Blue Ribbon Commission on Monroe County Finances

Report to the Monroe County Legislature

November 2002

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November 11, 2002

Dennis A. Pelletier
President
Monroe County Legislature
County Office Building
39 West Main Street
Rochester, New York 14614

Dear President Pelletier:

Please find enclosed the Report of the Blue Ribbon Commission on Monroe County Finances.

We are available to meet with the members of the Legislature to discuss our Report in any manner that they might find it useful.

We appreciate the opportunity to serve on this Commission and hope that our efforts will be helpful to the Legislature as it deals with the difficult financial issues confronting Monroe County.

Sincerely,

Thomas S. Richards
Chairman
Blue Ribbon Commission

Enclosure

cc w/encl:
Jack Doyle, Country Executive

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INTRODUCTION

The Blue Ribbon Commission on Monroe County Finances was created by the Monroe County Legislature on September 10, 2002 “to examine and report on Monroe County’s current and projected fiscal status.” Ann L. Burr, Charles I. Plosser, and Kenneth D. Bell were appointed members and Thomas S. Richards was appointed Chairman of the Commission. On September 18, 2002 Domingo Garcia was appointed as an ex-officio member of the Commission. Despite the nature of his appointment, Mr. Garcia has participated as a full member of the Commission. Copies of the resolutions and related correspondence are included in the appendices.

The creation of the Commission and the appointment of its members have been accompanied by partisan disputes within the Legislature. Public controversy has also arisen over specific reductions in County expenditures proposed to meet the anticipated deficits in 2002 and 2003, which the Commission has not been created to resolve. All of this has resulted in some conflicting expectations for the Commission that are not incorporated in the resolutions adopted by the Legislature.

As we began our work, we developed a Charter and Rules of Engagement in order to make clear our understanding of our authorized task in light of the conflicting expectations and minimal detail in the Legislature’s resolutions. These documents are appendices.

We did not view our task as including, nor did we have the time to conduct, a review or audit of the detail in the budget and expenditure reports. With that understanding, we reviewed the financial reports, budget preparation and assumptions that have led to the anticipated deficits. We did not find a basis to seriously dispute the range of deficits projected by the County administration. The multi-year trends, audited reports for prior years and circumstances of counties across the State all indicate that serious deficits exist and we know of no serious challenge to this conclusion. Rather than focus on the details of the deficit amount, which will change over time as the assumptions vary, we devoted our time to understanding the causes of the deficit and developing proposals for dealing with those causes.

We are convinced that attempting to address the County’s financial difficulties by determining fault and assigning blame is too simplistic an approach and is unlikely to contribute to a solution. We investigated past events and trends in order to determine and understand the causes of the current difficulties, but not to assign fault. Our conclusions are statements of our understanding of the current facts and our recommendations are forward looking. Neither attempt to assign blame to individuals or branches of government.

While it takes work to understand the County’s financial status, we did not find any significant accounting failures or attempts to hide the underlying facts. The County’s current difficulties have been building for the better part of a decade through several local and state administrations and legislatures. The state mandates that burden the County have been created and endorsed by several governors and branches of the legislature controlled by both major parties. All of this has occurred in a period of more than a decade when our local economy has not kept pace with national trends and those in some other parts of the state. This is truly a bi-partisan problem.

The results of our work will not make the problems created by the deficits go away or avoid the need to make difficult decisions. It will not satisfy the expectations of some for blame or vindication. The responsibility for raising and allocating funds remains with the administration and legislature. However, we believe that it is useful to address the deficits from a position of a non-partisan, objective and common understanding of the causes. Without that common basis on which to proceed, it is unlikely that the problems will be truly solved and the situation may worsen.

In order to deal with the immediate problems, the County will be forced to take some actions that may have only short-run impacts. We have made some suggestions for a process to address these immediate actions. However, we have tried to focus on approaches for meeting the deficit challenges that do more than mitigate the immediate crisis and which come to grips with the structural problems embedded in the County's financial status. This is difficult for the administration and legislature to do in the midst of the emotional and partisan pressure that surrounds the current budget debate.

One of the conclusions that we have reached is that the County's financial circumstances are complicated and that it requires effort to acquire the knowledge necessary to make a useful contribution to the debate. To further understanding of the County's financial status we have included in our report a description of the principal elements of the County's revenue and expense, and selected historical and comparative trends. These data provide a context to help citizens understand our conclusions and recommendations.

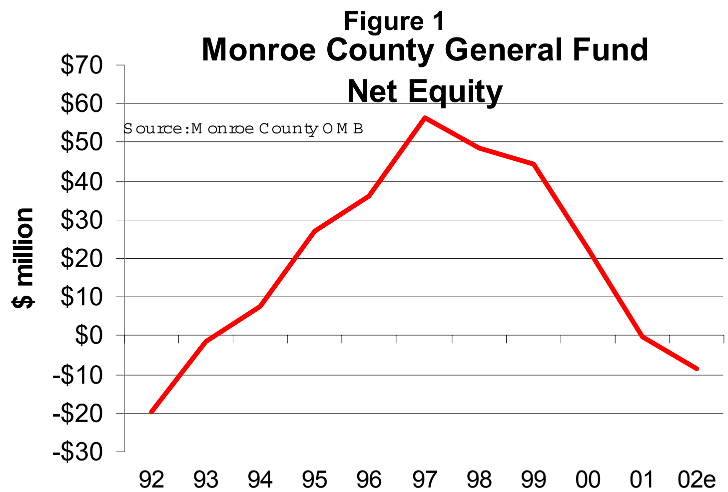
We want to express our appreciation to all of the individuals who assisted the Commission. They are identified in the appendices as is the material we reviewed. Of particular significance is the assistance we received from the County finance staff. We were provided with all of the information requested and willing assistance in understanding that information. Completing our task was made possible by the able assistance of CGR (Center for Governmental Research Inc.) in the person of Kent Gardner.

The legislature and administration will have to act on the 2003 Budget without the benefit of having implemented most of the suggestions contained in this Report. However, regardless of which of the proposals under consideration are adopted, the balance achieved in the budget will be precarious and at risk of not lasting through the year. The continuing financial difficulties of the County will need to be addressed as soon as the budget is passed. Substantial opportunity remains for debate about policy issues and the details of the budget.

However, we hope that we have informed that debate and improved the likelihood of an outcome that honestly and usefully addresses the County's financial status in the interests of all of its citizens.

FACTUAL EXAMINATION

The County started the 1990s with a deficit and a Blue Ribbon Commission to address the problem—and is ending the decade in the same position. Many of the reasons for the earlier deficit, such as increasing social welfare costs, are still with us, but there are additional factors. The size of the problem has grown and the list of possible solutions has become shorter.



The increase in the sales tax that occurred after the 1992 Blue Ribbon Commission and an improving economy produced budget surpluses that grew until 1997. This trend is illustrated in Figure 1 (General Fund Net Equity is the accumulated difference between revenue and expenditure). Thereafter, expenditures exceeded revenues and the accumulated surplus was eliminated by 2001. For most of the analysis that follows we have compared 1997, the last year that generated a surplus, with 2001, the last year with complete audited financial statements. To the extent that the trends are projected to change in 2002 or 2003, they are discussed in the narrative or the sections dealing with those years.

Major sources of General Fund[1] revenue to Monroe County include the property and sales taxes (46%) plus state and federal aid (44%). Tax revenue varies according to the rate of taxation established by the County (within guidelines established by state law) and economic conditions. State and federal aid is dedicated to specific programs either mandated or encouraged by higher levels of government and varies according to the level of program activity.

County expenditure from the General Fund is concentrated in social services (70%) and public safety (18%). The level of expenditure is determined by a combination of state and federal requirements, local need and county discretion. Particularly in social services, the

[1] The General Fund represents all of the County revenues and expenditures except the enterprise funds such as the Community Hospital and is generally the relevant Fund for this report.

level of spending triggers revenue—state and federal aid—that partly offsets the increase in cost. The distinction between gross expenditure and net county cost is important as it is the net county cost that is paid directly by the County and impacts other portions of the budget.

This section will describe sources of revenue and general categories of expenditure for Monroe and comparable counties within New York State. The comparable counties are Erie, Onondaga, Albany, Westchester, Nassau and Suffolk.

County Revenue: Sources & Trends

This portion of the Commission Report describes major sources of County revenue and

Table 1: Monroe County Revenue Trends 1997-2001 ($m)

Source: Monroe County CAFR	1997	2001	Change	% Change
TOTAL*	$721.6	$750.5	$28.9	4%
Real Property Tax	$241.8	$237.4	($4.4)	-2%
Sales Tax	$116.4	$110.3	($6.1)	-5%
Federal Aid	$146.1	$116.8	($29.3)	-20%
State Aid*	$145.4	$214.4	$69.1	48%
Use of money & property	$11.8	$7.2	($4.6)	-39%
Tobacco settlement residual	n/a	$2.0	$2.0	n/a
Other	$60.1	$62.4	$2.2	4%

***Note: 1997 state aid varies from CAFR as $6.2m in aid earmarked for 1998 was originally booked to 1997. This sum has been subtracted from 1997 in this table and subsequent analyses.**

factors determining revenue trends as described in Table 1. The Commission uses Monroe County's audited Comprehensive Annual Financial Report (CAFR) plus supplemental breakdowns of individual categories (obtained from the County's Budget and Controller's offices) as a reference. Monroe County collected a total of $750.5m in General Fund revenue in 2001. Monroe's principal sources of internally generated revenue were the property tax (32% of total revenue in 2001) and the sales tax (15%). The two main external sources were state aid (29%) and federal aid (16%).

The Office of the State Comptroller (OSC) tracks county revenue and expenditures for all counties in New York State. Table 2 places Monroe County's budget in the context of the budgets of comparable counties within the State. This table reports revenue to ***all funds***, not just the General Fund and so is different than Table 1.

Much of Monroe County's revenue is not available to the County for its own discretionary use. Tax revenue is often either constrained by constitutional limits or by sharing

Table 2: All Funds Revenue to Monroe & Comparable NYS Counties*

Office of the NY State Comptroller, 2000

	Monroe	*Erie*	*Onondoga*	*Albany*	*Westchester*	*Nassau*	*Suffolk*
Total revenues	***$1,114,068,076***	***$1,391,145,795***	***$633,104,496***	***$397,343,721***	***$1,360,625,741***	***$2,206,237,000***	***$1,903,774,056***
Taxes (county share):							
Property tax	208,763,635**	174,447,967	121,402,478	35,427,886	462,448,080	640,061,000	385,084,022
Sales tax	113,670,482	238,050,332	69,957,333	116,931,614	256,285,754	760,832,000	761,694,550
Other sources:							
State Aid	*204,919,258*	*160,388,517*	*103,865,295*	*58,476,487*	*254,755,489*	*268,463,000*	*251,600,167*
Public Health	42,884,235	33,087,528	21,914,316	10,044,362	55,340,610	72,266,000	42,933,735
Transportation	6,393,532	6,166,386	4,191,534	1,932,658	36,602,239	0	13,486,163
Social	133,175,118	63,136,733	51,850,478	35,435,051	114,420,804	74,404,000	93,218,462
Other	22,466,373	57,997,870	25,908,967	11,064,416	48,391,836	121,793,000	101,961,807
Federal Aid	*134,619,810*	*158,351,281*	*89,354,408*	*60,674,452*	*158,765,052*	*141,156,000*	*172,209,250*
Public Health	3,036,237	0	5,750,978	4,826,440	13,576,306	10,999,000	8,582,327
Social	117,073,342	128,015,055	64,068,460	52,514,263	118,501,171	93,521,000	111,863,787
Other	14,510,231	30,336,226	19,534,970	3,333,749	26,687,575	36,636,000	51,763,136
Other	*15,951,870*	*15,642,063*	*27,205,682*	*12,624,455*	*20,582,478*	*2,265,000*	*10,599,901*

** Data released by the Office of the State Comptroller consolidates all funds. For Monroe County this includes enterprise funds (funding Monroe Community Hospital, the airport, the County's solid waste facilities, etc.) plus debt service funds and various others. For the sake of simplicity, most of the Commission's analysis addresses the General Fund; references to other funds are limited to instances in which these funds impinge on the General Fund in a significant way.*

*** Different accounting treatment of property tax revenue is responsible for the difference between 2000 property tax revenue reported elsewhere ($237m) and the figure reported by the Comptroller.*

Source: Office of the New York State Comptroller

arrangements with local governments. State and federal aid are most commonly tied to programs over which the County has little or no control.

