COUNTY FINANCES

Over the past five years, Dutchess County Government has worked hard to control spending, replenish fund balance to provide financial stability, share services with other levels of government to reduce the overall cost of government saving taxpayer dollars and rebuild and diversify our economy. The recession took a toll on our economy but we have turned a corner and are once again seeing growth and the 2017 budget included both a property tax levy and rate reduction.

The Dutchess economy was stable in 2017, with unemployment hovering around 4% as seen before the recession; countywide assessed valuation saw slight growth for the 2nd consecutive year; and thehousing market saw an increase in the number of closed sales, the median selling price and sales dollar volume year over year with less days on the market.

Sharing services is not new in Dutchess County. The County's Municipal Innovation Grant program instituted in 2013, has appropriated almost $8 million for projects designed to consolidate services, establish a regional delivery of services, produce shared services, evaluate municipal consolidation opportunities, or incentivize efficiency improvements resulting in smaller, smarter government that yields savings for taxpayers. The 2018 budget includes an additional $1 million to continue these efforts.

Additionally, in 2017, as mandated by the State, Dutchess County Government worked with our local municipalities and some school districts to create a Countywide Shared Services Tax Savings Plan totaling $27.3 million for the two-year period 2018-2019. Through multiple meetings, the group worked together to pinpoint inter-municipal projects focused on creating efficiencies, eliminating duplicative services and sharing services to save taxpayer dollars. The Governor has promised matching funds for projects that save money and Dutchess County is prepared to aggressively go after these funds.

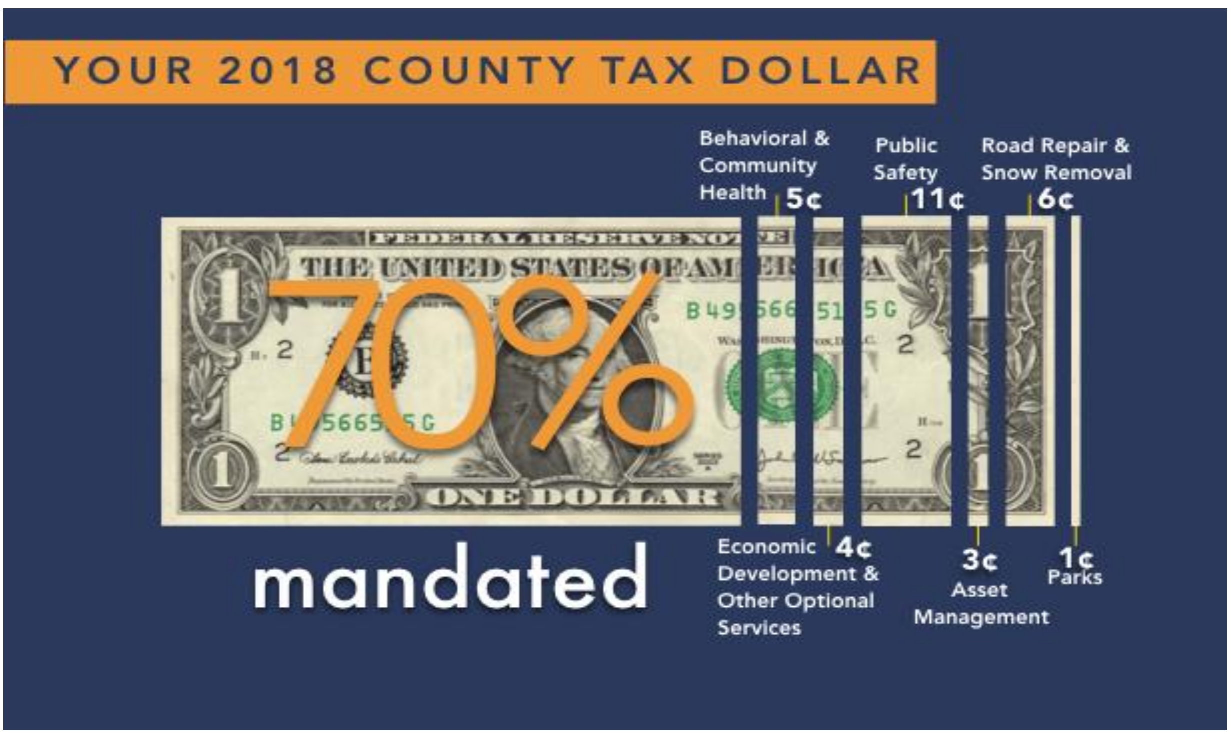
The County's 2016 fund balance totaled $59.9 million or between 1-2 months of General Fund operating revenue ($36.1M - $72.2M) which is the County's goal to maintain financial stability. Taxpayer Protection Fund was established with $12 million of fund balance, which can be used to offset taxes over the next few years. The Capital Set Aside of $4.5 million was also established to avoid indebtedness for County capital projects and fund local municipal shared services projects designed to save local property tax dollars.

