

November 1, 2006

To Bradford Kendall, Chairman of the Dutchess County Legislature; Members of the Dutchess County Legislature; and Residents of Dutchess County

The 2007 proposed budget I present to you freezes the property tax rate at \$2.57 per thousand, the lowest county tax rate on record. The Dutchess County government share of the property tax bill accounts for approximately 14% of the average homeowner's annual property tax bill, the remainder of which is comprised of school taxes, municipal (town, village or city) property taxes and special district taxes (i.e., fire).

The best way to control taxes is to control spending. This budget includes only a minimal increase in spending, having been held 37% below the rate of inflation. This Executive budget maintains the core services and programs vital to our County residents, and offers a few new promising initiatives – all while holding the County government property tax rate flat. Determined spending constraint coupled with a successful economic development agenda resulting in sustained economic activity are important factors in my ability to maintain a flat property tax rate in the proposed Executive budget.

While our local economy remains strong, major fiscal challenges will always be present. Many of these financial challenges are beyond the control of county governments across New York State. We in Dutchess continue to manage them to the best of our ability. The many proactive and strategic programs and services we have created and supported over the years have positioned County government and the larger community to prosper – this Executive budget will help enable this trend to continue.

We take great pride that collaborations among our many and varied County departments and agencies, as well as with the Legislature, partnerships with community agencies and a careful, forward thinking approach are all part of the creative solutions in this budget.

Mandates & Other Costs Beyond Our Control

There will be a large degree of fiscal uncertainty confronting counties in 2007 with a changed administration in Albany. What compounds the uncertainty is the next state budget developed by the new governor and state legislature likely won't be final until mid-year, after counties have already adopted budgets which take effect January 1, 2007.

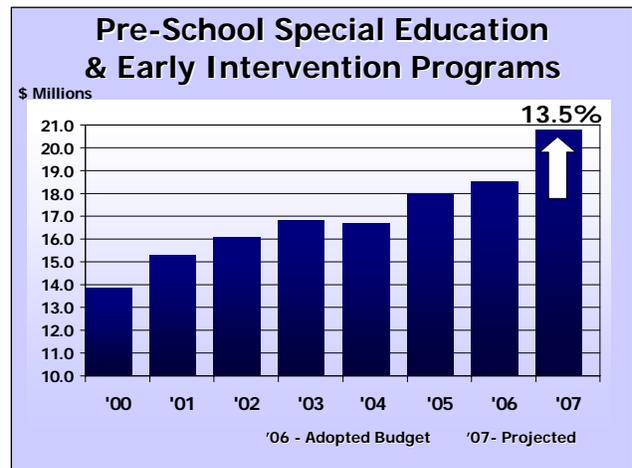
However, certainty does exist regarding increased costs to county government for New York State mandated services in 2007. **State imposed mandates remain the dominant and growing portion of every county's budgetary pie.** Dutchess County's 2007 operating budget is no exception.

According to a new Public Policy Institute analysis, spending for the Albany mandated Medicaid program is still more than twice the per capita national average. New York's average of \$2,258 in Medicaid spending for every state resident is by far the nation's highest.

Included in Dutchess County's 2007 budget will be a state-required 3.25% growth rate in local costs to pay for the state's bloated Medicaid program, requiring more than \$37 million in funds directly out of the pockets of local Dutchess property taxpayers in 2007. This is an increase of more than \$1.1 million over the current year cost.

The **Medicaid Stabilization Plan** which I proposed and the Legislature endorsed in the 2006 budget "set aside" approximately \$13 million in prior year Medicaid appropriations to pay for future Medicaid growth over the next three to four years, reducing the future burden on our taxpayers. This proposed budget includes \$3.7 million appropriated from the **Medicaid Stabilization** "set aside" to offset the county costs for Medicaid and other new increased costs for state mandated social services programs.

Costs for the state mandated *Preschool Special Education* and *Early Intervention* related services for children from birth through five years old in our Health Department are projected to rise sharply again this budget year. An additional \$1 million going to fund this state mandate will need to be approved by the County Legislature next month. In 2006, approximately \$18.5 million had to be appropriated for the mandated services. Due to state requirements the same services will cost Dutchess County property taxpayers nearly \$21 million in 2007, a startling 13.5% increase.