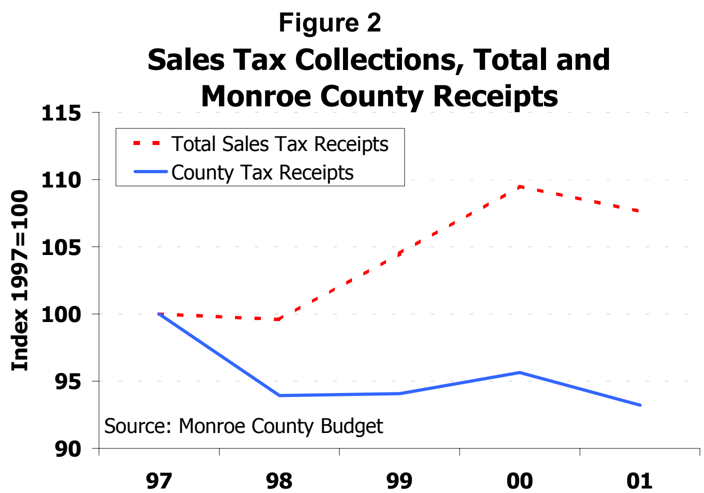
Sales Tax

Of the 8% sales tax levied in Monroe County, 4% is levied by New York State and 4% is levied by Monroe County. In 2001, Monroe County's share of total sales tax collections was $351m; the County retained $110m and distributed the remainder to the City of Rochester plus the County's towns, villages and suburban school districts according to pre-established agreements. A summary of these agreements is included in the Monroe County budget, which can be reviewed on the Monroe County web site at http://www.monroecounty.gov. The county's effective sales tax rate is 1.25%. A sales tax distribution

Table 3: Distribution of Monroe County Sales Tax

Jurisdiction	***Effective Rate of Taxation***	***Sales Tax Receipts, 2001 ($million)***
Total	**8.00%**	**$702**
New York State	4.00%	$351
Monroe County	**1.25%**	**$110**
City of Rochester	1.25%	$110
Suburban Schools	0.58%	$51
Towns	0.83%	$73
Villages	0.09%	$8

summary appears in Table 3. The State Legislature's approval of the 4th cent of the county sales tax expires in 2003 and new legislation will be required to extend it.

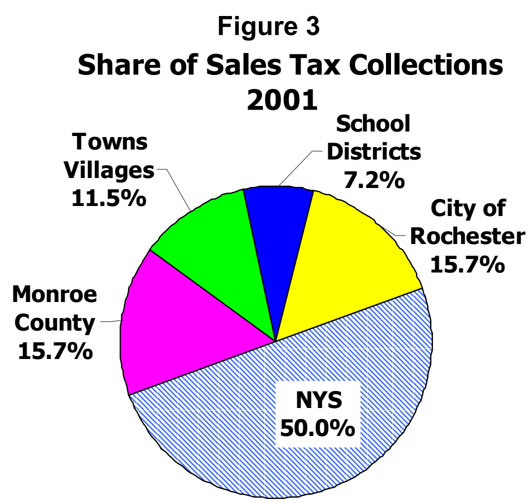


Monroe retains less of its sales tax revenue than most comparable counties and has a much more complicated formula for its distribution. A comparison of approach and outcome appears in Table 4 below.

Recent History: Revenue From the Sales Tax, 1997-2001

Between 1997 and 2001, the purchasing power of sales tax revenue to Monroe County declined 16% as a consequence of 1)Monroe County's declining share of total receipts, 2)slowing growth in taxable retail sales in 2001 and 3)10% inflation over the period.

Agreements concerning the distribution of revenue among county and local governments reduced Monroe County's share of total sales tax revenue from 18.1% in 1997 to 15.7% in 2001. Had relative shares of the sales tax remained fixed at 1997 levels, Monroe County would have received $17m in additional sales tax revenue during 2001 (at the expense of the City of Rochester and suburban school districts). The shift in revenue shares was fully implemented in 2001 and will not be a factor in Monroe County's finances in subsequent years. In 2001, suburban towns, villages and school districts received $131.5m, $21m more than either Monroe County or the City of Rochester.



Robust retail sales growth of about 10% from 1998 to 2000 added $64m to total Monroe County sales tax collections over the two year period. As a consequence of the change in allocation formula, most of the gains flowed to other Monroe County governments, leaving the County with about $2m in additional revenue. A slowing economy in 2001 drove sales tax collections down nearly 2%, leaving 2001 County sales tax revenue $3.5m below 2000. Sales tax receipts in 2002 have also been disappointing. After forecasting a 3.3% rebound (January forecast revision), OMB's 3rd quarter 2002 *Key Indicators Report* estimates that 2002 sales tax revenue will fall short from $2.8m to $3.6m by yearend. Year-to-year variation in sales tax receipts is driven by consumer response to economic conditions.

Property Tax

The tax rate on real property for a Monroe County taxpayer is determined by the assessed value of individual real property, the relationship between assessed and full value, the taxpayer's share of total full value in the County and the County property tax levy.

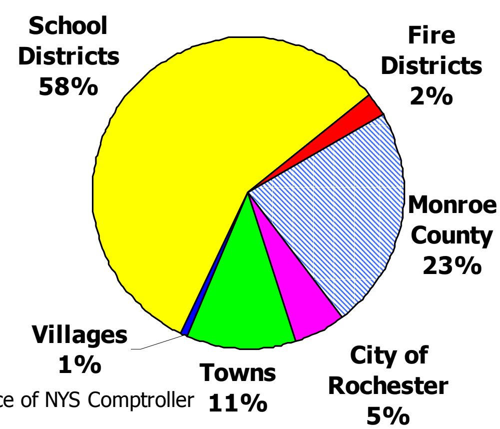
- ***Assessed Value*** is the value placed on the property by city or town assessors. Assessed values are not always the same as estimated market values but are intended to be the same proportion of estimated market value for each property within an assessing jurisdiction. Neither Monroe County nor New York State is an assessing jurisdiction.

- ***Full Value*** represents the estimated market value of all the real property in a municipality at some prior point in time. As a result of different assessing practices in each jurisdiction, there is a different relationship of assessed value to full value among jurisdictions within the County. In order to apportion the County tax levy across jurisdictions, the different assessed values are "equalized" to full value. Full value is based on surveys conducted by the State Board of Real Property Services in which actual field appraisals are performed. From these surveys, equalization rates are established by the state to convert assessed value to full value.

- The ***County Tax Levy*** is the total amount of money to be raised by the general real property tax.

Figure 4

Share of Property Tax Collections 2000



Source: Office of NYS Comptroller

- The ***County Property Tax Rate*** is determined by dividing the amount of money to be raised from the property tax rate by the total amount of full value in the County. If total full value in the County were $1m, then a resident who owned $100,000 in full value would be obligated to pay one-tenth of the total levy.

In practice, the tax rate is expressed as "tax per $1000 of full value." For 2001, the full value tax rate was calculated by dividing the tax levy by the total full value expressed in thousands of dollars.

Tax Levy *Full Value* *F.V. Tax Rate*
$235,500,000 ÷ $28,337,980,574 = $8.31

Thus a resident owning real property with a full value of $100,000 would pay $831 in county tax.

Monroe County Constitutional Tax Limit

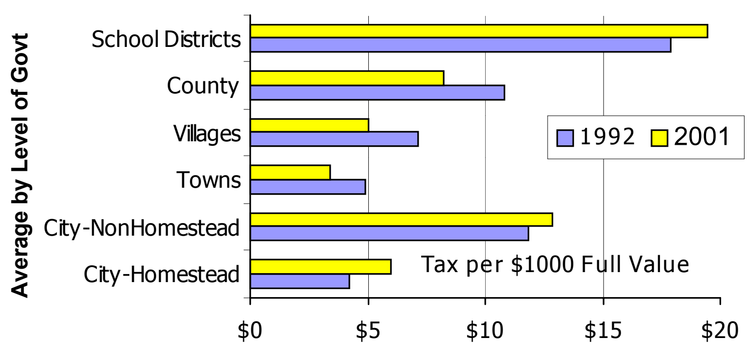
The New York State Constitution limits the amount counties may raise in real estate taxes in any fiscal year, exclusive of debt service, to 1.5% of the five-year average full value of taxable real estate of the County[2]. The maximum property tax levy in 2002 was $448m, well above the actual levy.

Monroe County Property Tax Revenue

Monroe County is only one jurisdiction levying a property tax on real property. School taxes are typically the largest component of the property tax bill. In 2001, business property located in the City of Rochester (termed "non homestead" property) faced an overall full value tax rate of $52.30 per $1000 of full value, the highest in the county. Residential property in the city, by contrast, paid $27.38 per $1000 of full value. East Rochester, Scottsville, Irondequoit and Brockport residents paid between $35 and $36 per $1000 of full value. Embedded in these totals is the County tax rate of $8.31. The remainder goes to the city/town/village and school district[3]. Figure 6 shows the change in property tax rates in Monroe County by level of government.

Figure 5

Property Tax Rates: Monroe County



Source: Monroe County Consolidated Annual Financial Report

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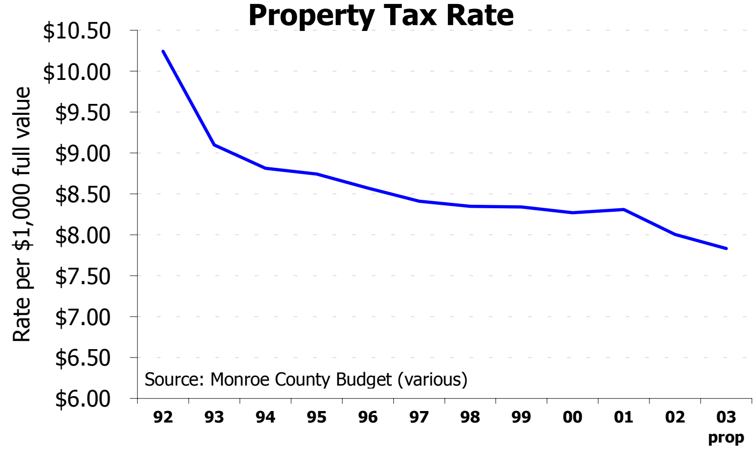
[2] In the calculation, the sales tax credit to towns is an offset to the tax levy for operating purposes.

[3] The Rochester City School District receives its funds directly from the City of Rochester and does not independently levy a tax on real property.

In 2001, Monroe County raised $237m in real property taxes, having budgeted an actual levy of $235m[4]. This level has been maintained over a number of years regardless of increases in inflation, population or other spending pressures.

Figure 6
Monroe County Full Value Property Tax Rate



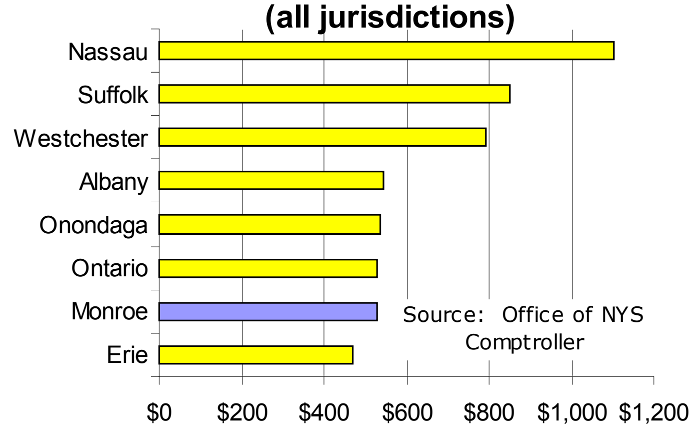
From 1992 to 2003, the full value of real property in Monroe County rose about 30% from $23 billion to $30 billion, slightly more than the rate of overall price inflation. As the levy has remained constant, property tax rates have declined slowly during the period, from $10.24 per $1,000 of full valuation to a proposed $7.83 in 2003.

As the county tax rate has fallen, other property tax rates in the community have increased, notably the school tax. In 1992 the county tax rate was about 60% of the average school district rate; by 2001 the county tax rate had fallen to 42% of the average school district rate.

Relative Local Tax Burden in Monroe County

Table 4 summarizes the variation in magnitude and distribution for the sales tax in Monroe County and comparison NYS counties. Counties have near total discretion over the distribution of a countywide sales tax ranging up to 3%, although cities have a right to preempt the county tax up to a rate of 1½%. Any additional sales taxation (thus Monroe County's 4th cent) must receive the approval of the NYS Legislature. The overall sales tax rate of 8% is equal to that charged in most urban counties including all of Suffolk, Erie and Albany counties and most parts of Westchester County. It is less than the 7% rate charged in Ontario, Onondaga, Seneca and others. Nassau County levies a tax of 8.25% on overall retail sales.

Figure 7
Local Taxes Per Capita 2000 (all jurisdictions)



[4] The total received includes back taxes collected in the current year.

