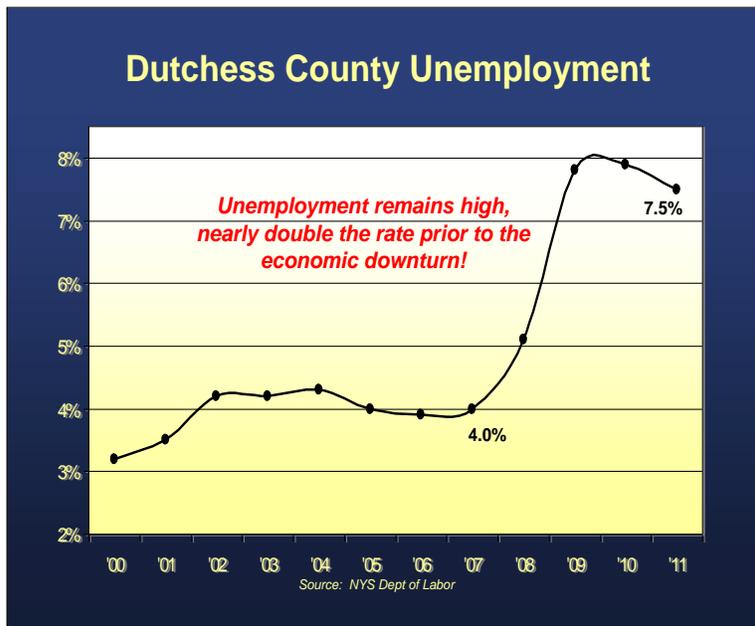


## Economic Conditions

The state of the economy continues to be the most pressing concern facing all levels of government. While 2011 had some positive indicators, the effects of the economic recession continue to be felt globally, nationally, statewide and locally in Dutchess County. Our residents continue to struggle with job loss, underemployment and other quality of life issues brought on by the stress of the economic recession.

The New York State Department of Labor (NYS DOL) recently reported New York's December 2011 unemployment rate was 8.0%, slightly below 8.2% in December 2010.

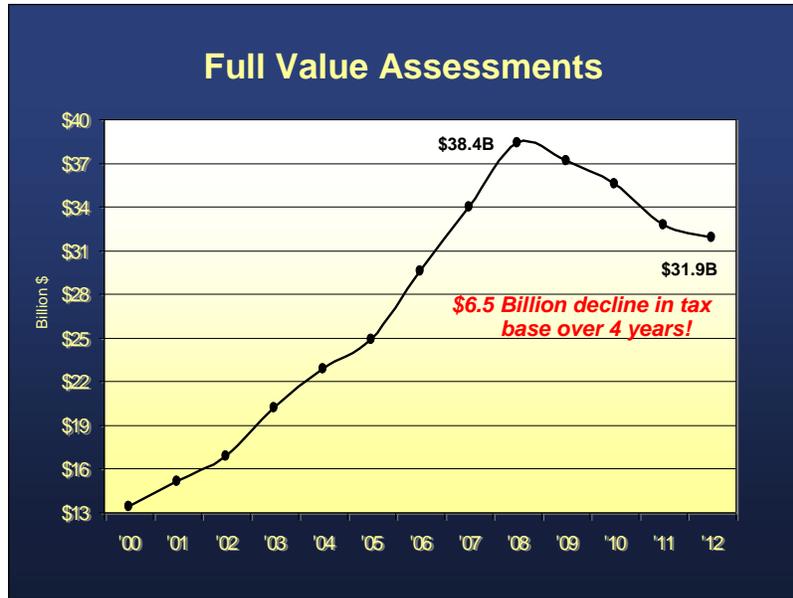


At home, unemployment for Dutchess was 7.2% in December, compared with 7.4% in December 2010. While the current rate is down from 8.8% in January 2010, when unemployment reached its highest point since post-IBM downsizing in 1994, it is significantly higher than the average annual unemployment rate in our area of 4% for 2007 prior to the economic downturn.

NYS DOL's annual average for 2011 showed Dutchess County's labor force down 2,100 jobs from 2010 and there are 4,400 fewer people employed compared to the 2007 annual averages. However, Dutchess County ranks better than most counties having the 9<sup>th</sup> lowest unemployment rate of all 62 counties statewide.