State Training School placements for 2007 are projected to increase to \$2.1 million, a shocking increase of 59% more than the 2006 adopted budget. This sizeable increase is due primarily to the recent state decision dropped in the laps of counties to make retroactive rate adjustments going back to 2001 – yes, you read that correctly, 2001. With no prior warning from Albany officials, these unanticipated and unbudgeted retroactive costs for Dutchess County alone could be an unbelievable \$1.5 million in additional county cost this year over the previous budgeted appropriation of \$1.375 million.

Counties are also mandated to pay attorney's fees for certain individuals, as well as for state parolees, who must be represented in court. This cost has increased dramatically in recent years when Albany increased the hourly rates by more than two-fold. Dutchess County will be forced to appropriate more than \$2.3 million in 2007 for these court-ordered assigned counsel expenses mandated by New York State.

As you review the budget and are offended by the taxes necessary to pay for mandates, let's summarize: Medicaid is twice the national average; preschool early intervention mandate up almost 14%; training school mandate up 59%; mandated rates for assigned counsel for state parolees and indigent clients have doubled!

Beyond programmatic state mandates, other mandates factor heavily in county budgets. While state mandated pension costs to fund our employees' retirement paychecks had spiked dramatically from just \$380,000 in 1999, these costs have stabilized over the past three years. Our preliminary 2006 bill from the NYS Retirement System due this December is estimated at just over \$10 million. The 2007 proposed budget appropriates \$11.2 million for pension costs due to the compounding impact of retroactive union contract settlements and salary increases recently approved.

Health insurance costs for employees and their families total \$19.9 million in 2007, an increase of \$1.3 million. While employee health insurance costs have spiraled up more than \$9.2 million in the last 6 years, we successfully negotiated with our employee unions to make available New York State's *Empire Plan* in place of the current self-insured Dutchess County Health Plan. The *Empire Plan* offers greater price stability as well as savings to the county estimated at \$1 million in 2007 and more than \$4 million in cost avoidance over the next five years. The change to the *Empire Plan* will also reduce premium costs for our employees and retirees who choose to maintain traditional health insurance coverage.

Workers Compensation costs are projected to remain flat next year after increases totaling \$2 million over the last two years. The number of claims and the average cost per claim has leveled out. While the 207c claims for deputy sheriffs and corrections officers continue to be the dominant cost center, our Risk Management Department has been successful in working with the Sheriff and the Jail administration to better control these costs.

Dutchess County Resource Recovery Agency (RRA) operational costs have increased from the 2006 "net service fee" of \$4.1 million to \$4.3 million as the cost of the federally mandated environmental improvements made to the physical plant in 2005 are absorbed. In 2007, as per the October Legislative resolution, we will be including a note on the county tax bill advising residents of the impact on the tax levy of the county's expenditures for their solid waste disposal services.

Energy costs for county government in 2007 are up 7% overall compared to 2006 year end projections. While projected costs for 2006 are within budget and the price of gasoline has declined from last year at this time, we continue to be impacted by the same costs families and local businesses are facing: heating fuel and electricity for our large complex of County buildings as well as gasoline costs incurred for the Sheriff's patrol, LOOP buses, highway department equipment and other County vehicles.

New Initiatives

Because we are concerned about the tax impact on local homeowners and businesses, we have had to limit new initiatives to a few we believe are justified and will serve county residents well.

In 2005 and 2006, we realigned, restructured and reallocated resources for some of those areas in County government with compelling needs. In previous years, positions were eliminated and some departmental budgets were cut to unsustainable levels due to financial demands beyond our control. As a result, we fell seriously behind in several high priority programs and service areas which are important to me, and I know are important to County legislators and our residents. The 2007 budget continues our strategic approach of realigning our workforce, and I have highlighted some specific examples in this message. While this budget provides for some new targeted positions, it's important to note we still will have fewer county employee positions today than in 1992 when I took office. This is a tribute to the creative thinking and productivity of dedicated county employees and the innovative leadership of the management team.

Preserving Our Environment

One of my priorities is to form a more cohesive, unified and focused impact on environmental protection, as well as establishing environmental management goals and increased monitoring capabilities. We also need a credible and comprehensive plan to adjust the way the County government does business, making energy conservation and environmental protection an integral part of all project planning. That is why the 2007 budget dedicates approximately \$200,000 toward this priority, including a new Environmental Programs Coordinator position, community education efforts, and departmental reorganization in the Department of Planning and Development.