Table 4: Sales Tax Distribution in Comparable New York State Counties

	Local Tax Rate	*Summary*	*Net county tax rate*
Monroe	4.00%	See description in Monroe County budget.	1.25%
Albany	4.00%	County retains 60%. Local distribution: 40% divided among cities and towns on basis of population	2.40%
Erie	4.00%	County retains 35% of first 3% plus all of final 1%, some of which goes to Niagara Frontier Transportation Authority. Local distribution of the first 3%: 10% plus 26% to Cities of Buffalo, Lackawanna and Tonawanda on basis of population, full property value, and required annual minimums (Lackawanna and Tonawanda). 29% divided among all the school districts with territory in the County on the basis of average daily attendance of public school pupils who are residents of the County.	2.40%
Genesee	4.00%	City of Geneva levies tax of 2½% within its borders. County retains all of 2½% levied countywide. Towns divide 1½% levied townwide on the basis of full value.	2.50%
Nassau	4.25%	All is retained by county, but county does provide local government assistance, not to exceed 1/3 of recent 3/4% increase, divided among the County's towns and cities (Hempstead, Oyster Bay, North Hempstead, Long Beach and Glen Cove) based on Census population.	4.25%
Onondaga	3.00%	County retains 37%; City of Syracuse receives 28%; Towns divide up 28% on basis of population; 7% distributed among school districts based on average daily attendance of students in county in previous year.	1.11%
Ontario	3.00%	County retains 50% of tax levied countywide. Cities of Canandaigua and Geneva levy 1½% within their jurisdictions. Towns divide remaining 50% levied townwide on the basis of full value.	1.50%
Seneca	3.00%	The County retains 100%.	3.00%
Suffolk	4.00%	County retains all of first 3% and 90% of remaining 1% (1/8 of which is devoted to public safety purposes). Local distribution: 10% of the last 1% goes to a "Drinking Water Protection Reserve Fund," monies which are available to towns in the County.	3.90%
Westchester	2.50%	County retains all of first 1.5% plus 1/3 of last 1%, which it credits back to cities and towns against county taxes on basis of full value. Local distribution: 1/4 of last 1% allocated to school districts on basis of county population, except for population from cities that impose a sales tax. (City school districts receive nothing.) Remainder allocated to non-sales tax imposing cities, towns and villages on the basis of population (no double-counting of villages in towns).	1.83%

Figures 7, 8 and 9 place Monroe County local taxation in a state context. Figure 7 shows the total local tax burden per capita. This includes all taxes levied by all local taxing jurisdictions, i.e. property taxes levied by all local governments including school districts, sales taxes, gross receipts taxes on utilities and others. By this aggregate measure, Monroe County falls near the bottom of the comparison counties.

Figure 8 shows all property taxes levied by all local governments. By this measure, Monroe County falls in the middle of the group, although the differences between the Upstate counties are relatively small.

Finally, Figure 9 isolates the property tax levied only by comparison counties. Monroe County moves up to third after Nassau County and above Suffolk County.

Figure 8
Property Tax Per Capita 2000
(all taxing jurisdictions)

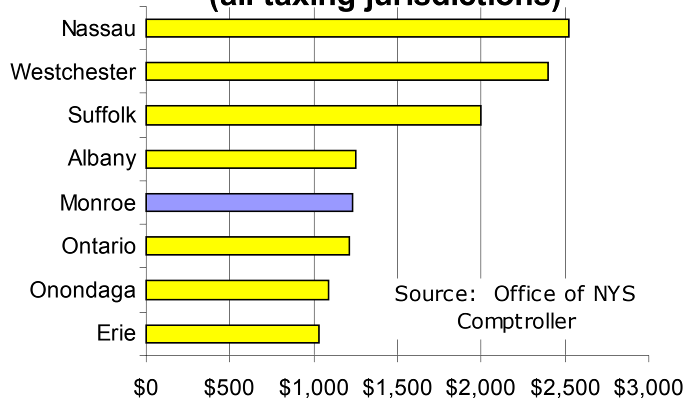
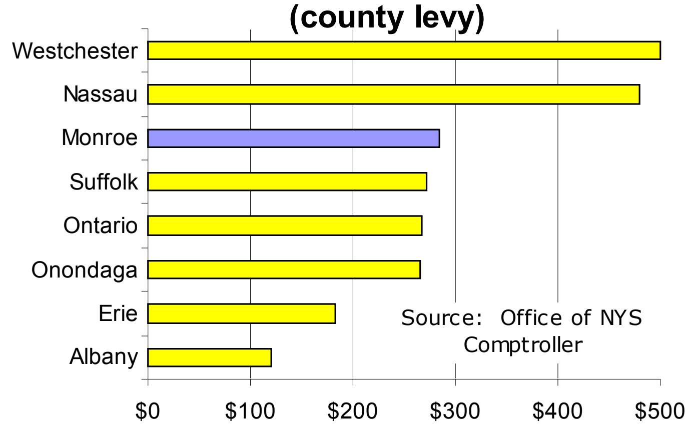


Figure 9
Property Tax Per Capita 2000
(county levy)



Intergovernmental Revenue: Federal & State Aid

Monroe County's CAFR reports state and federal aid at $331m in 2001, almost as much revenue as sales and property taxes. The Office of the State Comptroller data (see Table 2) tracks the major categories of this aid. Most is tied directly to programs over which the County has little control. Primary among these are Medicaid and Temporary Assistance (TANF and Safety Net). In 2001 Health and Welfare programs received the vast majority of assistance from other levels of government, 89% of state aid and 94% of federal aid. **While substantial, federal and state support does not cover the full cost of these programs. Unlike most states, New York's counties must pay for a large portion – most commonly half of the non-federal share – of the cost of these programs.** The other major single category of state aid is health, a category that encompasses a wide variety of public and mental health programs administered by counties. The state also contributes toward highways and transportation.

Very little aid is given to counties for general purposes. Monroe received just under $1.5m in such aid in 2001, and even this has subsequently been discontinued.

Federal Aid Shrinks as Welfare Caseloads Fall

Monroe County receives federal aid for a variety of programs, although the largest of these is Temporary Assistance for Needy Families (TANF) and Medicaid. **The loss of $29.3m in federal aid is the largest single component of declining Monroe County revenue.** This is attributable to three causes:

- Declining welfare caseloads have reduced the need for cash assistance. As the local *cost* of TANF declines as well, the net effect is favorable for the budget.

- In federal welfare reform legislation passed in 1996, Congress established a five-year maximum for the receipt of cash assistance under TANF. As NYS residents reach the five-year limit they transition to Safety Net, a NYS only source of cash assistance whose cost is shared equally between the state and county governments. Under TANF the County cost is 25% of the total; the local cost doubles to 50% under Safety Net. This trend is likely to continue as more and more individuals reach their federal maximum and convert to Safety Net, thus further reducing federal aid and increasing social service expenditures.

- The law requires that states spend at least 80% of the total spent from its own funds in FY 1994 (although if the State meets the minimum work participation rate requirements for all families and two-parent families, then it need expend only 75%). Termed the "Maintenance of Effort" (MOE) provision, a state is penalized if the federal government calculates that its expenditures for eligible services falls short. A wide variety of services, benefits, and supports aimed at helping families become self-sufficient can be used to satisfy MOE, but the fact that caseloads have been declining at an unexpected rate has made it difficult to meet these targets.

  The federal government's calculation of spending against MOE targets happens after the fact, as most TANF spending is driven by actual caseload. This calculation is based on the entire state's performance and the county (and, of course, the state) only learns of a federal aid disallowance after funds have been expended. An expenditure that no longer qualifies for federal participation becomes equally shared between the NYS and Monroe County. Thus the burden of $1000 expenditure, originally shared as $500 federal, $250 state and $250 county, becomes shared equally between the state and county ($500 each). When year end revenue and expenditure are compared to budget, an MOE disallowance appears as a loss of federal aid offset by an increase in state aid and local cost that is half the federal aid loss. These aid adjustments have been substantial. During 2001 Monroe County was notified of a $16.6m federal aid disallowance plus a corresponding state aid increase equal to $8.3m.

State Aid Expands Through TANF Block Grant

Health and welfare entitlement programs are funded with support from both the federal and state assistance. **The loss in federal aid** noted above **is more than offset by a dramatic increase in state aid through the period.** The 1996 Federal Welfare Reform legislation converted state receipts from a formula-driven entitlement "pass through" to a block grant. The intent of the block grant approach was to encourage states to use their federal assistance for new and creative programs to move people out of welfare and improve their ability to enter and remain in the workforce. This allowed states to broaden support for an array of programs from job training to day care. This flexibility and the expanded mission of these programs are captured in this increase in state aid.

The net increase in state and federal aid through the period was $33.6m, although the increase in total program cost still exceeded this increase.

"Use of Money & Property" Revenue Declines With Rates & Fund Balance

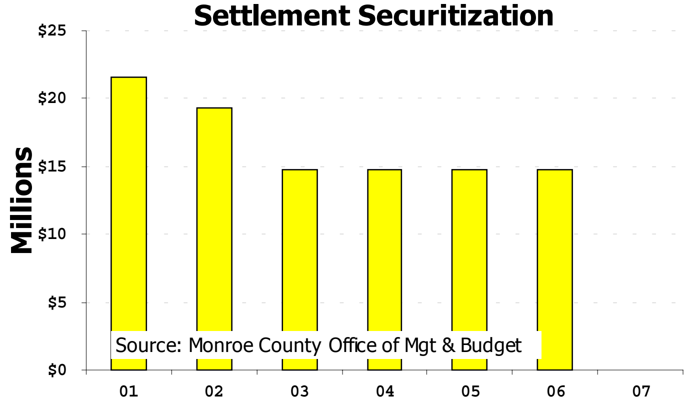
Declining interest rates and a declining fund balance are responsible for a significant share of the $4.6m decline in revenue between 1997 and 2001. General Fund equity stood at $56m at the end of 1997. This would have earned about $3m in interest at a 5.5% rate. A declining fund balance coupled with falling interest rates has limited this source of revenue. Average annual yields on invested cash were 4.98% in 2000, 4.04% in 2001 and less than 2% in 2002.

The loss of the fund balance has also increased operating costs by forcing the County to borrow to meet cash flow needs during the year. The County borrowed $60m in the form of Revenue Anticipation Notes (RANS) in 2001 at a cost of $875,000 in interest. In August of 2002, the County borrowed $95m in RANS at an interest rate of 2.5%.

Tobacco Settlement

As party to the Master Settlement Agreement between the tobacco companies and the states, Monroe County was awarded a stream of future payments from the tobacco companies, the magnitude of which varies to some degree by the level of future tobacco sales. Like many other NYS counties and states, Monroe County divided this stream of earnings into two portions. Most of the revenue stream was exchanged for a lump sum payout in the present through a process of securitization.

Figure 10
Debt Defeasement from Tobacco Settlement Securitization



Residual Stream of Revenue From Tobacco Settlement

Monroe County receives a residual portion of the revenue stream, with annual receipts being determined by a complex formula (driven by tobacco sales and other factors) in the Master Settlement Agreement. The revenue line designated "tobacco settlement" only includes this residual and shows revenue of about $2m in 2001.

Proceeds of Securitization: Debt Defeasement and Capital Construction

The proceeds of the securitization must be dedicated to capital projects. Of the $143m received by Monroe County, $43m ($39m in principal plus interest earnings on funds not used for debt defeasement) was reserved to offset borrowing that would otherwise have been required to finance construction of the new county jail. An additional $15m is held in reserve for the proposed juvenile justice center. The County's Open Space program received $2m of the total.

The remainder ($83m) was used to reduce the annual cost of pre-existing debt through a legal process called defeasement. The reduction in debt service payments due to the defeasement appears as a reduction in the expenditure line designated "transfers to other funds." The 2001 financial statement reflects a reduction of $21.6m in the "transfer to other funds" expenditure line as a result of the debt defeasement. This will continue through 2006. **In 2007, as much as $14m in debt service payments will once again have to be made through a General Fund transfer to the Debt Service, Internal Services, Road and Library funds.** Between 2002 and 2003 the debt defeasement provided by the tobacco securitization declines $4.5m.

Impact of Economic Growth on County Revenue

A portion of the recent budget deficit is attributed to a slowing in the growth of the sales tax revenues due to the general recession. Total sales tax collections fell about 2% from 2000 to 2001 after 5% gains in each of the prior two years. This is a recent issue that it is not the major ingredient of the deficits that have been building for a number of years, but is an example of the impact of general economic activity. Economic growth affects property tax receipts by creating more taxable property and by creating demand, which drives up the value of existing property. **Monroe County has chosen not to take advantage of the increased property tax revenue this appreciation makes possible.** Using comparative data from the Office of the NYS Comptroller, the full value of taxable real property in Monroe County increased slightly from 1997 to 2001, comparable to Albany (-1%), Erie (-0.1%) and Onondaga counties(+.2%) but lagging downstate counties Suffolk (+36%), Nassau (+34%) and Westchester (+30%). All other things being equal, economic growth also moderates social welfare costs.

Table 5: Monroe County Expenditure Trends
1997-2001 ($m)

	1997	2001	Change	% Change
TOTAL*	**$725.3**	**$800.5**	**$75.3**	**10%**
Health & Welfare	$475.6	$538.4	$62.8	13%
Public Safety	$113.1	$140.4	$27.3	24%
Culture, Recreation, Education	$41.4	$46.7	$5.3	13%
General Government	$37.8	$37.4	($0.5)	-1%
Transportation	$4.4	$4.4	($0.0)	-1%
Transfers to other funds* (reduction primarily due to debt defeasement from tobacco securitization)	$53.0	$33.4	($19.6)	-37%

***Note: For ease of presentation, "transfers to other funds" is included here as an expenditure. The CAFR reports transfers in the category "Other sources (uses)."**

Economic and population growth in Monroe County over the past decade has been modest at best and has lagged behind many other parts of the state and country. This has limited the County's revenue growth and financial flexibility. Even without the unique expense increases experienced by the County over the past decade, this lack of growth would eventually create a problem in the face of the normal inflationary expense increases.

