



COUNTY OF DUTCHESS  
DEPARTMENT OF FINANCE

# Memo

TO: Dutchess County Legislators  
Carolyn Morris, Clerk of the Legislature

FROM: Pamela Barrack, Commissioner of Finance  
Valerie J. Sommerville, Budget Director *JS pb*

DATE: May 1, 2012

RE: Update on County's Fiscal Position

With the 2011 Dutchess County unaudited year end close out completed, we are providing the Legislature with a fiscal update. This report also identifies the impacts of the State budget on County finances, as well as several key areas of concern.

## State Budget

The two most significant reforms in the 2012-2013 enacted State budget are in the areas of Medicaid and pension reform. While these reforms will produce significant savings in the future over the long term, there is no significant immediate mandate relief for counties in the State budget. Outlined below are the key areas of concern:

### Medicaid:

- The State budget begins phasing down the current 3% annual increase in County Medicaid costs. In 2013, our Medicaid payments will be based on our 2012 costs plus 2%, for a savings next year of approximately \$400,000. In 2014, the payment will be the 2013 cost plus 1%, and in 2015 and thereafter, the payment will remain the same as it was for 2014. In anticipation of State mandate relief, the 2012 adopted County budget underfunded Medicaid by just over \$1 million. This creates a \$1 million shortfall for the County in 2012.
- The State budget also includes a cap in reimbursement to counties for Medicaid administrative costs, with an estimated loss of \$145,000 to the County. There may be some additional reimbursement over the cap if the State achieves savings over their targeted amounts, but this is uncertain at this time.

Pension:

- The State's pension reform includes a new Tier VI effective April 1, 2012, increased contributions from new members based on salary, an increase in the retirement age from 62 to 63, a defined contribution option for nonunion new hires that earn more than \$75,000, and other changes that will reduce costs for local governments in 2013 and beyond.

Preschool Special Education Program (Health Dept):

- The Governor's Executive budget proposal included changes to the Preschool Special Education Program, with the most significant being any growth in costs shared equally by the County, State and school districts. Currently the County pays 40.5% of all program costs and 100% of the transportation costs over the State mandated cap to transport children to service providers. Unfortunately, the Governor's proposals were rejected in this area.

Early Intervention Program (Health Dept):

- The enacted State budget includes the establishment of a statewide fiscal agent to manage contracts and billing on behalf of counties which is expected to bring cost savings, but the details are still being sorted out by the State. Unfortunately, the repeated proposal to have health insurance companies cover the cost of Early Intervention services was rejected.

Child Support Administration (Dept of Social Services):

- The final State budget supports the Executive proposal to eliminate the State share for child support administration. Instead of maintaining its commitment to fund child support, the State will increase the TANF Flexible Fund appropriation by \$13 million statewide and allow local social services districts to retain the State's share of child support collected on behalf of Temporary Assistance and Safety Net Assistance as an offset. This mirrors previous measures implemented by the State for Safety Net administration, however, the State then withdrew the money in the next year. This raises concern whether the increased TANF funding will remain in place for future years. Even with this increase for counties, the money must be used for programs, not child support administration. The net loss in administrative funding in the Department of Social Services is estimated at about \$210,000.

Indigent Legal Services Funding (Public Defender):

- The State budget provides \$81 million statewide in overall County indigent defense funding. This includes \$77 million (equal to the prior year) allocated directly to counties for indigent defense purposes, and includes \$273,000 for the County to implement a plan for improved indigent legal services. The remaining \$4 million is set aside for upstate County public defender caseload relief.

Dutchess Community College:

- The State budget raises Community College base aid from \$2,122 to \$2,272 per full-time equivalent student.

While the Medicaid and pension reforms are welcome, these changes will not cover the 2012 projected Medicaid shortfall and certainly will not help close the anticipated \$40 million budget gap for 2013.