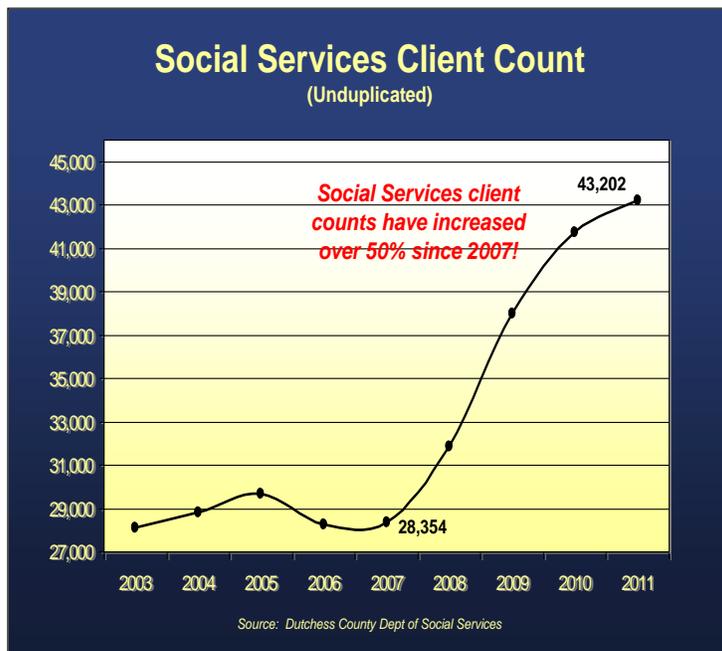
The local housing market in Dutchess County ended 2011 fairly flat; similar to how it performed over the past two years. Statistics released by the Mid-Hudson Multiple Listing Service show the year's average selling price was \$321,793 for the 1,435 single-family detached homes sold, up only 1.2% over 2010. The number of homes sold for the year was up by 3.6% and sales dollar volume was up 4.9% compared to 2010. For some context, however, in pre-recession 2005 the total dollar value of "closed" residential units in Dutchess County was \$879 million. In 2011 it was only slightly more than half that at \$462 million.

Home foreclosures for 2011 were down nearly 33% compared to 2010, and the 2011 foreclosure rate of 969 is the lowest in the past five years. For the fourth consecutive year, we are confronted with a decrease in the County's tax base. Going into 2012, it is lower by 17% or \$6.5 billion since its peak in 2008, from \$38.4 billion to \$31.9 billion (due to declines in the residential and commercial market construction, the overall decline in home values, as well as reassessment activity at the municipal level over the past few years.)



**Service Demands**

Demands on our health and human services agencies continued to increase as families struggled to make ends meet, found themselves without jobs, were underemployed, and/or dealing with the stress of financial hardships.



For the current heating season, homeowner applications for Home Energy Assistance Program (HEAP) have increased by more than 67% to almost 3,100 compared to 1,850 in 2007. Mental Hygiene's 24/7 HELPLINE saw an increase of nearly 62% in calls for assistance from almost 16,000 in 2007 to 25,873 in 2011, demonstrating the stress and challenges our residents continue to face.

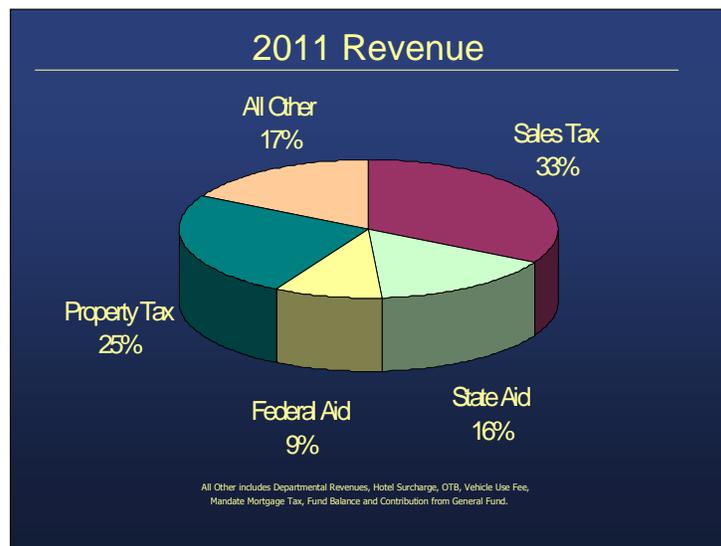
A key indicator of the lagging economy is that in December 2011 the Department of Social Services reported a total caseload for state mandated Temporary Assistance to Needy Families (TANF), Safety Net, Medicaid, and Food Stamp

