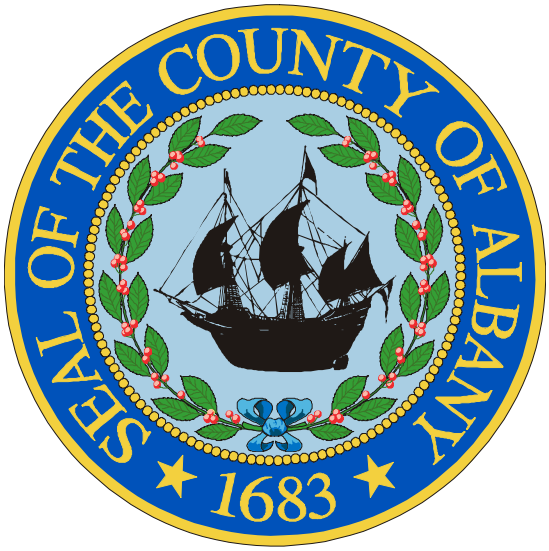

2007
State of the Fisc
The Fiscal Condition of Albany County
2006

Presented by

Albany County Comptroller

Michael F. Conners, II

May 14, 2007

Chairman and members of the County Legislature,

Our Office filed the Annual Financial Report (AFR) electronically on April 30, 2006 with the Office of the State Comptroller. The AFR is filed in accordance with the methodology required by the Comptroller and is based upon Generally Accepted Accounting Principles.
This evening's address will cover the highlights of the financial results for 2006, primarily from the General Fund (A) and the Nursing Home Fund (NH), point out some challenges we face and recommend possible remedies for your consideration.

2006 Summary

The 2006 General Fund expenditures were $394.6 million. This is an increase $10.1 million or 2.6 per cent over last year. The General fund excess of revenues over expenditures was $4.01 million as opposed to $308 thousand last year. Revenue growth exceeded appropriations growth by $3.7 million to make up the lion's share of the positive difference.

The transfer to the Residential Health Care Facilities was $15.1 million for 2006, $2.1 million more than was budgeted.

Growth in sales tax revenue and the Medicaid Cap were the major positive impacts upon the 2006 results. 2006 did not appropriate any Fund Balance. The undesignated fund balance grew by $2.4 million to $30,128,988.00 as of 12/31/06.

OVERALL COMPARISON 2006 VS. 2005					
					INCREASE/
	2005		2006		(DECREASE)
EXCESS OF REVENUE, APPROPRIATION					
OF PRIOR YEAR FUND BALANCE AND					
OTHER SOURCES OVER EXPENDITURES,					
ENCUMBRANCES AND OTHER USES	8,333,484		30,128,988		
APPROPRIATED FUND BALANCE					
IN SUBSEQUENT BUDGET	-		-		
UNDESIGNATED FUND BALANCE	27,750,073		30,128,988		(30,128,988)
PERCENTAGE OF UNDESIGNATED					
FUND BALANCE TO TOTAL REVENUE	7.21%		7.56%		
TO TOTAL 2007 APPROPRIATIONS			7.20%		
REVENUES	384,810,782		398,644,767		(398,644,767)
EXPENDITURES	384,502,192		394,629,076		(394,629,076)
EXCESS OF REVENUES					
OVER EXPENDITURES	308,590		4,015,691		
	ACTUAL		ACTUAL		
	2005		2006		DIFFERENCE
REVENUE	384,810,782		398,644,767		(398,644,767)
APPROPRIATED FUND BALANCE					
EXPENDITURES	384,502,192		394,629,076		(394,629,076)
INCREASE/(DECREASE) IN OVERALL FUND EQUITY	**308,588**		**4,015,691**		

2006 Revenues

The major **positive items** affecting 2006 General Fund revenues were Sales & Use Taxes, Occupancy Taxes, Civic Center, Interest Income and Federal Aid.

Sales & use tax revenues for 2006 were $136.9 million vs. $130.8 million in 2005, by far our largest revenue source. The Occupancy Tax grew to $5.4 million due to the increase in the rate for Civic Center/Convention Center support. Last year's revenue was $3.3 million. Civic Center revenue increased to $1.3 million from $.8 million in 2005. Interest Income grew by $.483 million to $2.6 million in 2006. Federal aid increased by $5.2 million to $62.7 million in 2006.

The items that affected the 2006 **revenues negatively** were Departmental, Intergovernmental and Miscellaneous revenues; State Aid, Tobacco Settlement Revenues and Capital Off Track Betting Corporation.

