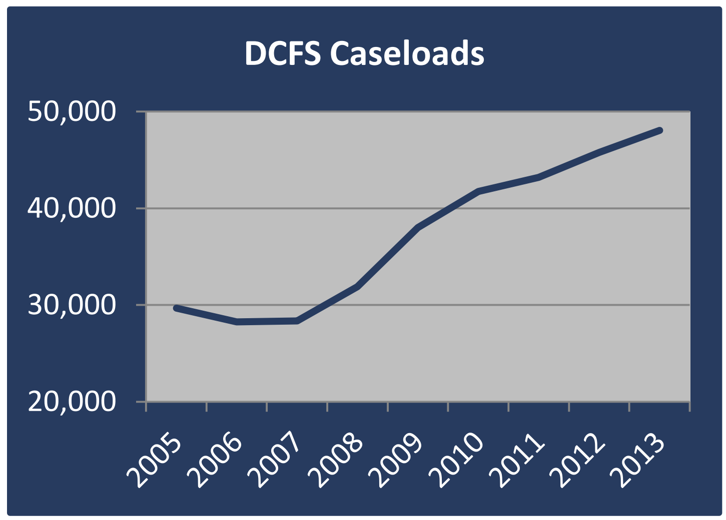
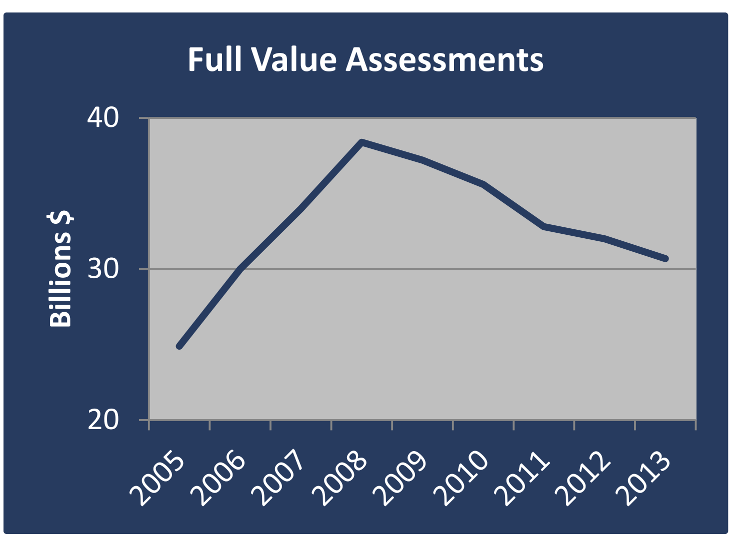
COUNTY FINANCES

2013 was a busy and challenging year. Our continued multi-year transformation, with a focus on controlling costs while providing quality services, has helped us to not only weather the impact of a stagnant economy but begin to "bend the curve" on spending and property tax increases seen in the past. At the same time, we continue to be challenged by increasing demands and shrinking resources brought on by that economic stagnancy.

Average unemployment in Dutchess for 2013 was 6.9%, down from 7.9% for 2012, but still above the 2007 annual average of 4%, before the start of the recession.



Demands on our health and human services continue as families struggle. Home Energy Assistance Program (HEAP) benefits provided have more than doubled to over 10,700 compared to 4,000 in 2007. The Department of Mental Hygiene (DMH) 24/7 HELPLINE calls for assistance are up 44% from nearly 16,000 in 2007 to 23,000 in 2013. While 2013 saw a slight decrease from the 24,370 calls in 2012, the number of mobile crisis team diversion calls actually increased from 3,820 calls from April 1 to December 31, 2012 during the first year of operation to nearly 6,642 for that same period in 2013. Total Department of Community and Family Services caseload for public assistance programs exceeded 48,000 as compared to 45,000 in 2012 and just over 28,000 in 2007. This is a dramatic increase of 20,000 unduplicated cases since 2007.



Additionally, the County's tax base continues to decline, from \$38.4 billion in 2008 to \$29.6 billion in 2013 as a result of the downturn in the residential and commercial construction market, overall decline in home values, as well as the reassessment activity over the past few years at the municipal level. The loss of assessed value means even without an increase in the tax levy, property tax rate per \$1,000 of assessed value will go up.

State and Federal mandates continue to dominate the county budget with 70% of net county costs devoted to underfunded mandates and only 30% for optional services such as E-911 dispatch, sheriff law enforcement, health and mental health services, road maintenance and snow removal, public transportation and county parks. Total net to county mandated costs for 2013 are expected to be more than $188 million.

Medicaid remains the single largest mandated program and continues to be a top mandate relief priority for counties across the State. In 2013, the cost to Dutchess County taxpayers for Medicaid was $43.7 million consuming more than 40% of our county's property tax levy for this one program.

