2014 Budget Message

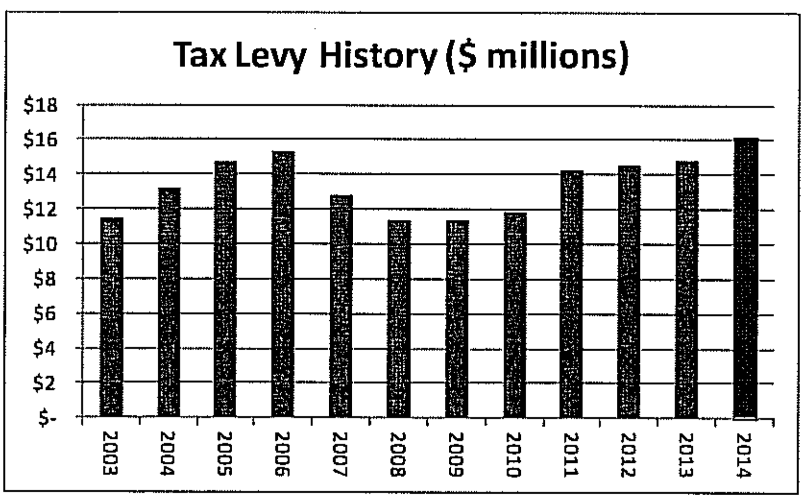
October 1, 2014

To all members of the Franklin County Board of Legislators and the citizens of Franklin County, I present to you the 2014 Tentative Budget.

Since the start of the "great recession" the County's financial condition has deteriorated considerably. As has been discussed in prior budgets the demand for County services increases during difficult economic periods, while revenues do not grow accordingly. We have spoken and written about this for some time, and most recently have been declared fiscally stressed by the Office of the State Comptroller. The findings of the State Comptroller are of no surprise to members of the County Legislature and the County's management team.

This budget is a continuation of a plan to improve the County's fiscal condition, and that plan includes close management of the County's finances to ensure increases in the property tax levy are reasonable. Within the details of the State Comptroller's fiscal stress test were a series of environmental factors; in essence, the state has noted that Franklin County's property tax payers cannot afford significant increases.

Our financial condition could be improved quickly – we would simply increase property taxes by a significant percentage. But we believe in identifying alternative paths, even if County finances remain stressed for the short term. Therefore our plan includes managing County government with very thin margins until the economy can support funding government at a higher level. Better that our margins remain thin than your margins deteriorate further.



In reviewing the long-term record of the Board of Legislators, it is clear that limiting tax increases has always been a significant goal. The chart at left shows County property taxes from 2003 through the 2014 tentative budget. The levy increase proposed in the tentative budget raises taxes to levels comparable to 2006. I believe this shows the Board of Legislators, and prior boards, have maintained a strong loyalty to the taxpayer.

This budget does contain a property tax increase of 8.76 percent. For a home in Franklin County valued at $100,000 this represents a tax increase of $35.28, with variations depending on the respective municipality.

The goal of the County Legislature is to remain under the state's property tax cap, which is roughly 2 percent. While this budget is above that figure, I note that the past two tentative budgets were also well above the tax cap. Indeed, the 2012 and 2013 tentative budgets contained levy increases of 12.95 and 5.57 percent, respectively. In both years, after a thorough and diligent review by the Board of Legislators, the adopted budgets contained increases of less than 2 percent.

Eventually, without relief from New York State government, reaching the tax cap will be impossible. While I am confident the adopted budget will have a more reasonable increase in the property tax levy, I cannot promise the tax cap will be reached.

Budget Highlights

The following *significant* initiatives are included in the 2014 budget:

- Collective Bargaining: The County currently has an open contract with the collective bargaining unit covering nearly staff working under the purview of the Sheriff. Although a vote on this contract failed just last week, this budget assumes the agreement is enacted. If a subsequent vote fails, or if the union refuses to accept reasonable terms, the budget will need to be modified in the following manner:
    - Total health insurance costs will increase, as will employee contributions towards their health costs.
    - The raises contained in the budget for these employees will be removed.
    - Additional financial resources will need to be identified, possibly through staffing reductions, or the tax levy will increase further.

