

# Ulster County Executive Michael P. Hein 2011 Tentative Budget Message

## Introduction

New York State's property taxes are among the highest in our nation. In fact, as a percentage of personal income, New York State taxes are currently 80% higher than the national average. Rising property taxes are breaking the people of New York. They are damaging our small businesses and stifling our economy. But worst of all, high taxes are forcing families from their homes. This is completely unacceptable.

Governments at all levels must learn to operate within the means of the people they have been created to serve. On its surface this statement seems obvious, but when times are tough, like they are right now, accomplishing this is hard.

Added to the existing challenges is a new and complicating factor: the fiscal problems facing governments today are more than just a short term condition. I believe that even though economists say the recession has ended, governments all across New York will never be able to return to business as usual. Skyrocketing pension and healthcare costs have virtually guaranteed this. What this ultimately means is that there is a new financial paradigm and governments must learn to adjust.

Many politicians may be slow to recognize this, but I can assure you that the American people are not and neither am I. They are making tough choices every day and they expect their leaders to do the same: to show the courage and understanding to protect them from tax increases they simply cannot afford. This is my home and this matters to me.

## New York State Mandates/Property Tax Relief

As a county, one of the main issues we face is the fact that New York State government has not addressed either property tax relief or mandate relief. The fact is that much of what counties now do is the direct result of onerous, unfunded or under-funded state and federal mandates. Roughly 65% of Ulster County's budget is now mandated.

It should be noted that the remaining 35% of non-mandated expenses are primarily made up of the Sheriff's road patrol, Golden Hill, mental health services and the community college. As you can see, regardless of whether the services are mandated or non-mandated, the choices left are very serious.

The truth is, in New York State, nine mandates consume roughly 90% of all county property tax levies. Here is a sample of these mandates:

**Medicaid** is a \$35.4 million dollar obligation in Ulster County. New York is the only state in the nation to impose such a major burden on its counties. What this really amounts to is a state imposed property tax. Medicaid is a broken program. The Governor and Lieutenant Governor have openly acknowledged this, but unfortunately to date, no major reform has taken place.

**Pre-School Special Education** - Rather than placing this valuable program in the school system, where it belongs, the state has pushed this education-based program onto county governments and requires that counties pay 51% of the cost. This will be \$4.2 million in 2011.

**Food Stamp Program** - The cost of the Food Stamp program is now shared by the federal government and the county governments at 50% each, because last year New York State decided arbitrarily to walk away from its share.

**Indigent Legal Defense Services** are a mandated cost to Ulster County of over \$1.8 million, while the state has blocked New York counties from taking any serious steps to control these costs.

**Probation** - The costs for probation have been steadily rising as a direct result of additional state laws, but illogically, the state government has steadily reduced its participation in paying for probation. The percentage Ulster County must pay is 86%, while the state only pays 14%.

These are only a few examples of how state mandates affect Ulster County taxpayers. Add the fixed costs of healthcare and mandatory New York State pension fund contributions, and it is easy to see how local governments and their taxpayers can be overwhelmed.

## **Pension Contributions**

Let's take a look at the county's mandatory contribution to the New York State pension fund. It has increased by more than \$4 million dollars this year, which is an increase of over 36%. This is double what it was just two years ago. It becomes truly disturbing when you consider that it is actually 3,312% more than it was in 2002.

This year alone, Ulster County will pay over \$15 million dollars to the New York State pension fund. Part of the reason for this is the economy, but a large part is also because of major benefit expansions for government employees passed by the State Legislature.

It is my belief, and the belief of virtually every other County Executive, that the government of the State of New York has failed to deliver meaningful property tax relief or meaningful mandate relief. With a state budget that was over four months late, what they did was exacerbate existing problems. They increased cost shifting, increased unfunded mandates and actually reduced the level of state aid for the very programs the state mandates that counties provide. Regardless, whether it is state taxes, county taxes, town taxes or any others, I understand that it is all your money and you have the right to demand that your leaders start fixing these problems.

Now, as County Executive I cannot fix Albany's dysfunction, but here in Ulster County, I am committed to doing everything in my power to keep our citizens from being taxed from their homes. For this reason, in this budget, we have streamlined, we have made difficult decisions and most of all, we have provided honest, practical solutions.