Economic growth cannot be counted on to solve the current deficit or to address much of the structural imbalance in the County's finances. However, if Monroe County had enjoyed economic growth closer to the national average over the past decade it would have a great deal more flexibility in dealing with its current problems. Achieving a reasonable level of economic growth will need to be an ingredient in achieving long term financial stability for the County.

County Expenditure: Uses and Trends

Counties play a pivotal role in New York State, providing a range of services from public safety to public health and social welfare. While all counties have their own initiatives and programs, they are also obligated to administer—and often fund—programs created by the state and federal governments. This portion of the Commission's report will identify major expenditures of Monroe County and discuss factors that influence major expenditure trends.

Monroe County spent $800.5m from its General Fund in 2001. Table 5 summarizes major categories of spending. Health & Welfare, the category that includes Medicaid and Temporary Assistance, is by far the largest portion of the County's budget, consuming 67% of the total General Fund. Growth in Health & Welfare programs added 9% to total expenditure from 1997 to 2001. Public Safety has also been a major cost driver in recent

Table 6: Selected Health & Welfare Programs
1997-2001 ($m)

	1997			2001			
	Expenditure	Revenue	Net County Cost	Expenditure	Revenue	Net County Cost	97-01 Change
Family Assistance (TANF)	$107.3	$84.6	$22.7	$68.2	$43.7	$24.5	$1.8
Safety Net	$34.4	$17.2	$17.2	$27.2	$16.0	$11.2	($5.9)
Medicaid	$126.4	$45.7	$80.7	$156.7	$55.8	$100.8	$20.2
Day Care	$24.1	$20.8	$3.2	$53.7	$45.4	$8.3	$5.0
Adolescent Care	$13.4	$1.4	$12.0	$16.4	$5.9	$10.5	($1.5)
Child Welfare	$31.2	$25.4	$5.8	$37.4	$28.2	$9.2	$3.4
Special Children's Services	$28.7	$22.3	$6.4	$32.4	$20.1	$12.3	$5.8
TOTAL	$365.5	$217.4	$148.0	$392.0	$215.1	$176.8	$28.8

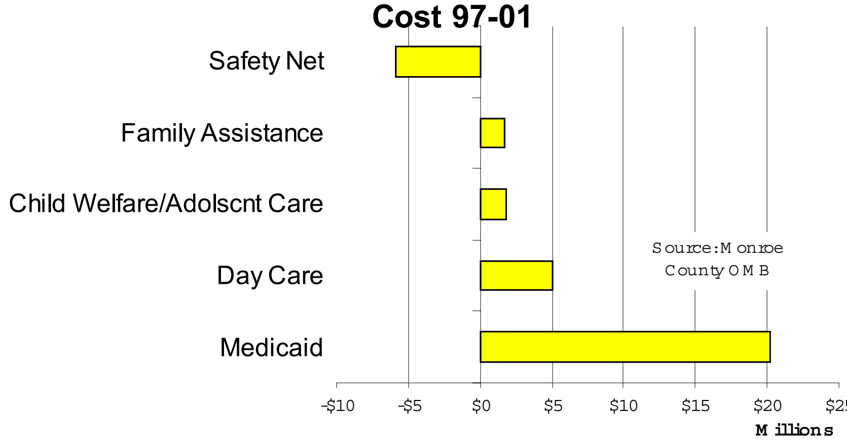
years. At 18% of the budget, this expenditure category added 6% to total expenditure over the period.

Health & Welfare

The bulk of Health & Welfare spending is accounted for by cash assistance programs Temporary Assistance for Needy Families (TANF) and Safety Net (SN) and the program providing medical assistance to the poor, Medicaid (not to be confused with the all-federal program for the elderly, Medicare). Smaller programs include programs for the aging, youth and veterans. A financial summary of the major Health & Welfare programs appears in Table 6.

The two programs included in the "Special Children's Services" category are also major expenditure items for Monroe County. These include the Early Intervention program aimed at helping special needs children aged 0-2 and similar services provided to children aged 3-5 under the Education of Handicapped Children program. In both cases,

Figure 11
Change in Net County Cost 97-01



services are provided to children based purely on physical condition. Income has no impact on eligibility.

Nearly all Health & Welfare spending is either strictly mandated or strongly encouraged by either the federal or state government. TANF and Medicaid are federally mandated programs. Safety Net and the two Special Children's Services programs are mandated by New York State. A shift toward greater use of block grants has increased the County's discretion over the form and level of assistance, although the fact that a sizeable share of the program expenditure is reimbursed serves as a strong inducement.

Medicaid

The largest increase in net county cost was in Medicaid as net county cost of this program rose from $80.7m in 1997 to $100.8m in 2001. Total cost to the County has also increased due to the passage of the Family Health Plus program. Monroe County's Office of Management and Budget is projecting an increase in cost for 2002 of 11.6%. The New York State Association of Counties is projecting average statewide growth in net county share of about 12% in both 2002 and 2003 (although some indications suggest growth outside NYC will reach 19%). With the Altreya Consulting recommendations incorporated, the 2003 cost of Medicaid is estimated by OMB to grow about 8%.

Figure 12

Net Local Medicaid Spending Per Person in Poverty 1995-2001 (2001 dollars)

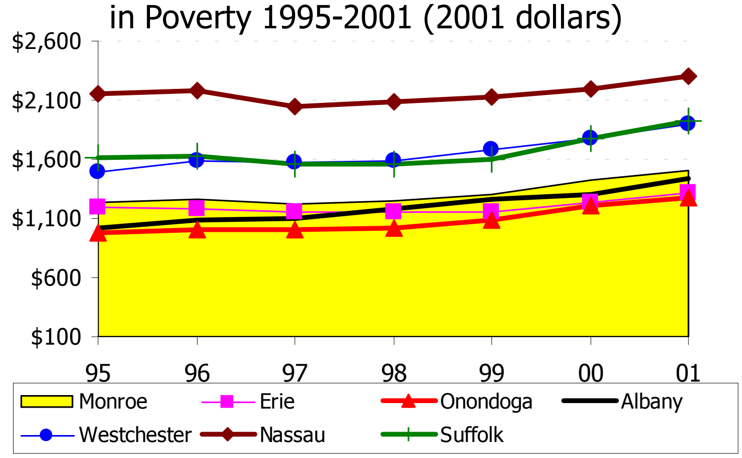


Figure 12 shows trends in Medicaid cost per person in poverty for comparison counties. Acute care for persons in poverty only captures a portion of the Medicaid program, however. In 1998, well over a third of Monroe County spending on Medicaid was for long term care, much of it provided to members of the middle class who have "spent down" their income to qualify.

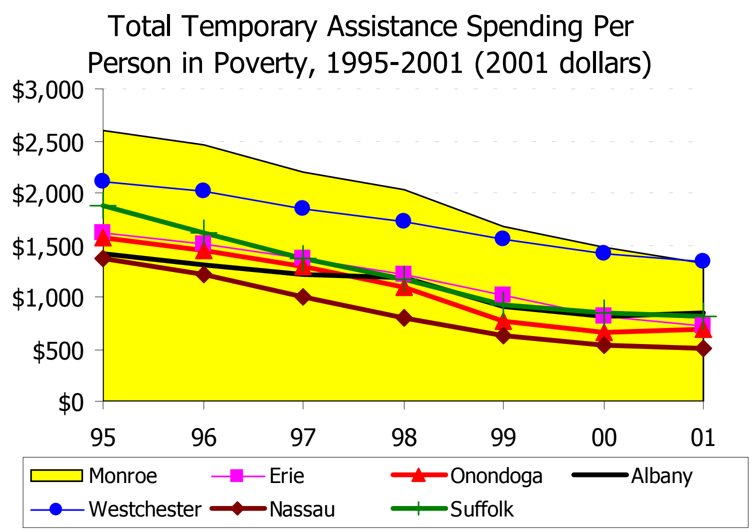
Medicaid spending is facing several budgetary pressures in the next few years. First, cost per recipient has been increasing rapidly, just as private sector health care costs have risen. Second, enrollment of children into Child Health Plus has added considerably to county Medicaid rolls in 2000 and 2001. Although counties initially conducted this enrollment under a separate, non-locally-funded federal grant, national and state agencies required that all Medicaid-eligible enrollees be paid for under Medicaid guidelines, which require a 25 percent county share. Finally, starting in late 2001, Medicaid expenditures began to be influenced by the institution of Family Health Plus, a major Medicaid-based health care initiative that is expected to have a large impact on county budgets in 2003.

Unlike most states, New York requires counties to contribute to the cost of Medicaid, despite the fact that counties have no control over optional services included in the state's Medicaid program and little control over program administration. The County's share of cost differs for acute care or long term care. In the case of acute care, the cost is shared 50% federal, 25% state and 25% county. The county's share falls to 10% for long term care.

Temporary Assistance

Monroe County residents are also eligible for two cash assistance programs. Congress, as part of the Welfare Reform Act of 1996, replaced the "Aid to Families with Dependent Children" program with Temporary Assistance to Needy Families or TANF. Adults without children and families whose eligibility for TANF has expired under the 1996 welfare reform legislation can qualify for Safety Net.

Figure 13



TANF caseloads fell from 14,246 in 1996 to 8,548 in 2001. Safety Net caseloads fell about 23% to 4,735 during the same period. The Medicaid caseload *rose* from 1997 to 2001 as a key element of the "welfare to work" program was the extension of health care to welfare recipients entering the workforce. Medicaid caseloads rose about 23% to 38,787.

Although unlike Medicaid, **TANF spending per person in poverty** has decreased in Monroe County (and everywhere else) in recent years, it **is higher in Monroe than in most comparison counties as shown in Figure 14.**

The net county cost of Safety Net actually fell by nearly $6m while TANF costs rose just under $2m.

Day Care

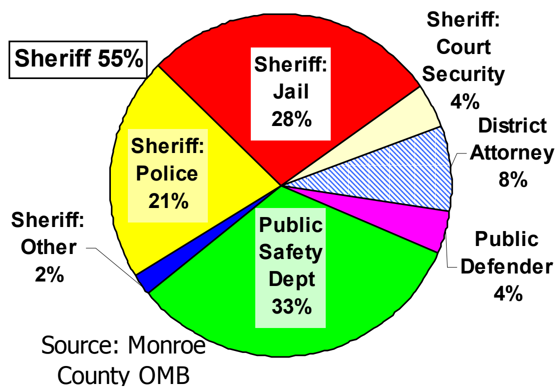
One important change in programs helping welfare recipients enter the workforce has been the provision of day care. Numerous federal, state and local programs support day care services. Partially funded by the TANF block grant, spending on day care increased from

$24m in 1997 to $53m in 2001. As reimbursement also rose, the net county cost increased by about $5m.

Special Children's Services

Counties in NYS fund two programs supporting services to children with handicapping conditions. The Early Intervention program addresses the needs of children from birth to age 3. The program titled Education for Children with Disabilities provides these services for children from age 3 to school age. With revenue declining 10% while costs grew 13%, net county cost grew by $5.8m. Revenue to this program in 1997 was unusually high, however, thus the 1997-2001 trend somewhat overstates the general net cost trend. The net county cost of these two programs has been stable at just over $12m from 1999 through 2002.

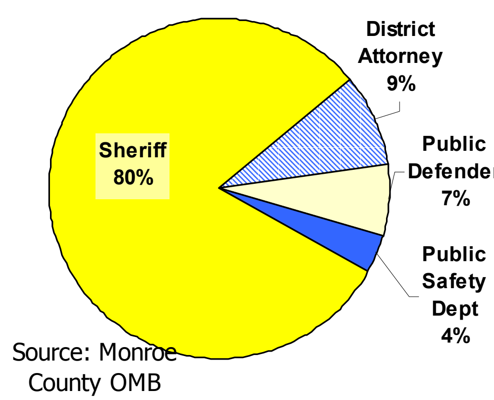
Figure 14
Public Safety Expenditures
2001 Actual



Public Safety

Total General Fund public safety spending rose $27.3m between 1997 and 2001 (this excludes capital construction costs). With additional state and federal aid included, the net county cost of public safety increased by over $17m—nearly equal to the net cost increase for Medicaid over the same period. Staffing requirements at the newly completed jail facility will drive those costs far higher in 2003 and 2004. The proposed budget for 2003 includes an increase of $7.5m in expenditure but only $1.1m in anticipated additional revenue, for an increase in net county cost of $6.4m. While substantial aid is available for some elements of the public safety budget (court security, for example), the components whose cost is rising most rapidly—the Sheriff's Jail and Police bureaus—are largely the financial obligation of local taxpayers.

