added to the fiscal distress of counties throughout the Hudson Valley, including Rockland County. That additional stress is often directly related to the number of residents who require those mandated services. And we know the need in Rockland County is relatively high compared to other counties because Rockland has a large and growing number of lower-income people living within its borders.
When it comes to mandates, it is probably fair for the county to say two things:

1) That state mandates have worsened the county's cash-flow problems because of a lag time in reimbursements from the state. This has been cited in many reports, including the 2011 audit by State Comptroller Thomas DiNapoli, who noted that “the county was also adversely affected by delayed state aid payments, averaging more than $38 million in each of the fiscal years 2006 through 2010.” The county was forced to issue short-term debt to cover the lagging state payments. Still, the need for that borrowing also falls on the shoulders of Rockland officials. Generally, a county would tap its reserve funds to cover the reimbursements until the money was received from the state, but poor budgeting decisions at the county level depleted the reserve and forced Rockland to borrow money to alleviate this cash-flow dilemma.

2) It would also be fair for the county to blame property tax increases or non-mandated service cuts – at least in part – on the impact of state mandates. While collective bargaining agreements, a stubborn economy and other factors can affect the property tax, it is accurate to say that state mandates are a driver of some portion of those tax increases.

But if our ultimate charge for this study is to determine how Rockland County arrived at its deficit, and how it can avoid such deficits in the future, then we must note that it appears the current deficit had little to do with unfunded mandates.

Audits, financial reports, budget reviews and other documents analyzed by the research team rarely, if ever, pointed to the budgeting of unfunded mandates as an area where Rockland County officials had gone awry. In fact, because Rockland County receives accurate estimates from the state about budgeting for these programs, the expenditures and revenues have appeared to be relatively accurate.

As we have documented in previous sections of this study, Rockland County’s largest financial mistakes have centered on items within its control. It overestimated local revenue streams, including sales and mortgage tax, by more than $120 million, and the county has run nearly $140 million in operating deficits at its Summit Park nursing home and hospital since 2006.

Other counties in the Hudson Valley – although not all of them – have avoided these budget mistakes while raising taxes modestly, cutting programs and reducing workforce levels to address rising costs during the sluggish economy.

We do, however, urge the state to review its mandated programs periodically and decide whether it wishes to continue providing each of them. If those programs are found to be necessary, the state must find ways to reduce the burden on all counties, especially when those counties have no decision-making role for those services.
Planning ahead for tax certiorari proceedings

Rockland County knows perhaps better than any county in New York the sudden and large financial stress that can be caused by tax certiorari proceedings.

Taxing jurisdictions across Rockland are still feeling the deep effects of the $275 million settlement with Mirant. For its part, Rockland County is still paying off more than $32 million in bonds that it borrowed to pay its portion of the settlement.

That's why it is very important for Rockland County to prepare for other large certiorari actions that might be filed as the economy continues to crawl out of the Great Recession.

Currently, there are two ongoing tax certiorari cases that Rockland County government should prepare for.

The first related to GenOn Energy, a spinoff of Mirant from a recent merger, which is seeking a 97 percent assessment reduction on the same power plants that were subject to the 2007 agreement. Officials and news reports have suggested that a settlement is being negotiated, and that retroactive payments could force the same taxing jurisdictions to refund GenOn roughly $28 million.

The second large certiorari case is related to the Palisades Center mall in West Nyack, which is assessed at $253 million and has asked for a two-thirds reduction for the years 2008 and 2009, according to town officials and news reports. If the owners of the mall are successful, Rockland County could be forced to pay roughly $1.75 million in taxes back to the owners.

Recommendations

Rockland County needs to continue to prepare for these large tax certioraris as part of its annual budget process. There are several different ways to do this.

The county could set aside money in a dedicated fund, which it has done for years, to prepare for potentially large settlements. Or Rockland could plot a course toward bonding the future cost of any settlements with these companies and owners.