- Social Services: Substantial increases are included based on public assistance caseloads, resulting in a net increase of $1.36 million. These programs are largely beyond the control of the County and they continue to place an undue burden on the taxpayer. Without these increases the tentative budget would include a modest *reduction* in property taxes, and borrowing detailed below would be unnecessary.

- Nursing Home & Impact on the Property Tax Levy: In 2011, after protracted negotiations between the state and federal government, County nursing homes in New York State received hundreds of millions in federal funds. Franklin County received $2.7 million and these funds were retained by the nursing home. In both 2012 and 2013 these funds were used to offset operating losses, which have now nearly exhausted the $2.7 million. In 2014 the budget assumes the nursing home will impact the property tax levy, requiring a subsidy of $716,380.

- Nursing Home Closure: The 2014 budget assumes the nursing home will cease operations at year-end, and the merger with Alice Hyde Medical Center will be completed. Reasonable estimates are included for appropriations and revenues based on the eventual closure. However, this process includes significant operational and financial risk. An appropriation of $200,000 is included in the budget for the nursing home to insulate the County against unforeseen expenses or revenue shortfalls.

- Casino Compact Funds: The budget assumes $3.5 in casino compact funds will be received in 2014, half of which is retained by the County. These funds will be used to finance the tourism program, road maintenance, and purchases of equipment for the highway department.

- Sales Taxes: Total 2014 revenues are budgeted at $20.075 million. This amount represents an increase of $75,000, or 0.36 percent over the 2013 budget. However, current year revenues are projected to fall between $20.55 and $20.75 million; therefore the 2014 projection represents a modest increase over current trends.

- Retirement Stabilization vs. Budget Note: The budget assumes that $1.0 million in current year costs will be financed and paid in future years. One mechanism for this financing is to enroll in the state's retirement stabilization program, while another entails borrowing in the form of a budget note. The financing mechanism will be determined at a later date depending on the option which provided the lowest interest and greatest flexibility for the County.

- Pension Costs: Pension costs, for the first time in many years, are projected to decline slightly. Current year pension costs are $3.95 million, estimated 2014 costs are $3.775 million.

- Indigent Legal Defense: Caseloads for both the public defender and conflict defender's offices are higher than recommended state standards. Both offices have reached a critical point in which they are struggling to provide quality legal defense due to the sheer workload. Each office is provided funding for an additional position. To lessen the impact on the levy the assumed start date for these positions is July 1st.

- County Treasurer: To better assist with the foreclosure and property auction process and other actions to improve the County's cash position funding is included for an additional position in the County Treasurer's office. The office is also provided $50,000 to upgrade the County's delinquent tax collection software.

- Expense on Tax Acquired Property: $35,000 is included to demolish certain properties acquired through foreclosure. This investment will help to eliminate safety risks for the community and liability for the County.

- County Sheriff and Jail: Total payroll for the jail is consistent with prior years. Several new positions for the jail have been added over the past several years, and new positions should now be funded through equivalent reductions in per diem and overtime staffing.

- County Roads & Road Machinery: An additional $205,000 is included for blacktop as compared to 2013. The department is also provided approximately $300,000 for new equipment purchases.

Budget Detail: Appropriations

Personnel Expenditures

Franklin County Payroll: 2010 - 2014 ($millions)						
Year	County Roads & Bridges	Public Health	Sheriff & Jail	Nursing Home	Social Services & Career Development	Total Franklin County
2010	$1.38	$2.08	$2.57	$3.19	$6.46	$21.70
2011	$1.29	$2.22	$2.73	$3.25	$6.10	$21.66
2012	$1.12	$2.15	$2.80	$3.19	$5.69	$20.85
2013 Projected	$1.13	$2.06	$2.88	$3.21	$5.48	$20.92
2014 Tentative	$1.13	$1.99	$2.91	$3.45	$5.55	$21.31
Change: 2010 - 2014	($0.25)	($0.09)	$0.34	$0.26	($0.91)	($0.39)
% Change: 2010 - 2014	-18.1%	-4.4%	13.1%	8.1%	-14.1%	-1.8%

Total personnel expenditures are increased by approximately $400,000 largely due to contractually obligated increases. These increases are financed through health insurance cost reductions negotiated in 2012 and 2013. As has been the trend in prior years expenditures are driven by increases in the operations of the County Sheriff. As the chart above shows, overall spending on personnel for the County has decreased over the long-term. During the same period spending on the Sheriff's operations have increased by 13.1 percent.

