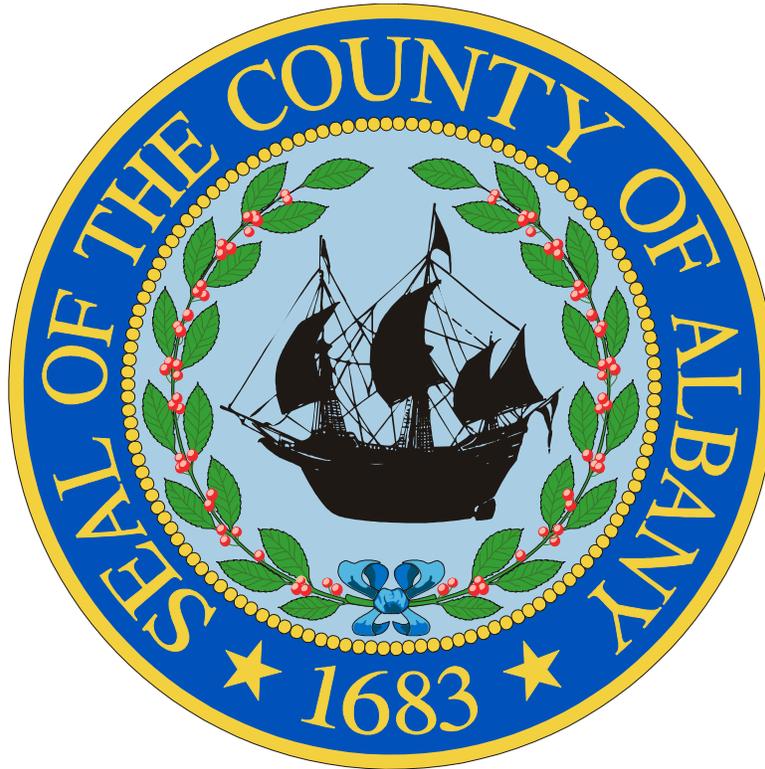


# State of the Fisc 2004

## The Fiscal Condition of Albany County 2003



Delivered: Monday May 10, 2004

**Michael F. Conners, II**  
**Albany County Comptroller**

## WELCOME AND OPENING

Charlie, Frank, John, Members of the Albany County Legislature and guests. I thank you for the opportunity to present my 9th State of the Fisc, our earliest ever. As we all know, our county continued to suffer financially during 2003, impacting the strength of our financial condition and overall well-being. First, I will present the financial results for 2003. I will then embark on a diagnosis of the fiscal challenges we continue to face. I will close with potential remedies to combat the myriad of challenges we confront. I am cautiously optimistic that, with the upward trends in the economy and implementing county initiatives to preserve our wealth, together we can continue to strive for fiscal soundness.

Before I begin, I would like to take this opportunity to thank former Executive Deputy Comptroller John Branigan for his thirty tremendous years of service to Albany County and particularly his last eight plus years, as my lead deputy. Our office has made tremendous strides forward and it has been his leadership, commitment and gentle touch that made this all possible. The good news is that this fall John plans to return to service on a part-time basis. Bob Currier, my other deputy has also retired. His sage advice and piercingly keen insights have been invaluable. Fortunately, he too will be returning to assist on a part-time basis. I thank both men for their service.

## Section I - 2003 Financial Results

2003 proved to be one of the most difficult years in recent history. To begin, challenges from Federal and State mandates, the State Comptroller's pension financing "readjustments," and the impact of the national recession contributed to the difficulties we faced. Add to the mix, increased Medicaid spending, disastrous financial results at the Albany County Nursing Home and Ann Lee Home, an increase of \$6 million for our NYS Employee Retirement System obligations, a budgeted deficit consuming \$2.8 million of undesignated fund balance and several other factors. The end result is the overall fund balance declining by \$6.7 million in 2003.

We filed the Annual Financial Report (AFR) with the Office of the State Comptroller on April 28, 2004 and met with our Independent Auditors today, May 10, 2004 to begin the drive to finish the audit for the 2003 fiscal year. As you know, our office files the AFR in accordance with GAAP (Generally Accepted Accounting Principles) and GASB (Governmental Accounting Standards Board); therefore, few changes, if any, to the financial results occur after completion of the audit. Tonight, I will use the financial activities reported in the AFR so that you can better understand the 2003 fiscal condition of Albany County.

My further interpretation of the results and challenges we face follows in the next section of the Fisc under the Diagnosis Section, and the Remedy Section completes the report with suggested items to consider while preparing the 2005 budget and setting our priorities and policies.

The 2002 audit from Deloitte & Touche confirmed our compliance with all GASB rules including GASB 34 requirements. We were the first local government in Albany County to implement the new requirements.

### Impact of Nursing Homes (\$22 million plus)

The single largest impact upon the County's financial results for 2003 came from the operation of healthcare facilities at the Albany County Nursing Home and the Ann Lee Home. There is an incorrect assumption by many that the County's share of long term care costs is limited to 10% of those charges covered by Medicaid, with New York State contributing 40% and the Federal government paying the remaining balance of 50%. Our report issued in 2002 indicates that was not factually accurate and, again, was not the case, in 2003 either.

In 2003, the total Medicaid spending at both facilities was in excess of \$22 million, with a transfer of \$14.9 million from the general fund, to subsidize operations in 2003. When you consider \$22 million of Medicaid money and the transfer, we actually pay in excess of 38% of the total Medicaid costs associated with the operation of these facilities, not the 10% many would have you believe. The total transfer subsidy to the residential healthcare facilities in the past two years exceeds \$26.8 million.

We have informed the Legislature and Executive on numerous occasions about the difficulties at the facilities. Eleven days ago, we informed the New York State Budget Director of the dimension of the financial burden this presents. This spending cannot continue if we are to operate in a fiscally sound manner. Nassau, Westchester and Erie Counties, having recognized the magnitude and impact of this spending, have taken legislative action. The pressing need to do so in Albany County persists. I have a proposed potential remedy and draft legislation (authored by Former Bill Drafting Commissioner Paul Weafer and his associate Thomas Venter) for a public benefit corporation, much akin to the structure of the Airport Authority, with added employee protections not contained in legislative remedies used by other counties. Copies of this legislation are available upon request and also at the county website.