In 2012, Rockland bonded $5 million to handle ongoing tax certiorari cases, according to the finance commissioner and budget documents. It must continue to plan because even a few million dollars could erase money that was budgeted to pay down the deficit, and Rockland County could end up stuck in neutral instead of moving toward fiscal balance.
Recommendations for Rockland County

From the inception of this project, members of the study team and Rockland Business Association agreed that this research paper’s greatest service would come in the form of objective and thoughtful recommendations to help Rockland County eliminate its current deficit, and avoid future budget deficits.

To create this list of recommendations, the research team read hundreds of pages across dozens of documents, and also interviewed a number of respected experts on county finance and other applicable topics.

Rockland County officials will not agree with all the recommendations set forth in the following pages. Many of them would cause the county to relinquish some of its financial oversight, allow monitoring by outside experts, or cut programs that have served the public well over the decades.

However, Rockland County must also understand that it is facing a financial crisis, with a deficit approaching more than 14 percent of its annual budget. We hope the suggestions below ignite conversations and actions to solve the current deficit, and help Rockland County return to financial stability.

Financial assistance and oversight

Rockland County requires some short-term financial assistance and oversight to ensure it can eliminate the current deficit and make wise budgeting decisions in the years ahead.

Several financial experts told the research team that any deficit above 10 percent of the annual budget would be considered a severe crisis. As of the writing of this report, Rockland County’s nearly $100 million deficit was approaching 14 percent of its annual appropriations.

The county had set aside $5 million toward deficit reduction in the 2012 budget, and the 2013 proposed budget would put another $14 million in a contingency fund toward replenishing the fund balance and eliminating the deficit.

However, as we have outlined throughout the course of this study, Rockland County officials continue to make budgeting mistakes that have been large enough to counterbalance some of these deficit-elimination measures.

The raw numbers suggest that Rockland County has dug a financial hole so deep that it will require some assistance to be pulled out. Any monetary assistance provided to Rockland County should come with an equal measure of outside oversight, as we have noted that Rockland County has struggled to create a balanced budget in recent years.

The recommendations below include mechanisms that could provide that financial assistance and/or oversight.
1) Deficit reduction bonds through New York State

Rockland County should again consider asking the New York State Legislature to pass a recovery bill that would include allowing the county to pay off its deficit through bonds. Rockland County asked for deficit bonds during the State Legislature’s most recent session, but the State Legislature did not pass any deficit bonds or revenue-enhancing bills, such as those that would increase sales or mortgage taxes, for any counties across the entire state.

Rockland County should ask again. The deficit bonds would allow Rockland County to erase its current deficit, pay the shortfall over a period of 10 years, and start with a blank slate.

To ensure its request for deficit bonds is given the utmost consideration, Rockland County should prepare a realistic plan for paying those bonds, which it could present to local members of its state delegation in both houses. Rockland lawmakers would have to debate the terms of such a plan, but it should include some reliance on revenue streams that are within the county’s control, such as the property tax.

The legislation that allows deficit bonds also outlines the terms of state financial oversight during the life of those bonds. Generally, that oversight includes making quarterly reports to the State Comptroller, whose office also has the right to review the annual budget of the municipality that used deficit bonds.

In some communities, such as Yonkers and Newburgh, the Comptroller has slightly more power under the terms of state-crafted financial rescue plans. In both of those municipalities, the State Comptroller has the ability to sequester some funds to pay the municipalities’ debt. And in Yonkers, the State Comptroller also has the power to approve or reject the city’s budget.

Because of Rockland County’s financial plight in recent years, we believe it would be irresponsible to give the county the authority to issue these bonds – and potentially allow it to raise more money through sales or mortgage tax – without some strong oversight in the short term.

Therefore, we recommend that Rockland County pursue deficit reduction bonds, and that such bonds and any increased sources of revenue, come with oversight from the State Comptroller that would include the power to pay Rockland’s debts, approve future borrowings, and approve or reject the annual budget.

2) Rockland County Deficit Reduction Task Force

A similar mix of deficit bonds and strict financial oversight was proposed earlier this year by State Assemblyman Kenneth Zebrowski, a member of the Rockland County delegation in Albany.

