

MICHAEL G. BRESLIN  
COUNTY EXECUTIVE



JOHN W. RODAT  
COMMISSIONER

COUNTY OF ALBANY  
DEPARTMENT OF MANAGEMENT AND BUDGET  
112 STATE STREET, SUITE 210  
ALBANY, NEW YORK 12207-2021  
OFFICE: (518) 447-5525  
FAX: (518) 447-5589  
www.albanycounty.com  
budget@albanycounty.com

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Albany County ended the second quarter of 2009 with sales tax revenues of \$55,223,024. The County retains 60 percent of sales tax revenue and distributes the remaining 40 percent to cities and towns. Thus, for the second quarter the net amount available for County purposes was \$33,133,815 or \$2,018,363 *below* the amount received in the second quarter of 2008. Through mid-year, the County's share of sales tax revenues is down \$4,391,104 from 2008.

The County budgeted \$241,856,330 for sales tax revenue in 2009, of which the County would retain \$145,113,798. Were the remaining half of 2009 to produce the same proportionate decline in sales tax revenue as the first, the total County share of sales tax revenue in 2009 would be approximately \$133.68 million. This is a very slight improvement from the estimate done at the end of the first quarter of \$133.05 million and would produce a sales tax shortage of \$12.05 million.

- As of mid-year, the County's total sales tax revenues are *down* 6.19 percent from 2008.
- The decreased amount of County share of sales tax revenue of \$2,018,363 was 5.74 percent *below* the second quarter of 2008 and 1.54 percent *below* the second quarter of 2007. These figures also represented a *decline* of 0.80 percent from the first quarter of 2009.
- The second quarter decline followed a significant decline in the fourth quarter of 2008 and the first quarter of 2009. This is only the third time since 1994 that sales tax revenues have declined from the prior quarter for three consecutive quarters and the decreases are, by far the *worst*. They are depicted graphically in Chart 2. In the prior fifteen years, no year-to-year decrease has exceeded 4.9 percent. But compared to the same quarters in the prior year, the three most recent quarters have *fallen* 7.48, 6.63, and 5.74 percent respectively. Over the 60 calendar quarters since 1994, year-to-year growth has averaged 2.99 percent. Until the three most recent quarters, the fifteen year average was 3.1 percent.
- In five of the six most recent calendar quarters, sales tax revenues declined from the prior quarter. The only exception was in the third quarter of 2008 (seen in Chart 1) and that may have been the result of the 2008 Federal tax stimulus. Given the time required for taxpayers to spend their Federal tax refunds and for sales tax revenues to be received by the State and distributed to counties, it is likely that third quarter increase was at least partially the result of that one-time Federal tax stimulus.
- While there has been local improvement in consumer confidence in recent months, given the nature of the Nation's and the State's continuing economic distress, this has not yet translated into increased taxable spending. We doubt that an economic turnaround, if any, will be near as fast or as large as the decline. As we have noted in our economic forecasts, including that found in the most recent Budget, "debt based consumption that generates sales tax revenues could not and

cannot continue indefinitely ... these debts, and particularly consumer credit have fueled consumption that generated sales tax revenues, but at an unsustainable rate.” (2009 Albany County Executive Budget, Economic Forecast, Volume 1, page 34.) To the degree that consumers have been spending at levels above their incomes and they have reset their spending at levels low enough to break even, retire debt, and/or to save, consumption and sales tax revenues will also reset at lower levels for some time to come.

After completing the review of sales tax revenues at the end of the first quarter, we also reviewed spending patterns and other revenue sources. Of particular note, New York State actions undertaken subsequent to the adoption of the County Budget are also reducing revenue. At that time, we projected a budget deficit for 2009 of 20.5 million. A technical error regarding interest income discovered subsequent to release of that estimate would have reduced that estimate of the deficit to \$19.0 million.

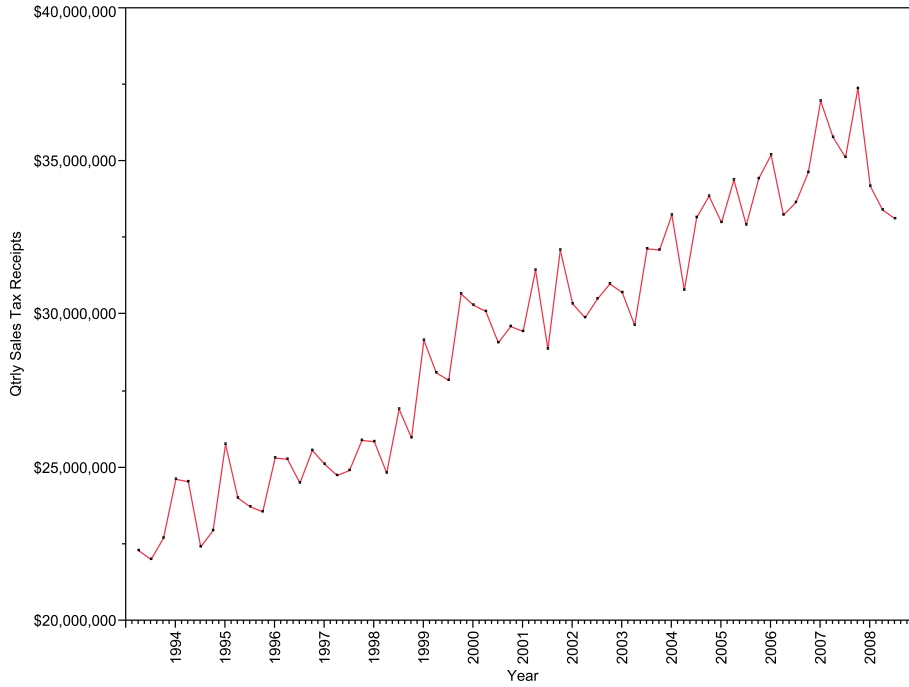
The County has undertaken the following actions to begin controlling the 2009 deficit and potential 2010 and 2011 deficits:

