

MADISON COUNTY BUDGET OFFICER
CINDY J. EDICK

PO BOX 665 • WAMPSVILLE, NY • 13163
PHONE 315-366-2371 • FAX 315-366-2708



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Honorable Members of the Madison County Board of Supervisors:

I am pleased to present you with the Madison County 2021 Tentative Budget.

This budget provides for an increase in the tax levy of \$1,980,328, or 4.99%. If adopted, the composite tax rate on full value will increase by about 33 cents per \$1,000 of taxable value. On average, for a property valued at \$100,000, the increase in County taxes would amount to \$33 in 2021. The actual rates will vary by municipality, mainly due to the equalization rates assigned by New York State to each locality. The rate for the Village of Wampsville will be noticeably greater because they have elected to begin receiving their sales tax distributions in cash effective next year, as opposed to using sales tax to reduce the County tax rates in the village.

The proposed increase in the tax levy is greater than any that have been adopted since 2015. The driving reason for the increase in 2021 is unprecedented cuts in State Aid. During 2020, the County has already incurred some delays and reductions in State Aid. Although the exact amount of cuts in 2021 is unknown, we have been advised to expect reductions of at least 20% in most areas.

I have estimated that a State Aid reduction of 20% will amount to approximately \$2,000,000 in 2021. This estimate assumes certain categories of aid, such as public health and indigent legal services, will not be reduced. It also factors in State Aid that is not retained by the County, but rather passed-through to other agencies, such as certain mental health and youth affiliations.

State Aid estimates in the 2021 Tentative Budget have been budgeted at 100%, with the exception of the Consolidated Highway Improvement Program, commonly referred to as CHIPS. The Highway Department was able to reduce paving, in-place recycling and equipment expense to offset a 20% reduction in revenue from CHIPS. Most other departments, such as the Department of Social Services, are unable to reduce mandated services to mitigate cuts in aid.

In order to show the anticipated cuts in State Aid directly in the budget, we would have to "guess" at which categories will be subject to the cuts and by what percentages, spanning nearly 70 different account numbers across numerous departments. Rather than taking this approach, the Tentative Budget assumes that fund balance in the General Fund will be used to buffer against these cuts as they occur.

In 2020, the County appropriated fund balance in the amount of \$6,719,517. This amount has been reduced by \$2,914,588, to \$3,804,929, in the 2021 Tentative Budget. Reducing the amount of fund balance being appropriated in 2021 provides at least some much-needed flexibility to address the State Aid reductions next year.

The condition of the County's fund balance in the General Fund has been favorable for the past several years. In fact, it was only a few years ago that the County deliberately appropriated additional fund balance due to concerns that it would exceed the maximum threshold outlined in the County's Fund Balance Policy for the General Fund. The Policy provides for unexpended surplus funds to be between 5-15% of the next year's total appropriations.

This positive fund balance outlook has quickly turned to concern, as negative impacts from the pandemic are taking a toll on the County's finances this year. Revenue losses combined with unplanned expenditures to address the pandemic are sure to result in a greater-than-expected use of fund balance in 2020. If the Department of Social Services suffers a 20% reduction in State Aid this year, those losses alone amount to over \$1.1 million.

The County has been working toward reducing the appropriation of fund balance in 2020 for several months. Departments made mid-year cuts to their budgets, producing savings from not filling vacant positions, defunding planned projects, and reducing appropriations for travel and training. Funding for the not-for-profit agencies was also reduced by 20%. New revenue is being received as a result of the new Traffic Diversion Program administered by the District Attorney's Office.

The County received additional host community benefit (casino) revenue of \$750,000 this year. Of this, the County will retain \$562,500, with the remainder being allocated to the city, towns and villages. This revenue is typically allocated for non-recurring projects or equipment, since there is no guarantee the County will continue to receive this funding. However, due to current financial concerns, none of this additional revenue is being allocated for spending. In some years the County has removed selected appropriations for non-recurring projects or equipment from the budget and later funded them with host community benefit revenue. That is not the case this year, as it is expected that any such revenue will be needed to boost fund balance.

It is possible, although seemingly unlikely, that State and local governments will receive the Federal stimulus we've been requesting for the past several months. If this funding does become available, and the expected State Aid reductions are diminished, then the planned use of less fund balance in the 2021 Tentative Budget will help to improve the condition of the County's unexpended surplus funds.

As you know, the County has been monitoring sales tax revenue very closely over the past several months. To say that sales tax has been volatile this year would be an understatement, as it ranged from being down 45% in May to being up 34% in October! If the next three months of sales tax distributions are similar to 2019, then gross sales tax revenue will exceed the \$30 million budgeted in 2020 by nearly 2%.

While this comes as a relief after months of worrying, these results are still not as good as anticipated while preparing this year's 2020 Budget. Toward the end of 2019, we learned that sales tax would finally start being collected from remote sellers as a result of New York State enforcing the Wayfair Decision. This was expected to generate considerable, additional sales tax revenue, mainly from internet sales. Given the County's historically conservative approach to budgeting sales tax revenue, there was a decision not to increase 2020 budgeted sales tax revenue any further. However, there was the expectation that actual sales tax revenue would have been greater than we've recorded to date.

Continuing the conservative approach to budgeting sales tax revenue, the 2021 Tentative Budget contains gross sales tax revenue of \$29 million, a decrease of \$1 million compared to this year. The net impact of this decrease is somewhat less, at \$707,543, due to the County's sales tax sharing arrangement with the towns and villages. 2020 has shown just how volatile sales tax revenue can be, and there are still many uncertainties about how the pandemic and this year's election will impact our local economy as we head into 2021.

