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County Executive

Office of

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To Chairman Higgins, Members of the Dutchess County Legislature and Residents of Dutchess County:

The 2009 proposed Executive budget has been the most challenging budget preparation of my seventeen year tenure as Dutchess County Executive. Troubling and uncertain economic conditions, state budget cuts to counties despite continued state mandates, and seriously declining revenues have all combined to create a daunting budget picture. However with hard work, discipline and political fortitude we can overcome this challenge.

Reality

For me and my staff, the most important factor in the 2009 budget process has been the financial reality of pressures on family budgets which are squeezed by mortgage payments, taxes, home heating expenses, grocery bills and gasoline costs. Whether it is our young "twenty somethings" struggling to earn enough to make ends meet; our growing families wondering how they will educate their children; or our pre-retirement "baby boomers" and seniors living on fixed incomes, both now with dramatically shrinking nest eggs due to the precipitous fall of the stock market, there is no question our residents face tough times. We hear their stories every day.

It's with their voices in mind that we set out to develop the 2009 budget. Many politicians tell taxpayers that government can be all things to all people - we can hear volumes of that rhetoric from Washington and Albany every day. Today, I want to restate the reality which is: county government can not be all things to all people. Washington and Albany both practice the philosophy that they can spend even what they don't have, but in county government where we must have balanced budgets, that is not reality. Therefore, a key principle of this budget is *county government can't spend what it does not have.*

Property taxes

My first decision preparing the new 2009 county budget was to say "no" to higher spending and at the same time take a hard line on no new county property taxes for 2009 by cutting the property tax levy and freezing the county tax rate at the 2008 level of \$2.29 per thousand.

That cannot be accomplished, of course, without making many tough decisions. Another guiding principle throughout this difficult budget process was to remain focused on and committed to county government's core mission. This budget strives to maintain core programs and services of Dutchess County government, while responding to taxpayers' demands that government cut its spending like taxpayers and businesses have had to cut their own.

The proposed 2009 Executive budget of \$395.7 million reduces spending by 2.5% or \$10 million below the 2008 modified budget of \$405.8 million, all while having to deal with the reality of a CPI inflationary increase of over 4% producing net dollar value spending decrease of 6.5%. Families and businesses in Dutchess County are restructuring, realigning, and rightsizing their budget to adjust and adapt to the economic realities caused by the national economic and financial situation. And just like families and businesses, we as county government have had to take a hard look at expenses across the board in order to keep spending under control.

We are further challenged by a decrease in the county's 2009 tax base of more than **one billion dollars** due to declines in the housing construction market, the overall decline in home values, as well as the reassessment activity over the past few years at the municipal level.

Restrained, focused spending helps to cut the county property tax levy by \$2.8 million or 3.2%, and produces a reduced 2009 property tax levy of \$85.3 million, well below the 2008 level of \$88.1 million.

Economic Impacts

Unprecedented economic events at the national, state and local level have changed our fiscal landscape dramatically not just from one year ago but just from one month ago!

Significant fiscal challenges confront county government.

- The downturn in the national economy;
- state budget cost shifts to county governments;
- shrinkage in the county's sales tax income;
- collapse of mortgage tax revenues;
- volatile energy costs for gasoline for vehicle fleets and heating fuel costs for county government facilities.

State Impact

The 2008-2009 state budget enacted in April coupled with Albany's August 19th mid-year cost cutting and cost shifting session means an estimated loss of nearly \$5 million for Dutchess County in 2008 and 2009. Over recent days, Governor Paterson has reported the state's current budget gap is expected to grow even higher, reaching \$12.5 billion next year and an unimaginable \$47 billion over the next four years. He has ordered lawmakers back to Albany for another cost cutting session on November 18th. As New York State's fiscal picture continues to worsen, it's likely county government will be negatively impacted by additional state cuts and cost shifting as we have seen in the past. This uncertainty makes it difficult to budget as the state's cost cutting decisions will not be known until after the proposed county budget has been released. If the state does impose additional cost shifts on counties at their November session which occurs during the legislative budget review process, legislators will need to factor this impact into 2009 budget decisions.