### Sales Tax

The final County government share of sales tax revenue for 2011 totals \$134.3 million which is \$1.8 million or 1.3% more than the 2011 adopted budget estimate of \$132.5 million. Sales tax revenue for 2011 increased by \$8.6 million or 6.8% compared to 2010 actual sales tax revenue. This increase is due primarily to the repeal of the sales tax exemption on clothing and footwear under \$110 effective March 1, 2010, coupled with a higher than average payments in lieu of taxes, and moderate economic growth of about 4.7%. The repeal of the sales tax exemption provides an estimated \$7.5 to \$8 million in additional sales tax revenue annually to the County to fund important programs and services, and another \$1.5 to \$2 million shared with local municipalities.

First quarter 2012 sales tax data provided by the NYS Department of Taxation and Finance shows a decrease in Dutchess County's sales tax of (1.4%) compared to the first quarter of 2011. It's important to note one quarter does not reflect an annual trend. It is too early in the year to project what our sales tax payments will be for the remainder of the year.

### Dutchess Economy

Dutchess County unemployment for March 2012 was 7.7%, up slightly by .1% from one year ago, and still significantly higher than the average annual employment rate of 4% for 2007 prior to the downturn.

As the economic downturn lingers, the Department of Social Services (DSS) continues to see a significant increase in demand for services. Temporary assistance, food stamps and Medicaid caseloads are up over last year at this time, with total unduplicated DSS caseloads up 61% from 2007 prior to the economic downturn.

Statistics from the Mid-Hudson Multiple Listing Service shows Dutchess County housing sales declined by 2.4% percent in the first quarter of 2012 compared to the first quarter of last year and remain significantly below 2007 sales. On a positive note, the County Clerk's Office reports a total of 969 foreclosures for 2011, down 32% compared to the 2010 number of 1,435.

Legislators will need to anticipate how these uncertainties and potential exposures will impact the County budget and fund balance, as well as the property tax levy for the 2013 County budget and for future years.

## 2011 Year End

Outlined below are highlights of the County's 2011 year end fiscal position.

**It's important to clarify information reported in our 2011 year end financial report does not reflect solely operating budget revenues and expenses. It also includes other non-operating budget entries such as gross sales tax revenues received and the distribution of sales tax shared with municipalities, capital outlays, and other accounting adjustments.**

We ended 2011 with total countywide revenues of \$446.2 million. There are many factors which impact our year end fiscal position, much of which is driven by the economy or are the result of mandated, non-discretionary costs beyond our control. In 2011, countywide spending totaled \$435.4 million, an increase of \$7.6 million compared to 2010. This \$7.6 million increase in spending was driven primarily by increases in Medicaid, and employee benefits, primarily for State pension payments and contractual health insurance.

A continuing area of concern is the County's cash flow position. The 2011 year end cash balance (not fund balance) was \$29.5 million. While this is an increase of \$2.5 million compared to the 2010 year end cash balance of \$27 million, this is more than \$9 million below the 2009 year end cash balance of \$38.6 million, and \$29.2 million below the 2008 year end cash balance of \$58.7 million. While cash flow can fluctuate greatly from day-to-day based on cash outlays and revenues received, our cash balances have been consistently lower over the past three years. If New York State delays State aid reimbursement and/or property taxes, sales tax or other revenues do not meet expectations, the County may be forced into short term borrowing.

In 2010, we received \$26 million in ARRA stimulus funding of which \$8.4 million was an adjustment to the federal share of the costs for the mandated Medicaid program (FMAP). The County's continued growth in Medicaid expenditures was temporarily offset by \$4.3 million in FMAP funding through June 2011. This raises concern for County governments, including Dutchess, faced with the challenge of maintaining fiscal stability now that federal stimulus funding has expired.

State aid revenue which is calculated largely as a percentage of reimbursement for program expenditures increased 24 percent, whereas Federal aid revenue went down 37 percent due to the expiration of federal stimulus funding in June 2011 and a reclassification of revenue from ARRA funds to State Aid in the preschool special education program. The refund of prior year's expenditures revenue, which can vary significantly from year to year, was down by nearly \$5.9 million in the general fund, from \$13.2 million in 2010 to \$7.3 million in 2011. The County's real property tax receivables have increased nearly \$4.5M from December 31, 2010, as more property owners are having difficulty paying their taxes.