Department, Intergovernmental and Miscellaneous revenues were down $1.8 million to $47.1 million. This area has declined by $7.3 million from 2004, mainly due to the loss of IGT monies. State Aid decreased $67.2 million in 2006, down from $67.5. Tobacco Settlement Revenues declined again to $5.1 million in 2006. Gray market cigarettes and the growth in non-settlement cigarettes has dropped significantly from the proposed figures of 1998. Off-Track-Betting Corporation revenues declined to $1.57 million in 2006. Our last quarter payment was significantly down from previous years and pressure from other gaming businesses will continue to be problematic.

	REVENUE		
	2005	2006	DIFFERENCE
HIGHLIGHTS:			
SALES TAX	130,819,097	136,997,210	6,178,113
TOBACCO SETTLEMENT	5,223,222	5,129,892	-93,330
INTEREST INCOME	2,129,096	2,612,358	483,262
OTB	1,610,225	1,577,269	-32,956
CIVIC CENTER	806,110	1,336,320	530,210
OCCUPANCY TAX	3,333,308	5,438,906	2,105,598
TOTAL REVENUE:			
TAX ITEMS	209,675,657	219,703,821	10,028,164
DEPARTMENTAL, INTER-GOVERNMENTAL, MISCELLANEOUS	48,980,741	47,151,687	-1,829,054
STATE AID	67,537,878	67,286,134	-251,744
FEDERAL AID	57,487,677	62,740,970	5,253,293
TRANSFERS	1,128,829	1,762,155	633,326

2006 Expenditures

Expenditures for the General Fund grew by $10.1 million to $398.6 million for 2006. The **major declines** in expenditures came from Medicaid, Family Assistance and Retirement. Medicaid expenditures for 2006 declined by $6.77 million to $53.6 million. Family Assistance expenditures decreased by $2.6 million to $25.3 million. Retirement expenditures for 2006 were $12.1 million, a decrease of $.673 million.

Major increases in expenditures came from Personal Services, Health Insurance, Jail and

Safety Net. Personal Services increased by $5.8 million to $120.4 million. Health Insurance expenditures for 2006 were $31.8 million, an increase of $1.9 million. The Jail expenditures for 2006 increased by $1.25 million to $29.8 million. Safety Net expenditures grew by $1 million to $10.2 million for 2006.

EXPENDITURES			
HIGHLIGHTS:	**2005**	**2006**	
PERSONAL SERVICES	114,649,368	120,459,398	5,810,030
MMIS	60,388,357	53,609,936	(6,778,421)
FAMILY ASSISTANCE	27,958,323	25,334,952	(2,623,371)
SAFETY NET	9,182,072	10,231,493	1,049,421
JAIL	28,595,072	29,852,998	1,257,926
RETIREMENT	12,826,189	12,152,662	(673,527)
HEALTH INSURANCE	29,929,143	31,866,503	1,937,360
TRANSFER RESIDENTIAL HEALTH CARE	17,268,547	15,102,675	(2,165,872)
TOTAL EXPENDITURES:			
GENERAL GOVERNMENT	32,616,291	35,322,946	2,706,655
EDUCATION	18,194,351	20,218,041	2,023,690
PUBLIC SAFETY	48,247,529	50,212,282	1,964,753
HEALTH	30,933,451	31,412,669	479,218
TRANSPORTATION	1,216,076	1,186,128	(29,948)
ECONOMIC ASSISTANCE &	173,377,250	169,598,003	(3,779,247)
CULTURE & RECREATION	1,699,570	1,697,646	(1,924)
HOME & COMMUNITY SVC	1,890,661	2,054,634	163,973
EMPLOYEE BENEFITS	35,910,953	38,297,590	2,386,637
TRANSFERS	40,416,060	44,629,138	4,213,078

Challenges

The Nursing Homes and poverty rates continue to be the most significant operational challenges facing the County.

The decision to build a new nursing home has been discussed for several years and the primary focus needs to be on the quality of care. Cumulative operating losses since 2001 have totaled almost $72 million and yet we have had numerous Immediate Jeopardy findings and have been listed on several watch lists. The County needs **immediate capital investment to improve the Residential Health Care Facilities** while awaiting progress on the new facility. I am glad to hear the Majority Leader's proposal for a Green Nursing Home.

The **rate of growth of poverty** within the County continues to be a serious structural problem for attaining economic growth. We need to begin a serious effort to build economic opportunity for the poor. If we do not act soon, the demographic problems of poverty will become irreversible.