Figure 15
Public Safety
Growth in Net County Cost 97-01

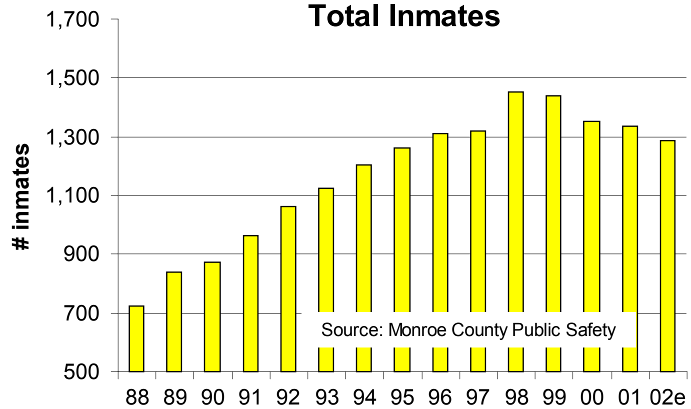


Jail Bureau

Between 1997 and 2001, the net county cost of the Sheriff's jail bureau rose $5m with an additional $1.1m (4.1%) added to the 2002 budget.

The jail bureau adds $4.2m in net county cost in the proposed 2003 budget. The new jail—particularly the addition of almost 100 additional jailers—is responsible for a large share of this increase in cost. Furthermore, the new jail facility is being opened in phases, thus pushing additional staffing demands—and expense—into 2004. The General Fund is also assuming the cost of an additional $705,000 in debt service to pay principal and interest on $11.1m in bonds issued to pay the difference between the cost of the new jail and funds made available from the tobacco settlement. This sum is in addition to the increase in operating cost that appears in the General Fund.

Figure 16
Monroe County Jail Bureau
Total Inmates



The need for the new jail is partially driven by state requirements for the facility. The total jail capacity only increases slightly, but the new facility requires increased staffing as part of these state requirements. While the number of inmates in Monroe County facilities grew substantially in the early 80s, the total census has been stable or declining relative to 1995 as seen in Figure 16. The net result is a significant increase in the cost per inmate.

Almost a third of the proceeds of Monroe County's securitization of its stream of tobacco revenues were devoted to the jail. This reduced the debt service substantially, but does not affect the increased operating cost.

Police Bureau

Additional Sheriff's deputies and the cost of benefits has driven up the cost of the Sheriff's Police Bureau, as well. Between 1997 and 2001 the total cost of the bureau increased by $5.2m. These costs have also been rising rapidly since 2001. The Police Bureau added $1m in cost from 2001 to the 2002 Amended Budget. The 2003 Budget anticipates an additional $1m increase in expenditure.

Compensation and Benefits

Two trends have exacerbated the county's financial dilemma. Just as has occurred in the rest of the economy, medical insurance costs have been rising dramatically in recent years. This affects not only current workers but retirees as well. The budget office reports an average annual rate of growth for medical insurance of nearly 12% from 1996 to 2002. Insurance payments grew 15%, 20% and 15% in 2000, 2001 and 2002 respectively. In the 2002 Adopted Budget medical insurance for current employees was estimated at **$26m**. Retiree medical insurance was expected to cost Monroe County an additional **$11m**. These costs of have nearly doubled since 1996. **Unlike most private firms, however, Monroe County has been unable to use employee health insurance contributions and co-payments to encourage more cost-effective use of health care. Governed by collective bargaining agreements and bound by New York's Taylor Law (which dictates relations with public employees), these changes have been hard to achieve.**

Public employee pension contributions have also increased dramatically since the stock market began to slide. A surging market reduced contributions between 1998 and 2001 to an unusually low level that helped to offset other costs. The County contribution ranged from a low of $3.2m (1999 and 2000) to a high of $3.8m (1998). Payments increased to $5.2m in 2002 and are expected will jump to nearly $10m in 2003. The NYS Association of Counties indicates that if earnings to the State Retirement Fund fall 10% that Monroe County's contribution will rise to nearly $17m.

Role of State and Federal Mandates in County Expenditures

As discussed, large portions of county budgets are beyond their control. Higher levels of government create programs and counties are either required or strongly encouraged to participate.

Monroe's 2002 Enacted Budget estimates that only 23% of expenditure is discretionary; 70% of expenditure is considered "mandated" while an additional 7% of county expenditure is encouraged through a federal or state initiative.

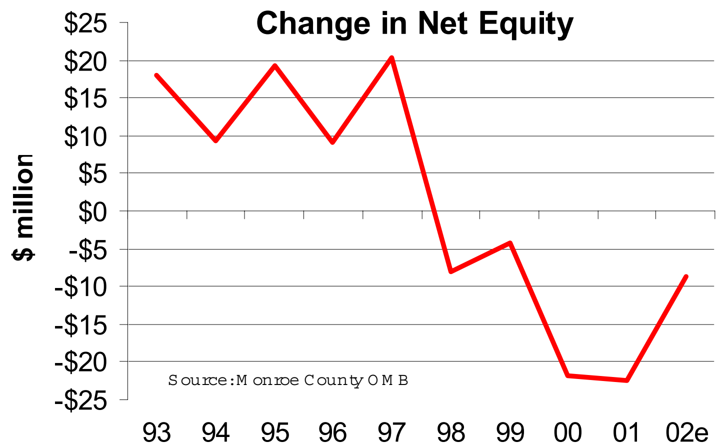
2002 AND 2003 BUDGETS

Deficit Anticipated in 2002

As has been true since 1998, the Office of Management and Budget anticipates ending 2002 in deficit. As of the end of the second quarter, it predicted that the General Fund revenue would be between $8m and $12m below budget (principally in federal aid for social services, sales tax and interest earned). Expenditures were running well ahead of forecast with Medicaid and Safety Net costing more than expected. Costs were

Figure 17

Monroe County General Fund Change in Net Equity



expected to be between $11.4m and $7m over budget, for an anticipated deficit in the range of $15.1m to $23.4m before the impact of recent actions to reduce expenditures.

The third quarter *Key Indicator Report* reduces the projected deficit to between $8.7m and $1.1m. Shrinkage in the projected deficit has been achieved through a combination of reductions in spending—principally in salaries due to a number of early retirements and layoffs—and the one-time forgiveness by New York State of a $9m Medicaid liability associated with Office of Mental Health programs.

The operating deficit trend is expected to continue into 2003 and was projected at one time to range from $45m to $65m. Given the projections and the issues discussed in this Report, we consider the balance achieved in the 2003 Budget to be precarious and at risk of not be sustained through the year.

Rating Agencies Concur

In concert with the concerns expressed by the Commission, the municipal bond rating agencies have chosen to reduce the rating of Monroe County's bonds as a consequence of the ongoing General Fund deficit and the County's response to that deficit. On February 1, 2002, Standard & Poor's lowered the County's General Obligation bond rating to AA- from AA " . . . based on a substantial reduction of fund balance reserves, which has contributed to appropriations in excess of revenues and now limits the county's flexibility to address further revenue or expenditure variability." Moody's downgraded Monroe County's debt to A3 from A1 for similar reasons, stating that its belief that " . . . continued lack of budgetary structural balance has greatly diminished the county's operating flexibility." Fitch stated that the downgrade of Monroe's ratings reflects the County's ongoing financial pressures evidenced by dwindling reserves and weakened liquidity. They also refer to the county's "structural budgetary imbalance" and that the imbalance is being bridged in 2002 with a combination of one-shot asset sales and planned expenditure cuts.

In response, aggregate spending by Monroe County is being substantially reduced in 2003. From the 2001 Actual to the 2003 Proposed Budget, total expenditure is projected to fall by nearly $61m (although longstanding practice excludes from the budget anticipated grant revenues). Some other areas of financial exposure in these years are discussed below.

Financial Exposure in 2002

Asset Sales

The county has budgeted $20m in asset sales for 2002. These are listed below in Table 7. If the County is unsuccessful at its attempt to sell these assets or if the sale price falls short of the sum budgeted, this will increase the 2002 deficit. If the assets are sold, this source of revenue will not be available in 2003, where the projected asset sales are in the range of $1m. This effectively creates a carry forward deficit in 2003.

Table 7: Fixed Asset Sales in 2002 Budget

Asset	Budgeted Revenue
Iola Powerhouse	$4,500,000
Iola Property	4,000,000
Iola Rochester Operations Center	1,000,000
Mill Seat Landfill	4,000,000
Rochester Resource Facility	2,000,000
Civic Center Garage Commissions	4,500,000
TOTAL	**$20,000,000**

Financial Exposure in the 2003 Budget

Pension Contributions

The NYS Association of Counties "mid-range" forecast for 2003 recommends a spending level of $10.7m for Monroe County. The 2003 budget, by planning spending of $9.6m, appears optimistic.

Altreya Consulting Assessment and Recommendations for Department of Social Services and Health Department

The ability to implement and realize the savings projected in the Altreya Report is critical to balancing the budget in 2003. The budgeted savings of $30m may represent one-half or more of the response to the projected 2003 deficit. The Commission is not in a position to evaluate the specifics of the Altreya Report. However, we did review it and discuss it with the County representatives, the authors and representatives of the Federation of Social Workers in order to make a judgment about the validity of the projected 2003 savings.

The Commission believes that it is important to separate the value of engaging in process reform, such as is suggested by the Altreya project, and the timing and amount of the financial benefits. We are concerned that issues in connection with the savings projected for 2003 might be taken as rejecting the need to engage in the process reform. Even the critics of the project agree that some changes can be beneficial and the Commission believes that this type of process reform is an essential part of the response to the County's financial problems, whether or not all of the projected savings are achieved. Similar process reforms are common throughout private industry and not-for-profit organizations and the need is demonstrated by the Altreya Report.

In the context of our general support for the project, we noted the following concerns with achieving the projected savings in 2003:

- The initial report dated August 22, 2002 was released in a preliminary form and left a number of questions about the basis for the projected savings and implementation plan. These concerns were substantially resolved in the updated report dated October 25, 2002, but the risks discussed below remain.

- The staff reductions that were part of the general County program were implemented during the Altreya process and were determined independently of its conclusions. While this delivers $6.7m of the projected savings, it complicates the implementation of the Altreya process changes.

- The early retirement program for all County employees resulted in the retirement of many of the senior managers of the Social Services Department. This helps with the cost savings goal and clears the way for some of the necessary restructuring, but complicates the transition.

- Altreya reports that the process improvement projects have engaged the participation and support of a substantial group of the affected employees. The Federation of Social Workers disagrees on whether this level of cooperation currently exists.

- During the transition to the new processes, whose savings are budgeted to start January 1 and with reduced staffing, there is the risk that failure to properly complete the work necessary to obtain reimbursement from the federal and state government could make the budget crisis quickly worse.

- The services provided through the affected programs are critical to some of the most vulnerable of our citizens. In addition, many of the services are mandated and the failure to provide them as proscribed can have serious financial consequences for the County. We have been assured that none of the savings are based on a reduction of the required services, but it will be critical that this assurance be maintained during the transition.

- Between $7 and $11m of the projected savings are based on reductions in various caseloads to levels that are more consistent with other locations and consistent with appropriate levels of care. Altreya states that the most significant factor in reducing caseloads is a lower ratio of clients to caseworkers. The Monroe County ratio is already high and will be higher after the staff reduction. The Altreya projected savings assume that the work processes for caseworkers will be improved so as to allow them to spend substantially more time with clients. This increase in efficiency would then allow the total caseload to be managed more effectively with fewer caseworkers. The timing and ultimate achievement of this efficiency is still in question yet is critical to achieving the projected savings.

- ❖ The projected reduction in caseloads is based on a statistical analysis that compares Monroe County to other selected locations and indicated that Monroe County's caseload was proportionally higher. This raises the issue of why this is the case, but it is not based on a specific determination that there are people in the County who should not be receiving benefits. The Federation of Social Workers and Altreya have engaged experts to debate the validity of this analysis. Whatever the outcome of this debate, there is a risk that the projected savings will not be achieved.
- ❖ There is a history of mandated service changes by the federal and state governments that can upset the assumptions on which the process changes are based.
- ❖ The benefits caseload is subject to changes in the economy.
- ❖ The report makes a substantial case for improving the information systems, but little or no additional investment is budgeted. This is the most obvious example of what may be a general underestimation of the cost to achieve the projected savings.
- ❖ Successful process improvement projects take time and the projected budget deficit puts substantial pressure on achieving the projected savings in 2003. This could complicate the necessary attention to maintaining service levels and long-term sustainable results.

In summary, we support the process reform project that is the basis of the Altreya Report. However, the risks listed above need to be closely monitored and the County needs to be prepared for not achieving all of the projected savings in 2003.

Financial Exposure in Out Year Budgets

Jail Bureau Expenses

The 2003 budget does not anticipate full staffing of the new jail facility. Additional staffing will drive up the budget in 2004 and in subsequent years.

End of Debt Defeasement

The last year of debt defeasement from the tobacco securitization is 2006. Beginning in 2007 the General Fund will once again have to transfer as much as $14m to various debt service funds.