Zebrowski introduced a bill that would create the Rockland County Deficit Reduction Task Force. The bill called for a nine-member task force, of which four members would be appointed by the governor, one by the temporary president of the New York State Senate, one by the speaker of the New York State Assembly, one by the State Comptroller, one by the Rockland County Executive, and one by the Rockland County Legislature.
The task force would exist for a three-year period, and could extend its oversight by majority vote for two-year periods until the deficit bonds were paid off. The task force could not include elected officials as members.

The task force would have broad oversight and budget recommendation powers. Under the terms of the bill, Rockland County would be forced to submit its annual budget, a multi-year budget plan and quarterly reports to the task force. County officials would also have to submit a report on the accumulation of the deficit, the amount and exact causes.

The task force would have the power to make recommendations about county operations and organizational structure, the future of Summit Park, and it would also suggest changes and/or amendments to the annual county budget.

Recommendations made by the task force would automatically become effective unless the County Executive and County Legislature passed a local law overriding each of them individually within 14 days. Those local laws would also require approval of two-thirds of the County Legislature. (The time period should perhaps be extended, since public hearings, notices in newspapers of record, and other requirement for the passage of a local law often take longer than 14 days.)

The task force would also have the power to prepare an annual report on county finances and the need for state intervention.

In return for all this oversight, Rockland County would receive its deficit bonds and be on a path to an even ledger, so to speak. The task force would expire after three years, after the extensions, or immediately before the bonds were repaid in full.

We believe such a task force would provide Rockland County with the funding, oversight and guidance it needs to eliminate the deficit and settle a number of looming issues, such as the fate of Summit Park.

This task force is also a strong option because it has a clearly defined sunset – its oversight powers will not continue indefinitely as some financial control boards across New York. What’s more, by requiring Rockland County’s administration and lawmakers to override each recommendation by the task force, the bill would provide a higher level of accountability for the decisions that are made by county officials. It would also shine a spotlight on those decisions so that taxpayers could have a true and robust discussion about the choices of their elected officials.

We believe Assemblyman Zebrowski’s bill could serve as a model of rescue and oversight for troubled communities across the state.

3) An independently elected treasurer or comptroller

Rockland County’s deficit and recent budgeting woes suggest that it could benefit from an independently elected comptroller or treasurer, whose function would include the certification of all county bills, the power to audit, and other such powers that would allow him/her to serve as a “financial watchdog” on behalf of the taxpayers.

Such comptrollers and treasurer’s exist in counties such as Eerie, Nassau, Oneida, Suffolk, Sullivan and Ulster counties.
This recommendation comes with two notes of caution. First, an independently elected comptroller or treasurer could raise the county’s budget by requiring new staff whose financial expertise would come at a relatively high cost. Rockland County should weigh this cost versus the potential benefits of having such an office.

Also, it would be crucial for such an elected official to be politically neutral. An effective comptroller or treasurer could not be afraid to highlight the financial decisions – poor or otherwise – of other elected officials because they are from the same political party, or because they have some personal or business connection.

A treasurer or comptroller at any level of government is only effective if the person serves that office with unwavering independence.

4) The formation of an audit advisory committee

Some counties in New York have created independent audit committees that periodically monitor the county’s finances and report back to the public.

The best such committee we’ve found was created in Nassau County in 2004. The Nassau County Comptroller’s Audit Advisory Committee was created to advise the county comptroller, to select the independent auditors each year, to set the audit’s scope, to assist with the preparation of annual financial statements, and to assess the adequacy of internal controls by the administration, legislature and comptroller.

The audit advisory committee also has the power to periodically participate in special projects, such as reviews of certain district or fund accounts.

All reports filed by the advisory committee were made public, ensuring that elected officials were held accountable to the taxpayers and to the highest standards of financial oversight.

The seven-member committee consisted of the county executive or designee, county comptroller or designee, and five experienced people from the private sector – especially the business and financial community – who were independent of the county and local governments. One such member served as the chair.

