



Sales Tax Revenue Concerns Continue as Comptroller Completes First Quarter Report

Overly optimistic and aggressive projections on risky and volatile revenue could lead to gaps

(Buffalo) – The office of Erie County Comptroller Stefan Mychajliw completed the First Quarter financial report for the Erie County Legislature and Erie County Executive. It includes a responsible warning over the administration's overly optimistic and aggressive sales tax revenue projections that could negatively impact the 2013 budget.

A great concern surrounding the 2013 budget is the amount of money the administration projected is going to be generated through sales tax revenue. We are following the lead of the administration based on what their budget representative told the Erie County Legislature about their own sales tax revenue projections:

*"(We) hope that sales tax comes in better than we expect, but right now we don't think that is going to be the case. **We think the budget for sales tax this year is overly optimistic. We are not going to make budget on that.**"*

Source: Erie County Senior Budget Consultant Timothy Callan, Erie County Legislature Finance and Management Committee, March 14th, 2013

Sales tax revenue needs to grow 3.73% for all of 2013 in order for the administration to reach its projected revenue target of \$426,033,687. The actual receipts for January and February of 2013 reflect a 0.83% growth in sales tax revenue. The final revenue amounts at March 31st, 2013 will be known in mid-May.

The sales tax revenue amount for the County's First Quarter 2013 was \$98,436,361 compared to \$96,233,519 for the First Quarter of 2012, a very slight increase. Based on what the administration is projecting for March 2013 sales tax revenue, we can report that during the first three months of 2013, the County could experience a \$2,265,844 (2.36%) increase in sales tax revenue, compared to the first three months of 2012. A 2.36% growth in sales tax revenue for 2013 would create an approximately \$5,620,355 gap in this year's budget.

Keep in mind, this reflects the Division of Budget and Management's accrual of March sales tax, of what their best guess of what March 2013 figures will be.

"We will continue to closely monitor sales tax revenue to determine if the administration's overly optimistic and aggressive projections will create a hole in this year's budget. Don't take my word for it. Our concerns about the administration falling short of their own sales tax revenue projections comes from their own office. I am pleased the administration shares my concern over their overly optimistic sales tax revenue projections. We need to keep a close eye on this. Falling short of their projections could create multi-million dollar budget gaps," said Comptroller Mychajliw.

Another area of concern is the projected \$110 million amount needed for the issuance of a Revenue Anticipation Note (RAN) later this year. We have not seen a RAN issuance this year since the infamous "Red/Green" fiscal meltdown of 2005 and 2006. Ultimately the final dollar amount and timing of the issuance will be determined as the County's actual cash position is monitored and projections are adjusted, as applicable, throughout the year.

These reports are charter mandated and due by the end of the following month after the completion of the quarter. It includes data concerning financial statements, investment reports, cash flow statements, property tax summary, sales tax summary, debt schedules, short term bonded indebtedness, property tax rates, and constitutional taxing power.

The Interim Financial Report includes the three-month period that ended March 31st, 2013. It serves as a "fiscal snapshot" for legislators and the County Executive on the financial well being of the county at the time of issuance.

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COUNTY OF ERIE
STEFAN I. MYCHAJLIW
COMPTROLLER

April 30, 2013

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

Honorable Mark C. Poloncarz
Erie County Executive
95 Franklin St., 16th Floor
Buffalo, NY 14202

Dear Honorable Members and County Executive Poloncarz:

My office has prepared an Interim Financial Report ("Report") of the County of Erie, New York ("County") as of and for the three-month period ended March 31, 2013 (i.e., "First Quarter 2013"). The Report, enclosed for your review, consists of the following elements:

- Financial Statements
- Investment Reports
- Cash Flow Statements
- Property Tax and Sales Tax Summary
- Debt Schedules
- Miscellaneous Financial Data (including data on short and long-term bonded indebtedness, property tax rates and constitutional taxing power)

We provide the following observations and comments for your consideration:

Sales Tax

As you are aware, the County's 2013 Adopted Budget amount of \$426,033,687 is predicated on a 3.73% increase in sales tax revenue above the County's 2012 actual sales tax revenue.

