Greater Tompkins County Municipal Health Insurance Consortium

125 East Court Street • Ithaca, New York 14850 • (607)274-5590
www.healthconsortium.net • consortium@tompkins-co.org

"Individually and collectively we invest in realizing high quality, affordable, dependable health insurance."

Audit and Finance Committee

Agenda – July 28, 2020
3:30 PM
Join Zoom Meeting
https://tompkinscountyny-gov.zoom.us/j/91787503290?pwd=dVFJR045bTlFRU53MWJXQnZTdTdyUT09
Meeting ID: 917 8750 3290; Passcode: 336447
301-715-8592

1. Call to Order (3:30) M. Cook
2. Changes to Agenda (3:30)
3. Approve Minutes – June 23, 2020 (3:32)
4. Continued Discussion of COVID-19 Impacts with Marty Stallone, Cayuga Medical Center CEO
5. Executive Director (4:25) E. Dowd
   - **MOTION:** Acceptance of Prescription Drug Claims Audit
   - Excellus/ProAct Accumulator Issue
   - Follow-up from Excellus: Financial Measurement
6. Financial Update (4:30) S. Locey
   - Financial Review
   - Report on large loss claim activity
   - Account Receivable R. Snyder
   - Expenditure Report
   - 2021 Budget
7. 2021 Budget Discussion
   - Update on Premium Discount Discussion at the Executive Committee
   - Budget Draft
8. Next meeting Agenda Topics (5:25)
   - Discussion: TC3 Payments
9. Adjourn (5:30)

Next Meeting: August 25, 2020

Audit and Finance Committee
Minutes – DRAFT
June 23, 2020
Meeting Held Remotely via Zoom

Present: Mack Cook, Eric Snow, Rordan Hart, Peter Salton, Steve Thayer, Jason Cole, Jon Munson (arrived at 3:44 p.m.), Bud Shattuck, Laura Shawley
Guests: Judy Drake, Board of Directors Chair; Elin Dowd, Executive Director; Don Barber, Consultant; Rick Snyder, Treasurer; Steve Locey, Robert Spenard, Locey and Cahill; Michelle Cocco, Clerk of the Board; Debra Meeker, Administrative/Computer Assistant

Call to Order

Mr. Cook, Chair, called the meeting to order at 3:35 p.m.

Changes to the Agenda

There were no changes to the agenda. Mr. Cook suggested including the subject of premium relief on the July agenda for a recommendation by the Committee.

Approval of Minutes of May 26, 2020

It was MOVED by Mr. Snow, seconded by Mr. Hart, and unanimously adopted by voice vote by members present, to approve the minutes of May 26, 2020 as submitted. MINUTES APPROVED.

Executive Director's Report

COVID-19
Ms. Dowd said the Consortium continues to operate under COVID-19 conditions. To date, Excellus reports show $200,000 being spent on expenses related to test, diagnose, or treat the Coronavirus. She said it is too early to know the full impacts of the pandemic and noted there is a possibility of a second wave of the virus in the fall. Arrangements are being made to invite providers to meet with the Executive Committee to talk about the pandemic and how it may impact the Consortium. She reported the Consortium has been covering copays for mental health services for essential workers and there may be additional State mandates coming forward.

Department of Financial Services (DFS)
Ms. Dowd reported conversations continue with DFS on the Municipal Cooperative Agreement (MCA). Once the MCA is approved a new Certificate of Authority (COA) will be pursued.

Benefit Plan Updates
Ms. Dowd said Directors will be presented with changes to benefit plans at it's meeting this week as a result of actuarial value calculations._ She reported on an issue that was created due to a disconnect in the accumulator function between Excellus and ProAct that involved 30 individuals. They are meeting weekly and working to resolve the issue.

Prescription Drug Claims Audit
Since the last meeting she and Mr. Locey have met to discuss concerns that came up in the audit. They will be meeting with ProAct going forward on very specific claims issues that arose. The biggest area of concern within the audit relates to the rebate reconciliation process and the lack of a system at ProAct to ensure the Consortium is receiving all of the rebates it should be receiving. She expects a formal report to be presented at the next meeting.

Mr. Barber said this is an area that has been previously mentioned and something that could be considered in a secondary audit. He suggested looking at industry data to see where the Consortium fits in to see if a second audit would be worthwhile.

Premium Relief

Ms. Dowd said it is still too early in 2020 to make a decision about premium relief for this year and noted a team has begun working on developing budget recommendations for the 2021 budget that includes discussion of premium relief. She noted there are many unknown and unpredictable outcomes of the pandemic and will be gathering information in advance of the Executive Committee meeting on July 7th when representatives from Excellus will be in attendance.

Mr. Munson arrived at this time.

Mr. Salton referenced Ms. Dowd's comment and asked who is working on the budget preparation. She responded that group includes Steve Locey, Don Barber, Judy Drake, and herself. They have traditionally worked on the budget in the past and are trying to garner feedback from the Executive Committee and other Directors. Mr. Salton expressed concern that at this time there are municipalities that are struggling. He isn't clear where their concerns fit into the process and questioned if the opportunity will pass before feedback is provided. Ms. Dowd said the Board will be asked for feedback at this week's meeting. Mr. Salton said at the last meeting he indicated there were differing sets of issues depending on the size of the organization and asked that this be considered while due diligence is being done in consideration of premium relief.

Ms. Dowd acknowledged the varying issues that exist among different municipalities and said after receiving feedback from the Board, the Executive Committee will be better-positioned for its discussion. All suggestions are still being welcomed and will be considered.

Invoice Approval

Without objection, the final invoice dated May 21, 2020 from Insero and Co. was approved for payment.

