



COUNTY OF ERIE

**DAVID J. SHENK
COMPTROLLER**

October 10, 2012

Honorable Members
Erie County Legislature
92 Franklin Street, 4th Floor
Buffalo, NY 14202

Re: Review of Poloncarz Administration's 2013 Tentative Budget Revenue and Expense Projections

Dear Honorable Members:

Pursuant to my obligations under Article 25, Section 2506 of the Erie County Charter ("Charter"), this correspondence provides your Honorable Body with my office's review of the projected revenues and expenditures, submitted by the Poloncarz Administration ("the Administration"), for the tentative 2013 Erie County ("County") Budget.

Article 25, Section 2506 states: "On or before the 1st day of October the County Executive shall submit to the comptroller all revenue estimates and expenditure estimates for Medicaid, public assistance, and pension contributions and health care insurance costs for County employees to be used in the proposed budget. The comptroller shall review all revenue estimates and expenditure estimates for Medicaid, public assistance and pension contributions and health care insurance costs for County employees to be used in the proposed tentative budget prepared by the County Executive and submit to the Legislature in writing by the 15th of October a report indicating whether or not such estimates are suitable estimates for the upcoming fiscal year."

On October 1, 2012, my office received a formal correspondence from Robert W. Keating, Director of the Division of Budget and Management, containing the Administration's 2013 Tentative Budget Revenue and Expense Projections. This submission highlights the findings and concerns my office has regarding the Administration's projected 2013 tentative budget revenue and expenditures.

This review is not a comprehensive analysis of the Administration's entire proposed 2013 budget; rather this report is a limited review of the major revenue and expenditure estimates as presented to my office by the Director of the Division of Budget and Management as required by the Charter. Upon my office's receipt of the Administration's entire proposed 2013 Erie County Budget, which is expected to be delivered to my office by October 15, 2012, my office will complete a thorough review of the entire proposed 2013 budget by October 31, 2012.

Executive Summary

The Administration's 2013 Tentative Budget Revenue and Expense Projections do not contain key revenue and expenditure estimates to complete a thorough analysis of the projections. With respect to revenue estimates, the County's 2013 property tax levy has not been finalized; therefore, this important revenue item is excluded. Also, various revenues have increased noticeably from the 2012 Adopted Budget: Payments in Lieu of Taxes ("PILOT") at 24%, Section 520 Exemption Removal (i.e., "property tax adjustment") at 13%, Sales Tax revenue at 3.65%, DSS Federal Aid at 2.6%, and DSS State Aid at 2.2%.

My office's most significant concern is the budgeted Sales Tax revenue for the County. The nearly \$15 million increase, from \$411.05 million budgeted for 2012 to \$426.03 million tentatively budgeted for 2013, translates to a 3.65% increase in projected sales tax revenue. As we witnessed during the recent Great Recession, this revenue item depends on the economy and remains the single largest revenue source to the County accounting for approximately 32% of all budgeted revenues. Since fiscal year 1996, the regular and additional 1% sales tax has only met or exceeded the 3.65% projected growth rate on six occasions; in three years it declined. Given that the potential remains for a double-dip recession, this budgeted amount may prove overoptimistic and problematic.

Given the absence of the expenditure accounts that drive State and Federal reimbursements, any comments on the budgeted amounts would be pure speculation. Therefore, my office reserves judgment on these aid accounts until the full 2013 proposed budget is released.

The Other Local Source Revenues and Fees, Fines or Charges decreased \$1,970,348 (or -2.5%) from the 2012 Adopted Budget. A majority of this decline is attributed to the Community College Chargeback and Election Expense Other Governments which decreased \$1,117,683 due to lower reimbursable expenses.

With respect to the provided expenditure items, most noteworthy is the projections that were not provided. The Intergovernmental Transfer ("IGT") appropriation was not included although it is a substantial and variable Medicaid-related expense to the County. As the County Executive stated on July 16, 2012, "This year [2012], we estimate this obligation could cost County taxpayers as much as \$51 million—or \$34.7 million over what previous administration budgeted for." Subsequently, ECMCC's officials have stated they do not intend to impact the County adversely and have entered into negotiations with the administration.

Three of the listed public assistance programs, Family Assistance, Safety Net Assistance (“SNAP”) and Emergency Assistance to Adults, do not contain substantial upward trend from the Administration’s current Four Year Financial Plan estimates which were approved by the Erie County Fiscal Stability Authority (“ECFSA”) in April 2012. On September 17, 2012 County Executive Poloncarz “acknowledged the upward trend evident in the amount of requests for public assistance received by the Erie County Department of Social Services thus far in 2012.” Further stating that “These numbers indicate that, while the economy is showing signs of rebounding, there are still more individuals and families in need of assistance.” In my office’s review, we found little evidence of this trend reflected in these accounts. In fact, gross Family Assistance decreased 8.9% from the estimated 2013 expense in the Four Year Financial Plan released in April 2012 while gross Safety Net Assistance increased by 2.0% and Emergency Assistance to Adults decreased by 8.0%.

