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Inclusion Through Diversity

"Promoting excellence in County operations while respecting the needs of the people we serve."

September 14, 2019

To the Honorable Members of the Tompkins County Legislature:

I am pleased to present you the Recommended 2021 Tompkins County Operating Budget and 2021-2025 Capital Program.

The Recommended $189 million Budget is balanced with a property tax levy increase of 4.97%, which exceeds our tax cap of .88%. It is also recommended that the County's solid waste annual fee increase from $60 to $65. If approved, the Budget will add $83 to the tax bill of a median home valued at $200,000. While striving to maintain service levels to best serve our community, the recommended budget calls for a $1.2 million decrease in local spending, and a 6% reduction the County's full-time equivalent positions.

The impacts COVID-19 have had on the County budget have been daunting and will likely change the way the County does business for years, if not decades to come. In response to COVID-19 and preventing the spread of the disease, our local, state and national economies suffered closures and shut downs, leading to unfathomable unemployment decimating consumer spending and disposable income. As a result, 2020 has left the County with unprecedented losses in revenue. As of August 31, the County has experienced more than a 15% decrease in sales tax compared to 2019, 40% decrease in hotel tax and numerous withholdings of state aid payments. Collectively, revenue projections for 2020 can range between $7 million and $16 million less than 2019 depending on state aid withholdings.

In immediate response to these changes, the County took swift and necessary action to curtail spending and minimize the negative impact of revenue shortfalls for the 2020 budget. From March to June several key initiatives were executed, bringing short-term relief to the County budget. They initiatives included: a hiring freeze, spending freeze, temporary furloughs of 100 employees, suspension of several capital expenditures, mid-year reductions to supporting agencies, an early retirement incentive and changes in retiree healthcare benefits. In total, mid-year reductions in spending equaled $5.8 million. Unfortunately decreases in local revenue are uncertain, and combined with possible state aid reductions, yet to be determined by the Governor, the total revenue shortfall could exceed $12 million in 2020. In total, 2020 could experience a general fund operating deficit as large as $7 million under the worst of circumstances.

In prior years, the County budget benefited from a strong local economy, and continual development of real estate contributed to the rising property values, spreading the cost of government services across a broader tax base. Despite shrinking revenues throughout the budget, this robust growth in tax base has remained strong throughout the pandemic acting as an underlining support to the County's most credible revenue, property taxes.

The proposed property tax levy is up 4.97%, and the property tax rate is up by 1.17%, to $6.38 per $1,000, which is primarily due to the strong growth of the County's tax base. While the proposed tax rate breaks the County's six-year streak of the County tax rate decline, the proposed 2020 tax rate remains lower than 2011.

Fiscal Environment

It is important to understand and recognize the economic environment that has shaped the recommended budget.

Unemployment: In past years the County budget has benefited from a strong local economy. As of February 2020, the County unemployment rate was at a low of 3.5%. The August unemployment rate for Tompkins County now stands at 9.9%. This is still 6% lower than the rest of the state (15.9%) and .3% less than the rest of the country

(10.2%). Still, the consequences of drastic spikes in unemployment impact the County budget in many ways – from sales tax collections to temporary assistance cases.

State Budget: Even prior to COVID-19 becoming prevalent in the country, the state budget was struggling to balance. The 2020-21 Executive Budget was submitted in January with a $6 billion shortfall. Now mid-pandemic, the state's budget shortfall is hovering around $14 billion. While the Governor was given broad authority this year to make mid-year budget changes, none have been handed out to date. However, the Governor has indicated that without federal relief to assist with the economic hardships caused from the pandemic, localities could be hit with a 20% or higher reduction in state aid. This undoubtedly will translate into replacing state dollars with local dollars to support services.

The local impacts of a global pandemic

The impacts due to the global pandemic on the County budget are easily identified by declining revenues, increasing human service needs and rising mandated costs.

Sales Tax: Sales tax is the County's second largest revenue and the County's largest non-property revenue. Current estimates indicate that the County's 2020 sales tax receipts will be $4.7 million short of budget. This is reflective of the economic shut down from the spring, early closure of higher education institutions and the increase in unemployment.