We have communicated with the Executive's Office, the Majority Leader and Minority Leader during the course of our work, and attempted on several occasions to communicate with SEIU leadership on this matter. We look forward to working with all parties to craft a remedy for this distressing and ongoing problem, one with no likely end to increased spending in sight if left as is.

Impact of Increase of Local Share of Medicaid Spending (\$5.9 million)

The second largest financial impact on the 2003 fiscal year's results came from another increase in our local share of Medicaid spending. The increase last year was \$5.9 million for a total local share of \$58.1 million. Medicaid is an unmitigated financial disaster for Albany County and its taxpayers.

Our budgeted share of the spending is only a fraction of the total cost to our taxpayers. We all pay toward the 100% of the federal money, which comes from federal tax dollars. We also pay toward the New York State share through our state taxes. Despite our continued contributions in tax dollars on all three levels, we cannot keep up with the pace of Medicaid costs.

Medicaid is the largest structural problem the County faces in its financial soundness. See the chart below that shows the total spending on Medicaid for Albany County for the period of January 1, 2003 through December 31, 2003, i.e., total spending in excess of \$328 million. This is an increase of over \$40 million from 2002 with no end to the increases in sight.

In the remedy section of the Fisc, I have proposed to have a countywide voter referendum. It requires requesting a federal demonstration grant project award for Albany County, with the assistance of the Governor and State Legislature. The project would improve the medical outcomes provided, ensure a longer, safer life at home for our seniors and medically frail, place the poor and federally eligible retirees together in the work force, with the best training available, provide an outreach program for our county and finally develop a partial funding endowment for long term care coverage.

Other solutions have been advanced through the statewide task force as well. It is, however, clear that the size and dimension of the problem exceeds the state's ability to react, let alone ours as a county under present conditions. We must take the initiative to correct, or at a minimum protect, our county from this disaster.

<b>Medicaid Expenditure Report</b>			
<b>Overview</b>			
<b>January - December 2003</b>			
	<u>Total All Services</u>	<u>Prepaid</u>	<u>Fee For Service</u>
<b>New York City &amp; Upstate Total</b>	\$32,764,923,624	\$4,934,650,972	\$27,830,272,652
<b>New York City Total</b>	\$21,430,281,339	\$3,414,646,917	\$18,015,634,422
<b>Upstate Total</b>	\$11,334,642,285	\$1,520,004,055	\$9,814,638,230
<b>County Totals</b>			
<b>Albany</b>	<b>\$328,457,875</b>	<b>\$48,631,240</b>	<b>\$279,826,635</b>

**Source**  
**NY State Dept of Health**

Impact of the Employees Retirement System Contribution Increase

The third largest financial impact upon operations of Albany County during 2003 came from the Employees Retirement System contribution increase. While I agree the creation of the problem was not of Comptroller Hevesi's making, he certainly got our attention with a \$6 million increase to bring total costs for retirement to \$7.7 million for 2003. We certainly should not have had years without any contribution requirement, but we certainly should not have to pony up over \$6 million in one year - - particularly when the grantors of the ERS benefit increase can pass the additional costs on to cities, counties, towns and villages with impunity while limiting the state's increased contribution.

I have on two occasions offered a potential remedy for this matter to the Audit & Finance Committee and the County Executive. The time is now be ripe to consider the Employee Early Retirement Part Time Work option as a method to deal with this problem. We should seek NYS Legislative assistance with an amendment of the NYS Retirement and Social Security Laws Sections 211 and 212 to encourage those with an appropriate number of years service to retire and return to work part time, while providing the opportunity for those new or returning to the workforce to reinforce an already overstretched governmental work force. An additional number of years of part-time service could increase the base number of years of service, at an actuarially sound time, to provide for the elimination of the early retirement penalties while providing for continued representation by the labor unions and contributions to the ERS. This proposed remedy would provide tax relief, generate more disposable income in our county, improve services and retain valuable institutional memory and ability that previous early retirement incentive packages have flushed out of the public service.

While the proposed savings in Albany County tax dollars would only be in the \$1.5 million range on a total employee cost of \$135 million (\$108 million salary and \$26.9 million for employee benefits), the savings in other local governments would have greater impact due to the larger percentage of total budget spent on salaries and fringes for cities, towns and villages versus our direct payments expenditures, which far outweigh our employee costs. If this remedy was implemented in school districts, they too would not only realize savings but hopefully better educational outcome by retaining experienced teachers and administrators.

To give you an idea on the potential size of the cohort we are talking about in Albany County, Tony Fontanelli ran a test search for me last week to determine the total number of employees 50 years of age or above with 20 years or more of Albany County service. He found approximately 294 people who would be hypothetically eligible with a total payroll of \$12.2 million.

### Additional Areas of Concern

Other budgetary issues, revenues generated and other factors are of concern as well, some of which are as follows:

- ✚ \$2.8 million increase at the jail
- ✚ \$1.3 million increase for education
- ✚ \$3.3 million increase in public safety (includes the \$2.8 at the jail)
- ✚ \$913 thousand additional decrease in tobacco revenues
- ✚ \$1.2 million reduction in interest income
- ✚ \$417 thousand drop in OTB revenue
- ✚ \$117 thousand reduction in civic center revenue
- ✚ Undesignated fund balance declined to 4.75% of 2004 Appropriations
- ✚ Expenditures exceeded 2002 for the general fund by \$7.3 million while revenues only grew by \$4 million
- ✚ Intergovernmental Transfers for support of the Nursing Homes fell by \$1.3 million
- ✚ Total fund equity declined by \$6.7 million
- ✚ Undesignated Fund Balance fell to \$18.6 million (dangerously low given the size of our budget and volatility of unfunded mandates
- ✚ Revenues were \$10.6 million less than budgeted
- ✚ Federal Aid declined by \$9.2 million

Fortunately, we can also report certain areas with better than expected results:

- ✚ Expenditures were \$15.8 million less than budgeted
- ✚ Sales tax revenue only dropped by \$595 thousand from a record high collection of \$122.7 million in 2002 despite a difficult economy, war and uncertainties affecting consumer confidence
- ✚ NYS aid increased by \$8.2 million
- ✚ ADC and Safety Net spending only increased by \$1.3 million
- ✚ Economic Assistance & Opportunity spending decreased by \$1.2 million to \$189 million

Below is a working spreadsheet highlighting a number of key areas to assist you in navigating the AFR.