Significant cost areas for 2011 include:

- \$41.5 million for the State mandated Medicaid program
- \$38.9 million for the Sheriff and Jail, excluding employee benefits
- \$38.5 million for employee health insurance and pension payments
- \$21 million for the State mandated Preschool Special Education and Early Intervention programs
- \$12.7 million for the operating contribution and debt service for Dutchess Community College and charge backs paid to other community colleges

Other significant expense areas include the Health Department, Mental Hygiene, Social Services and Public Works. While some of these expenses are partially reimbursed by the State, much of our net to County cost impacting the tax levy is incurred for State mandated programs.

### Fund Balance

The County ended 2011 with \$7.8 million in unaudited general fund balance, a decrease of \$9.7 million from the 2010 year end unaudited fund balance of \$17.5 million. Of the \$9.7 million decline, \$4.2 million is attributable to an accounting reclassification mandated by GASB 54 as adopted by the County Legislature in resolution #2011247. To illustrate this change, prior to this accounting standard change, the 2011 unrestricted fund balance would have been reflected as \$12 million. **It's important to note fund balance is not cash; it's the difference between the County's assets and liabilities.** This number must be viewed in the context of the total \$411 million County budget, the current fiscal picture and economic climate, as well as other fiscal challenges which we know with certainty will need to be addressed this year, next year and beyond.

The \$7.8 million unaudited general fund balance is only 1.9% of the County's \$411 million operating budget, placing us well below the recommended 5% to 10% range for fund balance as a percent of appropriations. More than ever, we will need to remain vigilant to maintain and rebuild reserves to weather the impact of increased costs for State mandates, rising energy costs to operate our County fleet, utilities for our buildings, contractually obligated salary increments and longevities required by our labor agreements, and debt service to maintain the County's assets and infrastructure.

There can be a significant difference, up or down, between the unaudited fund balance reported in May and the final audited fund balance reported in September, after all accounting adjustments have been completed. Over the past 10 years the adjustments made have resulted in differences between the unaudited and audited ranging from a decrease of \$5 million to an increase of \$13 million. This is due to the following factors:

- The final audited financial report historically includes accounting adjustments, up or down, made after the release of the preliminary report in May. These adjustments can vary significantly from one year to the next.

- PricewaterhouseCoopers' final audited fund balance calculation is based on the percentage of collectability experienced in the prior year, not the 90 day collection window reported to the State Comptroller's Office in May. PWC's calculation methodology also does not account for any delays in State or Federal aid revenue or the decline in our cash balances over the past three years and the strain this places on the County's cash flow.

Even if the final audited fund balance as adjusted is higher than the unaudited, it is likely the County would still barely meet the minimum 5% recommended threshold for fund balance as a percent of appropriations.

Dutchess County Government continues to demonstrate very strong credit worthiness, as confirmed by Moody's Investors Service Aa1 bond rating in December 2011. However, the importance of rebuilding fund balance is greater than ever as Moody's had qualified its ratings for Dutchess County government with a "negative" outlook, reflecting Moody's opinion that "further declines (of fund balance) outside of what is expected or the use of reserves in 2012 will put further pressure on the county's rating."

We have huge challenges in front of us as we strive to find the balance between what services County government must provide, what services our residents want us to provide and what County government can afford to provide. Faced with a property tax cap again this year, no significant mandate relief and no available fund balance to offset the budget, the 2013 budget process is certain to be more challenging than ever before. We'll need to focus on how these challenges will impact the County budget and fund balance, as well as the property tax levy for the 2013 budget. This will require difficult budget decisions by everyone. Through a focused, logical, inclusive and fair process, we can work together to deal with our fiscal challenges as best we can with limited resources.

Attached is the County's unaudited financial report for 2011 as submitted to the NYS Comptroller's Office. If the Legislature has any questions after reviewing the full report and this memo, we would ask that your questions be combined into one communication and forwarded to the Commissioner of Finance and Budget Director so we are able to provide one comprehensive response.

cc: Elected Officials  
Department Heads  
Union Leadership  
Union Shop Stewards