The sales tax revenue amount for the County's First Quarter 2013 was \$98,436,361 compared to \$96,233,519 for the First Quarter of 2012. During the first three months of 2013, the County experienced a \$2,265,844 (2.36%) increase in sales tax revenue, compared to the first three months of 2012. This reflects the Division of Budget and Management's accrual

of March sales tax. The actual receipts for the first two months of 2013 reflected a 0.83% increase. The final revenue amounts at March 31, 2013 will be known to the County in mid-May.

As you are well aware sales tax revenues are the largest revenue source for Erie County. Wall Street ratings agencies and the Office of Comptroller have issued numerous warnings on Erie County's risky reliance on volatile sales tax revenue.

The first two months of 2013 sales tax has been received and the growth rate was 0.83%. While it is still too early to draw any conclusions on how 2013 sales tax will end, this reinforces my office's warnings about the overly optimistic sales tax projections contained in the Poloncarz administration's 2013 budget, an increase of 3.73% over 2012 actual.

The same concern was even expressed by representatives of the Erie County Division of Budget and Management last month, when they expressed before your Honorable Body similar concern of whether or not sales tax projections for all of 2013 are realistic:

*"(We) hope that sales tax comes in better than we expect, but right now we don't think that is going to be the case. **We think the budget for sales tax this year is overly optimistic. We are not going to make budget on that.**"*

Source: Erie County Senior Budget Consultant Timothy Callan, Erie County Legislature Finance and Management Committee, March 14th, 2013

This office will continue to monitor this account, the largest revenue in the budget at \$426,033,687, closely throughout the year and will report as we receive monthly updates from the State.

Real Property Taxes

Through the three-month period ended March 31, 2013, the County received 81.2% of the \$310,034,917 that was levied and is collectible for County purposes, which is 0.6% higher than the percentage collected as of March 31, 2012. Taxes remaining to be collected are at \$58,196,682 compared to \$60,323,185 at March 31, 2012 (3.5% decrease).

2013 Capital Borrowing

On February 7, 2013 the County Legislature approved the County Executive's 2013 Consolidated Bond Resolution for capital projects amounting to approximately \$50.3 million, of which approximately \$38.9 million was approved to be bonded. On that same date the County Legislature approved a Refunding Bond Resolution not to exceed \$40.0 million.

On April 4, 2013, the County closed a bond transaction involving a principal amount of \$29,649,733 in "new County money" that provided the necessary cash to fund the related capital projects. Also, a refunding bond was closed in the amount of \$35,960,700, including premium, resulting in present value savings of \$2,325,500.

Short-term Borrowing in 2013

As of March 31, 2013, my office projects that the County will require a \$110 million revenue anticipation note ("RAN") with the note to be issued later this year. Ultimately the final dollar amount and timing of the issuance will be determined as the County's actual cash position is monitored and projections are adjusted, as applicable, throughout the year.

Conclusion

The financial statements and other information contained in this Report have been compiled largely from the official accounting records maintained in the County's SAP system. The Financial Statements from ECMCC, Erie Community College, the Erie County Tobacco Securitization Corporation, the Buffalo and Erie County Industrial Land Development Corporation, Inc. and the ECFSA are not included because financial information for the aforementioned entities is maintained separately from the County.

The County's independent auditor has not reviewed information contained in this Report; therefore, no opinion on this Report is expressed.

Please note that this is the first quarterly report for 2013. The next quarterly financial report will be issued in July 2013 for the Second Quarter 2013. Also, the 2012 information contained in this Report (e.g. 2013 beginning fund balance) is subject to change pending the results of the County's annual independent audit which is currently underway.

If you have any questions regarding this submission, please contact me at (716) 858-8400.

Sincerely yours,



Stefan I. Mychajliw
Erie County Comptroller

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Enclosure

cc: Erie County Fiscal Stability Authority

Robert W. Keating, Director of Budget and Management