The county's financial standing continues to be challenged by factors beyond our control:

- State mandated costs include 3% increase for Medicaid as well as significant costs for other social services programs;
- the Health Department's mandated *Preschool Special Education* and *Early Intervention* programs remain a significant cost to taxpayers of \$22.8 million;
- NYS Pension and health insurance costs for employees make up a considerable portion of the budget at \$30.4 million; and

- legally obligated funding for the *Resource Recovery Agency* continues to rise and will be \$6.3 million in 2009

Revenues

Sales Tax - Typically, our strong local economy has produced reliable annual growth in sales tax revenue which could be counted on to fund new expenses year to year. Times are now different. Sales tax revenues through early October were down nearly 2% compared to the same time last year, a clear indication the economic slowdown has caused a decline in consumer spending. If this trend continues, year end sales tax revenue is projected to be \$123.7 million or **\$2.6 million less** than the budget estimate of \$126.3 million. The last sales tax payment for the third quarter received in mid-October was higher than expected bringing year-to-date sales tax revenues to slightly less than 1% growth. However, we are advised this one adjusted payment **cannot** be interpreted as a trend. An October 30th headline stated: "Consumer confidence drops sharply" indicating consumer spending is expected to decline further as the turmoil on Wall Street continues, the winter heating season begins, and families and businesses reign in discretionary spending to brace for the economic uncertainty that lies ahead. In fact, just days ago the State Comptroller advised that 3rd Quarter sales tax receipts are an anomaly.

The 2009 sales tax estimate of \$127.1 million includes \$121 million based on an expected significant decline in receipts in the 4th quarter and into 2009. The framework of this budget anticipates a necessity to replace that lost revenue. Therefore, this budget anticipates an end to the current tax break exempting sales tax on clothing and footwear under \$110 which will produce an estimated additional \$6.1 million based on a March 1, 2009 repeal date. Faced with the reality of rising costs and shrinking revenues, several counties have already repealed this tax break exemption. If the legislature chooses to adopt this policy, and as the County Attorney has previously advised the legislature, a certified copy of the enactment repealing the sales tax exemption must be sent by certified or registered mail to the NYS Commissioner of Taxation and Finance postmarked at least ninety (90) days prior to March 1st or by December 1st preceding the effective date. The 2009 proposed sales tax estimate also provides for the extension of the $\frac{3}{4}$ of 1% rate beyond the November 30, 2009 expiration. Since 2003, the county legislature has voted three previous times to adopt this sales tax rate. To extend the $\frac{3}{4}$ of 1% rate through November 2011, it will be necessary to adopt a resolution requesting home rule legislation **no later than your December 8, 2008** meeting to provide adequate time to complete the state legislative process.

Mortgage tax - Revenues through September are **down 30%** compared to the 2008 budget estimate of \$6.9 million. If this trend continues, year end 2008 mortgage tax receipts are projected to be approximately \$4.8 million. Based on information from the *Dutchess County Association of Realtors*, *Mid-Hudson Multiple Listing Service*, as well as individual realtors, builders, banks and mortgage companies, indications are the housing market will continue to decline next year but at a lesser rate. Therefore, the proposed estimate for 2009 mortgage tax of \$3.9 million reflects a decline of an additional 20% compared to the 2008 year end projection. Continuing the mortgage tax will require the legislature to obtain "home rule" legislation and enact a local law to provide for the extension of the .25% mortgage tax beyond the November 30, 2009 expiration, as outlined in a communication to the legislature from the County Attorney.

Miscellaneous Revenue - Other economically sensitive revenues such as land related filings in the County Clerk's Office, interest earnings, transportation aid revenue and hotel tax are also down compared to last year with a further decline for 2009 projected due to national economic conditions.

The hotel tax revenue estimate of nearly \$2 million will require the legislature to enact a local law to extend the 4% hotel tax beyond the December 31, 2008 expiration.

As a result of these declining revenue streams, the county must continue spending restraint. Cost containment measures are ongoing. Therefore, spending reductions are proposed across various operational budget lines in units across county government to minimize adverse impacts to Dutchess County property taxpayers.