The 2010 Census will be a tipping point and consideration of a task force to study the economic challenges the County faces and the impact of our sales tax distribution formula on the Cities, Towns and Villages will avoid the difficulties created by a lack of communication after the 2000 Census.

A new accounting requirement **(Government Accounting Standards Board Statement-GASB 45 - Other Post Employee Benefits) f**or state and local governments requires that we recognize the unfunded actuarial accrued liabilities for past service costs for employee health insurance, prescription coverage, dental and vision benefits. The purpose of this is so that our financials will recognize the promised future benefit payments and accurately reflect our costs and obligations. The Statement does not require immediate recognition of the entire liability or for its' funding. However it does require the disclosure of whether or not to the liability is funded.

The County adopted a $1 million appropriation this year as a first step, and we will be providing information during the budget cycle about the potential liability after we have received the Actuarial Report.

Simply put, GASB 45 will allow us to recognize the costs of promised benefits in the future and sharpen the discussion on future costs for retirees. We have an obligation to our employees and retirees to recognize and fund these potential costs. A fair and compassionate plan needs to be developed. This will have a significant impact on our financial position and policy implications must be discussed.

The Medicaid Intercept Option came with the passage of the Medicaid Cap Legislation and provides a one time option for Counties to trade a portion of the sales tax revenue for the local share of Medicaid. The decision is a non-revocable decision that needs to be made this summer. We will be providing information for the Legislature and strongly recommend this be discussed with our local government partners. There is a dispute about terminology in the Legislation and the regulatory memos. NYSAC presented an excellent seminar at their County Finance School and we will forward the presentation electronically due to its size.

Local government tax burden continues to be problem for New York State and particularly in Albany County. Governor Spitzer created a **Commission on Local Government Efficiency and Competitiveness** to address the issues of local government merger, consolidation, regionalized government, shared services and smart growth. The Governor has emphasized, this will be a collaborative venture with local officials. The Commission has sent two emails requesting Local Initiatives for consideration that are underway or can be initiated this year. The second email (Attachment A) asks if Counties have yet convened meetings to discuss this with Local Governments. This represents a tremendous opportunity for the County to bring together our local governments, authorities, school districts, fire companies and districts and other special taxing districts to identify ways we can cooperate to reduce the tax burden for our mutual taxpayers.

In 2004, our office suggested ideas for consideration, including alternative sources of power and County wide Power Authority. Sandy Gordon has revised this concept with a renewable energy authority/compact that holds tremendous potential for us and our neighbors. Hopefully the County will be convening a meeting with all affected localities to discuss the Governor's call for initiatives.

Gasoline and diesel fuel prices have had an effect on our sales tax revenues. When charting the decline in our rate of growth of sales tax revenues, the explosive increase of gas prices corre-

lates to the decrease in our rate of growth. The jump from $1.49 in 2003 to today's average of over $3.00 per gallon represents $231 million dollars per year taken from disposable spending in our County. The cumulative effect of high gas prices will have enormous impact on our economy.

Remedies for Consideration

Timing is everything in the cycle of an idea. Our biggest challenges represent some unique opportunities to work together and bring costs down. We were the first county government to complete a Management and Productivity Survey utilizing the ideas of our employees and standards for performance benchmarks, now a staple of effective government best practices. Working together to share staff and resources, we can utilize the power of cooperatives and bring costs growth under control…if we work together. Cities, Towns, Villages, School Districts, special taxing districts and the County have the potential to reduce the rate of growth of taxes.

Top flight management for the Health Care Facilities is needed. I pray that the third time is the charm because we have failed woefully in this arena. We need to bring back the culture and quality of care we had when Bob Lynch ran the facilities. The past two administrations have not produced the results our residents and staff deserve. If this doesn't improve dramatically, we need to evaluate a different model. The management model for the sewer district seems to work; maybe that type of independence is needed for the Health Care Facilities to regain their former excellence.

Cellulosic ethanol represents a tremendous opportunity for our state. Minnesota enacted a 10% alcohol/ethanol mandate over 11 years ago and reduced their costs for gasoline while spurring growth in their agricultural sector. We should push our State Legislators to move more quickly on renewable energy opportunities. Again, our County is uniquely situated to be a producer of renewable energy products and bring costs down for the consumer and governments.

We have made several suggestions in past State of the Fisc presentations that are worth repeating. I have recommended these initiatives in 2004 and feel that the time is ripe for exploring these areas:

Create a Regional Intergovernmental Corps. - to explore potential cost savings, staff sharing and efforts to maximize revenues will reduce expenditures.