Despite the State's takeover of Early Intervention administration effective April 1, 2013, the mandated Early Intervention and Preschool Special Education Programs will still cost county taxpayers $9.1 million in 2013.

State pension costs for 2013 totaled $21.3 million, an increase of $520,000 compared to 2012, despite a significant workforce reduction. Other non-discretionary expenses for employee health insurance and workers' compensation also remain a significant cost at $28.9 million for 2013.

Mandated costs for the jail to house inmates in other county jails exceeded $8 million in 2013 when transportation and overtime costs are factored in as we continue to house out over 200 inmates per day. These costs continue to rise, reinforcing the need to move forward in 2014 with our plan for a temporary housing unit solution and a larger, more cost efficient jail facility with programs to help reduce recidivism.

Family Court mandated assigned counsel costs for 2013 exceeded the budget by $540,000 for a total cost of nearly $1.7 million, driven up by an increase in caseload and an increase in hours per case. The expansion of the Public Defender's Family Court Unit in November with further expansion planned for 2014 is expected to provide greater assigned counsel savings in 2014. The costs for the Public Defender's Family Court Unit have a lower cost per case than 18B attorneys and are fully funded by a grant from the state's Indigent Legal Services Fund.

Sales tax, the county's largest source of revenue, pays for more than one-third of County Government expenditures. Even after a recession, economically sensitive revenues such as sales tax, interest earnings, and hotel tax often remain stagnant. While final 2013 sales tax revenues will not be known until mid-February, year-to-date growth is basically flat at only 0.4%. If the current trend continues for the two remaining payments for 2013, county government will end the year with a significant shortfall of more than $2 million.

October 1st saw the beginning of the federal government shutdown with curtailment of most routine operations after Congress failed to appropriate funds for fiscal year 2014. While government operations resumed October 17th, the closure of the Roosevelt, Vanderbilt and Val-Kill historic sites impacted area restaurants and lodging establishments who saw a drop in business at a time of year when tourism is normally up.

The 2013 budget included $4.8 million in projected revenue for the reinstatement of the county mortgage recording fee to help offset the cost of state mandates and other operational cost increases. A lack of support from the State Legislature to introduce and enact the required authorization to implement this needed revenue stream, left Dutchess County with a $4.8 million hole in the budget.

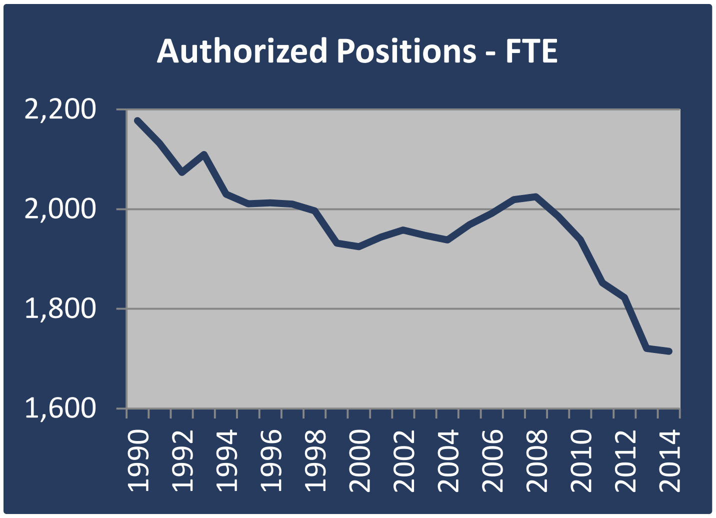
With the ability to impact only 30% of net county costs, the County must have mandate reform and greater local autonomy from the State if it is going to be able to efficiently manage its finances and save taxpayer dollars.

The Governor's 2014-2015 executive budget includes proposals that would provide rebates to property taxpayers who live in jurisdictions that stay within the property tax cap and agree to implement a shared services or consolidation plan. Over the past two years, we have proven our ability to remain within the state imposed property tax cap, and to implement and expand our shared services and consolidation efforts. If the Governor's proposal is adopted, continuing these important fiscal strategies will be crucial for all local municipalities and school districts in order to provide property tax relief to homeowners and businesses.

The Governor's budget also includes a proposal for Universal Pre-Kindergarten (UPK). Currently, the State has two different systems for providing pre-k education: one for special needs children administered through local health departments and another through the state department of education. The State mandates counties fund Preschool Special Education with school districts responsible for determining eligibility and ensuring the provision of services costing the county almost $7 million in 2013. The current structure has created a divide that allows inequities to grow, leaving special needs children behind. As the state strives to establish UPK, they have an opportunity to provide an integrated and fully funded statewide program with better educational outcomes for all children.