	<b>BUDGET</b>	<b>ACTUAL</b>	<b><u>DIFFERENCE</u></b>
	<b><u>2003</u></b>	<b><u>2003</u></b>	
REVENUE	382,131,164	371,561,236	(10,569,928)
APPROPRIATED FUND BALANCE			
EXPENDITURES	394,184,092	378,332,568	(15,851,524)
<b>DECREASE IN OVERALL FUND EQUITY</b>		<b>6,771,332</b>	

**REVENUE**

**HIGHLIGHTS:**

	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>DIFFERENCE</u></b>
TOBACCO SETTLEMENT	5,368,343	4,455,050	(913,293)
INTEREST INCOME	2,014,327	799,570	(1,214,757)
OTB	2,247,219	1,829,471	(417,748)
IGT	3,676,828	2,314,725	(1,362,103)
CIVIC CENTER	1,731,235	1,613,997	(117,238)
SALES TAX	122,740,462	122,145,134	(595,328)
<b><u>TOTAL REVENUE:</u></b>			
TAX ITEMS	166,946,199	174,259,926	7,313,727
DEPARTMENTAL, INTER-GOVERN- MENTAL, MISCELLANEOUS	57,875,568	57,076,920	(798,648)
STATE AID	65,918,873	74,194,203	8,275,330
FEDERAL AID	71,136,661	61,906,624	(9,230,037)
TRANSFERS	5,625,392	4,123,564	(1,501,828)
	<b>367,502,693</b>	<b>371,561,237</b>	<b>4,058,544</b>

**EXPENDITURES**

**HIGHLIGHTS:**

PERSONAL SERVICES	107,506,451	107,984,277	477,826
MMIS	52,093,604	58,001,879	5,908,275
ADC	28,568,109	29,120,553	552,444
SAFETY NET	9,053,288	9,809,213	755,925
JAIL	24,623,376	26,637,339	2,013,963
TRANSFER RESIDENTIAL HEALTH CARE	11,990,648	14,873,148	2,882,500
<b><u>TOTAL EXPENDITURES:</u></b>			
GENERAL GOVERNMENT	28,245,697	28,778,479	532,782
EDUCATION	18,410,444	19,713,127	1,302,683
PUBLIC SAFETY	40,412,787	43,766,672	3,353,885
HEALTH	32,011,161	32,135,655	124,494
TRANSPORTATION	1,224,859	1,205,837	(19,022)
ECONOMIC ASSISTANCE & OPP	190,318,408	189,121,334	(1,197,074)
CULTURE & RECREATION	1,927,370	1,919,705	(7,665)
HOME & COMMUNITY SVCS	1,769,379	1,698,192	(71,187)
EMPLOYEE BENEFITS	19,940,116	26,866,027	6,925,911
TRANSFERS	36,753,084	33,127,541	(3,625,543)

In sum, despite all of these challenges, Albany County continues to be a leader in the upstate economy. We have outperformed the rest of our peers due to several reasons, not the least of which is the dedication and commitment of our employees, combined with the courage of this body and the County Executive. Our potential is vast and the Remedy Section of the Fisc will address a few ideas for you to consider as you prepare for the 2005 budget cycle. However, I must caution you that the challenges and remedies are complex in nature, but are only surpassed by the danger of inaction.

## Section II - Diagnosis of the Fiscal Challenges

This State of the Fisc is more than a mere recitation of numbers, ratios and comparative financial data. As a former Albany County Legislator, I believe the context and causative factors are equally important to the considerations of public policy and the crafting and prioritizing of those policies through the budget process as are the financials. This section attempts to give you the perspective of the financials relative to causative factors, public policy, the budgetary process and needed reform. As a former private sector leader, county legislator, and more importantly, as chief fiscal officer of this county, the following is a diagnosis of the fiscal challenges we continue to face.

The real purpose the County of Albany exists is best stated in Article XVII, Section 1 of the New York State Constitution, "The aid, care and support of the needy are public concerns and shall be provided by the state and by such of its **subdivisions**, and in such manner and by such means, as the Legislature may from time to time determine." In this instance, the subdivision mentioned is the County of Albany.

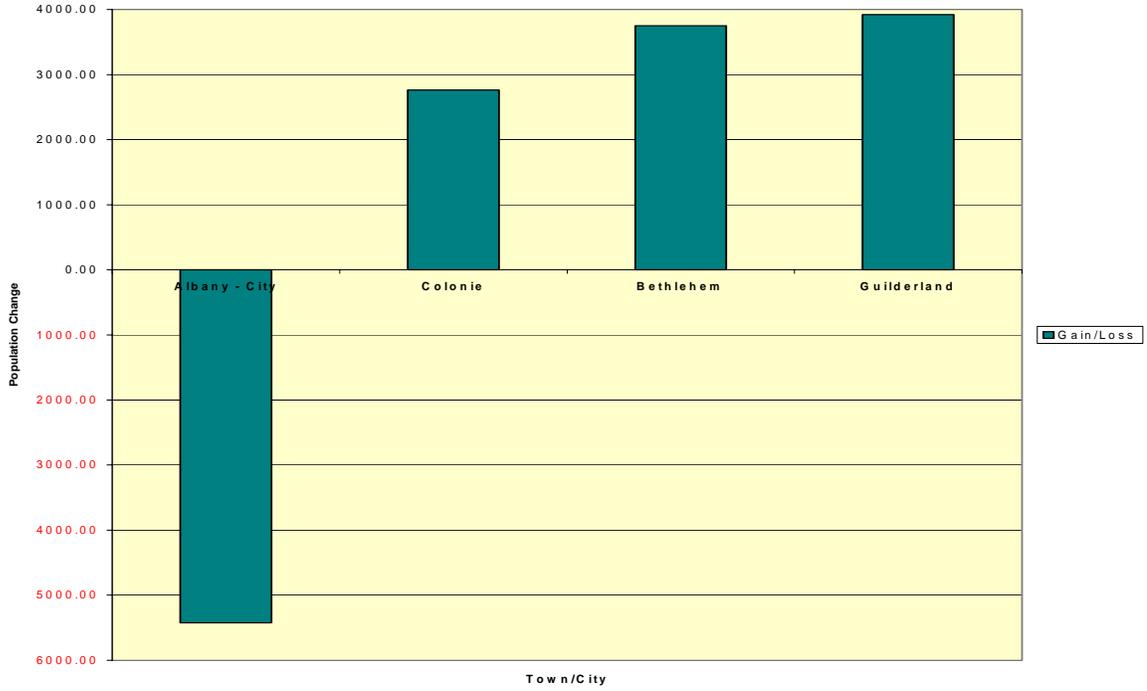
It is the care for the weak, the poor and the elderly that the Counties are charged with by the Constitution. I believe it is this service that most ennobles us and is the reason we all seek to serve here.