In those positions, Nassau County appointed a retired member of a venture capital firm, the dean of a business school, the vice president of acquisitions at a local company, a partner at a law firm specializing in tax law, and the chairman of a law firm that specialized in healthcare.

Such a committee would offer several advantages.

First, it does not require an act of the State Legislature, and so it can be created by local officials immediately. The committee elicits input from community members with expertise in finance who might look at problems in a different way than government officials, and, therefore, might suggest innovative solutions. We also believe that such an advisory committee would help Rockland County by delving into specific areas – the impact of tax certioraris, Summit Park, healthcare expenses – that could use a fresh set of eyes.

And most importantly the committee would provide oversight on a local level that is so direly needed in Rockland County.
5) The Comptroller’s proposed Fiscal Stress Monitoring System

While this recommendation is not specific to Rockland County, we believe it would be prudent for state officials to support Comptroller Thomas DiNapoli’s proposed Fiscal Stress Monitoring System.

The monitoring system would spotlight and offer help to local governments and school districts that show an inability to generate enough revenue to meet their expenditures. The system would do this by using a number of financial and environmental indicators to create a score for each municipality. It would pull data from annual update documents filed by each local government and school district, as well as data from the U.S. Census Bureau, State Department of Labor, and other sources.

Municipalities and school districts will be given two scores. On the financial side, the system will determine whether a given government unit is facing significant financial stress, moderate financial stress, nearing financial stress or no financial stress. The environmental scores will add “+” marks to that label. A mark of “+++” would denote the worst financial environment, decreasing all the way to zero such marks.

The system will be hooked into regional offices of the State Comptroller, which would then help stressed governments with budget reviews, technical assistance, training or multi-year planning.

We believe it is important to highlight this proposed system – and to endorse it in this study – because it would have intervened earlier in places like Rockland County, perhaps reducing the length and severity of the financial crisis we see here.

**Budgeting and estimating revenues**

One of the largest contributing factors to Rockland County’s deficit has been the repeated overestimating of revenues. County officials have repeatedly missed their targets on the sales and mortgage taxes, but also on several one-shot revenues that, once tallied, added significantly to Rockland’s financial stress.

As noted earlier in this study, we were able to find roughly $120 million in sales tax, mortgage tax, and other revenues that were budgeted by Rockland County but never received.

To prevent this massive shortfall from happening in the future, Rockland County should do the following:

1) **Better sales tax and mortgage tax projections**

All projections for sales and mortgage tax revenue should be based on the year-to-date receivables. Consultants to the County Legislature have consistently criticized county officials for predicting sales and mortgage tax based on an arbitrary increase over the previous year’s budgeted amount.

Instead, those same consultants have used year-to-date receivables as a basis for projecting the next year’s sales and mortgage tax with a high degree of accuracy. We believe the County
Executive and County Legislature should adopt this on the basis of best practices. Conservative estimates on these two revenue streams will prevent operating deficits in future years.

*We believe the County Executive is correct to keep sales and mortgage tax revenues flat in the 2013 proposed budget. The County Legislature should avoid the temptation to artificially increase these revenue streams to preserve programs or jobs.*

2) Wait for estimates from new ratables

The county should also adopt a wait-and-see practice when budgeting sales tax from new ratables that come to the county. It’s our understanding that a new mall in Clarkstown, replete with upscale stores that have not had a presence in Rockland before, could add some money to Rockland’s sales tax coffers toward the end of 2013.

However, Rockland County should budget at least one year’s sales tax revenue as if that mall did not exist. This will allow Rockland to get a more accurate sense of the mall’s impact before assuming a given amount of additional revenue.

The county should adopt this practice with all such developments.

3) Stop budgeting for revenues without ability to realize them

The county should stop budgeting for new or increased revenues before the mechanism by which to gain these revenues is in place.