In 2017, $750,000 was appropriated from the Capital Set Aside to increase the municipal grant program to $1.75 million, and $4 million was allocated from the Capital Set Aside and fund balance to fund the jail pods through April of 2021 instead of issuing bonds. Additionally, the County appropriated $128,000 from fund balance to pay for a pilot electric car project. The County purchased four electric cars and will install four dual port level two charging stations at strategic locations throughout the County for use by both the County and the public. Finally, $4 million of the $12 million Taxpayer Protection fund as well as $8.5 million of general fund balance and $2.5 million from the D and E fund balances were appropriated to offset the cost of programs and services and reduce the property tax levy in the 2018 adopted budget.

Although our fund balance remains stable, we must remain vigilant as there are many uncertainties ahead and 40% of County revenues are sensitive to economic changes. The County also has two open bargaining unit contracts and a state budget proposed by the Governor that does not offer significant mandate relief. Additionally, rating agencies look favorably on counties that have reserves to rely on when the economic environment changes. With a significant bond issue approaching for the construction of the Justice and Transition Center, we need to maintain our strong AA+ rating to keep interest costs at a minimum.

Sales tax accounts for nearly 40% of operating revenue necessary to fund the programs and services provided by County Government. Although the 4th quarter sales tax has not yet been finalized, it is projected to come in at 2.1% growth which is on budget ($183.6 million) for 2017; however, this is almost $3 million less than the projection of 2017 sales tax ($186.5 million), which was used to project the 2018 budget. If the last three payments come in as expected and only reach the 2017 budgeted amount of $183.6 million, the County will need to realize sales tax growth of 3.6% in 2018 in order to achieve the 2018 budget of $190.2 million.

On the expense side, we continue to operate in a world where 70% of our operating budget is spent on State unfunded or underfunded mandated programs and services:



In 2017, we have seen significant cost increases in the pre-school special education area. As more school districts open universal Pre-K programs, adding integrated classrooms and center based tuition slots, our pre-school special education costs will continue to grow, as we are mandated to pay the cost. Related service costs have increased as well due to market demands for the services and having to offer a competitive rate to providers to be sure our children get the services they need. In 2017, the pre-school special education program is projected to cost $19.5 million.

Although there are many mandated programs and services that we have no control over, we are focused on driving down costs in the mandated areas where we do have limited control including jail costs, child institution and foster care and Medicaid.

It is clear one of the key issues affecting inmate population is the number of people in the jail with mental health and substance abuse disorders. In February of 2017, the County opened the Stabilization Center, a center used to help divert people in crisis from the jail and emergency rooms to a place where they can de-escalate and connect to ongoing services and programs. Not only are we diverting people from jail and saving money, but we are also working with people in crisis in an environment more conducive to recovery. In 2017, the Stabilization Center helped 1,334 people, 65% suffering from a mental health disorder and 35% suffering from drug and/or alcohol addiction.

Child institution and foster care costs have steadily climbed in recent years totaling a projected $28.2 million in 2017, up from $18.7 million in 2012, an increase of 51% over the past 5 years. We are investing in preventive programming and partnering with the family court system to implement The State Wide System Reform Program- Better for Families which is designed to improve outcomes for children and families by increasing the frequency of court appearances and monitoring, as well as, accelerating permanency outcomes.

Even in the area of Medicaid where the State dictates what is covered and paid for by the program and sends counties the bill, we are trying to find ways to save tax dollars. Although Medicaid was capped at almost $42 million, we are trying to save overall tax dollars by going after fraud, waste and abuse by working with a consultant to identify high-risk areas ripe for an audit. We then work with the state to get approval to conduct the audits, which has saved the County millions since 2008. Additionally, we have a fraud unit that investigates fraud and checks front end applications and re-certifications to prevent fraud. In 2017, the county saved $3.4 million in cost avoidance through fraud prevention.

We have sought to make our budget process transparent, accessible and accountable, with a long-term vision that demonstrates careful financial planning on behalf of our taxpayers. Dutchess County has again been awarded the Government Finance Officers' Association (GFOA) Distinguished Budget Award demonstrating the County's commitment to the highest principles of governmental budgeting for the past four years and we have not stopped improving. The 2017 budget continued our efforts to provide information in a way that is easy to understand to the public by re-designing and consolidating the budget materials from two books to one and the 2018 budget now

includes a redesigned capital plan as a tab instead of a separate book. Each area of government has a narrative, summary and detailed information presented in one section. This offers the public a greater understanding of the budget, where revenue comes from and how it is spent.

As we move forward in 2018, we are committed to controlling costs where we can, maintaining our fund balance to provide financial stability, managing uncertainties and securing our AA+ rating, as well as sharing services to drive down the overall cost of government for our taxpayers. We will also be a strong voice in Albany and Washington advocating for mandate relief and defending our residents when new policies threaten. We will continue to build our economy to provide opportunities for residents and businesses in our community as well as increase the tax base to drive down property taxes. Finally, we will continue to find the balance between providing programs and services our residents need while minimizing the cost and the taxes necessary to pay for them.