Workforce

As I have stated, in view of the fiscal realities facing taxpayers I believe higher county property taxes simply cannot be justified. County government must make the hard budget choices required to focus on our core mission and continue to provide essential programs and services with limited and declining resources.

We will remain a lean organization, continuing to effectively operate with fewer county employee positions than when I took office as County Executive in 1992. Rockland County has the same size population as Dutchess County but has 800 more employees. Ulster County has far less population than Dutchess County – 100,000 less – but still has more county employees than Dutchess County. To further realign and prioritize staff resources, this budget eliminates forty-three positions including unfortunately nine occupied positions.

Unprecedented economic times require an unprecedented approach.

The economic and financial condition of the nation and state has driven the reality of the 2009 budget, but the financial reality of pressures on family budgets was the most important factor in driving what budget to author for 2009. Again, I do not believe growing the county operating budget or higher county property taxes can be justified.

There is another reality – some local families have lost jobs, more are in jeopardy of job loss, most taxpayers are not receiving raises at their job, and some have seen their wages or take home pay actually cut back. With these crushing financial pressures facing them, it cannot be justified to ask taxpayers to pay more in order to give our public employees raises in 2009. Therefore, this 2009 county budget plan is designed to eliminate the annual COLA or cost of living salary increases for county employees. Please note that “step” increments and longevities are preserved and included in this budget.

It is fully acknowledged the county has multi-year labor agreements in place that were negotiated in prior years before this national economic recession occurred. Those agreements were negotiated in good faith by the administration and supported in good faith by the legislature based upon very different anticipated current and future economic conditions. Those economic conditions have markedly changed and the financial capacity for homeowners, taxpayers, and businesses to fund these annual raises has certainly changed as well.

The 2009 proposed budget does not provide money to fund the scheduled union wage increases; 4.0% for the CSEA, and 3.9% for the jail corrections officers union. The third labor contract with the Deputy Sheriffs’ union expires December 31 of this year, so no annual salary increases currently exist for 2009.

The administration recognizes the contract provisions regarding union raises and the obligations of the county if it wishes to alter these agreements. However, we also believe the union leadership and the county employees themselves should recognize the reality of the current economic circumstances and the financial strains on their neighbors and taxpayers who are not government union employees.

Neither the administration nor the legislature separately, or in fact together, can unilaterally change the terms of the annual COLA raises scheduled without the consent of the unions. We are advised by legal counsel that the county must enter into negotiations with the two unions and that the unions must agree to modify the agreements that provide for the annual raises.

Should the legislature support this proposal, it will be necessary to immediately take action **by legislative resolution, no later than November 12**, to trigger the necessary management-union negotiation process.

Once the legislature adopts a resolution of intent, the county's legal staff would immediately contact the union to request formal opening of the two existing agreements with the purpose to modify the agreement that provides union raises for 2009. We are hopeful the unions recognize the reality and gravity of the national economy and will provide a favorable response to a joint request from the administration and legislature that would immediately initiate administration contact with the two unions. Negotiations would be initiated forthwith to achieve agreement before the end of the November. This would allow the legislature to maintain in their Budget and Finance committee resolution scheduled for adoption December 2nd the projected savings included in the proposed budget.

If the legislature decides **not to adopt** such a resolution supporting the elimination of the union COLAs to trigger the reopening of the agreements, it will be necessary for the legislature to appropriate an additional \$3.4 million and raise taxes to fund the union raises.

As noted, there are three labor unions in county government. In addition, there are approximately 200 employees in the non-unionized confidential/management classification. Traditionally, this group of employees receives a COLA increase plus performance-based merit increases. This of course compares to the union members who receive both a COLA increase and "step" increments.

The 2009 proposed budget eliminates merit raises for all confidential/ management classification employees. However, should the legislature and/or unions decide not to agree with the difficult choice we have proposed to modify the union contracts in regard to the 2009 union COLA raises, the proposed budget currently provides sufficient monies to fund COLA increases for confidential/management employees. **Importantly**, however, if the legislature and unions agree with this proposal regarding 2009 union COLA raises, it is also expected the COLA raises for the confidential/management employees will be removed from the budget. Our interest is to ensure fairness and consistency in regard to COLAs across all employee sectors in this government.