For example, Rockland County never should have budgeted $1.3 million in revenue for red-light cameras that were never installed. Or $17.7 million in savings (budgeted as a revenue) from the full year of a union contract before it was passed. Or increased revenue from mortgage and sales tax rate increases that were never approved.

Auditors and consultants have pointed to at least half a dozen times when Rockland County has projected a new revenue or a revenue increase that never came to pass because the law, piece of equipment or some other mechanism was never put in place. (Or it was put in place later than expected.) The county should adopt a practice of only budgeting new revenues or revenue increases after it is 100 percent sure that those revenues will be collected.

4) Be careful about “one-shots”

Rockland County should be especially careful about budgeting one-shot revenues, including how those predicted revenues are spent.

Some of the revenue projections missed by Rockland County in recent years fall under the umbrella of “one-shots,” a term often used to describe a revenue stream that is not recurring. The sale of county buildings, for instance, would be considered a one-shot revenue because it can only be budgeted one time and it does not provide revenue to the county year after year.

The County Executive’s 2013 proposed budget shows that proceeds from the sale of county buildings – the most common one-shot revenue – are being dedicated to a fund that will replenish the General Fund reserve and pay down the deficit. We strongly urge this approach for the budgeting of these revenues.
We would urge the county to follow that practice with any one-shot revenues that might be projected in the near future. In some counties – including Rockland – one-shot revenues are often budgeted to balance the next year’s operating budget. This is not a good idea for Rockland for at least two reasons.

First, one-shot revenues that are used to balance the operational budget also keep property taxes and other revenue streams artificially low. Unless an equal dollar amount of cuts are made the next year, when the one-shot revenue is gone, some other revenue stream will have to increase to make up for it. Secondly, if one-shots are used to balance the operational budget, they will not be used to pay down Rockland’s deficit, which should be a primary goal.

Making hard choices about non-mandated services

Rockland County has already begun a conversation about reducing services that it can no longer afford, which are often services that can be taken over by the private or nonprofit sectors. For instance, it has already privatized much of its mental health services, leaving only a small fraction of employees dedicated to mental health on the county payroll.

When it comes to services, we believe Rockland County should continue along two parallel tracks.

First, Rockland County officials in coordination with their peers from other counties should continue to sound the alarm about unfunded and under-funded mandates. The County Executive and others are absolutely correct when they say that mandates have a steel grip on most of the county budget, which also limits the county’s ability to provide discretionary services that are wanted by local citizens, without large tax increases.

But while it continues to participate in the debate about mandated programs, Rockland County must also look at non-mandated programs and ask some hard questions. Do county citizens still need all the non-mandated programs and services? Can any be delivered better and more efficiently by the private sector? Even if temporarily, which services could be eliminated simply because Rockland County does not have the funds to continue them? Would collaboration across municipal borders decrease the cost?

Pattern for Progress has long encouraged such discussions, based on the simple premise that the system of local government we have in New York today, with each local unit delivering the same services at often high costs, is not the system we would design if given a blank canvas.

In that spirit, the following are suggestions about non-mandated programs that deserve scrutiny and debate as Rockland continues to wrestle with its financial crisis.

1) Summit Park Hospital and Nursing Care Center

As we have already documented in this study, a growing number of counties in New York are getting out of the nursing home business because relatively low reimbursement rates and relatively high benefit costs have turned the business upside down for governments.

The County Executive in his 2013 proposed budget has plotted the correct course to privatize these county services and assets. The creation of Local Development Corporation (LDC) to sell the county nursing home and hospital is a good plan. County lawmakers should avoid any attempt to hunt for efficiencies that would rationalize keeping the hospital and nursing home, as
their services are now provided by a vast number of private companies and nonprofit groups. (The county should, however, look for efficiencies to reduce operating costs while it owns the facilities and is simultaneously moving to sell them.)

The County Executive has put Rockland on a path to sell the nursing home and hospital that is patterned after Ulster County, whose LDC process we have watched closely. Thus far, Ulster County has voted to sell its nursing home, created the LDC, held public meetings, and attracted potential buyers without a hitch. Rockland County has already talked to Shawn Griffin, a lawyer from the firm Harris Beach, who guided Ulster County.