Financial Update

Mr. Locey reviewed financial results through May 31, 2020 and reported with respect to income the Consortium was 1.29% above budget which was partially due having more contracts over last year but also the movement of some members into lower-cost plans. He reported interest income was 30% over budget but it is expected that will level off through the remainder of the year. Prescription drug rebates in the amount of $.5 million was received year-to-date.

With respect to expenses, medical claims were 14.8% below budget with the majority being a result of the pandemic; prescription drug expenses were 5.3% below budget. In summary, Mr. Locey said the Consortium is $3.4 million below budget overall year-to-date and $.94 cents of each dollar being used to pay claims and 6% being used for everything else. He will be working on the PCORI (Patient Centered Outreach Research Institute) fee that was supposed to end but has been extended thru 2029. Elective surgeries are now taking place and it is expected there may be many scheduled in advance of a potential outbreak of COVID-19 in the Fall. There have not been any large losses year-to-date; the largest loss to-date did not exceed $250,000.

Mr. Locey said the Consortium has $35 million in net income in terms of net assets or reserve funds (not including advance deposit funds at Excellus). The total unencumbered balances equals $17.3 million and this represents approximately 33% of premium income for the year.

Accounts Receivable

Mr. Locey reported TC3 is having difficulty and is behind in premium payments; this warrants further conversations. There are no other areas of concern in the report.

RESOLUTION NO. – 2020 – ADOPTION OF CATASTROPHIC CLAIMS RESERVE POLICY

Ms. Dowd said the Consortium has been budgeting at the lower deductible levels with a higher premium and there has been discussion of moving funding from the $4.5 million level to the $6 million level. She asked if there is interest in continuing this practice for 2021 and how it should be reflected in the budget. She asked for direction as to what level the Catastrophic Claims Reserve should be at in the long-term.

Mr. Hart said he supports moving this reserve to the $6 million level and to also standardize the way that number is derived.

It was MOVED by Mrs. Shawley, seconded by Mr. Shattuck, and unanimously adopted by voice vote by members present, to approve the following resolution.

WHEREAS, the Greater Tompkins County Municipal Health Insurance Consortium ("GTCMHIC") has been issued a Certificate of Authority to operate as a New York State Insurance Law Article 47 Municipal Cooperative Health Benefit Plan, and

WHEREAS, Section 4707(a)(2) of the New York State Insurance Law requires the GTCMHIC to purchase "specific stop-loss coverage with a specific retention amount or attachment point not greater than four percent of the amount certified by a qualified actuary to represent the plan`s expected claims for the current fiscal year", and

WHEREAS, 4% of the GTCMHIC's expected claims for the 2020 Fiscal Year equals approximately $2,048,000 ($51,200,0000 in expected claims x .04), and

WHEREAS, the GTCMHIC Board of Directors issued a Request for Quote (RFQ) to licensed, reputable insurance carriers seeking quotes for specific stop-loss insurance at various deductible levels and with certain required coverage parameters, and

WHEREAS, the GTCMHIC Board of Directors has agreed to purchase specific stop-loss insurance from Excellus BlueCross BlueShield ("Excellus") with a policy period deductible of $1,000,000 for all covered insured members with the exception of one member who has a separate deductible of $1,200,000, and

WHEREAS, the GTCMHIC Board of Directors recognizes the purchasing of specific stop-loss insurance at a $1,000,000 deductible level increases the amount of risk that the Consortium retains as a primarily self-insuring entity, and

WHEREAS, the GTCMHIC maintains a Catastrophic Claims Reserve of $4,500,000 to help cover large dollar claimant expenses, now therefore be it

RESOLVED, on recommendation of the Audit and Finance Committee, That the GTCMHIC Board of Directors hereby adopts the following policies with respect to the Catastrophic Claims Reserve for the 2020 Fiscal Year:

1. Interest income earned on funds held in the Catastrophic Claims Reserve shall be retained within same, as they are earned.

2. The GTCMHIC Treasurer is directed to, on a quarterly basis and within 60 days of the end of said quarter, transfer from the Catastrophic Claims Reserve to the general operating fund of the GTCMHIC a dollar amount equal to any claims paid in excess of $500,000 but less than $1,000,000 per member, excepting:

    a. The one member identified by Excellus as having a separate deductible of $1,200,000. For this member, funds will be transferred from the Catastrophic Claims Reserve to the general operating fund for any claims incurred above $500,000 but less than $1,200,000.

3. The foregoing provisions apply only to claims incurred between January 1, 2020 and December 31, 2020 and paid between January 1, 2020 and March 31, 2021.

4. This policy shall be reviewed and amended as necessary, on an annual basis in coordination with the GTCMHIC budget process and the purchase of specific stop-loss insurance coverage as required by statute.

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RESOLUTION NO. -2020 – ADOPTION OF POLICY DEFINING PURPOSE OF RATE STABILIZATION RESERVE

MOVED by Mr. Salton, seconded by Mr. Snow. Following discussion, the resolution was revised to include statement and language stating the purpose is to provide predictable and stable premium increases. It was noted the intent is not to have zero premium increases. The resolution was unanimously adopted by voice vote by members present.