Seniors

Senior citizens make up one of the fastest growing segments of our population. To better meet the challenge of keeping our seniors residing in our local communities, we will be the lead for *NYConnects*—a new initiative to provide a consumer centered single point of entry for information about long term health care services, both public and private within the county. I have asked The Office for the Aging to enhance their excellent CASA services by adding staff and with an upgrade to their computer information systems to assist our elderly residents and their families with improved education and assessment services. Our goal is to potentially decrease the costs for long term care. Additionally, I am increasingly concerned about the adequacy of transportation for our senior population. Therefore, this year we will bring together community stakeholders to form a *Senior Transportation Workgroup*. I am including \$20,000 in the 2007 budget to assist in the development and implementation of selected strategies.

Community Health Initiatives

My goal for a healthy Dutchess County with an emphasis on prevention and long term benefits continues to play a vital role in allocating resources. The Health Department will enhance our cardiac death prevention strategies through a new program called *Heart*

Safe Initiative. We will create a local team to review the chain of survival system in our county and establish the criteria for a heart safe community. Agencies and municipalities will be encouraged to meet certain benchmarks through additional CPR and defibrillation training, and apply for formal recognition. In addition, we will purchase another five automated external defibrillators (AED) to be placed in county departments and locations to supplement those installed in other county departments.

My recently introduced *Cancer Consortium* under the able leadership of Dr. Caldwell will focus its work on developing a community needs assessment and setting a priority framework for local comprehensive cancer control. This collaboration involves health providers, business and community leaders as well as cancer survivors. I'm proud to say it is one of the few locally public funded initiatives nationwide. The Consortium will strengthen the continuum of services and work to integrate the many disciplines involved in cancer prevention.

To remain diligent in our goal to protect our youngest and most vulnerable residents, this budget includes continued funding of an initiative I launched last year -- the *Healthy Baby/Safe Baby Awareness* campaign as well as the *Early Childhood Coordinated Children's Services Initiative* in Social Services which has enjoyed Legislative support.

I am continuing to support our very successful comprehensive tobacco use and childhood obesity prevention program with an allocation of \$525,000. This commitment is through the *Children's Health Initiative*, created in 1999, as a part of the Children's Services Council. We have touched over 25,000 children, youth and families as a result of our multiyear commitment now approaching \$3.4 million. My thanks to the Legislature for your consistent support of this health program. We will continue to fund proven programs throughout the county, build collaborations and conduct public outreach for awareness and education.

Veterans

In order to better serve our deserving veterans and their families, I have included funding for the *Veterans' Services Public Awareness* campaign again next year. This year's outreach campaign was successful guiding 800 more people to our Veteran's Agency than in 2005 - individuals and their families who served our nation are entitled to benefits for that service. Many grateful families received information about the veteran's property tax exemption. This enabled them to receive a deserved property tax exemption for which they were unaware. As an opportunity to thank our veterans and their families for the sacrifices they made, we will also continue sponsorship of a *Veterans Information Day* in 2007.

Maintaining & Enhancing Our Infrastructure and Parks

While economic growth and development from our proactive agenda has brought many benefits to Dutchess County, it also creates challenges to provide a safe and reliable public works infrastructure as well as the appropriate amenities for an acceptable quality of life for our residents.

We will maintain and improve almost 400 miles of county roads and many bridges in 2007, and plan additional improvements to our parks operations and facilities, including expanding the Harlem Valley Rail Trail, building the Dutchess Rail Trail, enhancements at our new Quiet Cove Riverfront Park, improvements at Bowdoin Park Nature Center and Wilcox Park, and upgrades at Dutchess Stadium – all of which will be dependent upon legislative support for the Parks bond currently before you. Without legislative support and approval of the pending bond authorization, these parks improvements cannot be done. We will also complete a comprehensive Dutchess County Parks Master Plan in 2007 if the Legislature approves the Parks bond.

In 2007, the management and financial structure of Dutchess Stadium will be under the Parks division and included in the county budget.

To secure our parks and provide for the safekeeping of our residents, we have upgraded the Sheriff's ATV detail with new machines to provide for the security and safety of residents and visitors.

Community & Public Safety

Critical to maintaining our County's quality of life is keeping our community safe and providing our residents a sense of "well-being." The 2007 budget includes training and public education and outreach to meet our support needs for our *Medical Reserve Corps Program* and to provide "how to" information for residents to best protect their families in emergency situations, or mass disasters.