programs to be 43,202 versus 28,354 for the same period in 2007. This is a dramatic increase of 52%, or more than 14,800 unduplicated cases. It's expected these trends could continue well into 2012 and beyond.

The list of fiscal challenges in providing county government services and meeting residents' needs and expectations can be daunting, particularly as our resources continue to shrink. While we saw modest growth in sales tax revenues in 2011, particularly in the 4<sup>th</sup> quarter, the benefit of any gains are significantly diminished when weighed against the increasing cost of state mandates, the loss of federal stimulus dollars and shrinkage in other economically driven revenues.

### **Tax Cap & State Mandates**

The most significant change impacting local governments in 2011 was the state's passage of a property tax cap. Counties across the state, including Dutchess, rely on the property tax to fund state mandated programs and services. Property taxes in 2011 paid for approximately 25% of county government spending with 33% funded through sales tax, 25% through state and federal aid and the remaining 17% funded through other revenues such as fees, fines and other miscellaneous revenues.



**State mandated programs consume our entire local county property tax levy of \$103.8 million and more.** The New York State Association of Counties (NYSAC) recently released a report entitled, "*State Programs Funded by County Property Taxpayers*," which explains how property taxes are used to pay for state mandated programs. Medicaid continues to be the single largest mandated program for county government, and is the number one mandate relief priority for counties across the State. The 2011 county budget included more than \$37 million paid by local county taxpayers and consumed 36% of our County property tax levy.

However, over the past three years all counties, including Dutchess, received temporary federal stimulus funds (FMAP) to offset the cost of the state mandated Medicaid program. This temporary relief ended in June creating a huge gap to be filled by property taxpayers.

**State Programs  
Funded by County Property Tax Dollars  
(Millions of Dollars)**

	2011 County Cost	2012 County Cost
Medicaid	\$ 37.2	\$ 41.4
Public Assistance	7.1	6.9
Child Welfare / Protection	18.1	19.6
Protective Services	1.3	1.4
Early Intervention & Pre-School Special Ed	8.1	8.9
Public Safety	17.8	17.7
Juvenile Detention	3.7	3.1
Corrections / Jail	34.6	34.5
Mental Health & Substance Abuse	9.6	11.1
Health Services	7.8	8.0
Other Mandates	3.7	3.8
<b>Total Mandates</b>	<b>\$ 149.0</b>	<b>\$ 156.4</b>

State mandates challenge county government budgets and leave fewer county dollars for local services such as road maintenance and snow plowing, emergency response, law enforcement services, veterans' services, youth programs, park facilities and other programs that are important to our local residents.

In 2011 the state budget continued to impact our local services as an estimated \$4 million over 2 years was cost shifted to Dutchess including: a reduction in state aid reimbursement for our Medical Examiner's Office and other Health Department programs; a phase-out of Mental Hygiene's Continuing Day Treatment reimbursement over 4 years; a 25% reduction in Youth funding; a Safety Net cost shift decreasing the state's share and increasing county share from 50% to 71% while taking over TANF costs; cuts in Department of Social Services adoption subsidy and preventative services funding and the elimination of open ended funding for juvenile detention.