## **Ulster County Services**

At its core, county governments' primary function is to provide essential services and during this major recession, the demand for these services has gone up. It is the hardworking men and women of county government who are tasked with delivering these services. They are here to make sure our citizens stay safe: with police protection and an emergency 911 system that is there when you call. Ulster County employees are here to make sure our seniors have access to "Meals on Wheels" and that individuals with mental illness receive critical treatment. They are here to make sure domestic violence prevention stays strong so we can avoid tragedies, and here to make sure the public's health is protected with flu shots, properly inspected restaurants and a coordinated effort as we strive to make Ulster County the healthiest county in all of New York.

Add to this, child protective services, support for our veterans, road maintenance, bus transportation, and the promotion of local business. It is a county employee's responsibility to be there when the phone rings, it is freezing outside, and a family has no heat. The workers of Ulster County are called upon to do this and much more. But I never forget that each and every one of these essential services is paid for by taxpayers who have been stretched to their breaking point.

### **Addressing the Budget Gap**

In April 2010 our Budget Director warned the Legislature of a potential \$15 to \$25 million dollar budget gap. That could have meant a 20% to 33% property tax increase. I will not allow this to happen. One of the ways we responded to the budget gap was with our "Taxpayer First" initiative, part of a multi-year plan of cutting costs and identifying non-tax revenues.

### **Redesigning Ulster County's Health Insurance**

I would like to start by reviewing our plan to redesign employee health insurance. With any workforce, healthcare costs are a major expense driver. Ulster County government is no different. Last year, employee healthcare premiums were \$21.9 million, and that was after we instituted significant improvements designed to hold off increases.

Unfortunately, in the health insurance industry, double digit annual increases have now become the norm. These increases mean that even after our improvements, the county's healthcare premiums were scheduled to increase by roughly \$3.1 million this year. To combat this, we are planning a transition to a modified self insurance plan for next year. This action, which will be seamless for employees, will provide over \$2.1million in cost avoidance for 2011.

I would like to commend Legislator Provenzano and her former bipartisan committee. They were the ones who initiated the collection of healthcare utilization data in 2007. This data has been essential to our analysis of self insurance.

Another fact that should be mentioned is that just like last year, in an attempt to raise cash, New York State continues charging county governments a fee for the privilege of paying our own health insurance premiums. Last year, the fee was over \$575,000 and this year it was estimated to be \$640,000 of county taxpayer money. The good news is that by moving to a self insurance plan, we have virtually eliminated our need to pay this fee.

## **Department of Public Works /Highway Division**

Saving money has become more important than ever. To save money on a large enough scale to truly impact our property taxes, we have to be willing- to honestly examine every county department. As we look at the Public Works Department, and specifically the Highway Division, we also cannot avoid a hard discussion. The fact is, over the years, the Highway Division developed a reputation as a patronage mill. While that may not be fair to the many hardworking members of this division, one of the prime reasons for this reputation is the fact that Ulster County's Highway Division had grown into one of the largest in the entire region.

Although no comparison is perfect, to put this in context, Dutchess County has 103 positions in its highway department and Greene County has 60. Going into 2010, Ulster County had 157. This means that Ulster County had 54 more positions than Dutchess and Ulster County had more than double the number of Greene. For 2011, Ulster County's Highway Division will go down to 131 positions.

We have gotten smaller through attrition, through internal transfers and through retirement incentives. All with the desire to reduce the impact on the existing workforce, while protecting taxpayers. Unfortunately, though we have been effective, these efforts have not brought staffing levels down enough. In this budget there are also some layoffs.

It should be noted that we have spent virtually all of 2010 restructuring the Public Works Department. We replaced previous management personnel with a duo of highly skilled finance and management professionals. This action reduced expenses immediately and allowed us to complete the analysis, which has been so valuable in producing this budget.

I would like to thank the Commissioner Dave Sheeley and his entire staff. It is important to note that the reductions in staffing would have taken place regardless of any shared services initiatives. We have a responsibility to the people of this County to deliver services in the most efficient and cost effective way possible. For 2011 we have saved over \$2.3 million in the Public Works Department alone.