Medicaid

The expansion of the Medicaid program poses a significant risk to Monroe County. Medicaid costs are already anticipated to rise by 12% or more for the next several years even without increased enrollments. Yet the Family Health Plus program may expand far more quickly than is expected. The history of Medicaid has been enrollment and cost that exceed forecast. Despite the fact that the Family Health Plus program meets an important need of the uninsured, it could be very costly for New York State and Monroe County. The risk is particularly great if general health care costs—thus insurance rates to small business—continue to rise rapidly. As more business firms choose to stop providing health care coverage to their employees, the number of individuals eligible for Family Health Plus will rise dramatically.

CONCLUSIONS

❖ **The revenue/expense imbalance that is creating the County budget deficits is real, substantial, structural and will not correct itself**.

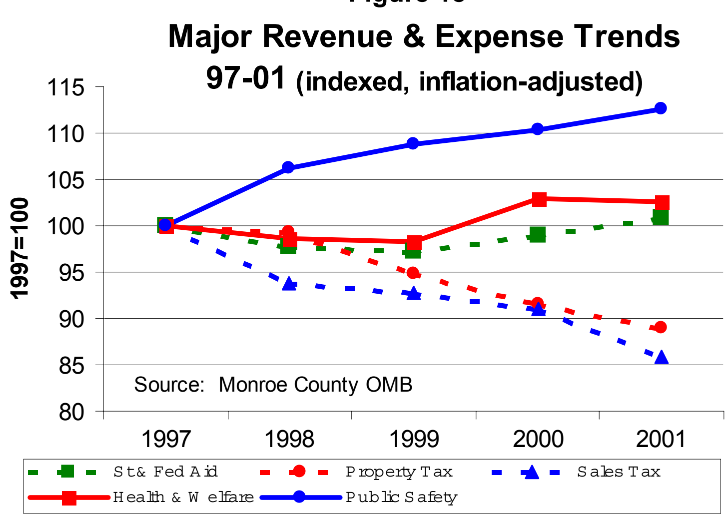
- It is real because the growing gap between revenue and expenditure eliminated all of the County's 1997 surplus by the end of 2001 (as reported in the audited statements and reflected in the credit rating reduction at the beginning of 2002). It has led to borrowing to finance cash flow and deficits and there are creditable projections of shortfalls in 2002 and 2003.

- It is substantial because the gap between revenue and expenditure at the end of 2001 was $22.5m, was projected to be approximately $20m in 2002 before the recent significant expense reductions and to range from $45 to $65m in 2003.

- It is structural because the principal causes of the imbalance are embedded in the financial structure of the county budget in a manner that will continue to drive deficits unless there are substantial changes in the externally imposed and internally decreed policies.

- It will not correct itself because there are no policy changes in place or in process that will addresses the structural problems and even a return to the more prosperous times of several years ago will not overcome the deficit.

Figure 18



❖ **The County's continuing sources of revenue that are not tied to federal and state reimbursement for services have declined since 1997.**

- The action to increase the sales tax after the 1992 Blue Ribbon Commission served to initially resolve the problem. However, total revenue available to the County has actually declined since 1997 as a result of changes in the formula for sharing the total with other local governments and only modest growth in economic activity. Had the

County's share remained fixed at 1997 levels it would have received $17m additional revenue in 2001[5].

- The property tax levy (dollar amount to be collected) has been held constant for most of the previous 10 years. This means that the resulting tax rate has declined and the County has not derived increased revenue for the increase in property values.

- The other sources of continuing revenue have varied form year to year, but have not produced any significant net change, except for the loss of interest income resulting from the elimination of the surplus in 2001.

- Income from the sale of property and the tobacco money (principally reflected in a reduction of debt expense) have mitigated some of the current deficits, but will not continue and cannot be counted on to correct the structural imbalance.

❖ **Expenses have continued to increase since the last surplus in 1997, in some cases substantially, and those increases appear to be permanent and in some instances, continuing.**

- The principal expense increases are in Health and Welfare (new programs and shift to programs with lower reimbursement) and Public Safety (operating costs for new jail and growth in Sheriff's Office personnel costs). The Health and Welfare expense increase can be almost entirely attributed in changes in mandated programs and changes in reimbursement patterns. The changes in Public Safety can also be partly attributable to mandated requirements, but there was never any expectation of reimbursement.

- There has been an increase in personnel costs that are not unique to government consisting of cost of living wage and salary increases and substantial health care cost increases (although the county has not been successful at passing a portion of these costs onto the employee, as has been the practice in the private sector). This has been mitigated by unusually favorable pension costs that have now swung in the opposite direction.

- Although temporarily mitigated by the application of the tobacco money, the County's outstanding debt, while not considered excessive has continued to increase in total amount and annual service cost.

- There have been variations in the other categories of expenses, including some reductions, but this has not had and could not have had any substantial impact on the increases described above.

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[5] The County's share was higher during 1993, the first year of the increased sales tax. Had this distribution remained fixed, the increase in revenue in 2001 would have been $19m.

- **Modestly decreasing revenues and rapidly increasing expenses inevitably create budget deficits. This started in 1998 and has been moderated by the use of the existing surplus, the tobacco money, some one-time events and a favorable economic climate, but the inevitable is now upon us with a vengeance.**

- **There is an unavoidable need to make significant adjustments in the proposed budget for 2003.** We consider the balance achieved in the proposed budget to be precarious and in danger of not lasting through the year. However, even if those changes bring balance for that year, alone they are unlikely to provide a lasting solution.

  - The reduction in personnel will, if it is maintained, produce a permanent expense reduction and reduce the impact of future employee cost increases, but the expenses cannot be expected to remain constant unless there are continual reductions in personnel.

  - The reduction in internal and external program expenses will be permanent, but that means a permanent loss of those services and, as a category that can be reduced to offset other increases, there is limited future capacity.

  - The significant personnel reduction and reorganization of the Health and Welfare organizations is intended to produce permanent expenses reductions and to provide future expense control. However, without considering the substantial risks in implementation, the cost of the entitlement programs can fluctuate beyond the County's control and the recent pattern of constantly increasing un-reimbursed program costs would soon consume the reduced expense.

  - There are at least $29m in nonrecurring revenues in the 2002 budget that will not be available in 2003 ($20m in asset sales plus $9m in Medicaid revenue).

  - The substantial increased cost for the new jail is phased in so that only a portion of the increased cost is experienced in 2003. While the substantial year to year increase will not continue to occur after the full cost is phased in by 2004, there will be the ordinary increases in operating expenses on a much larger base and the possibility of needing increased jail capacity continues to exist.

  - The tobacco money benefit, which produces a reduction in debt expenses of $14.8m in 2003, will expire in 2006 and result in a significant debt expense increase in 2007.

  - As long as the County's principal sources of revenue remain essentially constant the ordinary increases in the cost of maintaining County government will require continued reductions in expense.

- ❖ **The inherent variability in the cost and reimbursement pattern of the Health and Welfare programs will continually produce annual swings from surpluses to deficits as long as the County has no surplus to use as working capital.**

  Even with more stable programs and improved estimating tools, these programs—representing more than half of the County budget—will continue to difficult to predict. A General Fund surplus is an essential tool to manage these swings without disruption to other county activities.

- ❖ **The current approach to reducing the non-mandated social welfare costs does not appear to be governed by a clear vision of the County's role.**

  While reductions in expenses for all areas will be required, at least for the near future, there does not appear to be a clear rationale for funding one program over another, providing transparent guidelines for expenditure decisions. Without guidelines, the consequence is a fractious debate that encourages exaggeration on all sides, making the process of coming to grips with the financial reality while mitigating the harm more difficult.

- ❖ **The revenue/expense imbalance that is causing the budget deficits will not be corrected on a sustainable basis without significant changes in the County's financial structure beyond those currently in place or proposed.**

RECOMMENDATIONS

There is no single or simple solution to the County's financial problems. The public debate that often presents the choice as either a property tax increase or a reduction in community based social welfare programs is too simplistic. Whether you like one or the other, either action alone would currently require an unacceptably large adjustment to adequately address the problem. It has taken us awhile to get into this situation and it is going to take us awhile to get out of it. Along the way there is going to be some pain and difficulty.

The process of dealing with the immediate problems faced in 2003 is underway. It will have to be resolved by the Legislature and Executive and will not be easy. Although some of our recommendations may be useful in that process, we have not been asked to participate in it directly. We believe that in total none of the currently proposed courses of action will provide a long lasting solution and there is some question that they will last through 2003. The focus of our recommendations is on trying move beyond the immediate fix.

Despite the pain and difficulty, the situation confronting the County presents an opportunity to realistically come to grips with the financial difficulties that have been plaguing it for most of the past decade. In order to do so, we will have to move beyond solutions that appear to address the immediate problem or simply shift the burden or blame to someone or someplace else.

It will require a continuing multi-year financial plan that brings together the elements of a solution, the multiple parties who need to cooperate in a non-partisan manner and provides some predictability for the programs, people and organizations affected by the annual budgets.

- **Monroe County should publish a multi-year revenue and expenditure plan as part of each submitted budget.**

  - The creation and publication of a long range financial plan would enable officials and the community to explore the implications of financial trends apparent in the budget.

  - A multi-year plan is essential because it opens options for solutions that are not possible if we only struggle from year to year and many of the elements of a solution will take several years to implement. Because there will be adjustments and reductions in expenses, the people and organizations involved need to have some basis on which to plan in order to get their jobs done and to retain their support. Some of the solutions will require an increased level of cooperation and trust among the partisan factions. That is more likely to occur if people know where they are going and are less afraid that there is a political trap around the corner.

  - The plan needs to have multiple elements, because relying on any one or a limited number of possible solutions, such as raising property taxes or reducing non-mandated social welfare expenses, would require unacceptably extreme adjustments.

  - The multi-year plan should continually roll forward and be adjusted on a regular basis in order to anticipate the type of issues that created the current problems and give everyone involved a better opportunity to deal effectively with them.

- **New York State government and our local delegation from both parties should take responsibility for the local expense consequences of the programs that are mandated by the State.**

  When they create and mandate these programs in the current financial situation of County, they are telling the County to either raise taxes or cut other services. Their responsibility goes beyond the traditional "bail-out" or one-shot assistance. It requires continuing accountability on the part of the State government. As an initial minimum step, no further increases should be mandated and increases in the cost of existing mandates should be absorbed by the State. Thereafter, a program for reducing the local burden should begin. It will take a very direct presentation of the facts to get the State and delegations attention, but there should be allies in all of the counties across the state and bipartisan support within the County.

- ❖ **Focus NYS assistance beyond mandated programs to financial support that will permanently reduce the County's cost structure, such as relief from the Frontier Field debt.**

- ❖ **Continue a vigorous commitment to economic development; Consider the impact of County budget decisions on the economic attractiveness of the County.**

- ❖ **Expand process improvement programs as illustrated in the Altreya Report.**

  - There is substantial evidence in the Altreya Report of the benefits that could result from process improvement in the Health and Social Services departments. We believe that it could be usefully applied across the County. As was the case with the health and welfare areas, this should include areas that are traditionally viewed as mandated. If more than half the County budget is considered off limits little progress can be expected. At the least, if the County is to operate effectively after the significant reduction in employment, there will need to be significant process changes. This recommendation is related to the specific recommendation concerning information technology.

  - We remain concerned about the expectations raised by the Altreya process and the ability to fully achieve the benefits budgeted for 2003.

- ❖ **Develop a partnership with the not-for-profit agencies that are providing services that have been funded by the County.**

  Rather than unilaterally reducing allocations, the County could present the issue of what needs to be done and how much is available to do it. The agencies could then participate in designing the solution. This does not mean that there will not be reductions or that those reductions may not force changes in the agencies. However, this approach should produce a more informed result that could recognize the long range benefits of preventive services and matching revenues and assist in managing the service transitions. The United Way has been engaged for a number of years in a program of allocating support on the basis of proven outcomes in selected areas and there are a number of well-managed agencies that have worked well with this program. This could provide the basis for working with the County or, at least, the basis for optimism for a partnership relationship.

- ❖ **The County is faced with a growing expense burden for services provided throughout the County while receiving a diminishing share of the available revenue.**

The County's continuing sources of revenue are the sales tax and real property assessed value and are shared with town, village, suburban school district and city jurisdictions in the county. The division of sales tax proceeds is based largely on history and political expediency, rather than a rational relationship to service obligations, expenses or need. While the County has held the levy used for setting the real property tax constant, so that the rate has actually declined, this has not generally been the practice of the other taxing jurisdictions.