## County Finances

The following information highlights **2011** key revenue and expenditure areas:

### Revenues

- Final sales tax receipts for 2011 will not be known until mid-February when the final payment is received. If the two remaining sales tax payments reflect the sales tax growth we have seen in the 4<sup>th</sup> quarter, we expect to meet the adopted budget estimate of \$132.5 million.
- The Department of Social Services received an unanticipated \$1.6 million in federal ARRA revenue due to a final Federal Medical Assistance Percentage (FMAP) reconciliation at the end of June.
- The 2011 county budget was adopted with mortgage tax revenue but the mortgage tax was not enacted and implemented, thus creating a shortfall of \$1.7 million.
- A shortfall of \$2 million is projected for the Department of Mental Hygiene primarily as a result of a unilateral change by the state in reimbursement methodologies for the clinics and Continuing Day Treatment programs.
- Other economically sensitive revenues also continue to be negatively impacted including: interest earnings for funds in the county treasury as a result of interest rates below 1% and lower than normal cash levels in the county's bank accounts; and Mass Transportation Operating Assistance revenue is down as the State's distribution formula is factored on declining mortgage recording fees.

### Expenditures

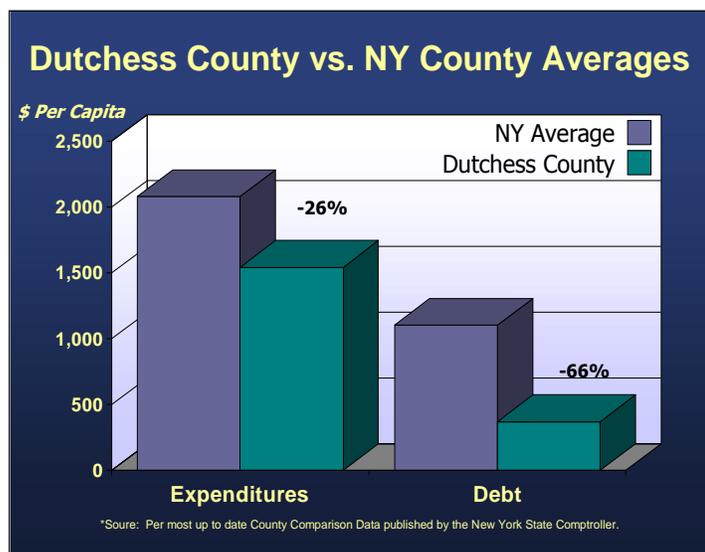
- Medicaid, county government's largest state mandated expense area, cost property taxpayers \$41.4 million in 2011. Medicaid costs were partially offset by \$4.3 million in federal ARRA funds which expired in June 2011.
- State pension costs to fund our employees' retirement, health insurance costs, and workers' compensation continued to increase totaling nearly \$45 million for 2011.
- The county cost of other state mandated programs, including Public Assistance, Child Welfare and Protection, and Juvenile detention are estimated to total \$29 million for 2011.
- The state mandated Early Intervention and Preschool Special Education programs in the Health Department cost county taxpayers over \$8 million in 2011.

- Energy and utility costs for county government totaled nearly \$4 million. Dutchess County Government and Dutchess Community College partnered together to lock in a fixed kilowatt hour price over a three year term for the supply of electricity providing some future stability in energy costs. The combined savings total almost \$300,000 for 2011 compared to the 2010 expense.
- An additional \$3 million in 2011 supplemental appropriations were required for housing inmates in other jails and jail overtime. These supplemental appropriations required an additional drawdown of fund balance.
- Gasoline costs were short by \$180,000 this year due to the significant increase in gasoline prices compared to budget estimates requiring a supplemental appropriation from the Legislature. These costs tend to be volatile and can change unpredictably.
- Health Insurance costs were short by \$366,000; due primarily to an increase in family enrollment in NYSHIP, an MVP rate increase that occurred after the budget was finalized, and lower than expected participation in the MVP Gold Plan coupled with an increase in retiree enrollment. Supplemental appropriations were required by the County Legislature to meet these obligations.

There are many factors and variables that will impact the county's 2011 year end fiscal position which will not be known until the end of April when the books are closed.

### **Comparison to Other Counties**

Dutchess County government continues to stand out statewide. Dutchess taxes our residents 23% less per capita and spends 26% less per capita than the statewide county average. Our indebtedness per capita is an impressive 66% below the statewide average. Dutchess County's outstanding indebtedness represents a mere 4.5% of the constitutional debt limit. Of particular importance to Dutchess County property taxpayers, the County property tax levy totals only 16.7% of the County's constitutional taxing limit.