As Rockland proceeds with this process, we would only raise three notes of caution. First, the county should continue to budget for annual operations at the nursing home and hospital until it is 100 percent sold. Even deals that seem like guarantees can slip away, creating more budget shortfalls in a county that cannot afford them.

Secondly, we would urge Rockland County – again following Ulster County’s path – to hire a marketing and real estate company with expertise in selling nursing homes. This will ensure that the process moves as quickly as possible, and that qualified buyers are found.

And lastly, Rockland County should craft its LDC to include public meetings. Even though the LDC is not legally required to conduct its business in the open, it would be preferable to let Rockland County citizens watch to ensure their taxpayer-owned asset is being sold responsibly.

2) The county pharmacy

Rockland should follow the lead of the County Executive and shut down the county pharmacy. This action was outlined in the 2013 proposed budget.

As noted in earlier sections of this study, Rockland County employees and retirees have enjoyed the benefit of free prescription medications through a co-payment reimbursement program outlined in their collective bargaining agreements.

As far as we know, this benefit is unprecedented in the Hudson Valley. And while it represents a relatively minuscule amount of the county budget and deficit – only $1.7 million – it is a benefit that should be discontinued immediately. County residents cannot believe their representatives are serious about solving a fiscal crisis if they are still providing a prescription benefit that is enjoyed by practically none of their constituents who work outside the ranks of county government.

3) The sheriff’s police unit

The sheriff’s road patrol, or police unit as it’s called in Rockland County, is another non-mandated service provided by counties.

In New York, county sheriffs’ offices are required to perform two mandated functions. The first is the civil process, which includes the seizure and sale of property to satisfy adjudicated debts, and the second is the operations of the county jail and transport of prisoners.

Sheriff’s road patrols are not mandated, but they still serve an important purpose in many rural counties that rely on few, if any, local police departments, along with the New York State Police.
Rockland is somewhat unique among counties in the Hudson Valley because all its towns have police departments. In fact, the five towns in Rockland have police rosters that total 461 full-time equivalent employees – the vast majority of them police officers. This does not include the police officers who are employed in the village police departments that exist in the county.

Meanwhile, the Rockland County Sheriff’s Police Unit has an additional 34 full-time staff, also predominantly patrol officers, whose personnel budget alone totals $4.5 million (including overtime) according to county budget documents. That does not include many of the sheriff’s special units that have been created over the decades, including the bomb disposal unit, river patrol, mounted patrol, bureau of criminal investigation, and computer crime unit.

Those special units, which are also not mandated, add roughly an additional $5.6 million in personnel alone.

The County Executive has noted in many forums that it might be time to ask whether Rockland County still needs a police division. We think now is a good time to raise that question and conjure some potential answers that might include cutting some or all of the county police units.

Opposition to this concept will be considerable. In fact, members of the County Legislature have already decried the County Executive’s move to eliminate the mounted unit and some patrol officers from the sheriff’s office in 2013.

Many will claim that public safety will suffer without these officers and special units. But a debate about these services should be steeped in evidence, new ideas, generally accepted metrics, and open mindedness. One new idea has already risen to the forefront.

After county budget cuts nearly led to the dissolution of sheriff’s-led intelligence and narcotics task forces, Rockland District Attorney Thomas Zugibe helped create a new Regional Investigative Resources Center this year. The new investigative unit will use officers from some of the towns and villages under a memorandum of understanding that will give those municipalities a greater share of forfeiture money from police operations. Zugibe has said in press reports that he intends to reach out to towns that have not joined that task force to ask for their participation.

If the new investigative unit works – and saves money at the same time – it could serve as a model for other public safety operations. We see no reason why a select handful of town officers could not also be trained in cyber crimes or bomb disposal. If anything, the sheriff’s office or district attorney’s office could employ a coordinator for these units, rather than entire units themselves.