I know we can all agree we hope that the national and state economic condition is short-lived and the capacity of local taxpayers will sufficiently rebound for 2010 to enable our entire dedicated, hard working county workforce to receive future COLAs.

In these unprecedented times, Dutchess County government has no choice but to prioritize its optional and elective spending decisions.

Restructuring

Dutchess County has thirty municipalities – including twenty towns, eight villages and two cities. Fourteen of these communities have chosen to have their own local police agencies; deciding the level, scope, coverage and cost of police services they choose for their community and residents. Sixteen local governments choose not to support local taxpayer expense to provide for their own police department. Rather, they have relied on coverage from the New York State Police as well as coverage provided by county government through sheriff road patrols. It is noted eleven of the sixteen currently do pay for supplemental patrol coverage beyond basic road patrols from the Sheriff’s office on a **contracted purchase of service** basis. Basic road patrols are not a service required to be provided by a County Sheriff agency.

Many local property taxpayers are bearing a considerable expense paying for police patrols **twice** - both through their county and local government property taxes, while only receiving patrol service from their own local police department. As currently structured, county government and county wide property taxpayers have enabled some towns to avoid any local budgetary and taxpayer expense to supply their own dedicated police service.

This has created an issue of equity and fairness. In localities where local residents and their local government provide a local police department, they are in effect through the county budget also subsidizing sheriff road patrols in neighboring localities, allowing the sheriff patrols to function there in place of local police departments.

No Local Police Dept.

Town of Amenia
Town of Beekman*
Town of Clinton
Town of Dover
Town of Lagrange*
Town of Milan
Town of Northeast
Town of Pawling*
Village of Pawling*
Town of Pleasant Valley*
Town of Rhinebeck*
Town of Stanford*
Village of Tivoli*
Town of Unionvale*
Town of Wappinger*
Town of Washington

Full Time Police Dept.

City of Beacon
Town of East Fishkill
Town of Fishkill
Town of Hyde Park
City of Poughkeepsie
Town of Poughkeepsie
Village of Wappingers Falls

Part Time Police Dept.

Village of Fishkill
Village of Millbrook
Village of Millerton
Town of Pine Plains
Town of Red Hook*
Village of Red Hook
Village of Rhinebeck

*** Also have supplemental, contracted purchase of service sheriff’s patrols**

The Dutchess County Sheriff's department is the second most costly county agency for local taxpayers. In an effort to determine spending priorities during this challenging national economic climate, efforts have been made to identify areas of duplication and overlap of services.

Dutchess is a diverse county of urban, suburban and rural communities. We believe local governments are closest to the residents and are in a better position to determine the level of police services they desire. Therefore, restructuring the funding of police patrol services is included in this 2009 budget. This will allow localities to **make their own choice** what level of police patrols they want and how much they and their local taxpayers want to invest in these services.

First, to address the equitable and fairness problem our current structure perpetuates, this budget proposal realigns the cost of sheriff road patrol services for over 55% of the county population, or 161,024 taxpayers in seven localities who do not currently receive sheriff road patrol service. Simply stated, this effort is designed to realign costs away from communities so they no longer have to pay for what they do not get.

To accomplish this, basic **sheriff road patrols would no longer be funded from general county taxpayer revenues** in the operating budget. Localities presently with no local police departments and local patrol services will have three different choices:

- 1) develop a local police department patrol as neighboring communities have chosen;
- 2) rely on available state police patrols for coverage; or
- 3) purchase road patrol services from the County Sheriff through inter-municipal agreement.

Similarly, localities with a "hybrid" of a part time police department, currently with or without a contract for additional sheriff patrol services, can continue to choose a level of service and patrol options that work best for their community.

Therefore, this tentative budget provides for **the realignment of sheriff road patrols to be provided only to localities with inter-municipal agreements on an optional purchase of service basis**. The New York State Attorney General has provided the basis for this collaborative relationship of shared services for localities. We have attached the document to the Resolution of Intent included with the budget message.