Let's look at the numbers. Start with welfare spending, add in mental health, health, the jail, and county court costs in criminal and family courts, add a dash of Public Defender and District Attorney and you have just consumed roughly \$275 million of the County budget. Add in the nursing home and related debt service obligations and you are over \$300 million, and that's not including the federal and state share of Medicaid.

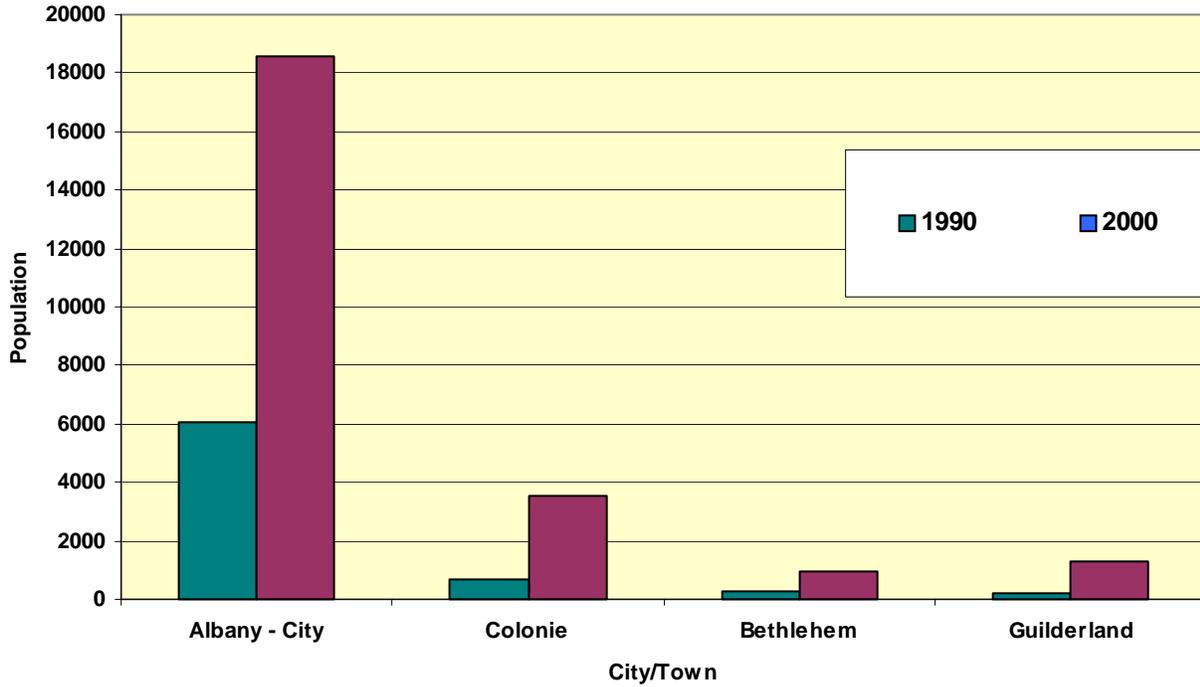
The single most identifiable cause for this spending is poverty. We cannot afford to do the same things we have done for the past thirty-five years and expect to generate an appreciably better outcome. If we continue to do the same things and expect a different outcome than we have generated in the past then we are institutionally inept.

We are a county made up of cities, suburbs and rural areas, all of which deserve our attention and protection. However, poverty is most concentrated in our cities. While we do have suburban and rural poor, the extreme concentration of the poor is in our three cities. Maintaining the status quo insures that Albany County will sink in its own expenses. We must act as a county and meet the needs within all of our boundaries. In the Remedy Section, I propose considering a strategic initiative that becomes a shared Urban/Suburban/Rural Agenda that will empower us to break the permanent cycle of poverty that so diminishes us all. Here are a few charts that put this in perspective.

Population Change (1990-2000)



Population below the Poverty Line (1990-2000)



Obviously, the concentration of poverty is in the cities and the shift in population to the suburbs is clearly demonstrated in the charts above. The impact of this shift contributes to economic segregation and adverse selection for the tax rates within the cities in comparison to that of the suburbs. The gap between the haves and have-nots is widening as evidenced in the Census charts.

DSS vouchers for rental properties occupied by welfare recipients have in part fueled the growth of absentee landlords in the cities. We further exacerbate the problem by paying the delinquent taxes on properties we have welfare recipients occupying while the property creates problems for the neighborhood and the cities. The County could actually counter this trend with more housing efforts aimed at homeownership for the low to moderate-income population and closer coordination with the cities.

Clearly, we cannot allow our cities to fail. Our dispersal of the local share of the sales tax distribution must be looked at and the split between the county and localities must be evaluated at least after every Census. We cannot afford to ignore this challenge, for it is in our own enlightened self-interest to work together to reduce poverty in our county. Just like business partners, we must continually reevaluate the revenue we share.

My earlier efforts to draw attention to this problem led to a lawsuit when I exposed the lack of communication about the changes within the 2000 Census. The town meeting I held, with all 19 local governments, exposed the fact the formula had been changed without notification of the local government partners. See the study below that we distributed three years ago and a few charts for you to consider when analyzing the growth of the gap in the past ten years.