In these difficult financial times, law enforcement must seek the same efficiencies that local governments are finding. It might not make sense for every individual police department to have its own bureau of criminal investigation, its own cyber crime unit, its own helicopter, especially if these components can be shared among neighbors without harming public safety or response time.

This begs an obvious question: how do we know what cuts will affect public safety and which ones will not? Finding good metrics for law enforcement is a difficult task. The International Association of Chiefs of Police has said that “ready-made, universally applicable patrol staffing standards do not exist.” And that might be true.
But this should not prevent an open debate about police services currently provided by the county. To start, we suggest that Rockland County officials create a countywide task force of non-elected officials with backgrounds in law enforcement to assess the existing police services. We also suggest that policymakers read the three-page brief on police staffing and deployment produced by the International City/County Management Association’s Center for Public Safety Management. We have attached it as an appendix to this report.

4) Public works

During the course of our research, several town officials noted that they would be willing to assume some portion of maintenance responsibility for county roads if the county could create a mutually beneficial reimbursement structure.

We believe that Rockland County should immediately engage in conversations with town supervisors about the potential to share DPW equipment, maintenance and other costs.

In other counties, we have identified public works inefficiencies that could be eliminated by an agreement between the county, towns and villages. One of the most obvious comes with snow plowing. To plow their roads, town DPW trucks often have to drive over county roads with their plows up. This amounts to an enormous waste of time, gas and other costs. It also requires more equipment, as a second truck, owned by a second municipality, must drive over the same road with its plow down. These seemingly small inefficiencies can add up to thousands of dollars.

To start the conversation about shared public works services, we suggest that Rockland County look at two models.

The first came in Ulster County, where the County Executive reached an agreement with some towns to do snow plowing and road maintenance in exchange for a per-mile stipend. The program has saved thousands of dollars.

We also think the county should look at a more complex model of sharing being used by Dutchess, Putnam and Westchester counties. A total of 19 municipalities in those counties created an inter-municipal corporation to handle MS4 regulations. Each of the municipalities contributed money toward the corporation, which then bought equipment, hired consultants and performed work to conform with the law. The creation of the corporation cut the cost significantly for the municipalities that participated.

Council of Governments

Rockland County should establish and regularly convene a Council of Governments, which would include elected leaders from the county, its five towns and 19 villages.

To determine the most efficient and effective ways to deliver services, while avoiding the urge to pass the cost of some programs down from one level of government to another, all local government leaders in Rockland County should participate in regular conversations about collaboration and service delivery. These meetings should happen at least quarterly, and all elected leaders should be allowed to suggest items for the agenda.
Conclusion

Rockland County has at least three important questions to answer as it seeks to restore fiscal balance and deliver services in the years ahead.

- How does Rockland County craft an operating budget that is more realistic, using revenue and expenditure projections that won't add to the existing deficit?

- How does Rockland County erase the current deficit that has accumulated over a number of years?

- How can local governments in Rockland work more collaboratively to ensure effective delivery of services at the lowest cost possible?

Some of the answers begin with the 2013 budget. The County Legislature must carefully analyze the County Executive’s spending plan to ensure revenue and expenditure estimates are accurate, and that expected savings from proposed cuts will be fully realized. The County Legislature must also listen carefully to its consultants. If the Legislature’s analysts suggest changes to the budget, county lawmakers should take that advice more seriously than it appears they have done in previous years.

However, even if the 2013 budget was perfectly balanced, Rockland still needs outside help to escape the very deep financial hole that county officials have created. The county should again ask New York State for deficit financing, and strongly consider enlisting smart citizens from the community to participate in oversight committees that could sound the alarm when county government operations and finances go awry.

Rockland County should also reexamine many of the non-mandated services that it currently provides to taxpayers. But it should not do this alone. County officials should create a Council of Governments to meet with their neighbors in town and village governments and understand how they can help each other design a model of service delivery that is smarter, cheaper and more efficient in every way.

If government leaders in Rockland County deliberate thoughtfully and resolve to make hard decisions, we believe the county will soon find its way to solid financial footing.