## **Bond Rating**

In December 2011, *Moody's Investor's Service*, our bond rating agency, assigned an Aa1 rating with a negative outlook to Dutchess County. This outlook is indicative of *Moody's* belief that the maintenance of a stable and satisfactory fund balance will be a key in future ratings. Fund balance depletion in 2011 may affect future ratings negatively.

## **Fund Balance**

The county's 2010 year end audited general fund balance was \$29.9 million. The 2012 adopted budget includes an appropriation of \$24.5 million from the general fund balance to pay for the core services. This application of fund balance coupled with the additional drawdown of \$3 million in fund balance during 2011 and other potential projected year end revenue shortfalls could leave county government with **little or no unappropriated fund balance** when the 2011 fiscal books are closed. Prudent and pro-active fiscal management will be more essential than ever to rebuild fund balance and position county government for future fiscal challenges. We know, however, it becomes increasingly more difficult to accomplish in tough economic times. Additional fiscal impacts could put the County in the position of having to borrow to cover operating expenses.

## **County Workforce**



*Employees from the Department of Social Services'  
Children's Services Division*

One of the County's greatest assets is our dedicated and hardworking public employees. As we continue to weather the economic downturn, demand for county government services continues to increase. County employees have risen to the challenge of doing more with less, and we respect and appreciate their service and commitment.

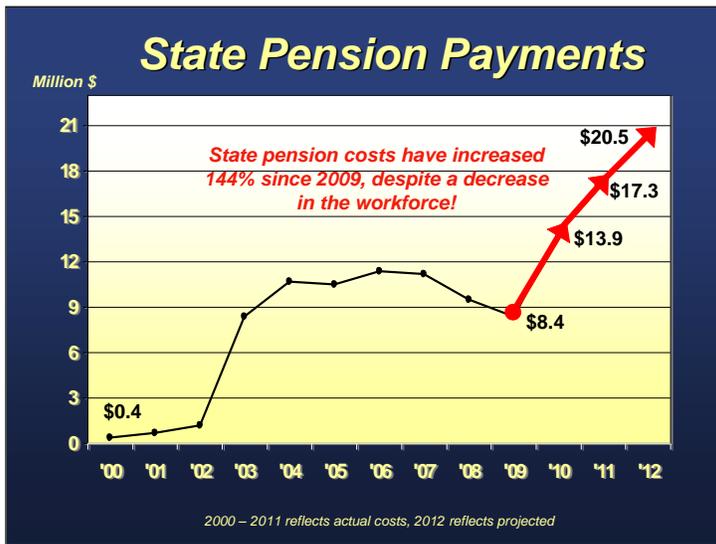
Our employees and union leadership know as the economy continues to impact county government services, our fiscal picture will likely get worse before getting better. Counties across the state, including Dutchess, have eliminated positions and services, and further cuts may be necessary as stimulus funding disappears, the economic downturn lingers and further state aid reductions may reduce revenue sources.

In the past five years since the onset of the economic downturn, our county government workforce has been reduced by a total of 203 FTE positions. The reality is without significant mandate relief from Albany the 2013 budget will likely mean the reduction or elimination of programs, services and the employees who provide those services.

My administration and I, personally, will meet with union leadership early this year to discuss how we can work together to address our continuing fiscal challenges and continue to provide the core services our residents expect.

### **A Look at 2012**

Our fiscal challenges extend into 2012. Although the Governor's budget includes some proposals to reform the Early Intervention and Preschool Special Education (EI/PSE) programs, which could help keep appropriations within budget for 2012, the Medicaid reform proposed would not impact the county budget until 2013, leaving a shortfall in Medicaid appropriations needing to be addressed this year.