The other provided projected expenditure items, County health insurance and retirement estimates, are difficult to comment on until the Administration’s complete 2013 proposed budget is released as the Health Insurance expenditure is heavily dependent on the number of employees. As reported by the Administration, the amount provided is 8% higher than 2012 projected health insurance costs. This is consistent with the 7.9% increase announced by Labor-Management Healthcare Fund (“LMHF”). The retirement expenditure appears to be consistent with rates that were announced in September 2012 by the Office of the New York State Comptroller.

With respect to the Appropriated Fund Balance, I reiterate my concerns expressed earlier this year on the \$5.4 million use of fund balance from the General Fund in the 2013 tentative budget revenue and expense projections. This continues the trend of the last two years as 2011 ended with a reduction of \$9.2 million in total fund balance and the 2012 Adopted Budget was balanced with the use of \$7.44 million of fund balance.

While this projected use of fund balance will maintain the Charter’s required amount of 5% of the fund balance in the General Fund, if the County should ever need to utilize an amount that would reduce the balance below 5%, we lack a comprehensive fund balance policy that details the steps we would take to bring the fund balance back to 5% in a reasonable time. As noted by the national credit rating agencies, the County’s liquidity position needs to improve and continued use of fund balance reduces the County’s liquidity position. I renew my call for the County Executive and Legislature to work with me to establish a comprehensive fund balance policy. Although a rudimentary policy is in place, no provision for replenishing fund balance exists.

Comptroller’s Comments on Presented Accounts

Revenue Items

- **Property Tax Related** – The 2013 Tentative Budget is \$12,550,031 and the 2012 Adopted Budget is \$10,808,003, translating to an increase of \$1,742,028 (or 16.12%) more than the 2012 Adopted Budget and an increase of \$1,086,330 (or 9.48%) over the current (approved) Four Year Financial

Plan. Also, PILOT payments are the only account that increased appreciably, most likely due to the part of the Huntley Power Plant parcel in the City of Tonawanda which moved from the County's tax rolls to a PILOT program. Determination: this is a reasonable/suitable estimate.

- **Sales Tax** – The 2013 Tentative Budget is \$426,033,687 and the 2012 Adopted Budget is \$411,047,133, translating to an increase of \$14,986,554 (or 3.65%) more than the 2012 Adopted Budget and an increase of \$619,534 over the current (approved) Four Year Financial Plan. This account is the single largest revenue source for the County budget with a two-month lag in receipts. This means my office will know the County's final 2012 sales tax revenue figures in February 2013. Through the first seven months of 2012, the sales tax revenue growth rate is 3.05%. Considering New York's recent elimination of the state's 4% sales tax on apparel and shoes costing up to \$110, coupled with Canada's implementation of its new duty-tax exemption law effective June 1, 2012, the impact of these recent tax reduction and elimination initiatives should be significant. Determination: this is an ambitious and possibly overoptimistic estimate.
- **Sales Tax Local Government** – The 2013 Tentative Budget is \$294,861,414 and the 2012 Adopted Budget is \$284,489,097, translating to an increase of \$10,372,317 (or 3.65%). This revenue is equal to the budgeted expense item in the same amount representing payments to cities, towns, villages and school districts in the County. As such, this has no net effect on the County budget. Determination: this is a reasonable/suitable estimate.
- **Other Local Source Revenue** – The 2013 Tentative Budget is \$44,224,206 and the 2012 Adopted Budget is \$45,993,450, translating to a decrease of \$1,769,244 (or -3.85%). This decrease is primarily attributable to the decline in Community College Re-spreads of \$599,300 and the decline in DSS accounts totaling \$1,434,379. The decline in Community College Re-spreads reflects that 2011 Community College Chargebacks declined from 2010, thus illustrating the trend of fewer Erie County residents attending out-of-County New York State community colleges. The DSS decline is attributable to lower repayments, refunds and recoveries in various DSS programs. Determination: this is a reasonable/suitable estimate.
- **Fees, Fines or Charges** – The 2013 Tentative Budget is \$33,665,555 and the 2012 Adopted Budget is \$32,866,659, translating to an increase of \$798,896 (or 2.4%). This increase is primarily due to increases of \$100,000 in Auto Fees and \$300,000 in Recording Fees in the County Clerk's Office, \$105,437 Jail facility-Other Govts in Jail Management, and \$154,220 Medical Examiner Fees. Determination: this is a reasonable/suitable estimate.
- **Appropriated Fund Balance** – The 2013 Tentative Budget is \$5,405,000 and the 2012 Adopted Budget is \$7,443,185, translating to a decrease of \$2,038,185. Fund Balance is the County's "rainy day" account and serves as a measure of the County's liquidity. As such, it is a major item when credit reviews are conducted by Moody's, Standard & Poor's and Fitch Rating agencies. Over the past several years, all three rating agencies have recognized the County's improved financial position

to the point currently that the County experiences "A" level ratings from each agency. However, in late 2011, Moody's stated that "...narrow reserves provide little cushion to economically sensitive revenues." Concern about the County's reliance on volatile sales tax revenues was echoed by Fitch Ratings in February 2012. Any use of fund balance without a replenishment plan weakens the County's finances. I renew my call for the County Executive and County legislature to join me to establish a comprehensive fund balance policy that (1) governs the use of the County's fund balance, (2) contains specific plans for increasing or decreasing the level of unassigned fund balance if fund balance should fall below or too far above the 5% established level, and (3) includes a provision for non-general funds.