WHEREAS, the Consortium's vision statement reads: The Greater Tompkins County Municipal Health Insurance Consortium is an efficient inter-municipal cooperative that provides high-quality, cost-stable health insurance for members and their employees and retirees, and

WHEREAS, Resolution No. 019-2014 adopted the 2015 Budget and established a Rate Stabilization Reserve at $1.64 million "to protect the cash flow position of the Consortium should there be a year when claims cost exceed the prediction, and

WHEREAS, Resolution No. 034-2019 increased the funding level for the Rate Stabilization Reserve to 7.5% of expected claims, and

WHEREAS, financial pressures placed on municipalities as a result of the COVID-19 pandemic has resulted in several discussions and a need to adopt a formal policy of the Board defining the purpose of the Rate Stabilization Reserve, now therefore be it

RESOLVED, on recommendation of the Audit and Finance Committee, that the Board of Directors amends resolution 19-2014 to define the purpose and use of the Rate Stabilization Reserve to be: *"The Rate Stabilization Reserve is established to sustain predictable and stable premium increases."*

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<u>Discontinuance of Gold Plan Discount</u>

Ms. Drake said in 2016 when the Metal Level Plans were established a decision was made whereby if the actuarial value changes on a plan that the percentage increase would be discounted. For example, in 2020 the Board adopted a 5% premium rate increase; however, the Gold Plan only received a 4.4% increase. She said this has been a practice and not a policy and asked if members wished to provide input to the Executive Committee on this and whether the practice should continue going forward.

Mr. Locey provided additional information on this practice, stating the intent was that if the actuarial value range of a Metal Plan was exceeded a modification would be made to the benefit plan and if there was a benefit change there would be a commensurate discount on the increase on the premium associated with the program. It was a reflection that the members' benefits on a specific plan were changing when everyone else's were not. He said it was also a selling point with all of the unions when the Consortium first started, and although not part of a written agreement it was the spirit of the discussions that took place.

Ms. Drake expressed concern that as move members move into the Metal Level Plans there will less increasing at the 5% rate.

Mr. Shattuck said it's a big deal when the actuarial value changes as often as it does and he likes having a way to offset the cost. He also sees this as potentially being helpful when new municipalities come into the Consortium. Mr. Shattuck expressed concern with how often plans have to be changed as a result of falling outside of the actuarial values and asked if there is anything that can be done about that.

Mr. Cook spoke of the difficulty in telling people their benefits will change every year or two and said it helps to offset it and doesn't think the Consortium should walk away from this sense of fairness. Changing benefits is not well-understood among municipal or unionized employees.

Ms. Drake said the Consortium needs to acknowledge this practice and if it will continue there should be a policy. This is something that will continue to be discussed at the Executive Committee.

Next Agenda Items

The Committee will continue discussion of providing relief to municipalities, budget assumptions and planning, and an update on the premium discount item after discussion at the Executive Committee.

Adjournment

The meeting adjourned at 4:54 p.m.

BMI Prescription Drug Audit

We recommend that the Audit and Finance Committee accept the BMI Prescription Drug Audit and ask for the Executive Director to follow up with ProAct on the following items:

- Misapplication of copays
- Prior Authorization
- Member Eligibility Maintenance
- Rebates

Locey &Cahill, Elin Dowd, and ProAct will schedule a meeting to discuss the results of the audit and to formulate a plan that includes ProAct:

- Reimbursing the Consortium for claims adjudicated incorrectly
- A commitment to returning to following procedures and policies related to preauthorization, step therapy, and the oxycodone programs.
- Review if member eligibility errors are due to delayed user input or disregard of termination date on the part of the claim's administrator.

A more comprehensive conversation will ensue regarding the rebate program and determining what money is being left on the table and if additional audits are needed to secure all manufacturer rebates available to the Consortium.

Office of the NEW YORK STATE

COMPTROLLER

Under Pressure:

Local Government Revenue Challenges During the COVID-19 Pandemic

New York State Comptroller

THOMAS P. DiNAPOLI

JULY 2020

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Introduction

Actions to contain the COVID-19 pandemic in New York State shuttered non-essential businesses, restricted travel and caused record numbers of displaced workers to apply for unemployment insurance.[1] The longer-term economic implications of these changes depend on many unknown factors, including the length of the pandemic and associated stay-at-home orders, the scope and structure of federal policies enacted to backstop losses being experienced by residents, businesses and state and local governments, and any reoccurence of the disease.

While reopening has begun, State leaders have been clear about the expected adverse impacts of these economic developments on the State's coffers. Reductions are expected in revenues that would have been collected from otherwise normal taxable sales and personal and business incomes, and major increases in public health spending may be required. Local governments — which are providing some of the most vital services to New Yorkers at this time — may experience reductions in State aid simultaneously with declines in their local revenues.

From counties providing critical public health services to school districts trying to teach children remotely, our State's local governments are being tested on many fronts and are often responding with innovative solutions to these challenges. Yet they will likely experience major fiscal problems without assistance that takes into account the effect of the pandemic on their revenues. This report will examine some of the major risks to these revenue sources (sales tax, property tax and State aid), the dependence of local governments on each, and the effects of federal government actions to help keep local governments afloat thus far.

New York City, which is many times larger than the next largest locality in the State, and has been discussed extensively in other recent analyses by the Office of the State Comptroller, is omitted from this presentation, except as noted.[2]

Highlights

- The COVID-19 pandemic will negatively affect many local governments' revenues. Additional federal aid is needed to ensure that municipalities and school districts have the resources to provide critical services New York residents depend on.
- The pandemic's impact is likely to be more immediate and severe on some local governments' finances than on others, depending on their mix of revenue sources.
- The closure of retail and entertainment venues and the decline in gasoline prices have already begun to have a major impact on sales tax revenues.
- Property taxes provide revenue stability for local governments, but the tax cap and other constraints will likely limit their use to shore up local revenues.
- Most State aid to local governments was held flat or reduced in the recent State budget. Some local governments have already had to face significant mid-year reductions in State aid.
- Much of the recent federal aid to localities, while helpful, is targeted to a small subset of municipalities and does not address the larger issue of budget stress caused by the economic shutdowns.