While monthly sales tax receipts are showing improvement over prior months (reflecting less of a decrease in sales tax from the prior year), the 2021 budget is still $3.3 million less than what we budgeted in 2020. This projected drop-in sales tax revenue is the single most significant factor impacting the 2021 budget.

Making matters worse the State has diverted sales tax from all counties to support a fund for fiscally distressed healthcare facilities. This translates into a $564,000 sweep from County sales tax revenues. This, in addition to last year's County funded AIM aid diversion, has resulted in nearly $1 million of County sales tax now going to State mandated purposes which otherwise would be coming to the County.

Mandates: The total local cost of $22.2 million represents a larger increase in property tax-supported mandates than in recent years. This year's increase in mandated programs is $490,000, or a 2.26% increase over 2020.

Increases in public assistance needs, particularly around expected increases in emergency shelter costs and Safety Net cases have increased local costs for these services 33% over 2020. This continues to be exacerbated with a greater shift of cases from federal to state assistance programs. With that shift comes a greater local responsibility as 71% of their cost is local funding and 29% is from New York State. In combination with reduced State funding for foster care placements, both have contributed to a local share increase of $800,000, or 51% over 2020.

Also, a change that was instituted with the adoption of the 2020-21 state budget was a shift in mandated cost for 730 restoration services. This shift placed 100% of the cost on counties starting in April. This accounts for $360,000, or a 27% increase over 2020.

Thankfully some relief has come due to an increase in eFMAP funding as it has decreased weekly Medicaid payments. This increased aid, which was imposed by federal legislation, not state legislation, achieved a $1.38 million, or 11.7% reduction in mandated Medicaid payments.

State Aid: The Governor has yet to exercise his authority in mid-year financial plan adjustments, and the state 2021-22 budget will not be adopted until April. As has been the case over the past decade, it is not uncommon for the state to adopt its budget and a few months into the county's fiscal year, we find ourselves facing an increase in state mandates or reduction in state aid. This year will be no different. The Governor has been forthcoming in stating publicly that in the absence of federal relief, localities should expect a cut in state aid to the tune of 20% or greater. While any action taken this year may only impact the current fiscal year, it is likely to carry over into future years.

These three areas alone – sales tax, mandates, and state aid – explain much of the pressure on the County budget.

A difficult response

In most years the budget process starts with the Legislature setting a fiscal goal providing direction to the County Administrator to craft a budget within an agreed upon tax levy goal and spending targets. The "unknowns" about the local economy, drastic swings in revenue and unpredictable outcome of COVID-19 created an impossibility in setting a fiscal goal this past May. As a result, all department heads and agencies were requested to submit two budgets, a flat budget with no increase in local share and a reduction budget with a 12% reduction in local share. As the summer passed, the negative impacts on revenue due to shutting down the economy made it obvious that the reduction budget would become the baseline for developing the recommended budget. As a result, a 12% reduction in local share was the starting point for budget discussions.

The recommended budget provides for a manageable balance between expenditure reductions and a tax levy increase.

<u>Revenues:</u> The budget recommends a 4.97% increase in the property tax levy, generating $2.5 million in new revenue. Part of this increase in property tax levy is due to the estimated $3.2 million decrease in sales tax and $835,000 decrease in casino revenue when compared to 2020 budget. In total, unallocated revenue, which includes sales tax and casino revenue, is expected to decrease by $4.2 million, or 10%, when compared to the 2020 adopted budget.

<u>Expenditures:</u> All departments and agencies submitted budgets within the requested guidelines of a 12% local share reduction. Some of these reductions were requested for restoration by departments through the Over Target Request (OTR) process. Overall, general fund spending decreased $3.7 million, or 1.89%.

This has required cuts in nearly every aspect of county operation. While some reductions are more severe than others, every department and supporting agency has risen to the challenge in approaching the way they do business differently.

These cuts also include a reduction in the county's annual Capital contribution by $770,000.

<u>Over Target Requests:</u> Generally, OTR's are used to support specific expenditures beyond departmental baseline target budgets. This year the vast majority of OTR's that were requested, and ultimately recommended, represent the reinstatement of cut funding to budgets versus additional expenditures above the target budget. Target OTRs, requesting in an increase in baseline target budgets, do impact the property tax levy, while One-time/Rollover OTRs impact fund balance.