- **The debate around the allocation of the county sales tax should focus on joint management of the expense base.**

As authority for the fourth cent must be reauthorized in 2003 by the State Legislature (the County's right to levy a 3% sales tax does not require recurring State approval), this may become an opportunity for fractious debate instead of productive dialogue over joint costs. As noted in the Conclusions, if the sharing formula had remained unchanged from 1997, the County would have received an additional $17m in 2001 and the budget would have been close to balance. While this is usually portrayed as a dispute between the County and the City, the total share of the tax allocated to the other jurisdictions is larger than the individual shares of either the City or the County. It cannot be resolved, as it has in the past, by increasing the tax without making the county uncompetitive with the surrounding areas. Monroe County retailers face significant competition Ontario County (the Eastview Mall area), Seneca County (Prime Outlets) and, in the future, Onondaga County (DestiNY USA), all of which tax retail sales at 7%, less than the 8% imposed in Monroe County.

All of the governments in the county are involved and have something to lose. Even if they were willing to reallocate the sharing formula, they will need to work together to manage the expense base. The unlikely event of a return to the 1992 formula would not be enough to offset the projected deficits in 2002 and 2003. In addition, reallocating the sales tax revenue without reducing expenses simply moves the problem around. The effort to manage the expense base will require a broad based cooperative effort to consolidate and coordinate activities and services. Countywide procurement is a possible source of savings. All jurisdictions, including the County, need to seriously commit to this process.

Services consolidated across jurisdictions may reasonably be outsourced to the private sector.

- **We do not believe that the County can reasonably sustain its commitment to maintaining the real property tax levy unchanged.**

The performance of County government needs to be judged in terms of the quality of life it produces, as well as its cost. Holding the tax levy constant has locked the

County into a pattern of escalating costs and constant revenue that will inevitably exact too great a burden on reducing services.

Maintaining a constant levy has resulted in a decline in the County tax rate, something for which the County may not be getting full credit. However, as discussed earlier this means that the County has derived no benefit from the 30% increase in the full value of real property over the past 10 years. This property value provides the opportunity to increase the levy without increasing the rate. Had the County kept the rate rather than the levy constant since 1992 it would have had approximately $54m in additional revenue in 2001. However, there is no going back without a very substantial current increase and, whether the rate is constant or not, it still costs the property owner more money.

The issue of the real property tax burden is further complicated because the County portion of the tax is often the smallest part. The total tax levy of many of the other taxing authorities has not stayed constant and in total real property taxes are high, when compared with many locations with which we compete economically. This should constrain any increase in the tax levy. Figures 7, 8 and 9 (above) illustrate the position of Monroe County relative to competitive counties, both in terms of the county property tax levy, the total property tax levied (all local jurisdictions) and the total of all taxes levied by Monroe County local governments.

On balance, we believe that the County should break away from the practice of attempting to maintain a constant property tax levy. However, any reasonable increase in the levy will not be sufficient to balance the County's finances and it can only be justified as part of the total multi-year plan.

❖ **As finances allow, rebuild net equity in the General Fund.**

As is discussed at length above, a significant share of both revenue and expense are beyond the direct control of the County. Policy changes at higher levels of government and shifting economic conditions can shift large sums within a short period of time. Prudent fiscal management recommends that the County plan for a modest surplus. Recommendations of regulators and rating agencies range from 5% to 10% of the total General Fund.

❖ **Explore the opportunity for reducing expenses by conducting a countywide space utilization study.**

The County occupies a substantial amount of space in a number of owned and rented locations. The dislocations associated with changes over time and now accelerated by the current substantial reduction in the number of employees presents the opportunity to rationalize all of the County's space utilization.

- **The Commission recommends substantial investment in information technology.**

  - The Altreya Study presented a convincing argument for improvement in the County's information technology infrastructure and we suspect that this would also apply beyond the Health and Welfare Departments. Despite the conflict with reducing expenses, in the long run the County cannot hope to reduce its costs while maintaining or improving services without a substantial improvement in information technology.

  - In this fast changing area this may require the County to outsource a substantial portion of this function, as has been the case with many businesses and other organizations. In any case, there needs to be a plan for dealing with this infrastructure is a more realistic and aggressive manner.

- **Improve coordination between the Finance Department's Controller & Budget offices.**

  - The Controller's Office and the Office of Management and Budget operate separately and, in some circumstances, use different financial reporting systems. While the people we worked with were eventually able to rationalize the numbers, this creates conflicts between the budget and audited reports. This detracts from the usefulness of both for management purposes and makes financial analysis more difficult. We believe that it would be more effective if the offices were combined, but if this is not appropriate a more direct and continuing system of coordination should be developed.

  - The Finance Department would benefit from improved information technology. The management of a complicated $1 billion budget in the present day requires the ability to quickly and accurately assemble facts and flexibly present analyses of the financial situation and trends. This requires modern information technology that is not now available within the County.

- **Emphasize alternatives to incarceration as a means of forestalling additional public safety expenditures.**

  The 2003 proposed budget reduces expenses by phasing in the utilization of the new jail. The County has successfully used alternatives to incarceration programs to reduce the jail population and we recommend that such programs be considered as a cost effective way to avoid completing the phase-in of the jail and retaining some of savings now in 2003 budget.

- **Independently assess the long run fiscal impact of asset sales before disposition.**

  The County has been disposing of assets and using the proceeds to reduce operating deficits. We have no reason to believe that the sales are not appropriate and most may be without any continuing impact. However, in some cases the County must either find alternatives for the use of the sold property or its output. Under the pressure of the budget deficit and the political tension that accompanies it, the decision to dispose of property can be difficult and the debate uninformed. We recommend that each sale be justified by an independent analysis to determine the impact of cost to replace as well as the sale proceeds.

- **Explore approaches to contain the rapidly-rising cost of Medicaid.**

  Medicaid is the single largest contributor to the increase in the mandated health and welfare costs and the area where the County has the least direct control. This program is burdening government at all levels and there are efforts across the country to attempt to control the increasing costs. Even at the local level with the least apparent control there are attempts to limit costs through programs such as those that emphasize generic drugs and provider selection. Given the size of the Medicaid financial burden on the County, even small improvements are worth the effort. The County should make every effort to connect with any of the programs that might produce positive results.

- **Pursue control of employee health care costs.**

  The cost of employee health care has grown dramatically for the County as it has for all other employers. However, the County has not been able to significantly implement any of the employee cost sharing or other cost control programs that are now standard in private and not-for-profit organizations, both union and non-union. This does not encourage employees to take some responsibility for their health care expenses and disproportionately burdens the County compared to other employers. If the County cannot modify this practice it will have to continue to reduce employment, cut expenses and eventually raise taxes to pay for it. It will be particularly difficult to justify raising taxes for this purpose when most citizens and businesses have already had to make some sacrifices because of the increase in medical costs.

APPENDIX

By Legislators Cassetti and Smeenk

Intro. No. 298

RESOLUTION NO. 221 OF 2002

BLUE RIBBON COMMISSION TO REVIEW 2002 AND 2003 MONROE COUNTY BUDGETS

WHEREAS, a Blue Ribbon Commission consisting of a non-partisan group of people appointed to evaluate and review the County's current fiscal situation can benefit the County, its administration, the Legislature and County residents; and

WHEREAS, it is necessary to provide funding for the work of the Commission.

NOW, THEREFORE, BE IT RESOLVED BY THE LEGISLATURE OF THE COUNTY OF MONROE, as follows:

Section 1. A Blue Ribbon Commission comprised of five (5) members is hereby created to examine and report on Monroe County's current and projected fiscal status. Members of the Commission shall be residents of Monroe County with a background in finance and/or budget related fields.

Section 2. Members of the Commission shall be appointed by the President of the Legislature based upon the nomination of two (2) members by the Majority Leader, one (1) member by the Minority Leader and two (2) members by the County Executive. Appointments shall be subject to confirmation by the Legislature. Members shall serve without compensation except they shall be reimbursed for actual and necessary expenses incurred.

Section 3. A report of the Commission's finding is to be delivered to the Monroe County Legislature and County Executive by September 30, 2002.

Section 4. The President of the Legislature, or his designee, is hereby authorized to execute contracts, and any amendments thereto, for services related to the work of the Blue Ribbon Commission.

Section 5. Funding for the work of the Commission is hereby provided by transferring $10,000 from the contingency fund, account 090-9001-4700, to the 2002 operating budget of the President of the Legislature Office, account 001-001-0103.

Section 6. This resolution shall take effect immediately.

Agenda/Charter Committee; September 4, 2002 – CV: 4-1 (as substituted)
File No. 02-0283

ADOPTION: Date: September 10, 2002 Vote: 23-5 *(Legislators Benet, Cruz, Lee, Rizzi and Thomas voted in the negative)*

Clerk's Office, County Legislature №   9907
MONROE COUNTY, N.Y.

Rochester, N.Y. September 11, 2002

To Whom it May Concern:

I Hereby Certify, That at a Session of the County Legislature of the County of Monroe, held in the County Office Building on September 10, 2002 a resolution was adopted, of which the following is a true copy and appears on page ...... of the official proceedings.

By Legislators Cassetti and Smeenk

Intro. No. 300

RESOLUTION NO. 222 OF 2002

APPOINTMENTS TO BLUE RIBBON COMMISSION TO REVIEW 2002 AND 2003 MONROE COUNTY BUDGETS

BE IT RESOLVED BY THE LEGISLATURE OF THE COUNTY OF MONROE, as follows:

Section 1. In accordance with Resolution 221 of 2002 (File No. 02-0283), the Legislature hereby confirms the appointments made by Dennis A. Pelletier, President of the Monroe County Legislature, to the Blue Ribbon Commission to Review 2002 and 2003 Monroe County Budgets, as follows:

Majority Leader Nomination:
Anne L. Burr, 16 Mitchell Road, Pittsford, New York 14534
Charles I. Plosser, 95 Ambassador Drive, Rochester, New York 14610

Minority Leader Nomination:
____

County Executive Nomination:
Chairperson: Thomas Richards, 57 Dorchester Road, Rochester, New York 14610
Kenneth D. Bell, 42 Arbor Creek Drive, Pittsford, New York 14534

Section 2. This resolution shall take effect immediately.

Matter of Urgency
File No. 02-0351

ADOPTION: Date: September 10, 2002 Vote: 27-1 *(Legislator Thomas voted in the negative)*

STATE OF NEW YORK
COUNTY OF MONROE
CITY OF ROCHESTER
OFFICE CLERK, COUNTY LEGISLATURE
} ss

I have compared the preceding with the original thereof on file in this office, and hereby certify that the same is a correct transcript therefrom, and of the whole of said original.

Joanne B. Zelazny
Joanne B. Zelazny, Clerk *Clerk.*

Monroe County Legislature
Office of the President

DENNIS A. PELLETIER
PRESIDENT

September 18, 2002

Ms. Joanne B. Zelazny
Clerk of the Monroe County Legislature
39 West Main Street, Room 407
Rochester, New York 14614

RE: Appointment to the Blue Ribbon Commission to Review 2002 and 2003 Monroe County Budgets

Dear Clerk Zelazny:

I, Dennis A. Pelletier, President of the Monroe County Legislature, and in accordance with referral 02-0283, do hereby submit to you the ex-officio appointment of Mr. Domingo Garcia, 104 Scio Street, Rochester, New York 14604 to the Blue Ribbon Commission.

Mr. Garcia shall now receive pertinent correspondence as to meeting schedules, composition of the Commission, and all other pertinent information to his ex-officio appointment.

Please submit this correspondence as a Read and File to the Monroe County Legislature.

Sincerely,

Dennis A. Pelletier
President
Monroe County Legislature

cc: T. Richards
D. Garcia

227 HILLTOP LANE • SPENCERPORT, NEW YORK 14559
RES. 585-352-6830 • OFF. 585-428-5255
E-MAIL: monroe20@co.monroe.ny.us

PEOPLE INTERVIEWED

Scott Adair, Senior Manager, KPMG

Carol Deinhardt, Department of Social Services, Monroe County

John Doyle, Executive, Monroe County

Paul Haney, Former Director of Finance, Monroe County

Richard Hutchings, Examiner, member, Monroe County Federation of Social Workers

Suzanne Kennedy, Director, Office of Management & Budget, Monroe County (2 meetings)

Eric Leinenbach, Internal Audit Manager and Acting Controller, Monroe County

Stuart Marsh, Altreya Consulting

Gerald Mecca, Chief Financial Officer, Monroe County (2 meetings)

Andrew Mistur, Engagement Partner, KPMG

Peter Palermo, Altreya Consulting

Gary Pence, Director, Public Safety, Monroe County

Richard Schauseil, Director, Social Services Department

Anthony Scurmaci, Assistant Controller, Monroe County (2 meetings)

John Vasko, President, Monroe County Federation of Social Workers

Donald Viconti, Social Services Department, Monroe County

Jean Zimber, International affiliate, Monroe County Federation of Social Workers

MEETINGS

September 20, 25, 27
October 1, 4, 9, 15, 22, 25
November 1, 11

BLUE RIBBON COMMISSION: MATERIAL REVIEWED

- Monroe County Department of Finance (Gerald Mecca, Monroe County CFO; Suzanne Kennedy, Budget Director; Eric Leinenbach, Controller; OMB & Controller's Office staff)
  - 2002 Adopted and 2003 Proposed budgets
  - *Comprehensive Annual Financial Report* (CAFR) 1997-2001
  - *Popular Annual Financial Report* (PAFR) 1998-2002
  - Key Indicator Reports 1st, 2nd and 3rd quarters for both 2001 and 2002
  - Monthly Financial Statements, June & July 2002
  - Summary of tobacco settlement, sources and uses
  - Background material submitted to 1992 Blue Ribbon Commission
  - 9/25/02 presentation on 2003 budget issues prepared by Suzanne Kennedy, Director of Monroe County Office of Management & Budget
  - *Final Report of 1992 Blue Ribbon Commission*
  - Budget to actual variances from 1997 to 2001; Analysis of variances
  - Frontier Field accounting
  - Numerous analyses of cost and revenue trends for specific programmatic categories, particularly Health & Welfare, Public Safety and Culture, Recreation & Education
  - Monroe County *Capital Improvement Plan* 2003-2008
- Altreya Consulting, *Report on Operations of Department of Social Services and Public Health* (original of 8/22/02 and updated of 10/25/02)
- Gerald Benjamin, Provost, SUNY New Palz, "New York Counties in 2003: Opportunity in Crisis?" remarks at NYSAC Fall Conference, 9/26/02.
- Joseph Calabrese, President of United Way, letter dated 10/9/02 addressing the impact of proposed budget reductions on health and human services.
- Federation of Social Workers, analysis of Altreya Report and related material.
- Paul Haney, former Monroe County Director of Finance, various budget analyses (provided by Stephanie Aldersley on 10/8/02 and updated by Haney on 10/25).