As noted earlier, county government has long had a purchase of service fee structure for those who choose supplemental deputy coverage; i.e. deputies requested for high school sporting events, additional road patrols beyond base zone coverage, etc. In recent years, the Sheriff has provided this purchase of service arrangement based on actual payroll costs for a deputy, an administrative fee, plus the overhead costs to operate a county car if it is also necessary.

This new structure will provide the purchase of service option for sheriff road patrols but only where local governments desire the patrol service. Again, it is entirely the choice of the locality. There is **no mandatory per capita assessment or chargeback** to local governments or their residents.

The 2009 budget increases the Sheriff's current revenue line to accommodate the anticipated fees from localities for this optional service. A preliminary estimate of \$4.7 million is anticipated from local governments and school districts choosing to use deputy services. Those revenues are balanced as an offset to the expenses appropriated to fund the required number of patrol deputies.

It is not expected all localities or school districts will choose to purchase these county services but instead choose another of the options listed above that are available to them. Ultimately, existing sheriff staff will need to be “right-sized” to match the projected revenue to appropriation expenses.

It is recognized for this realignment of county patrol services to proceed successfully to ensure taxpayer equity and fairness, a more detailed paradigm of the new patrol structure will need to be defined by the Sheriff during November for those localities “opting in.”

It is also acknowledged local budget adoption cycles overlap the county budget cycle in November. Therefore, should the Legislature wish to adopt this purchase of services structure, a **legislative policy decision will need to be made at the beginning of the budget review process** rather than at the end to allow localities time to include adjustments to their local budgets should they need to before their final adoption dates.

This realignment will also necessitate the Sheriff to communicate with the localities immediately to identify which of them wish to enter into this purchase of service option to use sheriff patrols as their preferred means of law enforcement. Once the Sheriff receives formal commitments by board resolutions from localities and school districts, the sheriff’s office will then be able to more accurately quantify the precise number of staff required to perform these patrols and the corresponding revenue projected to be received by his agency, with the necessary adjustments completed before the legislative adoption of the county’s 2009 budget.

Please note this budget does not propose any restructuring of sheriff special details: e.g. river boat patrol, drug enforcement task force, etc.

We believe the efforts of the legislature, Sheriff, and localities working together with the Executive, Budget and Personnel departmental staff over the coming days will produce the restructuring and realignment necessary by the end of November to meet the financial challenges to county government.

Inter-municipal Cost Allocation

As has been the case for decades federal and state elected officials, members of congress, U.S. senators, governors, state senators, and assembly members, have all at their convenience passed to county governments onerous **unfunded** mandates. One such mandate they expected county officials to absorb and find new money to fund was the federal and state plans to implement HAVA – the *Help America Vote Act*. This **demand** by the federal and state officials has caused county government to absorb huge new expenses squeezing out our ability to have adequate monies for core county services including services for seniors, families and children; social services, infrastructure, and public safety. Therefore, this budget realigns the election mandated expenses provided for under the law for localities to share in the absorption of these mandates, which of course recognizes the historical funding role formerly performed by localities to pay for election activities in their communities. Should the county legislature choose to adopt this inter-municipal cost sharing, the legislature will need to make a decision in early November to accommodate the local government budget cycle. Should the legislature not take formal action in **early November** to adopt this policy to ensure the monies inclusion in local budgets it will be necessary for the legislature to delete the revenue from the county budget and provide budgetary or tax levy adjustments.

This is another difficult choice I wish county government was not forced to make. I certainly understand if my colleagues in local government feel frustrated with the necessity to share these election costs with the county. But I would respectfully suggest that our elected federal and state officials should not have placed any of us in this position with more mandates.

Jail Mandate

One of the largest expense items in our entire County budget is the cost to house out county jail inmates in other institutions. The State Commission on Corrections (COC) pulled Dutchess County's variance in 2005, limiting the inmate population at the county jail to 257. The variance had allowed up to 318 inmates and had been in place for many years. It was pulled by the COC as a punitive action when the county did not support saddling county property taxpayers with the enormous costs to build and operate a larger jail.

As a result, the state has forced county property taxpayers to spend more than \$7 million on housing out inmates since the COC revoked the variance. In addition, Sheriff Anderson indicated he must spend another \$3 million in 2009 for housing out inmates as well as significant overtime dollars to transport inmates to and from other jail facilities.