Municipality	2000 Census	Percentage 2001 of County	1st Quarter 04/15/2001	1990 Census	Percentage 2000 of County	1st Quarter 04/15/2001 1990 Census	Increase / (Decrease) Due to Census
City of Albany	95,658	32.47%	6,520,018	101,082	34.55%	6,936,760.47	(416,742.39)
City of Cohoes	15,521	5.27%	1,057,906	16,825	5.75%	1,154,453.62	(96,547.33)
City of Watervliet	10,207	3.47%	695,706	11,061	3.78%	758,927.77	(63,221.98)
Berne	2,846	0.97%	193,982	3,053	1.04%	208,805.52	(14,823.09)
Bethlehem	31,304	10.63%	2,133,670	27,552	9.42%	1,891,296.20	242,374.23
Coeymans	8,151	2.77%	555,570	8,158	2.79%	560,160.98	(4,591.47)
Colonie	79,258	26.91%	5,402,199	76,494	26.14%	5,248,246.56	153,952.87
Green Island	2,278	0.77%	155,268	2,490	0.85%	170,658.36	(15,390.62)
Guilderland	32,688	11.10%	2,228,003	28,764	9.83%	1,973,613.76	254,389.66
Knox	2,647	0.90%	180,419	2,661	0.91%	182,704.83	(2,286.18)
New Scotland	8,626	2.93%	587,945	9,139	3.12%	626,416.57	(38,471.23)
Rensselaerville	1,915	0.65%	130,526	1,990	0.68%	136,526.69	(6,000.91)
Westerlo	3,466	1.18%	236,241	3,325	1.14%	228,882.98	7,358.45
Totals	294,565	100.00%	20,077,454	292,594	100.00%	20,077,454.32	0.00

The key to resolving this disparity is to work together, plan together and build a better future for all of Albany County. We can grow the size of the pie, but it has to consider the role of the cities and avoid the urban/suburban rivalries. One of the keys to success is to have the county foster a focused discussion of the realities we are facing, *i.e.*, our cities will die if we allow poverty to grow unchecked or unchallenged. We need to craft a strategic plan for our county/local government's partnership. Moreover, the strategies that are developed must be implemented in a phased-in timeframe to avoid budgetary surprises.

I realize the diagnosis is much easier than the prescriptive phase and stand willing to work with all parties to study responsible alternatives to the failed tactics of our past. When I brought this topic up for discussion in 1999, 2000 and 2001, some were uncomfortable with the politically explosive nature of the topic when addressing the widening gap between the cities and the suburban towns and villages, and thus no action was taken. After our town meeting, the Legislature acted to ameliorate the impact for the short haul by passing a temporary bridge however the root problem still exists. Let's build a bridge that addresses the root problems, as well as the needs of Albany County as a whole.

Please review the financial data contained within the charts above which are based upon the OSC's reports made for the year ending in 2002 for our cities, towns and villages. Then review the following chart that compares the tax load per assessed \$1,000 of property for the cities, towns and villages and explains how the gap is going to continue to widen. Significantly, what impacts the cities will impact the towns and villages whether by trickle down effect or by floodgates.

2002 Tax Rates	County	Town	City or Village	School District Range	Total Overall Range	Total Overall Full Value Range - Rate per \$1000
<b>Albany County</b>				\$15.50 to \$1,253.54	\$20.09 to \$1,613.44	\$20.09 to \$39.72
City of Albany	\$2.61		\$11.57	\$22.71	\$36.89	\$35.11
Town of Berne	\$2.63	\$3.35		\$17.94 to \$22.35	\$23.92 to \$28.33	\$22.69 to \$26.87
Town of Bethlehem	\$2.38	\$1.97		\$17.82 to \$23.85	\$22.17 to \$28.20	\$23.56 to \$29.97
Tow of Coeymans	\$2.51	\$3.50		\$18.06 to \$18.94	\$24.07 to \$24.95	\$24.07 to \$24.95
Village of Ravena	\$2.51	\$3.50	\$5.60	\$18.94	\$30.55	\$30.86
City of Cohoes	\$2.53		\$13.57	\$22.50	\$38.60	\$38.60
Town of Colonie	\$2.49	\$2.10		\$15.50 to \$22.95	\$20.09 to \$27.54	\$20.09 to \$27.54
Village of Colonie	\$2.49	\$2.10	\$38.00	\$17.73	\$60.32	\$24.45
Village of Menands	\$2.49	\$2.10	\$4.55	\$15.50 to \$16.90	\$24.64 to \$26.04	\$24.64 to \$26.04
Town of Green Island	<b>Coterminous Town/Village - Taxes Are Levied by the Village Only - See Village below</b>					
Village of Green Island	\$29.13	\$0.00	\$146.11	\$252.81	\$428.05	\$39.72
Town of Guilderland	\$2.59	\$1.67		\$18.62 to \$22.11	\$22.88 to \$26.37	\$21.94 to \$25.29
Village of Altamont	\$2.59	\$0.32	\$3.04	\$21.73	\$27.68	\$26.64
Town of Knox	\$2.54	\$1.52		\$19.16 to \$21.54	\$23.22 to \$25.60	\$22.46 to \$24.76
Town of New Scotland	\$2.62	\$1.36		\$18.81 to \$26.41	\$22.79 to \$30.39	\$21.86 to \$29.16
Village of Voorheesville	\$2.62	\$1.11	\$0.66	\$22.09	\$26.48	\$25.43
Town of Rensselaerville	\$2.65	\$5.94		\$17.19 to \$19.97	\$25.78 to \$28.65	\$24.11 to \$26.71
City of Watervliet	\$2.61		\$8.03	\$16.54	\$27.18	\$26.35
Town of Westerlo	\$170.65	\$189.25		\$1,212.13 to \$1,253.54	\$1,572.03 to \$1,613.44	\$23.42 to \$24.04

In general, some believe the solution to governmental waste, confusion, corruption or ineptitude can be simply solved by merging all the local governments together and thereby enjoy the resultant savings and efficiencies gained by doing so. However, in the most prosperous town in our area, the Town of Colonie, there are two well-renowned school districts. What makes the experts believe that Bethlehem will adopt Cohoes, Colonie will adopt Albany or Guilderland will adopt Watervliet? Human nature is not going to be disposed of by a regional form of government. But what might actually work is an extension of the regional efforts we are enjoying now, e.g., the ANSWERS project for waste, The Sewer District for waste water and the County Planning Board's work with the various local planning efforts on Zoning Board of Appeals matters. Clearly there is a desire and ability to work together. What we need is to clearly define additional ways we can all mutually benefit from working together. I will be discussing the potential for a County wide planning effort to share staffing, resources and expertise to reduce overlapping, waste and inefficiencies. This concept would be to take the concept of groups like the Farmers cooperative or Clinton's Ditch Pepsi Cola soft drink manufacturers, and apply them to local government. If we can all benefit in a transaction, then the transaction will take place. Our challenge is to identify and successfully craft transactions we all can work with.