In total, departments and agencies submitted $3.6 million in OTR's to support specific expenditures. I recommended $1.85 million in Target OTRs and $1.2 million One-time OTRs. There was also $640,754 in Rollover requests.

There are several OTRs that are focused on streamlined or improved operations, such as the reduction and transfer of GIS staff and functions from Planning and Sustainability, Assessment and Emergency Response to be consolidated under ITS supervision. This will allow similar GIS functions and staff to work closer together on related activities.

I have also initiated an OTR focused on innovation within the organization providing resources to County departments to assist with streamlining and improving operational efficiency. This OTR is being submitted as a two year "Cost-saver" as outlined in the County's Fiscal Policy.

Lastly, there are several OTRs that have been included but I have not recommended. These OTRs were created for the Legislature to consider if you so choose, as they add to or remove County programs that were funded and provided by the County in prior years.

<u>Workforce:</u> In order to achieve meaningful reductions in expenditures, reducing labor costs is unavoidable. The recommended budget proposes the elimination of 47 FTEs that are currently funded in the 2020 budget. The workforce level supported by the 2021 budget will be 6.12% smaller than in 2020.

Of the 47 FTEs, 18 positions are currently filled with employees. To support those 18 employees, our Human Resources Department worked diligently and in partnership with the department heads from Social Service, Health, Mental Health, Assessment and Probation, to develop a placement strategy to match impacted employees' qualifications with those departments that need to fill vacant positions. As a result, all the impacted employees will be offered a vacant position if they want one. In short, any existing employee whose position is proposed to be eliminated in 2021 that wants a job with the County, will have one.

COVID-19 has forced countless employers across the region and country to downsize, increasing the number of people unemployed. Tompkins County will not be one of the employers contributing increased unemployment rates.

<u>Capital Program:</u> The adopted 2020 Capital Plan provided a bold funding strategy to achieve the goal of net-zero emissions in County operations by committing to a significant investment. Despite current budget constraints, those capital commitments remain a necessity for maintaining critical infrastructure.

While the proposed budget decreases the annual capital contribution by 11% or $770,000 it maintains a strong commitment to core capital projects by reevaluating the size and timeline for several projects. As a result, all projects outlined in the 2020 Capital Plan continue to be recommended in some form or fashion in 2021.

<u>Contingent Fund:</u> As a result of unknown cuts in state aid or increased unfunded mandates, the proposed budget includes an additional $1 million in target funding for the contingent fund. Not knowing the full extent in cuts of state aid, this increase in contingent fund will provide some buffer to the unknown.

Risks

There are several risks inherent in this budget.

<u>Sales Tax:</u> The 2021 budget assumes an 8.9% decrease in sales tax compared to the 2020 budgeted amount. The uncertainty of the economy compounded by the severe increase in unemployment only contributes to an already unpredictable outcome for sales tax. It is expected that 2021 will generate greater sales tax returns than 2020 actuals as the region begins its economic recovery but remains over $2 million behind 2019.

<u>State Aid:</u> While the recommended budget does not assume any further decreases in state aid than what is already known from the state's 2020-21 budget, state aid by far is the most concerning and unpredictable factor of the 2021 budget. Currently the state is experiencing liquidity issues and has confirmed that the temporary withholding of some state aid from counties will become permanent if federal relief does not come to the states. With federal relief still uncertain, it is likely that the State will issue striking cuts in state aid.

As referenced earlier, the recommended budget proposes an increase in the contingent fund by adding an additional $1 million for unanticipated increases in state mandated costs or decreases in state aid. To increase the contingent fund any further would require an additional increase in taxes or further staffing reductions.

<u>Public Assistance:</u> The pandemic has resulted in spikes in SNAP applications, Medicaid cases, Safety Net cases and HEAP cases. In general, new cases grew in numbers following the discontinuation of expanded unemployment benefits. This combined with existing cases for temporary assistance, has increased total cases over 2019 levels.

The full impact of increased needs has not yet been fully realized but will become more obvious as we move into 2021.