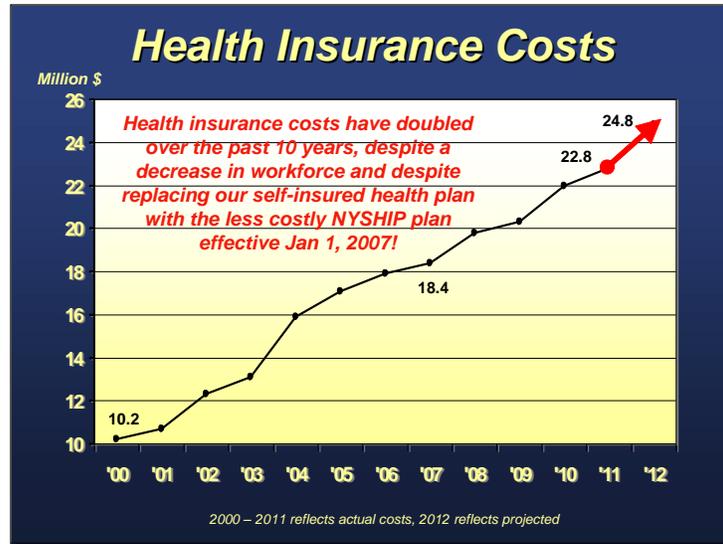


Mandated contributions to the state Retirement System for employee pensions, have increased 17.8% from \$17.4 million in 2011 to \$20.5 million for 2012 and are projected to increase again next year. There may be some relief going forward if the Governor's proposed pension reform, including the creation of a Tier VI in the pension system, is adopted.

The 2012 budget includes \$21 million for the state mandated EI/PSE programs with about \$9 million paid by local property taxpayers. Mandated costs for public assistance programs, child welfare and protection, and juvenile detention programs are projected to be nearly \$30 million.

Further, health insurance costs for our employees have increased 8.8% from \$22.8 million in 2011 to \$24.8 million in 2012 and are projected to increase again next year.

How County Government addresses jail overcrowding and solid waste management in Dutchess County is also yet to be determined. Decisions on these issues will affect the 2012 budget and beyond.



Our administration will work diligently to manage the \$411 million budget based on the current economic conditions and the County's overall fiscal picture. Funding adjustments may also be necessary later this year based on the final state budget outcome, and the economy's impact on our revenues which are needed to pay for the services.

### State Budget Impact

Governor Cuomo's recently released 2012-2013 state budget proposal closes the state's current \$2 billion budget deficit and includes some key reforms which, if enacted, could provide some minimal relief for Dutchess County property tax payers. The plan includes a proposed elimination of the current 3% annual growth in the County share of Medicaid phased-in over three years with the first phase effective in 2013.

We will continue to monitor the state budget process in the coming months. It may be well into 2012 before we know the final outcome and full impact on the programs and services we deliver and fund at the county level. As information becomes available, we will identify the adjustments needed and adapt to those changes as best we can.

In 2011, Governor Cuomo's *Medicaid Redesign Team* and *Mandate Relief Redesign Team* developed a comprehensive list of mandate relief options. In the Governor's 2012 State of the State Address, he indicated the newly created *Mandate Relief Council* would begin meeting in early 2012 to conduct public hearings and develop recommendations for consideration by the State Legislature. As of today, the Council has begun meeting. **Counties across the state are relying on the Governor and state legislators to pass substantial mandate relief for 2012.** Dutchess County government is committed to partnering with our state legislative delegation to assist the Governor in making

mandate relief and reform a reality. We welcome the *Mandate Relief Council* and look forward to hosting public meetings here in Dutchess to present our ideas for mandate reform. Easing the burden of state mandates means more of our taxpayers' hard earned dollars can stay in their pockets, go toward local priorities and enable job creation.

A sluggish economic recovery combined with the state's property tax cap will present ongoing fiscal challenges to counties over the next year and beyond. County governments simply cannot continue to fund state imposed mandates at the current level and stay within the state's property tax cap without decimating important discretionary programs and services important to our residents.

The continued reality of the lingering economic recession will require tough decisions as we move forward in 2012, and as we work to develop the 2013 budget

\* \* \* \* \*

*As with any transition of leadership, there is a moment in time when one administration ends and the next begins. This document addresses, as required, the last year of the Steinhaus administration. The index identifies the year's accomplishments by department.*

*There is no doubt 2011 was a difficult year: 2012 and 2013 will be even more challenging. However, through tactical short-term and strategic long-term planning, my administration will work diligently to position county government to best address the needs of our residents despite these challenges.*

*To that end, I will present my 2012 State of the County address on February 7, 2012 at Beacon High School where I will share with you my plans for our future.*

*I look forward to us working together to overcome our challenges and seek new ways to enhance the quality and character of Dutchess County for all those who live, work and raise their families here.*

**Marcus J. Molinaro**  
County Executive