Spending at the nursing home has also increased, but the 2014 projection includes approximately $130,000 in expenditures to pay employees for accrued time. Normally this would be taken as time off, but with the planned facility closure this $130,000 will become a cash payout. Further, the nursing home rarely spends its full allotment for personnel.

Contractual & Equipment Expenditures

It is typically difficult to compare contractual and equipment expenditures from year to year largely because these expenditures are highly influenced by the receipt of grant funds. State aid that "passes through" the County to community service providers also influences these figures without impacting the County's bottom line. After accounting for these funds expenditures are virtually unchanged outside of the increases for public assistance.

Fringe Benefit Costs

Over the long-term fringe benefit costs have increased sharply, largely due to increases in mandated state pension costs. For the first time in many years pension costs are projected to decline due to the recovery of the stock market and associated strong performance of the state pension fund. The state is forecasting future declines provided the market continues to perform well.

Despite national and local trends of increasing costs for health care, the County has realized a long-term *savings* in health care costs. This has been done through meticulous management of expenses. The following significant actions have been taken the past several years:

- Retirees have been moved to a Medicare supplemental plan, wherein in Medicare provides primary coverage which is supplemented by the County. This has resulted in an approximate savings of $0.5 million.

- A health insurance buyout has been implemented, resulting in a minor savings in 2012 but larger savings in 2013 and future years.

- The plan for active employees has been modified, at no harm to employees, to encourage increased use of generic prescription drugs. A series of incentives have also been enacted to encourage switching from brand name drugs to generics.

Debt Service

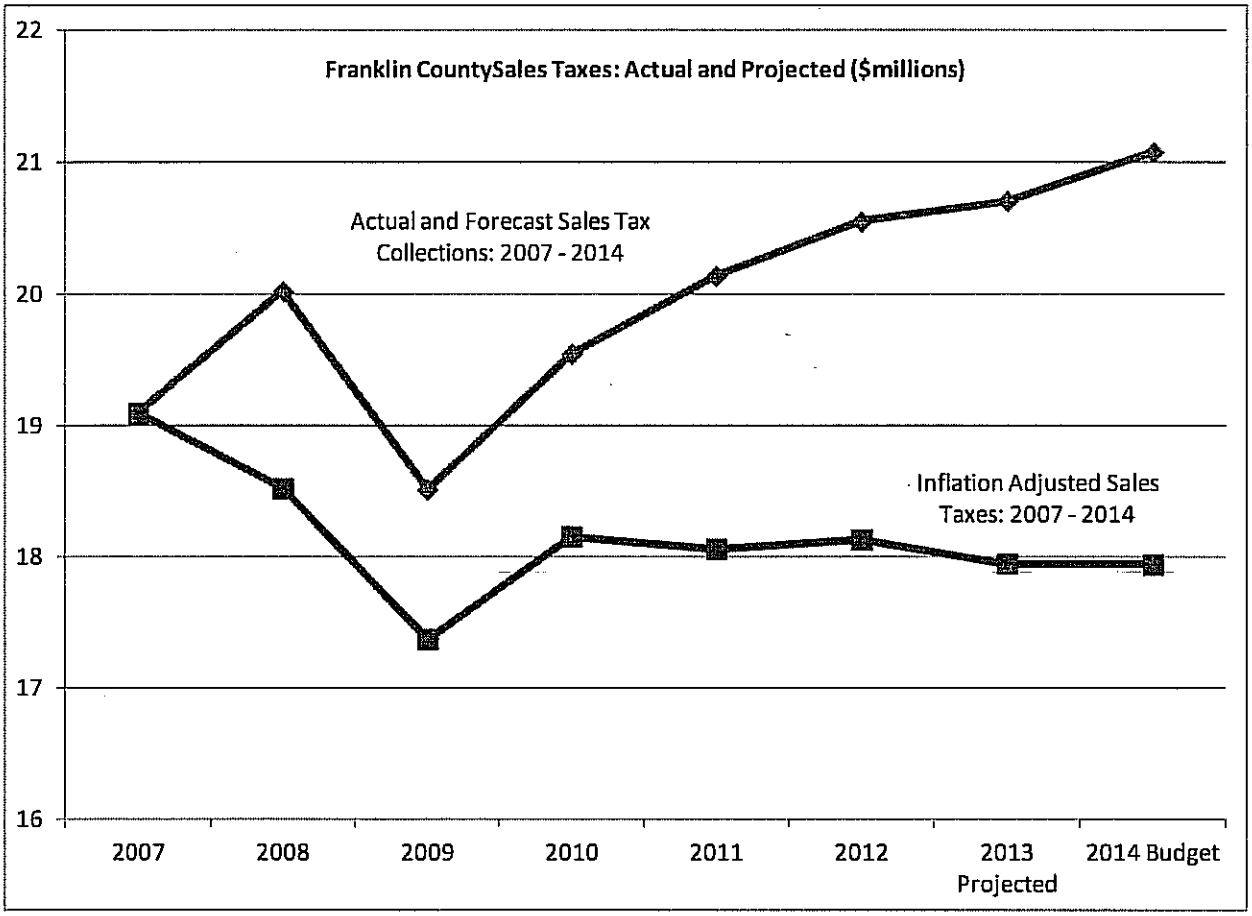
Debt Service Costs: 2010 - 2014 ($millions)				
	Court House	County Jail	County Route 24	Total Franklin County
2010	$0.61	$0.90	$0.00	$1.50
2011	$0.61	$0.90	$0.00	$1.51
2012	$0.62	$0.90	$0.00	$1.52
2013 Projected	$0.63	$0.00	$0.00	$0.63
2014 Tentative	$0.64	$0.00	$0.02	$0.66
Change: 2010 - 2014	$0.04	($0.90)	$0.02	($0.84)
% Change: 2010 - 2014	6.5%	-100.0%	NA	-55.8%