Sheriff Anderson told county legislators at the September 22 legislative meeting that the jail operated effectively with the variance allowing up to 318 inmates. Since the variance was terminated by the State COC, the average monthly inmate count has been below 318 for 19 of the 38 months.

The average monthly inmate count over the entire time has been 316. In other words if the state COC had not been punitive and instead allowed the variance to stay in place, there would have been little inmate housing out required and our property taxpayers would not have had to waste millions of dollars unnecessarily.

In a report recently released by the *New York State Commission of Local Government Efficiency and Competitiveness (LGEC)*, it was noted that **it is the practice of the COC to pressure counties that they say need new jails either by fining counties or forcing them to incur the expense to board out prisoners.** The LGEC recommended that counties be provided flexibility to manage jail populations.

The LGEC's report acknowledged the issue of jail population has always been a fiscal struggle for counties. One of its major recommendations was to restructure state oversight of county jails, with the goal of moving toward a single statewide jail system.

Following the release of the report, **Governor Paterson acknowledged the need to reduce the burden on taxpayers** and supported the recommendations of the LGEC Commission including a single statewide jail system. "With the cost of living skyrocketing, and the need for governments everywhere to deal with the fiscal realities, we need to **help our working families** by doing everything we can to lower the cost of government," said the Governor in an April 2008 news release.

I agree with the Governor, but now we need him to back up his words and be an ally fighting for overburdened property taxpayers. It is time for the State to allow the Sheriff to utilize all of the

available space in the jail and to stop burdening county property taxpayers with an unnecessary \$3 million in additional housing out costs for 2009 in order to make inmates more comfortable.

Now more than ever, county taxpayers need the county legislature to have the political fortitude to stand up and protect them from unnecessary, costly future expenditures.

It will be necessary for Chairman Higgins, Majority Leader Goldberg and their party leadership to advocate for our county taxpayers and appeal to Governor Paterson. During the November budget process I believe it will be necessary for Mr. Higgins and Mrs. Goldberg to initiate a meeting with the Governor so they can convey the extraordinary financial cost burden this punitive state mandate places on local property taxpayers.

In these economic times, it shouldn't be difficult for the legislative leaders to convince the Governor to get the COC appointees on the same page with him. All he has to do is let them know in no uncertain terms that he supports the recommendations of the LGEC Commission that everything must be done to lower the cost of government and tell these Corrections appointees who work for him to immediately respond to the county's financial situation.

Taxpayers need Governor Paterson to immediately support two actions by the state:

- 1) The COC immediately reinstate Dutchess County's variance;
- 2) Recognize that other correctional facilities around New York State are allowed to "double bunk," and therefore allow Dutchess County to also double bunk at our county jail.

I believe it is critical a unified request also come from State Senators Saland and Leibell, and Assemblymen Molinaro, Miller, Ball, and Kirwan. Minority Leader Cooper and Assistant Minority Leader Rob Rolison need to advocate for the support of these elected state legislators.

It should be noted that leaders of the COC received the support of both Senators Saland and Leibell for their senate confirmation votes as well as the approval of their salaries and agency funding. So they are in a special position to wield the necessary influence to have these state bureaucrats reverse the punitive position that has been so hurtful to Dutchess taxpayers. I am hopeful Sheriff Anderson will join in this effort as well and use his friendship and influence to convene a group meeting with these state representatives and convince them to become allies of the taxpayers on this issue.

Our taxpayers, or as Governor Paterson said "**working families**", look forward to their support. These critical state approvals can maximize the efficient use of the jail capacity, while saving overburdened property taxpayers millions of dollars at a time when they are struggling to balance their family budgets.

In these economic times, I do not, and will not support a \$100 million drain on the property taxpayer's wallet to build a lavish new jail – nor will I support the estimated \$10 million annual cost to operate a new jail.

Our current jail has adequately held up to 318 inmates in the past, and there is no reason why it cannot continue to do so. Therefore, I have not included in this budget the \$2 million demanded by the state to house inmates in other facilities beyond the base of 318 inmates approved under the prior variance.