A few revenue-producing areas that are ripe for exploration are solid waste, electricity and water. Attempts have been made in the past to look at these ideas but now might be the time. One example regarding waste is for the County to assist Colonie and Albany in their solid waste plans by collaborating their long-term efforts with a County Solid Waste Authority, modeled after the Sewer District and ANSWERS project. Such an effort could utilize the County's eminent domain capacity and encouraging a stabilization of disposal tipping fees for not only the ANSWERS communities but also the Town of Colonie and their users. Green Island and Watervliet have been ahead of the curve in the generation of power. We might revisit the municipalization of the British firm's grid as another economic development tool we could employ to assist our county and it's local

governments. Water supply has long been a problem for several towns within the County and support for additional Silver Creek Reservoir might bear study to meet those demands. If we develop methods to work together to grow our revenues the opportunities to work together to reduce spending will be more likely to happen.

The most difficult challenge we face is the comfort level of mediocrity; or the "We've always done it that way." and "That will never work." mentality. We need to challenge ourselves and plug into our citizens' desire to be part of something bigger than themselves. We need to lead not follow.

### Section III - Potential Remedies

I believe there are no real solutions, merely remedies we can employ while facing the challenges of our times. What worked 50 years ago won't work today because the conditions are different and the challenges are different, but the people are the same. We all want to contribute and it falls to County Government to figure out how to best align the resources to meet the challenges we face. The dissolution of the family and failure of the welfare mentality and corresponding impact on the African American family were well documented and brought to light by Senator Daniel Patrick Moynihan in the mid 1960's while he worked for Presidents Johnson and Nixon. Mayors Carlson, Jennings and McDonald are facing the results of our not listening to Moynihan forty years ago. They are on the front lines when one of our Medicaid recipients dials 911 to access primary healthcare through the most expensive tertiary care access door. When we spend \$2,000 to get the homeless, mentally ill or poor to the door of the emergency room, before the cost for Medicaid start spinning we have to rethink our plan of action.

When the State Legislature and Governor cannot agree on Medicaid Reform, educational funding, passing their budget on time or a host of other issues confronting them, and the federal government can't get Social Security stabilized for the next generation or prescription drug coverage right, why should we be held captive to the mentality of "That's the way we've always done it." or "Let someone else fix it." and the all-time favorite, "What can we do about it if they can't fix it?" We should not and cannot afford to stand still. We must plan bravely and boldly. Here are just a few things to consider as you approach the budget cycle.

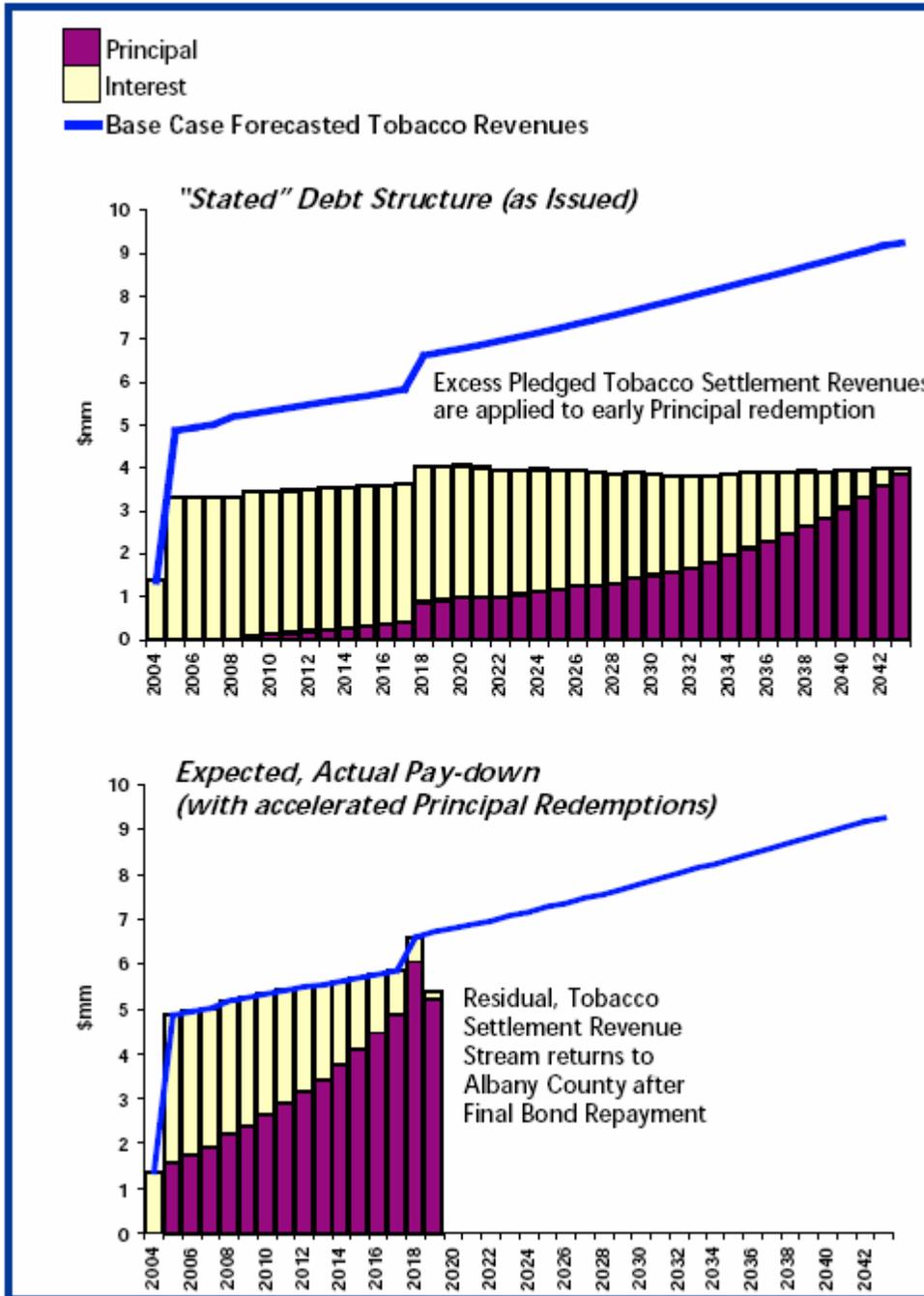
+ Medicaid Reform – the Medicaid Waiver I have spoken about since 12/2/2002 is actually best achieved through the Demonstration Grant Program administrative process. My suggested proposal would place all Medicaid eligible Albany County residents on the County's health insurance. We would establish a Medicaid funded pool to pay for claims not covered under the County's insurance plans for the disabled population aged 0-64. Deductibles and co-payments could be handled through a reimbursement process to avoid violating Federal guidelines on healthcare for the indigent. The second piece of the grant would be a funding mechanism for future claims for the poor that we would be obligated to cover for long-term care in year eight of the plan's institution. The third piece is a community outreach piece, focused on diversion of Albany County residents from pre-mature placement in Skilled Nursing Facilities, enabling seniors and the medically frail to remain in their homes for a longer period of time. We would hire, train and supervise welfare recipients and Federally eligible retirees, working from our healthcare facilities, to visit the homebound, medically frail and senior citizens of our County to provide connectivity to services available to assist people in maintaining their independence and make referrals when needed.