Sales Tax

The sales tax is one of the most important sources of revenue for many New York State local governments, and it is one of the most likely to be affected by the economic pause and social distancing measures implemented to control COVID-19. Sales tax revenue accounted for more than one-quarter of county revenues, nearly one-fifth of city revenues outside of New York City, about 10 percent of town revenues, and over 8 percent of New York City's revenues in fiscal year ending (FYE) 2018. (See Figure 1.)

Figure 1

Local Sales and Use Tax Revenue as a Share of Total Revenue, Fiscal Year Ending (FYE) 2018

Class	Amount (In Millions)	Share of Total Revenue
Counties	$6,492.9	26.1%
Cities	$931.7	18.9%
Towns	$742.0	9.5%
Villages	$173.2	5.9%
School Districts	$290.7	0.7%
Total Excluding NYC	**$8,630.5**	**10.5%**
New York City	$7,601.0	8.6%
All Classes	**$16,231.5**	**9.5%**

Source: Office of the New York State Comptroller (OSC); and New York City's Comprehensive Annual Financial Report.

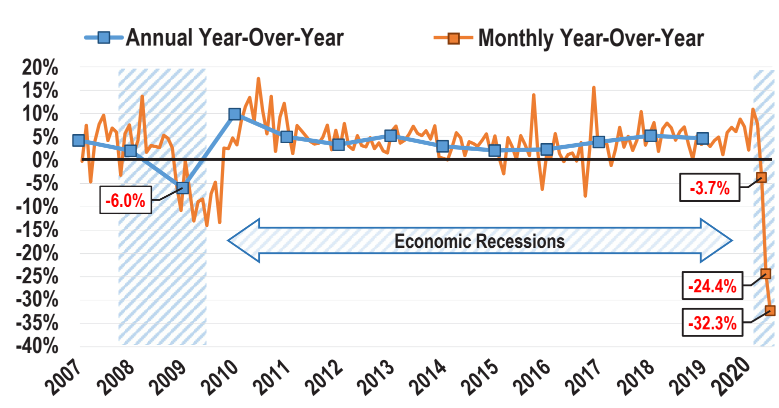
Notes: In this table, cities and school districts do not include New York City or its school district. Mortgage recording taxes are not included. County sales tax revenue does not include sales tax distributions made to other local governments. The sales taxes received by towns, villages, school districts and most cities are from county distributions.

Potential Impact of the COVID-19 Emergency

Historically, local sales tax collections in New York State slow or even decrease during economic recessions. In recent decades, the biggest drop was during the Great Recession of 2008-09, when sales tax revenues declined 6 percent in one year, followed by nearly 10 percent growth in 2010. (See Figure 2.)

Figure 2

Percentage Change in Statewide Local Sales Tax Collections, 2007 to 2020



Source: New York State Department of Taxation and Finance, with calculations by OSC.
Note: Includes New York City.

It is difficult to project the impact of the COVID-19 pandemic, since it is not the result of a normal economic cycle and the behaviors associated with it. In June, the National Bureau of Economic Research announced that the U.S. had officially entered a recession as of February 2020.[3] However, the effects of the shutdowns due to the pandemic have been much quicker and deeper than those of a "typical" recession.

In most recessions, people generally continue to patronize restaurants and purchase clothing, even if they put off larger purchases or seek out less expensive options. In addition, these spending reductions and substitutions do not typically happen all at once. Contrast this with the recent sudden closure of all entertainment and non-essential retail around the State, followed by a phased-in reopening with many restrictions on attendance density.

It is, as yet, unclear what the long-term economic impact will be. However, it is clear that retail sales – especially of taxable goods and services – have already been greatly affected. Since March, the U.S. Census Bureau has been reporting year-over-year drops in national retail sales figures, with the worst drop (21.2 percent) in April. In May, retail sales were down 7.7 percent over May 2019, with much steeper drops in some of the most important taxable sales, including clothing and accessories (-63 percent), gasoline stations (-32 percent), electronics and appliance stores (-31 percent) and department stores (-26 percent).[4]

At the State level, the State Fiscal Year (SFY) 2020-21 Enacted Budget Financial Plan anticipates a 15.5 percent drop in State sales tax collections for April 2020 through March 2021.[5] The decline in local collections may be even worse, since nearly all counties tax gasoline at a percentage of the sales price, rather than by the gallon as the State does, and gasoline prices have been dropping: average monthly gas prices in April and May were at the lowest they have been since March of 2016. This will compound the pain felt from reductions in the overall sales volume.[6] The New York State Association of Counties (NYSAC) recently estimated that county collections (excluding New York City) could drop by as much as $1.9 billion (around 22 percent) over the course of a full year.[7] In April and May 2020, local sales tax collections were down 24.4 percent and 32.3 percent, respectively, leaving counties and other local governments short by about $765 million.[8]

State Budget Actions Reducing Sales Tax Collections

The SFY 2020-21 Enacted Budget requires that counties forego a portion of their sales tax collections to support a State fund to aid financially distressed hospitals and nursing homes in SFY 2020-21 and 2021-22. The State will withhold a total of $50 million annually from counties outside of New York City in each of these two fiscal years, based on each county's percentage share of statewide county sales tax collections. This is in addition to a requirement that counties fund $59 million in annual unrestricted aid to certain towns and villages that had, until last year, been funded by the State, through a similar withholding of sales tax revenue.

