

COMPTROLLER'S MID-YEAR REVIEW OF THE 2013 BUDGET



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July 12, 2013

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July 12th, 2013

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

Dear Honorable Members:

The Division of Budget & Management has released its Budget Monitoring Report ("BMR") for the period ending May 30, 2013. Starting Monday July 16, 2013 your Honorable Body will begin its mid-year budget hearings.

The Erie County Comptroller's Office has reviewed the May 2013 BMR. This report highlights significant revenue and expense items and areas of potential significant risk.

As we have noted in the past the largest revenue, Sales Tax, is significantly below budget for the first five months of the year. $-\$3,243,085$. This is a serious situation and may cause the County to end the year in a deficit if it continues. The 2013 budget estimate for sales tax is a 3.73% growth over 2012 actuals.

The May BMR results reaffirm your body's modifications of the administration's proposed 2013 budget eliminating the proposed property tax hike. The administration has done a decent job in vacancy control resulting in gross savings beyond the budgeted turnover and offsetting overages in overtime. Fringe benefits are also running below budget. After 2012 year-end adjustments proposed by the administration and approved by your Honorable Body, Risk Retention is running slightly below budget. However, despite negating the majority of the effect of the reduction in the administrations estimate of Safety Net expenses. That account is running significantly over budget. This is another serious concern.

What follows will be an overview of each of the major categories as detailed in the BMR.

The BMR reported the following variances by categories:

| ACCOUNT TYPE | 2013 ANNUAL BUDGET | JANUARY-MAY BUDGET | JANUARY-MAY ACTUAL | JAN-MAY BUDGET VARIANCE |
|--------------------------------|---------------------------|---------------------------|---------------------------|--------------------------------|
| PROPERTY TAX | 215,098,371 | 215,098,371 | 215,098,371 | 0 |
| PROPERTY TAX RELATED SALES TAX | 12,550,031 | 7,030,741 | 7,172,638 | 141,897 |
| SALESTAX OTHER GOVTS | 426,033,687 | 172,581,746 | 169,338,661 | -3,243,085 |
| OTHER SOURCES | 294,861,414 | 116,969,127 | 116,969,127 | 0 |
| FEES, FINES or CHARGES | 44,832,467 | 20,249,747 | 24,291,712 | 4,041,965 |
| APPROPRIATED FUND BALANCE | 32,673,955 | 17,485,754 | 18,412,056 | 926,302 |
| FEDERAL REVENUE | 5,472,250 | 0 | 0 | 0 |
| STATE REVENUE | 177,674,305 | 69,305,311 | 69,081,508 | -223,803 |
| REVENUE | 167,791,625 | 69,356,462 | 67,735,397 | -1,621,065 |
| TOTAL REVENUES | 1,376,988,105 | 688,077,259 | 688,099,470 | 22,211 |

| | | | | |
|----------------------|-------------|-------------|-------------|------------|
| SALARIES | 170,100,096 | 70,072,450 | 67,108,044 | 2,964,406 |
| NON-SALARIES | 18,418,636 | 6,904,158 | 8,173,400 | -1,269,242 |
| TURNOVER | -1,787,585 | -736,306 | 0 | -736,306 |
| FRINGE BENEFITS | 125,143,068 | 48,923,946 | 47,895,049 | 1,028,897 |
| SUPPLIES and REPAIRS | 10,111,215 | 3,958,757 | 3,701,853 | 256,904 |
| OTHER | 24,187,718 | 8,668,205 | 7,388,033 | 1,280,172 |
| CONTRACTUAL | 459,798,385 | 191,495,187 | 189,182,733 | 2,312,454 |

| | | | | |
|------------------|-------------|-------------|-------------|------------|
| EQUIPMENT | 1,244,112 | 611,532 | 425,624 | 185,908 |
| ALLOCATIONS | 37,664,441 | 24,733,857 | 24,072,971 | 660,886 |
| PROGRAM SPECIFIC | 486,287,625 | 210,490,360 | 216,523,229 | -6,032,869 |
| DEBT SEVICE | 54,643,336 | 30,661,147 | 30,661,147 | 0 |

| | | | | |
|-----------------------|----------------------|--------------------|--------------------|----------------|
| TOTAL EXPENSES | 1,385,811,047 | 595,783,293 | 595,132,083 | 651,210 |
|-----------------------|----------------------|--------------------|--------------------|----------------|

| | | | | |
|------------|-------------------|-------------------|-------------------|----------------|
| NET | -8,822,942 | 92,293,966 | 92,967,387 | 673,421 |
|------------|-------------------|-------------------|-------------------|----------------|

As the table shows the 2013 budget as of May 2013 is precariously balanced. A positive variance of \$673,421 after five months is insignificant.

PROPERTY TAX

As shown in the above table the property tax levy was recognized in full for the year.

PROPERTY TAX RELATED ITEMS

The variance in Property Tax Related Items is \$141,897. This variance is attributable to higher Payment in Lieu of Taxes revenue and a new tax item, Wind Power Levy Tax.

SALES TAX

The variance in Sales Tax is -\$3,243,085. As briefly discussed above and as this Office has noted a number of times, the 2013 sales tax projection of 3.73% growth over 2012 actual was overly optimistic. As the table below shows, at the January-May growth rate of 1.88% the County would see a deficit in this account of \$7,591,813 or an increase of \$4,348,728 in the negative variance as reported in May.