+ County-level Medicaid Reform - Because Medicaid Reform and the disastrous financial impact upon Counties has been impossible for the State government to accomplish due to the pressures of the legislative budget and respective agendas of each house, we are better served to seek, obtain and implement our own remedy through the administrative process. Further, to focus the debate and public policy discussion, I will be seeking assistance with a petition drive to place this matter on the November, 2004 election ballot. This way the people of Albany County will be able to decide on the avenue of reform we seek and those most affected are able to engage at the lowest level of governance.

+ Public Benefit Corporation for Residential Healthcare Facilities - The financial results in the operation of the Residential Healthcare Facilities has produced over \$26 million in subsidized losses in the past two years. We met with the Executive last year to discuss the legislation for the creation of a Public Benefit Corporation to own and operate the facilities. The County would lease the current employees, except a small number of exempt positions, to the Public Benefit Corporation and they would remain County employees, covered by our salary and fringe package, negotiated contracts and the New York State

Employees Retirement System. Paul Weafer, former head of the Legislative Bill Drafting Commission, drafted the legislation, which combines the best parts of the Nassau, Westchester and Erie counties proposals transferring their hospitals and skilled nursing facilities to similar public benefit corporations. Paul was able to avoid many of the areas that created some difficulty for the other counties. The late Bart Lawson, former Executive Director of the Greater New York Residential Healthcare Facilities Association, developed the leased employees concept. His assistance was invaluable.

+ [Sale of the Tobacco Settlement Revenues](#) - for debt reduction for the County and establishment of a fund for local government debt relief, subject to intergovernmental agreements to work jointly on the project, subject to same proportional disbursement of the sales tax formula. Below is a copy of UBS Paine Weber's calculation of the net proceeds in the event of a sale.



<b>Illustrative Bond Sizing</b> (5/5/05) Assumes 7/1/04 Issuance	
<u>Sources</u>	
Par Amount of Bonds Issued	\$51,010,000
<u>Uses</u>	
Net Proceeds to County	\$44,521,469
Capitalized Interest	\$1,335,706
Reserve Fund	\$4,260,150
Cost of Issuance	\$892,675

**Key Assumptions:**

+ Ba1/BBB/BBB Ratings – min. 2 attained

- ✚ Pledge 100% of Tobacco Receipts through 2043
- ✚ Total Interest Cost – 6.83%, including 7+% longer maturities
- ✚ Clean Bond Opinion can be delivered in New York (see Freedom Holdings below)
- ✚ Manageable Supply of New Issue, Pure Tobacco Securitizations

### Market Sensitivity:

- ✚ Apprx. \$60,000 per basis point Important Recent Developments in the Tobacco Securitization Sector

### Litigation:

- ✚ Freedom Holdings – 2nd Federal Court Circuit; raises challenge to enforcement and validity of key provisions in the Tobacco Settlement Agreement (MSA) under an Anti-Trust cause of action.
- ✚ Trading Level Impact: Small to Moderate.
- ✚ Credit Community Impact: Significant for Moody's – downgrade of New York tobacco bonds to sub investment grade levels; No adverse action yet from Standard & Poor's or Fitch
- ✚ Other Industry litigation news is generally positive for the tobacco companies – Individual plaintiff's suits and class actions alike – including the capping of both punitive damages award components (*State Farm*, U.S. Supreme Court ruling) and cash bonds to pursue appeals (*Price*, Illinois).

### Consumption:

- ✚ Has been fairly consistent with original 1998 forecasts, only 1 modest downward adjustment in 2003 due primarily to product price elasticity being impacted by widespread excise tax hikes

### Market Share Shifts:

- ✚ Away from primary, "big four" tobacco settlement participating companies to smaller, deep discount manufacturers has impacted revenues, but now appears to be leveling off.

### BAT/RJR merger:

- ✚ Generally seen as a positive for the industry and the revenue flow under the settlement agreement; expected to be consummated in mid-2004.

### Department of Justice lawsuit:

- ✚ Potentially "another MSA", scheduled for trial in September.