Overall debt service costs remain very low for the County. While the County has borrowed $2.3 million to repair County Route 24, this was in the form of a bond anticipation note. An interest payment on this note, totaling approximately $18,000 is due in 2014. This budget assumes the $2.3 million will be refinanced in 2014, or a lesser amount depending on the availability of casino compact funds.

Budget Detail: Revenues

Sales Taxes

Sales and Use taxes not only represent the County's single largest source of revenue, they are also an indication of local economic conditions.



As the graphic above shows sales taxes are growing in real terms, but after adjusting for inflation (using 2007 as the base year) revenues are stagnant. These trends are contrary to those seen in neighboring Counties. The trends in sales taxes suggest the local economy has yet to fully emerge from the downturn of 2009.

The sales tax forecast for 2014 is $21.075 million, which is an increase of 1.8 percent over current year revenues. Over the long-term, had sales taxes kept pace with inflation since 2007, the 2014 budget estimate would be approximately $22.5 million.

Other Revenue Sources

Franklin County Revenues: 2010 - 2014 ($millions)						
	Sales Taxes	State Aid	Federal Aid	Departmental Revenues	Misc. Revenue	Total Franklin County
2010	$19.54	$15.84	$19.59	$16.53	$14.88	$94.14
2011	$20.14	$15.18	$20.92	$18.07	$13.09	$96.24
2012	$20.55	$14.95	$22.10	$15.98	$13.95	$100.64
2013 Projected	$20.70	$16.87	$17.37	$15.86	$12.16	$83.53
2014 Tentative	$21.08	$15.23	$13.67	$15.28	$15.90	$86.52
Change: 2010 - 2014	$1.53	($0.61)	($5.93)	($1.25)	$1.01	($7.62)
% Change: 2010 - 2014	7.8%	-3.9%	-30.3%	-7.6%	6.8%	-8.1%

State and federal aid sources are difficult to meaningfully compare for several primary reasons.

First, most significant road and bridge repair projects have some component of state and federal aid; one large project would skew the overall average figures. This is also true of grant funded projects in many other County departments.

Second, state and federal aid sources are rarely pure "aid," but rather partial reimbursement for operations. ~~For example, the2014 budget contains an appropriation of $3,316,687 for the education of~~ handicapped children. The Medicaid program ultimately reimburses the County for 59.5 percent of these total costs.

Nonetheless, the overall trend for state and federal aid is downward. In recent years the state and federal governments have reduced funding for road and bridge maintenance projects, decreased reimbursement rates in numerous programmatic areas, and generally reduced grant funding.

Departmental revenues include revenues generated by departmental operations, such as home health care visits, and inter-county charges. These revenues are also highly influenced by the state and federal government, as these entities are often pay for services provided and set reimbursement rates.