The budget provides for a new support position in the District Attorney's office to help ensure the ADA's and courts have accurate criminal history information.

I have also included funding to create a first ever capability for several *LiveScan Fingerprint Workstations* to be installed in the Sheriff's major sub-stations located in the towns of Wappinger, Rhinebeck, Beekman, and Amenia. This will enable immediate processing and information on an individual and increase Deputy Sheriff productivity. Funding is also included for the lease of 45 updated mobile computers so our law enforcement officers have the technology tools in the field to access critical information in a timely manner. This will also enhance Deputy productivity but more importantly keep our neighborhoods safe.

Two additional sheriff deputies for patrol duties are being added in 2007 to meet increased workload and save overtime costs. Headcount has remained constant since 9/11/01 (with the exception of staffing for the new ATV unit in 2006) although workload demands have increased.

Continued funding is proposed for the *Youth Gang Prevention* program I introduced this past year to help "at risk youth" and their families increase their understanding of gang recognition/behavior and related public safety issues.

I have provided funding as requested by County Clerk Lafuente for the new "*CLD on Demand*" workstation to make the commercial driver's license testing process more

secure and efficient, and the Dutchess County Traffic Safety Program will kickoff an expanded *Handicapped Parking Outreach Campaign* to benefit and support physically challenged drivers.

In 2007, we will be moving to the next phase of our security plan for county facilities which the Legislature previously approved. We have added security attendants and a new Deputy Sheriff who will join the other two deputies currently assigned to building security on the Market Street Campus to protect our facilities, our employees and the public. This security team will be responsible for controlling and monitoring access to County buildings, including staffing magnetometers at the County Office building.

Alternatives to Incarceration (ATI)

Our Criminal Justice Council has worked over the last several years to identify additional Alternatives to Incarceration for the criminal justice system. Over my 15 years as Executive, and beginning in the early 1990's I have championed much of the vision for this public policy strategy and proposed and advanced many of the strategic and tactical program initiatives. I have done this through the Executive budget process, *State of the County Address* initiatives and via other avenues. I have supported many of the CJC's past recommendations for best practices through the use of treatment courts and alternative sanctioning approaches.

In January, the Legislature requested the CJC to again develop possible ATI options for the County to consider. That CJC report was delivered to the Legislature last spring. However, over the past six months the Legislature has been unable to reach consensus or take action on any of the ATI proposals developed by the CJC.

There are multiple ATI ideas that have been advanced by the CJC and various county departments which are available to the Legislature for consideration that could potentially be incorporated into the 2007 operational budget. However, as a result of indecision and uncertainty over these past six months from the Legislature to expand this policy area, I have not included funding for them in the 2007 budget.

Should the Legislature take action on the CJC report issued last spring and/or wish to include those solutions offered by the county departments I have listed the budget items, costs and basic elements below.

Probation: an additional probation officer (\$49,466) to expand Juvenile Electronic Monitoring, an additional probation officer to expedite court reporting (\$49,466), and part time case management (\$16,975) for day reporting. In addition, \$32,400 for a pilot project using 10 GPS Electronic Monitoring units (when the technology is available for successful use within the County).

Also for Legislative consideration: Three additional Social Workers (\$160,233) for Mental Hygiene to: expand the ITAP Aftercare Clinic; to provide mental health screenings in the Beacon Probation Office; and to provide more forensic assessments

for the courts. DMH funds could be added totaling \$34,325 for a clerical staff person to handle the increasing workload of current specialty courts/MH programs and new operational costs for the social worker positions. A Mental Health Court (\$250,000) remains on hold because it still awaits state approval, and it appears the earliest that may happen is late 2007. If approved at that time current staff could kick start the program pending allocation of 2008 resources.

A youth residential program or rooming house beds is another potential approach noted by the CJC. These would add another \$1 million in start up and operational costs to the budget. However, the Legislature would need to reach consensus on issues in regard to site location approval, lead agency status and implementation plans. These are difficult issues that must be resolved before funding can even be considered.

Budget Facts

Sales tax supports approximately 32% of total spending. In Dutchess County, a change in state law providing for the elimination of sales tax on clothing that came after the adoption of the 2006 budget is largely responsible for the major decrease in revenue causing a large gap in our 2006 operating budget. Further contributing to the lower sales tax income are the lower economic growth projections due the energy prices, higher interest rates and the softening in the housing sector. Projections for 2006 when compared to what was estimated in the adopted budget reflect a projected loss of sales tax revenue of nearly \$12 million that was counted upon to fund activities and services in the 2006 financial plan.