- The County Executive proposed a package of mid-year budget reductions. With some modifications, the Legislature adopted reductions of \$5,068,848 on July 13, 2009.
- The County Executive implemented a furlough plan. All departments under the direction of the County Executive, with the exception of the Albany County Nursing Home and the Sewer District, will be closed for five days during the remainder of 2009. The plan, without the inclusion of staff under separately elected officials, will save approximately \$1.4 million. Two separately elected officials have offered some level of savings in personnel costs.
- Albany County Clerk Thomas Clingan has committed that his staff will work a shortened work week over the summer, which will be equivalent to two and a half salary days. This will save approximately \$16,816.
- Sheriff James Campbell will delay filling vacant positions in the Sheriff’s Department and the County Correctional Facility.
- The Comptroller, Coroners, District Attorney, and the Board of Elections Commissioners have chosen to not participate in any furlough plan. An additional \$116,800 could be saved if these separately elected officials participated.
- To reduce budget requirements in 2010 and 2011, the County Executive also proposed and the Legislature adopted on July 13, 2009 a Voluntary Separation Incentive. Under this program, employees would receive \$15,000 upon separation during 2009 and their positions would be eliminated or remain vacant at least through the end of 2010 and most likely in 2011. At this point, we do not know how many will take advantage of this program, but the gross 2009 cost would be \$1.5 million for every 100 employees taking advantage of it.
- In addition to budgetary changes, we proposed and the Legislature adopted a short term amnesty on payment of delinquent property taxes. This amnesty, which will reduce the interest costs on delinquent taxes by 50 percent, will not reduce the budget deficit. However, to the degree that property owners take advantage of the opportunity, it will accelerate cash receipts.

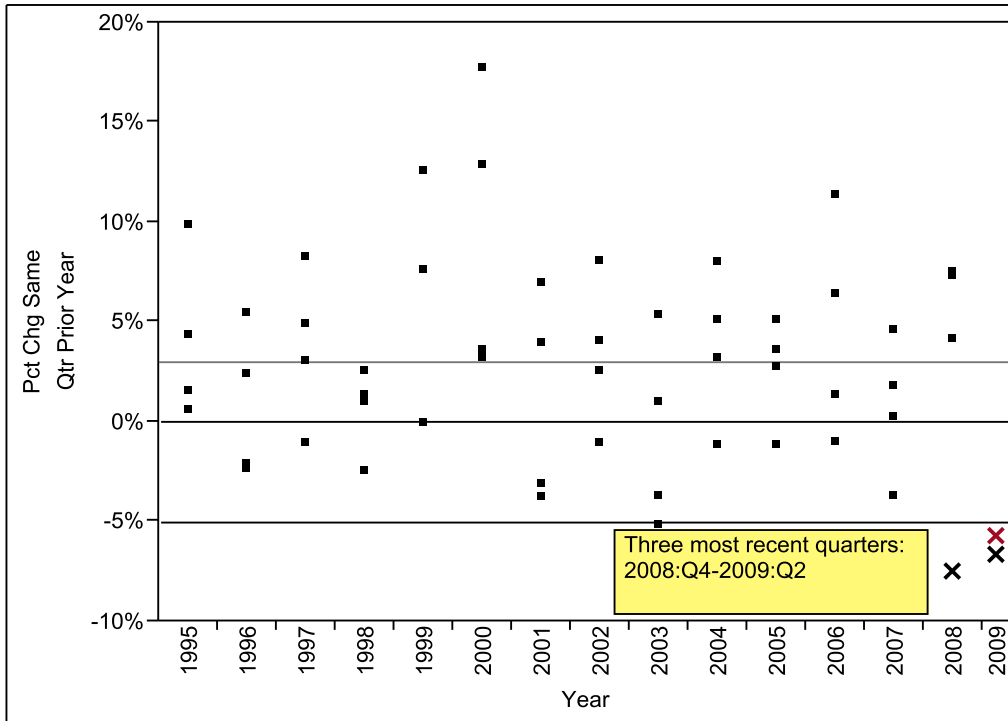
We have become aware of additional variances in both spending and revenues that have emerged during the second quarter and which will likely require action during 2009. As it will be part of the review in preparing the 2010 Budget, we have not yet completed a systematic review of all spending patterns, and revenues other than sales taxes. We are not yet able to estimate the 2009 costs of the Voluntary Separation Incentive. We have taken into account the technical correction to the estimate made at the end of the first quarter, the savings from the furlough and the mid-year budget reductions, as well as the updated sales tax estimate for this year. After considering the above, we now estimate the remaining 2009 budget deficit to be between \$13 and 14 million.

Additional issues may also become apparent during the 2010 Budget review and planning process. Thus though we have not yet done a full mid-year review, we will likely propose additional actions during 2009.

**Chart 1: Trend of Quarterly Sales Tax Revenue, Albany County, After Distribution of 40 Percent Municipal Share, 1993-2009, Q2**



**Chart 2: Percent Change Quarterly Sales Tax Revenue Compared to Same Quarter in the Prior Year, Albany County, After Distribution of 40 Percent Municipal Share, 1993-2009, Q2**



Each Point Represents the Change from the Same Quarter in the Prior Year. Fifteen year average is 2.9 percent. Average was 3.1 percent until three most recent quarters.