Collecting Tax on Internet Sales

One policy that might help mitigate COVID-19's impact on local sales tax revenues is the State's actions in 2019 to fully capture sales taxes on internet transactions with out-of-State vendors. With many local businesses closed, it is likely that more purchases will be made online, leaving local governments more likely than in prior years to benefit from sales tax collections on those transactions.

Property Tax

The largest single source of revenue for local governments as a whole is the real property tax, which generated nearly $36 billion, or 43 percent of all revenue, in FYE 2018. School districts, towns and villages relied on the property tax for about half of their revenues, while counties and cities depended on property taxes for about a quarter of theirs. (See Figure 3.) Even within the individual classes of government, reliance on the property tax varies. This is especially the case for school districts, where dependence on this source ranges from less than 5 percent to nearly 100 percent of revenue.

Figure 3

Property Tax as a Share of Total Revenue by Class of Government, FYE 2018

Class	Amount (in Millions)	Share of Total Revenue
Counties	$5,752.8	23.2%
Cities	$1,284.3	26.0%
Towns	$4,224.1	53.9%
Villages	$1,402.1	48.0%
School Districts	$22,401.0	53.7%
Fire Districts	$808.3	93.3%
All Classes	**$35,872.7**	**43.2%**

Source: OSC.
Note: Does not include New York City or its school district.

The property tax has historically provided stability to local government revenues in bad times, since it is locally controlled and not immediately affected by changes in economic conditions. It follows that the local governments which depend most heavily on it, including wealthier school districts as well as most towns and villages, will likely be more insulated from the immediate budgetary effects of economic pause and social distancing requirements, which affect other sources, like the sales tax, more directly. However, longer-term economic damage, such as proliferation of vacant abandoned residential and commercial properties, could eventually reduce property values, eroding the property tax base in affected municipalities.

Limits to Using the Property Tax to Shore Up Revenues

Historically, local governments have also used the property tax to replace at least some budget losses from other, more economically sensitive sources, such as the sales tax. However, their ability to do so has been more limited recently, due to a variety of factors:

Taxes Are Already Relatively High

New York's local real property taxes are already high compared with other states, ranking fourth in collections per capita in 2017.[9] Effective tax rates per $1,000 of property value are highest upstate, while tax bills per household are highest downstate. Those high tax payments are exacerbated for some by the 2017 federal cap on itemized deductions for state and local taxes.

Early indicators show that the pandemic is causing economic insecurity for both residential and commercial property taxpayers, calling into question their ability to pay existing property tax bills, let alone higher ones.[10] This risk is especially problematic for counties, since most are required to make local governments and school districts whole for any property taxes on their rolls that remain uncollected.

Real Property Tax Cap

Since 2012, the State has limited the ability of local governments and school districts to raise total property tax levies in any single year. The tax cap generally restricts year-over-year levy growth to 2 percent or the prior year's inflation rate, whichever is lower.[11]

Constitutional Tax Limit

In addition to the 2 percent limit on year-over-year property tax levy growth, counties, cities and villages are subject to a Constitutional Tax Limit (CTL) on total levy in a single year.[12] As of FYE 2018, 20 local governments had exhausted more than 80 percent of their CTL, meaning they may be unable to raise property taxes significantly without risking sanctions from the State.[13] Even during the past several years, this number had been growing – up from 7 in 2012. If the pandemic leads to a longer-term economic contraction where real property values decline over time, more municipalities could be included in this category.[14]

Tax Exempt Properties

Some local governments are further hampered by having many properties which are not taxable at all. According to the Department of Taxation and Finance, tax-exempt property makes up at least a third of all property in 30 (of 61) cities across the State.[15]

Other Risks

Reliance on real property taxes poses a few of its own risks during a financial crisis. The timing of payments could be an issue in this fiscal year if taxpayers are unable to make these payments. Municipalities could be faced with the need for short-term borrowing, and the extra expense it entails, if taxpayers delay payments. Over the longer term, if the current crisis is protracted, local governments may be under increased pressure to keep taxes from increasing, thereby increasing the likelihood of fiscal stress.

Other Local Revenue

Municipalities also derive a significant amount of revenue from an assortment of service charges and other miscellaneous sources. For counties, cities, towns and villages together, this amounts to approximately $10 billion, or nearly a quarter of their total revenues.

The largest sources of these revenues are usually fees for municipally run utilities (most commonly drinking water or wastewater, and some electrical utilities) or sanitation services (including garbage disposal and landfills where relevant). (See Figure 4.) In many cases, some of the largest users of these services are industrial, manufacturing and other local businesses and institutions, which have seen dramatic cuts in activity or been completely shut down since March. Many will operate at reduced levels, if at all, while the State works through its economic reopening.

Transportation fees, which include revenue collected from parking meters and municipally owned garages and parking lots, are likely also taking a substantial hit. A number of towns and villages collect fees from public parks and recreation spaces that may be affected as well, although these reductions may be partially offset by reduced costs.

Figure 4

Top Sources of Local Revenues Outside of Property and Sales Taxes as a Percentage of Total Revenues, by Class, FYE 2018

Counties		Cities		Towns		Villages	
Health	2.9%	Utilities	8.3%	Utilities	4.3%	Utilities	15.3%
General Government	2.1%	Sanitation Fees	5.7%	Sanitation	4.1%	Sanitation	6.1%
Sanitation	1.5%	Transportation	1.6%	Culture and Recreation	1.8%	Community Services	2.0%
Transportation	1.0%	Community Services	1.4%	Community Services	1.4%	Culture and Recreation	1.8%

Source: OSC.

State Aid

In 2018, State aid made up 25 percent of all local government revenues, over $20 billion.[16] Consequently, local government finances depend significantly on the strength of the State government's finances and its willingness to continue to provide aid.