### **Staffing**

The fact remains, county government cannot and must not be the largest employer in Ulster County. The taxpayers simply cannot afford it. To better align the county workforce with the taxpayers' ability to pay, we have steadily reduced staffing levels since I took office. All of this has taken place during a time when the demand for services has actually risen. It is only through the increased productivity of our amazing workforce that we have been able to deliver more services with less people.

The staffing levels included in the 2011 budget are as follows:

- Because of aggressive position management throughout 2010, there were 36 previously funded but vacant positions. These were not re-filled and are now being eliminated.
- 33 employees are expected to participate in the early retirement incentive, and these positions will not be refilled.
- In addition, there are six layoffs. This number would have been much greater except for the active position management that took place throughout 2010.

The total workforce reduction for 2011 is 75 positions.

To put this into context: the total full-time 2009 workforce was 1940, the total full-time 2010 workforce was 1854 and the total full time 2011 workforce will be 1785. This amounts to a total reduction over the past 3 budgets of 155 benefited positions or 8% of the county workforce.

Our new form of government allows for faster decision making and mid-year adjustments. The 2011 payroll is \$3.4 million less than 2010. With the position management we are doing in 2010, we expect to save \$2.9 million, this year alone. What these results definitively prove is that this new form of government costs less than the previous one.

It is my great hope that as we analysis the challenges before us, we can avoid any partisan nonsense. For this reason, I would like to touch on some additional areas: the cost of the Executive staff was budget neutral when the office was first created. This was at the request of the bi-partisan Charter Transition Committee and the result of staffing reductions at the time. Since then, the executive staff has been reduced by over 8% or over \$90,000.

In addition, all 124 non-union managers and 50 attorneys have not and will not receive any pay raises during the entire three years of my term. This applies to 2011 as well. It should also be noted that all reductions in staffing and payroll have occurred in the Executive branch. No other branch of government has been reduced at all.

### **Contract Agencies**

As I said at the beginning, this budget will be different than budgets of the past. We are also doing things a little bit differently with respect to what has previously been referred to as contract agency funding. This is where the county contracts with non-profit organizations, outside the confines of the regular department budgets.

We all know that there are countless, deserving non-profit organizations in Ulster County delivering much needed services. Although county government cannot possibly provide all the funding they require or deserve, I recognize these non-profits often use county funding as a multiplier, to access even more dollars, in order to better serve our community. In recognition of this, I have allocated the identical funding levels as last year to these organizations. The Legislature may alter this, but I believe creating a starting point is a valuable part of the process.

## **Economic Development**

I would like to touch briefly on our funding for economic development. It is my belief that the economic development initiatives we undertake now will be instrumental in reshaping Ulster County's future. There is a danger that during difficult times some will look to eliminate this funding. That would be shortsighted. Although every penny of expenditures must be held to the highest standards of accountability, under-funding economic development efforts could significantly hurt our local economy.

The fact remains that tourism is an over \$400 million part of our economy and by working with industry leaders, the Tourism Department is delivering major results with overwhelmingly positive feedback.

We fully recognize that our county's economy is much more than just tourism. Exciting things are happening at the old IBM site. Tech City, with companies like Precision Flow and Solar Tech Renewables, as well as 26 other companies has over 2000 jobs.

Because of our team approach to economic development, Gillette Creamery has stayed in Ulster County. Along with Amthor International, they have relocated to the Gardiner Business Park. These two moves resulted in over \$7 million in private investment. That is \$7 million in private investment taking place during some of the most difficult times in our county's history. It also means the addition and retention of over 100 jobs between them.

We have held the line on economic development funding in this budget because helping local businesses and creating more jobs is important for all the people of Ulster County. In addition to multi-million dollars deals, sometimes economic development is done on a much smaller scale. For example, helping people like Joe and Toby Gabriello. They had a dream of opening an inn and restaurant in Ulster County. They needed business assistance, plus they were being thwarted by a complex state bureaucracy. Their deal may appear small to some, but it was not small to them. And it is a powerful example of how this new form of government can coordinate services and intercede on behalf of a business. I am proud to say Ulster County government played an important roll in helping the Gabriellos' dream come true. Their restaurant is open and, by the way, the food is fantastic.