- William Johnson, Mayor of Rochester, *Impact of Monroe County's Proposed Budget Cuts*, October 30, 2002.

- KPMG, memorandum describing impact of changes in accounting mandated by GASB 34.

- Margaret O'Neill, Cornell Cooperative Extension, letter dated 10/7/02 from concerning impact of proposed budget reductions.

- Monroe County Legislature "Independent Caucus," list of proposed expense restorations, new revenue and cost avoidance.

- Municipal bond rating agency reports from Moody's (5/14/99, 11/13/01, 2/20/02, 5/28/02), Standard & Poors (10/7/97, 2/20/02) and Fitch (5/17/99, 2/19/02)

- NYS Association of Counties, cost trends facing NYS counties for 2003 (particularly Medicaid and pension), distributed at Fall 2002 NYSAC meeting, 9/26/02.

- Office of the NYS Controller, Comparative financial information on NYS counties (analyzed and presented by CGR)

- Gary Pense, Monroe County Director of Public Safety, analysis of Public Safety costs, jail population trends and jail capacity.

- Alice Rivlin, Senior Fellow, Brookings Institution, *Another State Fiscal Crisis: There Must be a Better Way*, 10/15/02.

- Richard Schauseil, Commissioner of Social Services (now retired), analysis of social service cost and caseload trends.

- Mark Thomas, Chautauqua County Executive, newspaper citations and other materials describing the extent of the financial problems facing NYS counties.

CHARTER FOR BLUE RIBBON COMMISSION TO REVIEW 2002 AND 2003 MONROE COUNTY BUDGETS

The Commission was created by the Monroe County Legislature on September 10, 2002 for the purpose of examining and reporting on the current and projected financial status of the County in the context of the performance to date for the 2002 Budget and the proposed Budget for 2003.

The Commission's examination is intended to provide independent nonpartisan assistance to the County Executive and Legislature as they discharge their statutory obligation to deliver a budget. It will strive do so by providing a common factual base from which to proceed and by identifying those factors that are affecting the County finances which will need to be considered in devising a successful financial plan. The examination will determine the significant factors that are impacting the County's revenue and expenses and thereby driving the budget into deficit. It will consider the reasons for the creation or change in those factors, whether they are mandated or discretionary and the mechanisms for estimating their impact. To the extent possible, structural issues affecting the County's finances that will continue beyond the current economic slowdown will be identified.

In examining the performance to date for the 2002 Budget, the Commission will review the status of expenses incurred, revenues received, the causes of variances from the original Budget proposal and the impact of any adjustments made after the adoption of the Budget. It will also review the projection for year-end results.

In examining the proposed 2003 Budget, the Commission will review the projected revenues and expenses set forth in the proposed Budget, variances from the 2002 Budget and projected 2002 year-end results and the causes of those variances.

In conducting its examination, the Commission will not attempt to audit the County's finances or to review the correctness or wisdom of individual expenses. The Commission's purpose is to provide assistance in policy making, rather than to verify the accuracy of the County's accounting. An audit is routinely performed by the County's public accounting firm, KPMG, and available to the Commission, Legislature and public. The Commission will rely on the factual information in the audited financial statements and budgets presented to it by the County as a basis for its examination. However, it will obtain such further information or analyses as it deems necessary and will reach an independent conclusion concerning the financial status of the County.

The Commission will determine in its discretion the information it will consider and the means by which that information will be received. It will not conduct public hearings or provide interim public information. It is anticipated that a written report of the

Commission's work and conclusions will be provided to the Legislature and the public and that the Commission will be available to discuss that report.

RULES OF ENGAGEMENT FOR BLUE RIBBON COMMISSION

1. Our examination is limited to the scope provided for in the Legislature's Resolution as we have interpreted it with our Charter. We may recommend examination or activities beyond that scope, but will not undertake them.

2. We will initially receive such information as the County Finance Staff deems necessary, but will not be limited to that information.

3. We will request additional information from the County or such other sources as we deem necessary to fulfill our examination.

4. We will receive information or requests to discuss matters with the Commission from individuals or organizations other than County, but will determine in our discretion whether such information will be considered or requests will be honored as appropriate and useful for our examination.

5. Our meetings are not open to the public or press and we will determine in our discretion who, other than Commission members, can be present.

6. Only members of the Commission will participate in determining its final conclusions and recommendations.

7. We will only consider information that has been shared with the entire Commission and individual members will not conduct independent investigations unless authorized to do so by the Commission.

8. Prior to the release of our final Report, we will not discuss the activities of the Commission with the press or others not on the Commission except as we have determined as a Commission to do so.

9. We will make every effort to conduct our activities by consensus. To the extent that we do not achieve consensus, decisions concerning the conduct of our examination will be made by majority vote. To the extent that a member disagrees with the final report of the Commission, he or she may express that disagreement after the filing of the report.

10. However we have been chosen, we understand that as members of the Commission we are to conduct our activities in an independent nonpartisan manner with the intention of serving the Legislature and citizens of the County as a whole.

EXPENDITURES IN COMPARISON COUNTIES

The following table shows total expenditures by major category, breaking out personnel, contractual and capital expenses. The source of these data is the Office of the NYS Comptroller and includes all funds, not simply the General Fund.

Comparative All Funds Expenditure Data, 2000

	Monroe	*Erie*	*Onandoga*	*Albany*	*Westchester*	*Nassau*	*Suffolk*
Total expenditures	*$992,360,210*	*$1,213,885,379*	*$639,659,895*	*$373,635,981*	*$1,364,966,023*	*$2,139,938,000*	*$1,789,099,754*
Current operations	946,773,142	1,151,696,692	589,414,071	362,085,539	1,270,441,926	1,999,913,000	1,653,255,662
Personal services	188,591,106	324,872,124	160,418,270	95,379,906	304,001,269	698,780,000	641,767,977
Benefits	48,776,765	75,054,387	45,133,571	27,219,720	104,953,898	207,407,000	204,651,734
Contractual	709,405,271	751,770,181	383,862,230	239,485,913	861,486,759	1,093,726,000	806,835,951
Capital	45,587,068	62,188,687	50,245,824	11,550,442	94,524,097	140,025,000	135,844,092
General govt	*119,675,541*	*89,658,135*	*65,335,294*	*39,368,150*	*225,322,197*	*326,759,094*	*235,377,954*
Personal Services	36,454,950	48,295,903	27,740,417	21,554,544	82,756,007	109,827,094	112,528,526
Contractual	82,244,798	37,994,855	32,547,288	12,924,122	113,657,244	179,511,000	104,350,205
Capital	975,793	3,367,377	5,047,589	4,889,484	28,908,946	37,421,000	18,499,223
Education	*54,384,624*	*40,132,783*	*28,104,584*	*17,009,215*	*56,076,134*	*78,414,274*	*134,956,071*
Personal Services	902,456	1,121,969	201,482	0	0	783,274	0
Contractual	45,039,244	38,494,372	26,961,410	17,008,070	47,429,289	75,598,000	124,335,604
Capital	8,442,924	516,442	941,692	1,145	8,646,845	2,033,000	10,620,467
Police	*90,042,713*	*91,395,308*	*74,068,924*	*40,411,098*	*162,571,688*	*695,347,773*	*525,873,159*
Personal Services	69,205,230	80,514,900	49,533,419	31,837,611	127,805,844	604,921,773	498,652,960
Contractual	19,591,796	9,316,308	23,746,490	8,093,572	33,916,331	84,026,000	20,461,770
Capital	1,245,687	1,564,100	789,015	479,915	849,513	6,400,000	6,758,429

Comparative All Funds Expenditure Data, 2000

	Monroe	*Erie*	*Onandoga*	*Albany*	*Westchester*	*Nassau*	*Suffolk*
Fire	*1,411,829*	*3,157,269*	*361,386*	*0*	*0*	*17,406,280*	*8,287,485*
Personal Services	350,899	817,006	260,443	0	0	9,814,280	4,213,660
Contractual	944,757	288,662	98,558	0	0	7,083,000	1,920,033
Capital	116,173	2,051,601	2,385	0	0	509,000	2,153,792
Other Public Safety	*33,550,974*	*3,443,829*	*12,809,292*	*2,770,429*	*12,072,228*	*7,814,392*	*19,691,587*
Personal Services	5,420,309	315,043	7,254,584	611,777	5,631,092	3,868,392	7,932,727
Contractual	16,030,037	2,379,895	3,998,425	656,685	5,411,389	3,366,000	2,353,706
Capital	12,100,628	748,891	1,556,283	1,501,967	1,029,747	580,000	9,405,154
Health	*99,123,091*	*285,057,424*	*83,172,295*	*37,568,957*	*133,722,469*	*130,886,889*	*206,485,502*
Personal Services	44,810,383	154,583,323	41,209,428	17,443,059	37,726,331	35,690,889	85,270,379
Contractual	54,219,300	129,608,420	41,259,025	20,092,797	95,014,908	92,990,000	115,357,711
Capital	93,408	865,681	703,842	33,101	981,230	2,206,000	5,857,412
Transportation	*47,368,644*	*80,675,562*	*40,606,884*	*18,284,162*	*106,314,792*	*125,549,668*	*82,958,858*
Personal Services	7,805,296	14,763,731	8,890,248	6,275,357	12,264,846	20,358,668	7,348,598
Contractual	20,811,143	25,527,455	16,319,212	7,528,401	71,510,301	50,029,000	43,279,028
Capital	18,752,205	40,384,376	15,397,424	4,480,404	22,539,645	55,162,000	32,331,232
Economic Assistance	*467,538,382*	*542,374,127*	*235,498,525*	*203,522,502*	*471,011,771*	*487,582,807*	*445,765,293*
Personal Services	50,852,476	81,243,785	37,080,170	40,130,695	87,751,707	56,028,807	90,943,336
Contractual	416,609,015	460,445,824	197,574,373	163,257,525	382,816,391	431,470,000	340,723,539
Capital	76,891	684,518	843,982	134,282	443,673	84,000	14,098,418
Culture-Recreation	*29,512,014*	*18,321,438*	*26,271,827*	*5,847,650*	*52,541,198*	*62,782,048*	*53,618,059*
Personal Services	7,087,697	5,531,750	12,754,324	450,268	27,803,561	25,778,048	13,015,612
Contractual	18,640,958	10,636,912	11,702,037	5,378,384	15,726,294	29,661,000	9,196,245
Capital	3,783,359	2,152,776	1,815,466	18,998	9,011,343	7,343,000	31,406,202

Comparative All Funds Expenditure Data, 2000

	Monroe	*Erie*	*Onandoga*	*Albany*	*Westchester*	*Nassau*	*Suffolk*
Utilities	*33,385,647*	*48,828,303*	*63,600,659*	*6,771,547*	*59,897,575*	*95,005,065*	*59,344,348*
Personal Services	11,145,774	9,789,787	18,294,830	3,771,035	23,060,770	32,690,065	22,072,669
Contractual	22,239,873	29,237,222	22,267,875	3,000,512	28,870,024	39,695,000	34,611,315
Capital	0	9,801,294	23,037,954	0	7,966,781	22,620,000	2,660,364
Other	*16,366,751*	*10,841,201*	*9,830,226*	*2,082,271*	*85,435,971*	*112,389,708*	*16,741,443*
Personal Services	3,332,401	2,949,314	2,332,497	525,280	4,155,009	6,425,708	4,441,249
Contractual	13,034,350	7,840,256	7,387,537	1,545,845	67,134,588	100,297,000	10,246,795
Capital	0	51,631	110,192	11,146	14,146,374	5,667,000	2,053,399