The same concern was even expressed by representatives of the Erie County Division of Budget and Management earlier this year, 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

"We are worried about some of the trends in sales tax."

Source: Erie County Senior Budget Consultant. Timothy Callan, Erie County Legislature Finance and Management Committee, May 2nd, 2013

"In sales tax, again, if we had to budget it over, I would have budgeted less in sales tax."

Source: Erie County Budget Director Robert Keating, Erie County Legislature Finance and Management Committee, May 2nd, 2013

"The sales tax number is an area of concern."

Source: Erie County Senior Budget Consultant Timothy Callan, Erie County Legislature Finance and Management Committee, May 2nd, 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 continue to report to your Honorable Body as we receive monthly updates from the State.

Serious Sales Tax Issues

| | |
|---|---------------|
| 2013 Sales Tax Projection: | \$426,033,687 |
| 2012 Actual Sales Tax Revenue: | \$410,720,332 |
| Difference: | \$15,313,355 |
| 2013 Percentage Growth Needed to Make Budget: | 3.73% |
| 2013 Sales Tax Growth Through May | 1.88% |

Potential 2013 Deficit

| | |
|-------------------------|----------------|
| 1.88% sales tax growth: | - \$7,591,813 |
| 1% sales tax growth: | - \$11,206,152 |
| 2% sales tax growth: | - \$7,098,948 |
| 3% sales tax growth: | - \$2,991,745 |

SALES TAX OTHER GOVERNMENTS

Under the sales tax sharing agreement, the County shares the 3% regular sales tax with the Cities, Towns, Villages and School Districts in the County, utilizing a sharing formula contained in the agreement. Any variance in this account is offset by an equal variance in the contractual line to pay other government entities. There is no net impact on the County from this account.

OTHER SOURCES

The variance in Other Sources, \$4,041,965, is due primarily to amount due from the Erie County Medical Center Corporation ("ECMCC"), \$5,190,444. This variance offsets part of the negative variance in Program expense. This represents the repayment due from ECMCC for the amount of Intergovernmental Transfer "(IGT)" payments in excess of the \$16.2 million budgeted. Under an agreement between the County and ECMCC a credit was established to offset the excess IGT payments made to ECMCC in 2013 and 2014. In 2015 the County will begin repaying the credits at the rate of \$2 million a year. The balance of the variance is spread throughout various repayment accounts.

FEES FINES AND CHARGES

The variance in Fees, Fines and Charges, \$926,302, is due primarily to the Erie County Clerk operations. \$817,703.

APPROPRIATED FUND BALANCE

Nothing will ever appear in this account. As it is the difference between budgeted revenues and appropriations. In addition to the amount budgeted, \$5,472,250. An additional \$8,822,942 was assigned or re appropriated by your Honorable Body as part of the 2012 year-end process. If the year ends as budgeted this means total fund balance would decrease by \$14,295,192.

FEDERAL REVENUE

The variance in Federal Revenue, -\$223,803 is minor and offset by variances in federal reimbursed programs as detailed in the BMR.

STATE REVENUE

The variance in State Revenue, -\$1,621,065 is offset by variances in state reimbursable programs.

PERSONAL RELATED EXPENSE

This includes Salaries, Non Salary and Turnover. The total net variance is \$958,858. The BMR mentions overtime issues with the Sheriff, Jail Management and Correctional Health. However, the administration has done a good job maintaining vacant positions to offset not only the budgeted turnover but also the overtime issue.

FRINGE BENEFITS

The variance in Fringe Benefits, \$1,028,897 reflects the savings from vacant positions as well as expenses coming in under budget.

SUPPLIES AND REPAIRS

The variance in Supplies and Repairs is \$256,904 is minor and may reflect seasonality of these accounts.

OTHER

The variance in "Other" is \$1,280,172 and is in Pivot Wage Subsidies \$505,059 and "Other" \$412,606. At this time of the year those variances are minor and may be due to seasonality of the accounts.

CONTRACTUAL

The variance in Contractual is \$2,312,454 is primarily due to Non Profit Purchase of Services \$1,529,493 which is partially offset by lower State Revenue as noted above. In addition to a \$241,250 positive variance in NFTA share of sales tax as noted above.

EQUIPMENT

The variance in Equipment is \$185,908 is minor.

ALLOCATIONS

The variance in Allocations is \$660,886 and is due primarily to positive variances in Subsidy to the Road Fund, \$463,756 and Utility Fund \$249,172. This reflects less work being done in the Road Fund than was originally anticipated and lower utility costs.

PROGRAM SPECIFIC

The variance in Program Specific is -\$6,032,869 is primarily due to UPL expense, -\$6,268,015, part of the IGT payment the County is responsible for as noted above in Other Sources revenue. The other programs have positive and negative variances that are partially offset in the variances in State and Federal Revenue. As noted above, the Safety Net Program is running a significant negative variance, in addition to the CWS Foster Care program running a negative variance.

DEBT SERVICE

The variance in Debt Service is zero.

In conclusion, the County budget is precariously balanced as of May, 2013. The administration has done a good job in maintaining vacancies and budget holds to offset the negative variance in Sales Tax that has been experienced for this period.

This Office will continue monitoring the budget, especially sales tax and Social Services programs as both of these are impacted by the economy and are beyond the control of the County. If there are any questions I and my staff are available to answer them.

Sincerely yours,



Stefan I. Mychajliw
Erie County Comptroller

cc: Erie County Fiscal Stability Authority
Mark Poloncarz, Erie County Executive