The projected 2007 loss in sales tax income is estimated at more than \$12 million creating a daunting compounded funding hole in county finances estimated to be approximately \$24 million and causing a major structural imbalance to county finances. This loss of revenue has had a domino impact to local governments as we've seen with the recent 2007 budgets proposed by the cities of Poughkeepsie and Beacon which demonstrate the negative impact the lost sales tax revenues will have on finances of local municipalities in Dutchess County.

Dutchess County government simply cannot sustain the huge loss of revenue caused by the sales tax exemption – not if we are to continue to provide the programs and services so important and necessary to our residents while controlling the fiscal burden on property taxpayers. Given the unpleasant choice of the property tax rate going up, or ending the sales tax waiver, I rejected a higher property tax rate. Therefore, the 2007 proposed budget includes a \$125.65 million sales tax estimate which provides for the return of sales tax on clothing and footwear under \$110 effective March 1, 2007. The 2007 proposed budget also anticipates the continuation of the 3.75% sales tax rate for a full year.

As Legislators review the entire 2007 Dutchess budget, I am hopeful they will join me by freezing the county government property tax rate. The return of the full sales tax on clothing under \$110, part of which is collected from non-residents and tourists who shop in our county, will also trigger added revenue to all local governments thereby providing funds to allow towns, cities and villages to lower local government property taxes.

Legislation would need to be enacted by December 1, 2006 for the sales tax on clothing and footwear to resume effective March 1, 2007. Home rule legislation is required to extend the 3.75% sales tax rate beyond November 30, 2007.

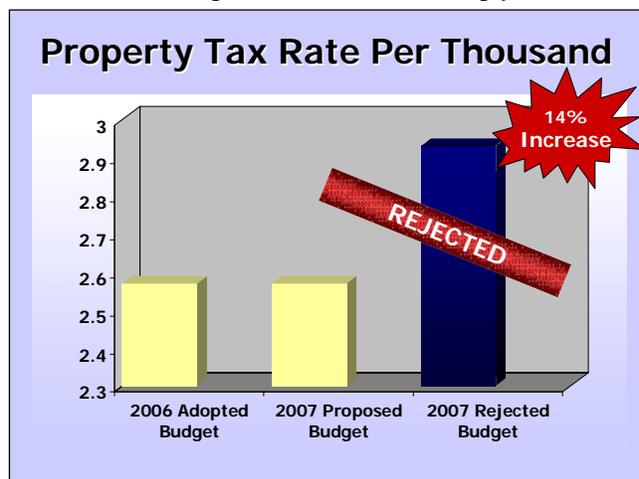
Mortgage Tax

The financial foundation of the Dutchess County budget continues to be threatened by escalating costs for operational and mandated activities. This structural imbalance needs to be addressed both for the upcoming 2007 fiscal year and for out years in 2008 and beyond.

Therefore, as a means of correcting that structural imbalance, this financial plan provides for the existing tax on mortgages to change from the present 1% to 1¼%. This solution to the imbalance in the financial plan is one I wish was not necessary. However, it is offered to the Legislature as an alternative to the other choice of dramatic cuts in services, or an increased property tax rate, which I believe we must make every effort to keep flat.

The County Legislature overwhelmingly endorsed this revenue option just two years ago by a 24-1 vote. Therefore, it is presented to you with the view it is an alternative that will attract Legislative support again.

Should the Legislature make the choice to create this revenue source it will require “home rule” legislation. I do strongly recommend that on this occasion the support of the



NY State Legislative delegation be obtained before final adoption of the 2007 budget to avoid creating the damaging financial consequences of a \$4.26 million budget deficit.

Absent the return of the sales tax on clothing, the continuation of the 3¾% sales tax rate and the mandate mortgage tax, the additional \$12 million needed to balance the budget would increase the property tax rate 14%.

The County's decision last year to participate in the tobacco refinancing along with approximately 20 other counties and this year's bond refinancing have made it possible to achieve cost avoidance in our annual debt service spending both now and in future years. These strategic decisions position us to fund other important capital projects such as repairs and improvements to County facilities, highway and bridge improvements, improvements for our Parks and Rail Trail system, open space and farmland protection, and Dutchess Community College renovations for the education of our workforce. We are currently working with our financial advisors on a bond issue to be completed this fall, the proceeds of which will be used to finance capital projects previously authorized by the Legislature.