The county legislature can join me in my opposition to this state's rip off of local taxpayers and stand up to the state. Or the legislature can be apologists for the state; appropriate the added \$2 million and raise property taxes to satisfy the appetite of the State COC's mandates.

This is a simple issue: jail inmate's comfort versus taxpayers' ability to pay. I come down on the side of the property taxpayer.

Multi-Year Thinking

Rebuilding our fund balance and maintaining our financial stability is one of my top priorities and is even more critical in view of the fiscal uncertainties facing county government. We have made significant progress towards achieving the requirement to replenish and stabilize our "rainy day funds" by continuing to apply fiscal constraint, aggressively pursuing state and federal aid reimbursements and promoting economic development. In order to maintain our financial stability in the face of significant fiscal challenges, we must carefully plan the application of fund balance on a multi-year basis. This strategic planning approach has resulted in an audited fund balance of \$37 million at the close of 2007 and helps to **pre-position** us to face current and future fiscal challenges.

The 2009 budget includes a \$17.1 million appropriation of general fund balance with modest appropriations of fund balance from the D and E funds. We believe this level of appropriated fund balance positions the county to maintain the fund balance threshold at 5% of appropriations which is the minimum recommended.

We know just a few factors can **endanger our fund balance** and place the county finances in peril if we over reach on appropriation of fund balance and not leave adequate protection for the future. Exposures and factors in the future could strain the county's budget and negatively impact years of prudent planning. They include:

- Further 2009 downturn in the economy;
- shrinking revenues, sales and mortgage taxes;
- new state mandates;
- mid year 2009 cost shifts from the state budget; and
- increased 2009 services caseloads driving up costs requiring additional appropriations.

Moody's Investor's Services, our bond rating agency, has confirmed Dutchess County's Aa2 bond rating, substantiating the county's sound and prudent fiscal management. Impressively, only two counties are rated higher. Moody's recommends fund balance as a percentage of budget at no less than 5%. A draw down of fund balance below the 5% threshold could negatively impact our bond rating resulting in higher costs for borrowing.

We are currently working with our financial advisors on a bond issue to be completed later this fall, the proceeds of which will be used to finance capital projects already authorized by the legislature. Debt service for this borrowing is included in the 2009 budget. Moody's will be rating Dutchess County later this year prior to our bond sale. If fund balance falls below the 5% threshold, this could likely result in a downgrade.

We already know the county's 2008 financial standing is significantly challenged with a projected loss of more than \$2 million in sales tax revenue, a projected \$2 million loss of mortgage tax revenue, another \$1 million in state aid cost shifts and more than \$1 million for other year end shortfalls. We also know there is a strong possibility the state will continue to shift costs to counties to solve their budget woes.

Most importantly, thinking on a multi-year basis the 2009 proposed budget actually substantially squeezes operational appropriations even tighter than normal and reduces spending, we will not see the replenishment at the end of 2008 and 2009 that we've experienced in past years.

The Mission: Context and Perspective

This proposed budget plan includes other difficult choices we have made that will require the legislature's attention and discussion as the budget review process proceeds. All of these choices cannot be recognized here, but what must be recognized up front is that, just like the families and businesses that are part of our community, Dutchess County government cannot spend money it doesn't have and will not receive.

The circumstances we face are not of our choosing, but we have been and will continue to work hard to manage them.

And all is not gloom and doom. We remain committed to our core mission to provide the residents of our county with essential services which are cost effective and of high quality, while remembering that government is most effective when it is functioning as both a partner and servant to the public at large. We continue our focus on performance outcomes to ensure we are getting the best possible services for our county dollars.

By staying true to our core values, we can weather this fiscal storm and remain strong. Our ongoing cautious and conservative fiscal management will help us to endure what may be a prolonged period of fiscal uncertainty. Dutchess County is distinguished among New York State counties for our commitment to keeping our spending per capita and tax per capita low. Dutchess County government taxes its residents 19% less per capita and spends 23% less per capita than the statewide county average.