- **Federal Revenue** – The 2013 Tentative Budget is \$177,674,305 and the 2012 Adopted Budget is \$173,447,146, translating to an increase of \$4,227,159 (or 2.44%). Upon initial review, this amount appears reasonable. However, absent the complete expenditure budget, I am unable to express an opinion on the reasonableness of these items. In addition, the federal government is facing mounting deficits and sequestration. The sequestration cuts laid out under the Budget Control Act of 2011 are scheduled to take effect, in accordance with the provisions of the law, starting in January 2013.
- **State Revenue** – The 2013 Tentative Budget is \$167,943,564 and the 2012 Adopted Budget is \$167,531,819, translating to an increase of \$411,745 (or 0.25%). As stated above regarding Federal revenues, the same lack of expenditure details precludes me from expressing an opinion on the reasonableness of these estimates. The 2013-14 New York State budget shall be established by March 31, 2013 and, as stated in the Administration's Budget Monitoring Report for the Period Ending August 31, 2012, uncertainty remains on rates for the Pre-School Transportation program in Persons with Special Needs for 2010-11 and 2011-12.

Expenditure Items

Note: The Administration's 2013 Tentative Budget Revenue and Expense Projections correspondence solely contains two tentatively budgeted expenditure items.

- **Fringe Benefits** – The 2013 Tentative Budget is \$103,225,686 and the 2012 Adopted Budget is \$89,406,685, translating to an increase of \$13,819,001 (or approximately 15.5%).

Health Insurance – The 2013 Tentative Budget is \$66,840,956 and the 2012 Adopted Budget is \$56,066,869, translating to an increase of \$10,774,087 (or 19.2%). This includes Employee Health, Retiree Health and ECMCC and Home retiree health insurance for which the County is responsible under the present agreement with ECMCC. The Administration has informed my office that the health insurance component increased 8% over 2012 projected health insurance costs. Considering LMHF's rates are set to increase 7.9% it would appear to be reasonable. However, absent complete budget information concerning number of employees, it is difficult to render an opinion.

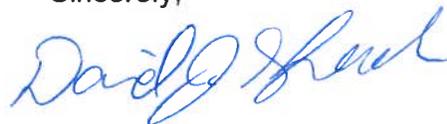
Retirement Expense – The 2013 Tentative Budget is \$36,384,730 and the 2012 Adopted Budget is \$33,339,816, translating to an increase of \$3,044,914 (or 9.1%) which appears reasonable given the rates that were released in September 2012 by the Office of the State Comptroller.

- **Public Assistance** – The 2013 Tentative Budget is \$310,961,575 and the 2012 Adopted Budget is \$300,444,842, translating to an increase of \$10,516,733 (or 3.5%). The Medicaid budget appears to be consistent with the latest cap adjustments announced by the State. Also, Family Assistance, Safety Net Assistance and Emergency Assistance to Adults appear to be provisionally reasonable. However, on September 17th, the County Executive issued a press release noting the upward trend in applications for public assistance. “These numbers indicate that, while the economy is showing signs of rebounding, there are still more individuals and families in need of assistance,” said Poloncarz. “This should be of concern to everyone in Erie County.” Specifically he cited a 26% increase in applications for homeless assistance as well as a 4% increase in Medicaid and SNAP applications. While not specific to these programs what is confusing that the gross expenditures for Family Assistance program in the 2013 budget is \$4,173,708 or 8.9% less and the Emergency Assistance to Adults is \$102,798 or 8% less than the 2013 projection released in April of this year as part of the Four Year Financial Plan. While Safety Net Assistance gross cost increased \$883,900 (or 2%). While the Family Assistance program is almost fully paid by federal aid, the Safety Net program is 71% County share. Determination: this is a reasonable/suitable estimate.

Conclusion

Upon the Administration's submission of its entire proposed 2013 County budget, my office will complete a thorough analysis of the proposed budget and provide a comprehensive review and findings report to your Honorable Body. My report will be submitted by October 31, 2012. Meantime, if you have any questions or comments regarding any one or more portions of this correspondence, please contact Lorne Steinhart, Deputy Comptroller for Accounting and Finance at 858-6000.

Sincerely,



David J. Shenk
Erie County Comptroller

DJS/EW

Cc: Mark C. Poloncarz, Esq., Erie County Executive
Robert W. Keating, Director, Division of Budget and Management
Erie County Fiscal Stability Authority