Recycling and Materials Management: The solid waste and recycling industry nationwide is still recovering from an unprecedented jolt of uncertainty. Moreso the Recycling and Materials Management budget is still coping from the crippling impact of the crash of recycling markets over the past several years and contractual increases from the new collection contract in 2018. That said, the budget is showing positive signs compared to 2019 as the increase in solid waste fee has helped fund revenues stabilize. Over the course of the next two months more will come forward regarding the forecast of the 2021 budget and beyond with the outcome of this year's RFP process for the solid waste facility which is currently being analyzed by staff. A recommendation will be presented to the Legislature before years end.

Airport: The COVID-19 shutdowns and travel restrictions have placed difficult constraints on air travel across the country. As a result, both leisure and business air travel have shown slow signs of activity and recovery. Currently at ITH two of the three airlines carriers are operating flights with general aviation traffic close to normal. With the future of leisure and business air travel still at unprecedented lows, the remainder of 2020 and 2021 remain uncertain.

The CARES Act did provide $1.8 million of relief to the County that can be applied to either operational or capital expenditures. How this is to be applied will be determined closer to year end after a fuller picture of revenue shortfalls are understood.

Budget Outcomes

There are several important outcomes that should be taken away from the proposed budget:

- The proposed tax levy increase, while still an increase, remains manageable considering the circumstances and current economic environment due to the COVID-19 pandemic.
- Despite a reduction in staffing by over 6% and the elimination of 47 FTEs, no employee will be laid off.
- A commitment to investing in the County's infrastructure, facilities and minimizing greenhouse gas emissions remains priority.
- The use of fund balance and reserves is limited primarily to one-time expenditures rather than operating expenses.
- The budget provides for all departments to continue to maintain service levels.
- Lastly, the proposed budget creates a solid foundation to move forward under unprecedented circumstances.

With the course of the pandemic changing daily, the proposed budget curtails spending, supports realistic revenues and prepares for the unknown with a supported contingency. The framework of County services remains stable and prepared to adjust for an unfamiliar future.

Fiscal Summary

The bottom line for the 2021 proposed budget is as follows:

Total Budget: The Recommended 2021 budget stands at $189 million. This represents a $3.7 million or 1.89% decrease in total spending over the 2020 adopted budget.

Local Dollar Budget: The local dollar budget is the portion of the budget that is not reimbursed by the state or federal governments, nor offset by earned program income. It is spending that must be supported by local dollars—mostly by local sales and property tax revenue. The 2021 local dollar budget decreased by $1.2 million, or 1.36% less than in 2020.

Property Tax Levy Increase: The gap between total expenses and all other revenue is filled by the property tax. The recommended budget would be balanced by a property tax levy of $2,549,801, an increase of 4.97% over 2020. The recommended levy exceeds the projected property tax cap.

Property Tax Rate: Because of the continued growth in property values in the County, the recommended 2021 property tax rate will increase a mere $.07 to $6.38 per $1,000 from the 2020 tax rate of $6.31 per $1,000, an increase of 1.17%. The taxable assessed value grew 3.9% over the prior year.

Impact on Owner of Median-Valued Home: Over the past year, the median value of a single-family home in Tompkins County has risen from $190,000 to $200,000. The recommended budget would increase the County property tax bill for the owner of a median-valued home by $83.

In Closing

As I transmit the recommended budget, we are still in the midst of fighting against a global pandemic. My appreciation goes out to all our employees over the past eight months as they have overcome insurmountable challenges to ensure our residents receive needed services.

Putting together the county budget is challenging enough in "normal" times, but when combined with the turbulent times of the past year, I owe an enormous debt of gratitude to our department heads. Putting together a budget with severe cuts in resources, while leading departments during a time of such uncertainty speaks volumes about their character, perseverance and reliance as leaders. Thank you.

A special thanks goes to Kevin McGuire, as his mastery of the budgeting system and attention to detail makes the budget a complete and succinct document. A special thanks also goes to Autumn Edwards who spends countless hours addressing last minute format changes to the budget book, and graciously manages my budget meeting calendar with patience.

I look forward to working with the Legislature in the coming weeks to delve into the details of the budget and arrive at a 2021 spending plan that aligns with the priorities and values of our community.

Sincerely,

Jason Molino

Jason Molino
County Administrator