I would like to move on to the fiscal areas of sales tax, fund balance and tax levy.

## **Sales Tax**

As we address sales tax, I was pleased to see that the Ulster County Comptroller commissioned a study on sales tax projections. This study showed that we have been conservative with our estimates. Following extensive analysis, we are projecting 2011 sales tax revenues at \$83.5 million, an increase of 2% over the 2010 revised estimates. This is in recognition of serious national economic challenges, and it remains a million dollars less than 2008 levels. This estimate is the same as 2006.

## **Fund Balance**

The fund balance is an area we have worked extremely hard to strengthen. Because of these efforts, while some municipalities have seen their bond ratings plummet, Ulster County's fund balance has remained strong.

As I said earlier, Budget Director Art Smith warned of a \$15 to \$25 million dollar potential budget gap for 2011. To address this, we took immediate action and it paid off. I set forth an aggressive cost saving and cost avoidance program called the "Taxpayer First" initiative. To date, this initiative has been highly effective.

We saved \$6.3 million through attrition, early retirements, and managing overtime expenses. We saved more than \$1 million through the sale of the Certified Home Health Agency (CHHA) license, and by better managing our facilities. We instituted a hybrid prescription drug plan, saving \$750 thousand dollars. And as I said earlier, we saved \$2.1 million in additional health care costs by moving to a modified self insurance program. In total, between 2010 and 2011, we will save \$10.4 million dollars through "Taxpayer First" and related initiatives.

The estimated general fund balance for 2010 is now \$26 million. This did not happen by accident. "Taxpayer First" plus economic development efforts that appear to be impacting sales tax are precisely how a fund balance gets stronger. The general fund balance is stronger and available to help offset property taxes. We have done all of this while maintaining the 5% minimum general fund balance recommended by the New York State Comptroller.

We did exactly what families do with their own budgets when times get tough, they cut back on spending. My administration has put the brakes on spending. Even after huge increases in pension fund contributions, mandates and employee healthcare, overall spending in the 2011 budget is virtually flat. It is up less than 1%.

### **Tax Levy – The Rate for 2011**

As valuable as a strong fund balance is, I believe the most important thing we can do for the families and businesses of Ulster County is to control property taxes. In a time when New York State taxes are up, when school taxes are rising, when the national foreclosure rate is at an all time high, and when Americans everywhere are struggling to put food on their tables, I will not add to their burden by raising county property taxes one cent. This is especially true when there is an alternative. No matter how difficult the decisions in this budget may be, the fact remains that because of sound management and actions taken throughout 2010, the tax increase for 2011 is zero. There is no County property tax increase for 2011.

### **Conclusion**

Though no tax increase is a major relief for property owners, hard questions still remain: what happens when the cuts we have made cannot be recreated again next year? What happens when taxpayers have been pushed past their breaking point? And what happens when our state government refuses to provide either mandate relief or property tax relief?

In times like these, we must rely on our collective ability to overcome obstacles. My administration fully understands this. My door is always open and I invite all elected officials to set aside politics and join me as a partner in delivering solutions. Unprecedented challenges still lie ahead.

We have streamlined operations, cut costs and faced difficult problems head on. Being County Executive is not about doing what is easy, it is about providing leadership, protecting taxpayers and delivering services.

The Ulster County Legislature also plays a critical role in this process. I have great respect for their policy-making responsibilities. I also have great respect for the many responsible Legislators on both sides of the isle, who are trying to get things done. But I must caution Legislative leaders that a failure to act on major policy issues will inevitably have long term negative consequences for our taxpayers.

I call upon all Ulster County Legislators to join me in supporting this budget. It delivers essential services and promotes local businesses without bankrupting our taxpayers. In a time when New Yorkers are facing some of the highest property taxes in our nation, the bottom line is that with this budget, and with bi-partisan cooperation there does not have to be a property tax increase in Ulster County next year!

Thank you. At this point I'm going to have our Budget Director, Art Smith join me. I would like to remind you that this budget will be available online by 5pm today. We will be glad to take your questions.