We are blessed with employees who are truly dedicated public servants, who have chosen careers where they can showcase their talents and creativity in service to their neighbors. We will continue to work smarter; thanks to the technology investments we have made that have allowed our residents to access services and information. Our advancements in technology have been well received by both our county residents as well as nationally recognized. Our county website www.dutchessny.gov continues to see increased usage, up more 18% over last year and an astounding 1600% since 2003! At the national level, Dutchess County government has once again been named one of the most digitally-advanced county governments in the country for 2008, our 5th year in a row in the nation's top ten.

We will continue to seek high performance outcomes for every dollar spent on services. One such example is a new service provider for non-emergency Medicaid transportation requests who will provide improved service. Medicaid recipients who need transportation services to doctor appointments, dialysis treatments, mental health services and more will now be able to take

advantage of a 24/7 call center as opposed to the previous system that was only available Monday through Friday with limited hours.

As county government, we will continue to get the job done for our residents in spite of fiscal challenges. Homebound seniors will still be able to depend on meal delivery from our Office for the Aging. Trained, caring mental health professionals will still answer calls to our 24 hour HELPLINE. Counselors will still work with our county's veterans and families to ensure they receive the benefits and entitlements they earned through their dedicated service. Our parks system will remain open to offer an economical, healthy day trip option for families looking for fun and recreation. Our County public safety dispatchers will continue to answer tens of thousands of emergency 911 calls. Our road crews will continue to clear the winter snow and ice and ensure our roads and bridges remain in good repair.

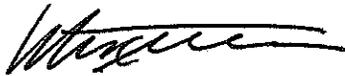
The development of the 2009 Executive Budget has been a tremendously challenging process making the tough choices and cutting spending. The record shows I have made tough, unpopular choices when required and the proposed 2009 budget reflects that bold and decisive action is needed today by all of us in order for Dutchess County government to remain fiscally solid in the coming years and in order for our property taxpayers to afford to remain in their homes.

This budget includes several policies in addition to those mentioned here that will require immediate Legislative action that cannot wait for the November 12 meeting of Budget and Finance committee. In addition, there are other budgetary decisions that require legislative resolutions that are attached for your consideration. I respectfully request and encourage the Legislature to begin the review process immediately and add additional earlier review meetings to the proposed schedule to allow for a complete and comprehensive budget review and critical decision making.

I wish to express my thanks to my entire Executive Office staff, most particularly Budget Director Valerie Sommerville and Senior Research Analyst Jessica White; to all my Executive Department Heads and to the independently elected Officials for their cooperation and support throughout the development of the 2008 Executive Budget.

Thank you for your anticipated cooperation.

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.

Also included in the formal transmittal of the budget message to the Clerk of the Legislature are resolutions for the Legislature's use as described in the attached addendum.

ADDENDUM

The following draft resolutions related to the 2009 proposed budget will be submitted to the Clerk of the Legislature:

- Resolution of Intent – Funding for Dutchess County Sheriff's Road Patrols
- Resolution of Intent – Employee Contracts: Civil Service Employees Association (CSEA) and Dutchess County Sheriff's Employee's Association (DCSEA) --- Suspend Cost of Living Adjustment (COLA) Increase in 2009 Budget
- Resolution of Intent – Funding the Cost of Elections Resulting from State Mandated Implementation of the Help America Vote Act (HAVA)
- Resolution Authorizing a Partial Charge Back to the Cities, Towns, and Villages for the Increased Cost of Elections
- Resolution Authorizing the Repeal of the Sales Tax Exemption on Clothing and Footwear Under \$110 effective March 1, 2009
- Resolution and Local Law Authorizing and Imposing a Highway Improvement Fee to be Collected by the Commissioner of the New York State Department of Motor Vehicles on Behalf of Dutchess County
- Resolutions Setting a Public Hearing for a Proposed Increase in Loop Bus Fares and a Resolution Authorizing an Increase in Loop Bus Fares
- Model Resolution and Local Law Authorizing an Increase in Recording Fees
- Appropriation of Funds for the 2009 Tentative Budget Budget
- Tax Levy for County Purposes for the Year 2009

Also attached is the timeline for the adoption of the town and city budgets for your information.

10/31/08