Adopt an Early Retirement/Return Part-time to Work Program - for the County generating at least $1.5 million in savings while adding new full time positions.

Seek regional support for an amendment of the NYS Retirement & Social Security Law - to allow all State, Local and Educational governmental entities the opportunity to do the same. Work with the NYS Comptroller to investigate the possibility of an additional retirement option that allows for the credit for the additional years served being added to the calculations in an appropriate number of years after the final retirement of the employee.

In closing, thank you for your patience in allowing me to present this financial information to you tonight. We will have this information on our page on the County's website in the near future.

God Bless you, God Bless Albany County and God Bless the United States of America.

Michael F. Conners, II
Albany County Comptroller

Attachments

NYS Commission on Local Government Efficiency & Competitiveness

Two weeks ago the Governor sent a letter to local government leaders asking them to identify initiatives they would like to advance in 2007 related to local government merger, consolidation, regionalized government, shared services and smart growth. The initiatives are to be identified at the county level, through a collaborative process with all local government leaders, and then forwarded to the Commission on Local Government Efficiency and Competitiveness. The Commission, working with an Interagency Task Force, will review these initiatives and provide any and all assistance necessary to help bring them to fruition.

County leaders are asked to coordinate the process and forward initiatives to the Commission, and at least one initiative is expected from each county. Significant proposals are being sought through this process, but also actions that can be initiated this year. While there may be many such initiatives within each county, you should choose those that are the most significant, substantial or innovative, and which would most benefit from help from the State. To assist in this process, we have prepared a FAQ (frequently asked questions) document, which is being sent as a separate e-mail.

County executives, or county legislative chairs, are responsible for coordinating the identification of one or more proposals on behalf of communities within each county, and the proposals are due to the Commission by June 15, 2007. We recognize that this is an expedited schedule. However, we also know that many county level discussions have already taken place. Many county leaders are now convening new meetings to discuss the Governor's call for initiatives. Commission staff will be reaching out over the next several weeks to inquire on the process being followed in your county. A return e-mail to this address is another way to reach us. In particular, we would like to know if you have begun to coordinate a response from local leaders, or if your submission will be based on previous discussions.

Commission staff can assist you or answer your questions, so please do not hesitate to contact us. The FAQ document sent in a separate e-mail is also available on the Commission's website (www.nyslocalgov.org) where many other resources to help you in this task are also available.

The "Local Initiatives" tab will take you to the FAQ document (which may be updated as we receive additional questions) and a number of other resources are available through the "resources" tab (for example, reports on shared services). We look forward to hearing from you.

John Clarkson
Executive Director

Local Initiatives
Answers to Frequently Asked Questions (FAQs)

Background

The Commission on Local Government Efficiency and Competitiveness was established by the Governor to address the issues of local government merger, consolidation, regionalized government, shared services and smart growth. As the Governor has emphasized, this will be a collaborative venture with local officials.

On the day of the Commission's announcement, a letter was sent to local government officials across the State, asking them to identify initiatives in these areas that are either already underway or that can be initiated this year. As these initiatives are identified, the State will provide assistance and support, and a special Interagency Task Force has been established to support these local initiatives.

The Governor's approach challenges local governments and state agencies alike to launch and support new initiatives while the Commission deliberates. By providing this assistance for specific local initiatives, we can learn how effective – or not – various state programs are, and what state laws need to be altered to facilitate these types of initiatives. We'll also learn where we need to put additional state resources, both human and financial, to help create a more efficient and competitive local government system.

The following FAQs provide guidance for local officials on how to answer the Governor's call for initiatives, made in his April 23, 2007 letter.

Who should submit proposals?

While all local government leaders should participate in the task of identifying initiatives, we are asking county leaders to coordinate this task and to send forward the proposed initiatives. This should include a discussion among town, village, city, and school district leaders of which significant proposals can be launched this year. In many counties, this discussion is already taking place, or has taken place. Where it has not, we are asking county leaders to facilitate such a discussion and to subsequently transmit the identified initiatives to the Commission.

While we are asking county executives or county legislative chairs to coordinate the identification of initiatives, and to send them to the Commission, it is possible that there could be some good ideas that county leadership may not support. While we would prefer that local leaders collectively agree on which initiatives to forward, we also want to provide an avenue for communication in the event that there is disagreement. In such a case, we invite one local mayor, supervisor, or superintendent to submit a proposal on behalf of the cadre of local governments proposing a specific initiative. However, part of the review process will be to determine which initiatives have a good chance of success, and an initiative which requires county participation, but that is not supported by the county leadership, would probably not be accepted.