Many aspects of the Affordable Care Act (ACA) implementation took effect with health insurances exchanges launched as scheduled on October 1st. The law and its implementation continue to face challenges bringing uncertainty with how the ACA will impact state and local governments and the residents we serve. We are hopeful that any State savings realized as a result of increases in federal reimbursement will be shared equitably with counties.

In 2013, we implemented a workforce reduction of 103 FTEs, going from 1,823 down to 1,720 FTEs – the lowest level in 30 years. The savings from these reductions totaled approximately $6.8 million in 2013 and will save nearly $38 million over the next five years. This reduction was due in part to the "Workforce Adjustment Incentive" offered to employees in 2012 coupled with other workforce reductions resulting from our strategic restructuring and consolidation initiatives.



The labor agreement reached with the Civil Service Employees' Association (CSEA) in November 2012 provided for two $500 bonus payments in 2013 for Dutchess County Government's largest employee union, as well as Confidential employees and employees of Dutchess Community College. The four-year agreement ran retroactively from January 1, 2010 through December 31, 2013. Negotiations are currently underway for all of our employee labor unions including the CSEA, the Police Benevolent Association (PBA) which represents our sheriff deputies, the Dutchess County Sheriff's Employees Association (DCSEA) which represents our corrections officers as well as Jail and Sheriff Office staff, and the Dutchess Staff Association which represents some of our County Attorneys and Public Defenders. We look forward to crafting agreements that are fair to our employees as well as our taxpayers.

In November, Moody's Investors Service downgraded Dutchess County's bond rating from Aa1 to Aa2; however, Moody's also changed its outlook on the county's finances from "negative" to "stable." Moody's report cited the county's relatively narrow reserves and a declining but still sizable tax base with above average wealth levels and a modest debt burden. The Aa2 rating is the third highest bond rating issued by Moody's.

Other counties and municipalities in the region have also been downgraded as they continue to experience fiscal stress brought on by the burden of state mandates and a stagnant economy. In November, Moody's downgraded Westchester County from Aaa to Aa1 and in January the City of Poughkeepsie was downgraded from BAA2 to BAA3. More downgrades are anticipated as local governments continue to face shrinkage in assessments and declining fund balance.

This recent downgrade makes rebuilding fund balance more important than ever. That is why the 2014 budget does not use any general fund balance to offset the initial $27 million budget gap. With several important capital projects on the horizon, ranging from infrastructure and building maintenance needs to construction of a new jail facility, it is critical we maintain a strong bond rating.

Difficult decisions were required to close an initial $27 million budget gap for 2014, stay within the state's property tax cap, and balance our residents' demands for service with their ability to pay. Through continued community dialogue, municipal collaboration, and partnership with our County Legislature we worked together to achieve a fair, balanced and workable budget.

The 2014 adopted budget of $439.3 million includes a $4 million decrease in spending compared to the 2013 modified budget, excluding the adjustment for sales tax payments to municipalities which is totally offset by the estimated sales tax revenue. Again this year, the adopted property tax levy of $107.9 million is under the state property tax cap threshold.

With mandates consuming 70% of net county costs, demands for services continuing to increase and no support from the State for less intrusive revenue sources, the only available alternative was the repeal of the sales tax exemption on residential energy sources. However, this repeal would not be needed if the State Legislature delivered mandate relief. The repeal of the exemption includes a provision that will restore the exemption in 2017 if it is still in effect. The Legislature intends that the exemption will be immediately reinstated if the State Legislature delivers promised mandate relief.

2014 brings a further workforce reduction of 7.6 FTEs through continued restructuring. County employees continue to share in the fiscal challenges facing our community and once again in 2014, salaries will remain without merit increases or cost of living adjustments.

In 2014, we will continue to right-size government by offering shared services opportunities to municipalities such as the expansion of our Worker's Compensation plan to the Towns of Poughkeepsie, Washington and Dover with expansion to other municipalities anticipated during the year.

The Municipal Consolidation and Shared Services Grant Program which began in 2013 with $2 million dedicated to local government efforts to improve efficiency, reduce costs, share successful outcomes, and promote economic development will continue in 2014 with an additional $1 million in funding.

Our Agency Partner Grant Program started in 2013 will continue in 2014 to provide a process by which Dutchess County will award funding to community agencies based on identified needs and proven outcomes, rather than just past practices. Over $700,000 was dedicated to the program in the 2014 adopted budget.

Transparency and accessibility to information are the cornerstones of our foundation. Thus, the 2014 budget has been transformed to provide more detail and information about the budget process and county government. This offers the public a greater understanding of the budget, where revenue comes from and how it is spent. For the first time in 2014, all adopted budget information and documents are accessible on our County website. Additionally, our second annual online budget survey and "Dutchess Dashboard" fiscal tools continue to provide information and communication with the public. These initiatives will continue in 2014, and we encourage all those interested in County finances to take a close look at the vast information available on our website.