Under current conditions, it shows the drop in net proceeds from when I originally suggested the risk transfer mechanism. The proceeds would be split in the percentages deemed by the Legislature, but for illustration purposes I used \$40 million for the County and \$4 million in the Local Government Pool on the attached section concerning the securitization. The use of the proceeds follows the County Policy for the Sale of significant assets, even though the Tobacco Settlement revenues did not exist when I introduced the original legislation governing the sale of certain assets. The legislation is as follows:

---

#### Resolution No. 232 (a)

#### A RESOLUTION AUTHORIZING THE DEPOSIT OF PROCEEDS FROM THE SALE OF COUNTY ASSETS INTO A CAPITAL FUND

By Messrs. Conners and O'Brien and Audit and Control Committee:

WHEREAS, The County is presented with the problems of an aging infrastructure and old equipment which needs reconstruction and repair, and

WHEREAS, Proceeds from the sale of County assets provide a source of potential funds from invested assets to alleviate the aforementioned problems, and

WHEREAS, If the proceeds are deposited into the general fund, they are immediately spent and no long range benefit is obtained, and

WHEREAS, Depositing said proceeds in a capital fund would allow the County to address the problems of aging infrastructure and inadequate equipment without immediately dissipating said assets, now therefore, be it

RESOLVED, By the Albany County Legislature that the Albany County Comptroller is authorized to deposit the proceeds from the sale of County assets into a capital fund rather than into operating expenses fund, and, be it further

RESOLVED, Proceeds from the sale of these certain listed County Assets must be used for one or more of the following purposes, reduction of the County's debt, establishment of a Capital Reserve Fund or Capital Repair Fund, modernization or replacement of existing facilities, or development and construction of new facilities unless otherwise specified by law, and. Be it further

RESOLVED, That the list of certain County Assets be:

1. Knickerbocker Arena
2. Albany County Airport
3. Lands adjacent to the County Airport
4. Albany County Nursing Home
5. Ann Lee Nursing Home
6. Stedman House (Probation building and attached structure formally housing Albany YMCA)
7. Family Court Building
8. Hill House
9. County Court House
10. 112 State Street
11. 11 Cooperative Extension Building
12. Voorheesville Dept. of Public Works Building
13. Dept. of Public Works Sub-Station and Salt Sheds
14. Albany County Jail
15. Bender Labs Building
16. Heritage Park
17. Lawson's Lake

And be it further

RESOLVED, That the Clerk of the County Legislature be and hereby is directed to forward certified copies of this resolution to the appropriate County Officials.

*Referred to Audit and Control Committee 08/10/92.*

*Adopted by unanimous vote 11/09/92*

---

 [Urban/Suburban/Rural Strategic Initiative to fight poverty](#) - Consider creating a strategic initiative that will be an Urban/Suburban/Rural Agenda that will empower us to break the permanent cycle of poverty. Working with the new Commissioner of Social Services, the local governments and school districts can develop common desired outcomes and a consistent message to give our young.

 [Create a Local/County Partnership Panel re: Sales and Use Tax Distribution Formula](#) - Creation of a Local/County Partnership Panel to analyze and make recommendations back to the Albany County Legislature about the Sales & Use Tax Distribution Formula between the localities and the County of Albany. The New York State Association of Counties (NYSAC) provided the attached list of formulas for sales tax distribution used throughout the State. Some Counties actually provide Sales Tax Revenue to the public school systems within their County (Onondaga, etc.).

 [Sale of the Pepsi Arena](#) - to a private owner with property tax status and transfer of the 2% bed occupancy tax for support of the debt service of the proposed County owned Convention Center in downtown Albany. The proceeds of the sale would be used according to County policy and resulting decrease in the V Fund expenditure would in effect make permanent the 2% the County will get on the new bed tax until construction begins on the Convention Center.

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

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

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

✚ Creation of a Countywide Solid Waste Authority - to assist the Town of Colonie and Albany with their landfill plans, stabilize tipping fees and ensure the long-range future of solid waste disposal in the County of Albany. The Authority could assist with eminent domain and planning and transfer stations for the entire County, while preserving the opportunities for Colonie and Albany to utilize solid waste revenues to assist in their budget efforts.

✚ Investigate the Creation of a Regional Water Authority - to assist localities in need of water and give the Albany Municipal Water Finance Authority the opportunity to develop the third reservoir, once called the Silver Creek reservoir should local demand warrant the construction of additional capacity.

✚ Study Alternative Power Sources and the Creation of a Countywide Power Authority – study the possible municipalization of the power grid within the County’s boundaries in areas that lend themselves to such an expensive project. A Countywide Power Authority might expand the benefits that Green Island and Watervliet have generated for their residents to additional Albany County residents and enhance the position of Green Island and Watervliet’s Power Authorities. The Authority could sell power at a reduced price with a miniscule fee and generate revenue from tax exempt and taxable property owners and thereby place fewer burdens upon the tax levy, while reducing the net cost to the taxpayer. In 1993 electric charges for the City of Albany, under the previous power company Niagara Mohawk was in excess of \$126 million dollars. A ten percent (10%) net savings would be significant. Green Island is a leader in using inexpensive power to lure economic development to their municipality and the Countywide Authority could add to their efforts elsewhere in the County.

✚ Create a Strategic Plan for the County - The County of Albany Planning Board could assist in the creation of a strategic plan for the County. Legislation passed in 1992 was never implemented and the need for planning is greater than ever with increased demand for services and reduced ability to pay for services currently delivered.

In closing, let me again thank you for your patience tonight and this opportunity to share the financial information you need to complete your obligations under the Charter. I have great faith that we can and will do better. We stand ready to serve you and occasionally to remind you of the fiscal conditions facing Albany County. Working with the Executive and Legislature is a great pleasure and honor. We look forward to working with the new Legislature and are available to assist you in any of your efforts.

We are blessed to live in the greatest Country in the history of the world and I am convinced that our people have the will, ability and compassion to meet the challenges before us. Now is the time for a bold vision, decisive action and a comprehensive strategic plan to ensure our County’s fiscal soundness and integrity. We cannot, in good conscience, fail to respond to the financial conditions that we are mired in today.

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

Respectfully,

*Michael F. Conners, II*

Albany County Comptroller