What kind of initiatives should be submitted?

We are looking for big ideas – significant proposals that in most cases will go beyond

implementation by a single inter-municipal agreement among two governments. Naturally, there may be exceptions to this "rule of two" – for example the consolidation of a major service between a county government and its central city. We want you to challenge the State, as well as yourselves, with your proposals. Big ideas would certainly include things such as merger of highway departments, the consolidation of two towns, or the dissolution of a village. It could also include something like a smart growth plan that does not come naturally in New York State, such as a regional approach to affordable housing or a multi-municipal transfer of development rights program. Our message to you is to be creative, aggressive, and to try to push the envelope. You should not hesitate to take on a difficult or far-reaching project.

How many initiatives can we submit? [Added 5/1/07]

While we're asking for at least one initiative from each county, we don't want you to think that you can *only* submit one. If you have more than one proposal that you feel can be significantly advanced through a combination of local commitment and state assistance in 2007, please submit them all. However, if the proposals need some time to mature at the local level, don't feel that you have to rush them to us in order to get help. Giving yourselves some time to identify the issues and build local support may be of benefit to you in the ultimate success of your proposal. In the meantime, state staff will be gaining experience and developing additional tools and techniques they can apply to your proposal at a later date.

Will every proposal get special assistance?

Possibly. It will depend on the evaluation of the proposal by the Interagency Task Force, as well as in how responsive local officials are overall to the Governor's call for proposals. With a large volume of proposals, we may have to defer on assistance for some. However, in every county at least one proposal will receive assistance, provided it is accepted by the Commission and the Interagency Task Force.

What proposals will get selected?

The Commission staff, with the help of the Interagency Task Force, will select the proposals that are most substantial, innovative and hold the greatest promise for improving the efficiency and effectiveness of local government. We'll also look for proposals that are representative of the many issues the Commission will be studying in order to gain more complete knowledge of how well state programs work. For example, while there are already programs to help localities move to a countywide consolidated assessment program, we may be able to help identify problems and overcome barriers, paving the way for more consolidation activity.

What is the Interagency Task Force?

We have identified seven agencies most likely to be involved in the proposals that are submitted to the Commission staff. These agencies contain a great deal of local government expertise already, and will be able to institutionalize the lessons learned from this process. The Interagency Task Force will be made up of representatives from the Department of State, Empire State Development, the Office of Real Property Services, the Governor's Office of Regulatory Reform, the Division of the Budget, the State Education Department, and the State Comptroller's Office.

What kind of assistance will be provided?

Agency and Commission staff will serve as consultants for your projects, providing legal and

logistical advice. Where technical services beyond their expertise are needed, they will help you identify knowledgeable experts. If you need someone to facilitate discussions at the local level or mediate differences of opinion, we can help. We will work to identify any and all services that may help. In short, our offer of assistance is open-ended.

Will direct financial assistance be provided?

We can provide help in identifying any financial support available, under programs such as the Shared Municipal Services Incentive grant program. However, selection for assistance by the Interagency Task Force is not a promise of funding. All established grant criteria and rules will apply.

What resources are available to help us evaluate potential initiatives?

A variety of resource documents are identified on the Commission website (www.nyslocalgov.org) under the heading "Resources" including a number of examples and self-help guides under shared services. There are also many examples of initiatives that have successfully been pursued elsewhere.

When and where should the proposals be submitted?

Proposed initiatives are to be submitted by June 15th, 2007. While proposals submitted after that date may be considered, we cannot guarantee it. We would like you to take the open offer of assistance from the State as an incentive and capitalize on the opportunity it presents.

Please transmit your proposal by e-mail (preferred – to localgov@empire.state.ny.us) or mail it to Commission office (30 South Pearl St., Albany, NY 12245). We will verify receipt of your proposal.

Is there a format for the submission?

Rather than imposing a specific format for the submission, we suggest that you provide a description of the project you wish to pursue, goals you hope to achieve, the municipalities which will be involved, and any problems you may anticipate. Please keep in mind that though your proposal need not take on the formality of a grant application, it will be helpful if you provide a clear and complete picture of what you would like to accomplish.

What if I have additional questions?

You may submit additional questions directly to the Commission staff by e-mail (localgov@empire.state.ny.us), by telephone (518-292-5139) or by mail (30 South Pearl Street Albany, NY 12245).