State aid helps support local social services and the construction and maintenance of local highways and roads, among other things. Unrestricted State aid in the form of Aid and Incentives for Municipalities (AIM) is directed to cities, town and villages. By far, the largest amount of State aid is for education. School districts outside of New York City received nearly $16 billion (38 percent) from State aid in 2018. (See Figure 5.)

As discussed in the Property Tax section, not all school districts are equally dependent on the various sources, and reliance on State aid is typically the counterbalance to reliance on the property tax. School district dependence on State aid ranges from up to 80 percent of total revenue in needier districts to less than 1 percent in some wealthier districts; average- and low-need districts receive the majority of their revenues from property taxes. (See Figure 6.)

Figure 5

State Aid as a Share of Total Revenue by Class of Government, FYE 2018

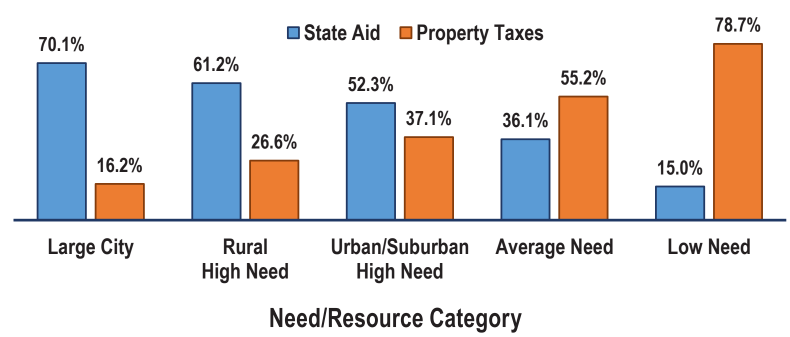
Class of Government	State Aid (In Millions)	State Aid as a Share of Total Revenue
Counties	$3,089.6	12.4%
Cities	$878.3	17.8%
Towns	$585.4	7.5%
Villages	$167.0	5.7%
School Districts	$15,734.8	37.7%
Fire Districts	$3.2	0.4%
All Classes	**$20,458.2**	**24.6%**

Source: OSC.

Note: Does not include New York City or its school district. Some forms of State Aid, especially for counties, are not classified by the State as local assistance.

Figure 6

Percentages of School District Revenues from State Aid and Property Taxes, by Need/Resource Category, FYE 2019



Source: OSC and New York State Education Department.

The 2020-21 New York State Budget

The COVID-19 crisis struck New York State just as the State Legislature was considering the SFY 2020-21 budget.[17] The economic effects of the emergency mean that State revenues will decline, probably quite sharply, even as the demand for certain State expenses increases – especially in the area of health care. A potential consequence is reduced State spending on other programs, including aid to local governments.

The enacted SFY 2020-21 budget held most forms of State aid at about the same level of funding as the previous year, including AIM and highway aid.[18] School aid was also held at roughly the same level as SFY 2019-20, with school districts outside of New York City again receiving about $16 billion. However, school aid is subject to a “Pandemic Adjustment,” a reduction of $1.1 billion, including $410 million outside New York City, which is anticipated to be offset by the same amount from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act of 2020.[19] (See the discussion of the CARES Act below.) This substitution of federal funds for a portion of State school aid is similar to actions in the wake of the 2008-09 Great Recession, when funds from the American Recovery and Reinvestment Act of 2009 offset the State’s “Deficit Reduction Assessment.”[20]

The enacted State budget also included provisions that give the Governor unprecedented power to reduce spending at certain times during the fiscal year, should there be revenue shortfalls or spending in excess of planned levels. The State’s Enacted Budget Financial Plan includes an initial “gap-closing plan” that would reduce aid to localities by $8.2 billion.[21] While the amounts to be withheld or cut from specific aid programs are still largely to be determined, the Division of the Budget withheld 20 percent of the May and June Aid and Incentives for Municipalities (AIM) payments due to 12 cities and the June Video Lottery Terminal (VLT) aid payments due to 15 counties, cities, towns and villages. These combined reductions totaled $75.9 million. It is not yet determined if this withheld aid will be paid to municipalities at a later date.

If school aid is reduced, this would have a disparate effect on districts, depending on their mix of revenues. As previously noted, many high-need districts depend on this aid for more than half of their total revenues. Even a 5 percent mid-year reduction in school aid to such a district would likely require that district to make significant cuts to programming in order to end the year in balance.

Potential Overall Impact

The effect on the bottom lines of New York's local governments from the loss of these revenues will be profound. Without substantial help from the federal government, many local governments will likely be forced to make painful cuts to services, *even if they have no additional costs for providing new services related to COVID-19*.

Figure 7 illustrates the gravity of the situation for a typical New York State county. As an entity that is already into the second quarter of its 2020 budget (as all counties across the State are), this typical county could experience substantial revenue shocks from both sales tax and State aid losses. The table makes some broad assumptions about the extent of these losses, which could occur over the last three quarters of the budget year (and continue thereafter). The assumptions used in the example, therefore, anticipate slightly smaller losses than the "full year" impacts projected by NYSAC and others. Property taxes for 2020 have mostly been collected, but since counties generally absorb the responsibility for delinquent property tax payments to school districts and other local governments, they might be expected to see some shock from that as well.