In 2019, New York State began withholding funds from sales tax revenue the County is entitled to receive. This practice began with the State withholding the County's sales tax revenue to fund Aid and Incentives for Municipalities (AIM) payments to certain towns and villages within the County. Beginning in 2021, the State will be withholding even more of the County's sales tax revenue to fund the Fiscally Distressed Hospital & Nursing Home Pool. Reluctantly, the Tentative Budget reflects \$355,871 for AIM and \$179,258 for the Fiscally Distressed Hospital & Nursing Home Pool. This practice of diverting the County's sales tax for State purposes is maddening, since State mandates already account for nearly all of the real property tax levy, even before factoring in the new State Aid cuts, and now they are taking away from the County's ability to raise revenue from a source other than real property taxes.

The County implemented a hiring freeze at the beginning of the pandemic, which is still in effect. This has resulted in a number of position vacancies, many of which are not being funded in the 2021 Tentative Budget. In all, there are 20 full-time positions and 1 part time position that will not be filled next year. In addition, there are 2 positions that have been downgraded, and 2 others that have been changed from full-time to part-time. All of these measures have been taken because of the strains on the County budget, and will result in savings of roughly \$1.3 million. Fortunately, there are no lay-offs contemplated in the budget.

Departments have cut other areas of their budgets as well. Many departments provide mandated services and some receive aid reimbursement, making them more difficult to cut and achieve substantial net savings. The Highway Department and the Sheriff's Office are often subject to the largest cuts because not all of these services are mandated and they receive less aid than some other departments.

In the 2021 Tentative Budget, the Highway Department reduced appropriations by \$1,989,086. This was only possible by not funding six positions, requesting hardly any new equipment, and reducing road, bridge and culvert projects. Unfortunately the net savings is considerably less, at \$612,602. This is primarily due to the 20% State Aid reduction of \$768,984 for CHIPS, and a \$364,000 reduction in the amount of capital equipment reserve being appropriated in the budget.

The Sheriff's Office reduced appropriations in the 2021 Tentative Budget by \$648,426. These reductions were largely achieved by not funding five positions in the correctional facility and one position in the road patrol. The County budget will further benefit from the sale of multiple vehicles previously utilized by the road patrol.

Initially I reported to you that if the County did not have to factor in State Aid cuts or a decrease in the use of fund balance in the 2021 Budget, the increase in the levy would have been 0.7%. More recently that had been updated to be a flat 0.00% increase. Since then, there have been decreases in health insurance expense, liability insurance expense, and the Department of Social Services. As a result, if we did not have to plan for State Aid reductions of at least \$2 million, and were able to appropriate the same amount of fund balance as 2020, then the tax levy would have actually decreased by 2.3%.

The tax levy limit, as imposed by New York State, allows for an increase in the County-wide levy of \$710,683, or 1.8%. The increase proposed in the Tentative Budget exceeds this limit by \$1,269,645, or 3.2%. You have already authorized a local law to override the tax cap at your August 11, 2020 Board meeting, so no further action is necessary.

Counties are required to adopt budgets that comply with their tax levy limits in order to be eligible for State Aid reimbursement for "Raise the Age" expenditures. Raise the Age refers to a law that was enacted in the 2017-18 New York State Budget to raise the age of criminal responsibility from 16 to 18. The main objective of this legislation is to provide children and families the services they need to keep adolescent offenders out of the justice system, while maintaining public safety in the community. By overriding the tax cap, the County will become ineligible to receive State Aid reimbursement for Raise the Age expenditures in 2021. The County has not incurred any such expenditures since implementation of this new law. Therefore, the 2021 tentative budget does not include any State Aid or appropriations for Raise the Age. If the County does incur these expenditures next year, it would not be eligible to receive State Aid reimbursement unless the State approved a financial hardship waiver.

Much of this budget message addresses the negatives, as it is important for you to know the main factors causing the tax levy increase and highlight some of the measures that have been taken to lessen the increase. However, there are certainly positive aspects of the Tentative Budget. The 2021 spending plan of \$120,628,978 provides for mandated services, as well as other services valued by our taxpayers and residents. Even with the departments' cuts, the County is continuing to fund: public safety services, highway services, social services, health services, planning services, veterans' services, election services, department of motor vehicle services, youth bureau and other services.

I would like to thank Chairwoman Yvonne Nirelli and the entire Finance, Ways and Means Committee for their support and participation during the budget development process. The Committee has been very engaged not only in the process, but also the details, as was evident by their attendance at the budget hearings, willingness to hold special meetings, and eagerness to ask questions and obtain information.

I would also like to thank the department heads for all of their efforts to reduce appropriations in their departments. They have been very understanding of the County's financial situation and offered solutions that have been incorporated into the Tentative Budget. Thank you to County Administrator and Deputy Budget Officer Mark Scimone, who has continued to be of great assistance in developing the annual budgets. His perspective and support is much appreciated. And thank you to Deputy Treasurer Becky Marsala, who never hesitates to step up and help out in the Treasurer's Office while I'm consumed with budget-related duties.

Please let me know if you have any questions or comments during your review of the Tentative Budget. The public hearing is scheduled for next Thursday, November 12, beginning at 10:05 a.m.

Respectfully submitted,



Cindy J. Edick
Budget Officer