A healthy local economy driven by proactive economic development policies and multi-dimensional strategies, coupled with a new construction and a strong housing market has brought \$4.4 billion growth in our true value property assessments reaching \$33.9 billion this year. This represents documented evidence of our successful economic, business and jobs development efforts with the sixth year of significant growth following many years of decline in the early 1990's. To ensure we continue to have the necessary professional attention on economic development and jobs growth, to continue with job retention, expansion, and new business recruitment, and to support the tourism industry, all of which contribute so much to our local economy, this budget includes almost \$1 million for support of Dutchess County Economic Development Corporation.

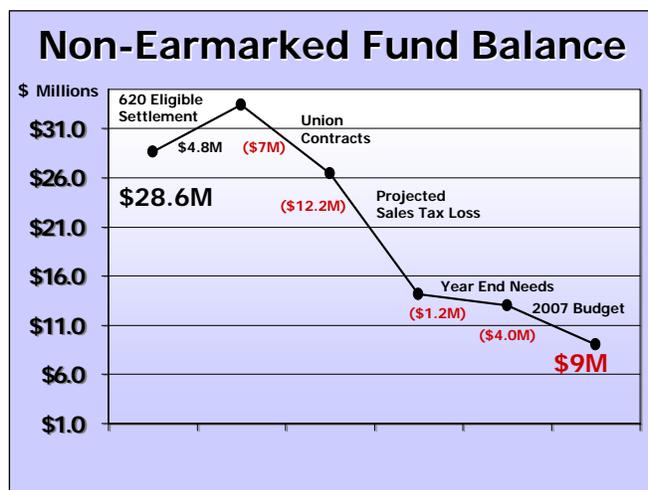
The Tentative Executive Budget before you of \$387.5 million maintains funding for the core services and programs vital to our county residents, while holding spending well below the inflation rate. With the \$4.4 billion growth in our true value assessments, the County property tax rate remains level with the 2006 rate of \$2.57 per \$1,000 of full market value. **The 2007 proposed budget represents the lowest property tax rate on record back to 1973.**



Although the County's property tax rate per \$1,000 of assessed property value will remain level, the impact on an individual tax bill can vary from town to town based on local assessments and state equalization rates, both factors beyond the County's control.

Achieving a no increase property tax rate for 2007 is accomplished with an appropriation of \$4.042 million of general fund balance and a modest appropriation of fund balance from the D and E funds. Preserving a base amount in our fund balance consistent with recommended budget standards and maintaining our fiscal stability remains one of my top priorities. It is also a stated policy goal of the County Legislature. It's important to note our available fund balance at the end of 2005 had grown to a healthy \$28.6 million. While it's not known what our 2006 year end fund balance will be,

we do know the projected loss of \$12 million in sales tax revenue due to the clothing exemption and a softening of the economy, the \$7 million cost for bargaining unit contract settlements with retroactive payouts approved by the Legislature earlier this year, as well as an estimated \$1.2 million for other



year end shortfalls including the state mandated Preschool Special Education Program will challenge our ability to protect our “rainy day funds”. This enormous \$20 million negative impact will have a devastating effect on county finances. Yet another reason why it’s important the Legislature considers the restoration of the county’s 3.75% sales tax on clothing and a continuation of the 3.75% sales tax rate.

We will continue to apply fiscal constraint, aggressively pursue state and federal aid reimbursements and promote economic development. We must continue to plan carefully and position ourselves to face future financial exposures. Good financial stewardship requires proactively addressing the funding needs of future contract settlements, a possible national economic downturn or even new state mandates or changes in legislation resulting from a change in the administration in Albany.

As the new year unfolds, Dutchess County government will continue to maintain our strong fiscal stewardship and budget management to insure the taxpayers’ money is spent in the most responsible and prudent manner. We must maintain a solid fiscal foundation to position our County for the future.

In closing, I wish to express my thanks to my entire Executive Office, and especially to our skilled, hard working Budget staff led by Valerie Sommerville, to all my Executive Department Heads and to the independently elected officials for their assistance, understanding, cooperation and support throughout the development of the 2007 Executive Budget.

Sincerely,



WILLIAM R. STEINHAUS
County Executive

NOTE: The Capital Budget plan and message is attached and submitted with the tentative operating budget and levy resolutions.