Miscellaneous revenues include an amalgamation of revenue sources, including fines and fees. The most significant miscellaneous revenue source is reimbursement from the Solid Waste Authority. Under the agreement the County assists the Authority with cash flow needs, and receives reimbursement approximately 1-month later. This amount totals approximately $6.0 million.

Casino compact funds are also a miscellaneous revenue source and the anticipated receipt of $3.5 million skews the overall figures. Compact funds have been received sporadically, but the recent actions of the Governor and his personal intervention to settle an ongoing dispute with regards to gaming exclusivity provides a level of certainty these funds will be received on a regular, ongoing basis.

Finally, miscellaneous revenues include the anticipated $1 million borrowed to finance operations. As discussed earlier, the mechanism for borrowing will be determined at a later date.

Strategic Investments

In 2013 the County took steps towards improving our emergency communications systems, IT infrastructure, and road network. Funding for all of these initiatives is continued at funding levels equivalent or greater than 2013.

In addition, the County one significant investment in 2013 that will impact the 2014 budget. First, the County invested $2.3 million to resurface County Route 24. This was financed in the form of a bond anticipation note, and in 2014 the County will pay approximately $18,000 in interest on this debt. The principal amount will be refinanced during the course of 2014, or perhaps a lesser amount if the County is able to pay off the note in partial or in full.

The 2014 budget also provides $50,000 in funding for the Treasury Department to replace their information system for tracking delinquent tax collections. The current system is antiquated and is no longer supported by the vendor. In the event of a serious crash, the County would struggle to repair the system and, in the short-term, the department would be required to complete detailed and lengthy calculations by hand. A new system will eliminate this risk and will ease the workload in the department. This system is partially funded with grant funds received in prior years.

Future Outlook

After reaching a low point towards the end of 2012 the County's finances are beginning to stabilize. This is the first step towards recovery. As has been noted previously, much of our recovery is influenced by the state and federal budgets, combined with the performance of the local economy.

While we have yet to see meaningful mandate relief, the state in particular has finally reached a realization that their mandates have pushed County governments across the state towards a fiscal cliff. Based on this clear change in tone, we now have some confidence that additional significant mandates are unlikely, and some relief, albeit on a piecemeal basis, will be provided by the state.

Finally, with the closing of the nursing home in 2014 the County's finances will stabilize. While the variable losses at the nursing home will be replaced with a fixed $1 million annual payment to Alice Hyde Medical Center, that dollar amount is a certainty. If the County were to continue nursing home operations we would certainly lose far greater than the $965,380 budgeted loss for 2014. We also face the eventual loss of federal IGT revenues. We expect to receive nearly $700,000, on a net basis, in IGT funds in 2014. This revenue source is expected to cease in 2015, and if the county were to operate the nursing home in 2015 we would anticipate a loss, minimally, of $1.5 million. Therefore the merger will result in both a long-term savings and stability.

Finally, our finances are inversely correlated with the local economy. During periods of economic decline or stagnation, which we continue to experience, the demand for County services increases. This particularly impacts the budget for social services. In recent years the global recession has also impacted the state pension fund, which in turn influences what the County must contribute towards the fund. These forces ultimately result in increased County expenditures, and in past years these increases have been at unsustainable rates.

Simultaneously, during these same downturns we tend to see declines or stagnation in our revenue sources. The same forces that raise our expenditures also raise state and federal expenditures. Therefore these governments often reduce local aid as a natural response. Further, sales taxes, are single largest source of revenue, also subject to these same forces.

In past recessions these forces were in place, but the downturns were never severe or protracted enough to cause the fiscal stress we are facing today. Our reaction over the past several years has been to carefully monitor and manage expenses wherever we have local control. Our 2014 expenditures are nearly identical to 2008.

Having accomplished this goal of reducing costs, we remain confident in our future because even small local economic conditions will have a significant impact on budget. The construction of the natural gas pipeline and recent announcement of significant hotel development and expansion projects is especially promising and exciting, and the improvements in the financial markets are finally resulting in some relief from pension costs. If these developments come to fruition, and the market trends continue, I anticipate that future budgets will be within the confines of the tax cap.

I thank the myriad of individuals that assisted me with developing this budget. In particular I thank my office staff for their patience and support.

Sincerely,

Thomas J. Leitz

County Manager