Figure 7

Potential Budget Impact of COVID-19 Related Revenue Losses on a Typical New York County, FYE 2020

Revenue Source	Budgeted for 2020	New Forecast for 2020	Difference	Percentage Change	Assumptions Used
Sales Tax	$200,000,000	$165,048,544	($34,951,456)	-17.5%	Budgeted 3% increase over 2019 originally; now forecasting a 15% decrease for the full year, based on an "as expected" first quarter, followed by three quarters of steep drops.
Property Tax	$200,000,000	$196,078,431	($3,921,569)	-2.0%	Budgeted 2% increase over 2019 based on levy, mostly collected; now forecasting some loss due to making school districts whole in fall.
State Aid	$100,000,000	$78,431,373	($21,568,627)	-21.6%	Budgeted 2% increase over prior year originally; now forecasting a 20% decrease over 2019 due to potentially steep cuts in last three quarters.
All Other Revenues	$200,000,000	$196,078,431	($3,921,569)	-2.0%	Budgeted 2% increase over 2019; now forecasting losses of some services charges and other revenues.
Total Revenues	**$700,000,000**	**$635,636,779**	**($64,363,221)**	**-9.2%**	The difference between budgeted amounts and the new forecast is the potential budget gap for 2020, assuming that the budget was originally balanced, and that there were no additional costs (or savings) due to COVID-19, or that any such costs are entirely offset by federal stimulus funds.

Source: OSC calculations made using information from New York State Division of the Budget, New York Association of Counties and other sources.

All towns, many cities and some villages also budget by the calendar year, with similar implications. Some may have "rainy day" funds in reserve that they can draw down to help absorb some of the revenue losses this year. However, not all entities have a great deal of money in reserve (unrestricted school district fund balances, in particular, are limited by law, and counties and cities often have smaller reserves proportionally than other local governments). Most will likely be forced to make reductions to staffing and associated services in order to balance budgets this year and, depending on the duration of the pandemic and its economic aftermath, may confront greater reductions in 2021.

While local governments that are partway through their fiscal year are trying to avoid ending the current year in a deficit, the State's school districts and largest cities faced a different budgeting challenge: that of finalizing their budgets in the midst of tremendous uncertainty about the potential for mid-year State aid reductions. The specifics of these had still not been announced when school districts had to set their levies for public vote.[22]

Federal Aid

Many local governments are looking to the federal government for assistance, as it has sometimes provided during other major economic crises. Federal aid is typically only a minor component of local revenues — about 5 percent of total revenues in 2018. However, during economic and other crises, federal government assistance can make a significant difference. Between 2008 and 2010, in response to the 2008-09 Great Recession, federal aid to local governments in New York overall, excluding New York City, increased by nearly 60 percent.[23]

The CARES Act, enacted in March in response to the COVID-19 pandemic, allocates significant additional resources to State and local governments, but it is mostly targeted to paying for additional costs associated with the COVID-19 response. Two earlier relief bills – the Coronavirus Preparedness and Response Supplemental Appropriations Act and the Families First Coronavirus Response Act – also contained some provisions that affect local governments, as did a later bill – the Paycheck Protection Program and Health Care Enhancement Act.[24] This federal aid takes several forms. (All amounts are nationwide, unless indicated otherwise.)

Coronavirus Relief Fund ($150 billion)

The Coronavirus Relief Fund created by the CARES Act appropriated funding for each state, allocating $7.5 billion to New York, a portion of which could go to local governments.[25] This funding is to be used to cover the costs of necessary expenditures incurred due to the COVID-19 public health emergency from March 1, 2020 to December 30, 2020. These funds were disbursed in late April.

Local governments with populations greater than 500,000 were eligible to apply directly to the U.S. Treasury Department for their shares. In New York, this included New York City and the counties of Erie, Monroe, Nassau, Suffolk and Westchester. It also included the Town of Hempstead (reducing Nassau County's allocation).[26] (See Figure 8.)

Figure 8

Coronavirus Relief Fund Payments

New York State and Eligible Local Governments	Amount (In Millions)
New York State	$5,135.6
New York City	$1,454.7
Suffolk County	$257.7
Westchester County	$168.8
Erie County	$160.3
Monroe County	$129.4
Nassau County	$102.9
Town of Hempstead	$133.8
Total	**$7,543.3**

Source: U.S. Department of the Treasury.

Education Stabilization Fund ($30.75 billion)

The CARES Act established an Education Stabilization Fund, which consists of several subfunds, including the Elementary and Secondary School Emergency Relief Fund of $13.2 billion (90 percent of which must be allocated to local school districts), and the Governor's Emergency Education Relief Fund of about $3 billion (which can be allocated to primary, secondary and higher education institutions).[27] Both of these subfunds are to be used for a number of listed purposes, but the Act provides for broad discretion in the use of the funds by school districts.

New York will receive about $1.2 billion from the two subfunds.[28] As discussed in the State Aid section of this report, the State plans to use most of this money to fund the "Federal CARES Restoration" that will counterbalance the expected Pandemic Adjustment to State school aid. The total of this restoration for all districts in the State, including New York City, is just over $1.1 billion.[29]

FEMA Disaster Relief Fund ($45 billion)

Existing law allows state and local governments to access funds for disaster relief through the Federal Emergency Management Agency (FEMA), after they have received a presidential declaration of emergency or major disaster.[30] The CARES Act appropriates $45 billion in additional funds for disaster relief nationwide.[31] Since a major disaster declaration was issued for New York on March 20, affected local governments can apply to FEMA for these funds.[32]

In addition, FEMA will be administering another $400 million in federal grants for several programs, including Assistance to Firefighters, Emergency Management Performance, and the Emergency Food and Shelter Program.[33] These funding resources are meant to help meet emergency fire and medical response needs, advance national preparedness goals and support local social service provision of food and shelter.[34]

Municipal Liquidity Facility ($500 billion)

To help state and local governments manage cash flow pressures arising from the pandemic, the Federal Reserve established the Municipal Liquidity Facility (MLF) with the ability to purchase up to $500 billion of debt from eligible entities.[35] Originally, only state governments, counties with 500,000 or more residents and cities with 250,000 or more residents qualified, but the municipal bond-buying program was expanded in June to allow states to designate up to two issuers each from a) other cities and counties, unless they already have at least two that meet the prior population requirements, and b) other debt issuers like mass transit systems, airports, etc. as borrowers. In New York, this program is available to a small number of local governments, including New York City, Buffalo, and Nassau, Suffolk, Westchester, Erie and Monroe Counties, and the State has also designated the Metropolitan Transit Authority.[36]

Other Local Aid Available in the CARES Act

The CARES Act directs additional resources to several existing programs that are normally available to fund local government-run programs, including, among others:

Community Development Block Grants ($5 billion)

The increase to the Community Development Block Grants program is intended to provide disaster recovery funding targeted to low- and moderate-income persons, as well as to address immediate health and safety threats to residents.[37]

State and Local Law Enforcement Assistance ($850 million)

This appropriation will provide additional COVID-19 related funding for the U.S. Department of Justice's Edward Byrne Memorial Justice Assistance Grant program.[38] Byrne Grants provide funding for, among other things, staffing and the medical needs of inmates of prisons, jails and detention centers.[39]

Economic Adjustment Assistance Program ($1.5 billion)

The CARES Act increases funding for the Economic Adjustment Assistance program by nearly five times recent appropriations. This program emphasizes coordinated, long-term, regional and strategic responses to economic recovery, such as will likely be needed in the wake of the pandemic.[40]

Child Nutrition Programs ($8.8 billion)

Additional funding for the National School Lunch Program and the School Breakfast Program is meant to ensure that children receive meals while school is not in session, and is effective through September 30, 2021.[41]

Rural Broadband ($125 million)

Additional funds to help rural communities increase access to internet resources include $100 million to the U.S. Department of Agriculture's Rural Utility Service ReConnect program, which provides loans and grants for the cost of construction, improvement, or acquisition of facilities and equipment needed to provide broadband service to rural areas.[42] There is also $25 million in funding to improve access to telecommunications required for distance learning.[43]

Conclusion

Even though New York State is opening back up, its local governments are only beginning to feel the profound impact of COVID-19 on their revenues. Statewide local sales tax collections declined by 24 percent in April and 32 percent in May. Collections will likely continue to decline over the next several months, though perhaps not at the same rate, and further mid-year reductions in State aid are still possible.[44] This combination puts counties, cities and less-wealthy school districts in an especially tenuous position. The property tax, which is the other primary source of revenue for most local governments, is more stable but is not able to make up for losses in other revenues as it once did. Federal aid thus far has been helpful but does not address revenue losses that will negatively affect most local governments.

Local governments may be able to take steps to help mitigate a few of these risks. Some are already employing creative cost-containment strategies to provide new services with existing funding, such as redeploying existing staff to meet extraordinary new needs. The necessity for social distancing has also motivated local governments to utilize work-from-home options, as well as expand online and other innovative methods of providing services. Some of these that they have found successful may be continued and improved in the future.

In difficult times, it is also particularly important to follow sound liquidity management policies. Multiyear financial planning, while more difficult in times of crisis, is an important tool for managing risk in the budgeting process, including how and when to use fund balance and reserves.

However, these are exceptional circumstances, and many local governments will only be able to do so much before taking more drastic measures that will have a major impact on local services. Indeed, many local governments have already begun announcing impending budget gaps and associated staff layoffs.[45]

The Comptroller tracks local government fiscal stress, and will be monitoring this situation as it unfolds, in order to inform New Yorkers and federal decision makers as they make crucial choices. He will continue to report on the financial condition of local governments, as well as providing training and guidance to assist them through these difficult times. The Comptroller is committed to working in partnership with local governments and other stakeholders to find solutions and help build a safer and more prosperous future.

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[12] CTL is calculated as levy for that single year as a percentage of a five-year average property value.

[13] OSC, *Hitting the Limit: The Constitutional Tax Limit and its Implications for Local Governments*, August 2019, available at: **www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/ctl-implications-for-local-governments.pdf**.

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Contacts

Office of the NEW YORK STATE

COMPTROLLER

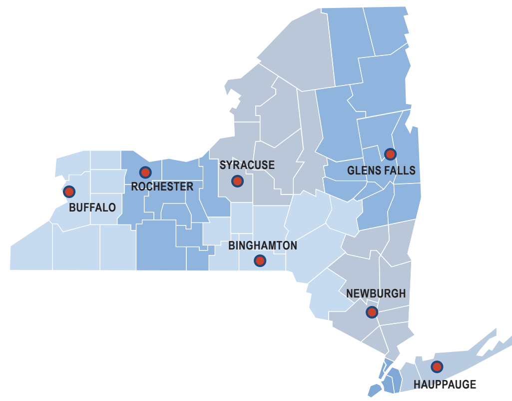
New York State Comptroller

THOMAS P. DiNAPOLI

Division of Local Government and School Accountability

110 State Street, 12th floor, Albany, NY 12236
Tel: 518.474.4037 • Fax: 518.486.6479
Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government



Executive • 518.474.4037
Elliott Auerbach, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller
Randy Partridge, Assistant Comptroller

Audits, Local Government Services and Professional Standards • 518.474.5404
(Audits, Technical Assistance, Accounting and Audit Standards)

Local Government and School Accountability Help Line • 866.321.8503 or 518.408.4934
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