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COUNTY OF ERIE

STEFAN I. MYCHAJLIW
COMPTROLLER

January 3rd, 2013

Mr. Robert W. Keating,
Director of Budget & Management
County of Erie
95 Franklin Street, 16th Floor
Buffalo, New York 14202

Re: Erie County's Cash Position, 12/31/12 and beyond

Dear Mr. Keating:

There is an important fiscal issue to make you aware of concerning Erie County's year end cash balance on December 31st, 2012. It appears as though there was a chance we could have ended the year with a cash deficit and not have enough money to pay vendors.

There is a more pressing need to address right now: there is not enough cash in hand to pay New York State the $15 million payment they requested on Wednesday, January 2nd, 2013, with a payment date of January 8th, 2013 (see attached correspondence) for an Intergovernmental Transfer (IGT) payment related to the Erie County Medical Center (ECMCC).

Here is how Erie County could have ended the year with a cash deficit and why the County is in the situation right now of not having enough to pay New York State.

In March of last year the Erie County Comptroller's Office initially wanted to borrow $40 million through a Revenue Anticipation Note (RAN)[1] issued through the Erie County Fiscal Stability Authority (ECFSA). Shortly thereafter an additional $35 million was added to the RAN, bringing the total amount borrowed to $75 million.

The main purpose of borrowing an additional $35 million was to more than cover the approximately $29 million IGT payment that was initially due to ECMCC in 2012. Keep in mind; the main reason why the County borrowed more was to make this $29 million IGT payment as scheduled last year, in 2012.

After the additional $35 million in borrowing was finalized through the RAN, the administration completed an agreement with ECMCC to delay that payment until 2013, and initiate a credit arrangement to pay ECMCC in annual payments starting in 2015. This basically eased what would have been a fiscal hardship of coming up with a massive payment at one time. Erie County delayed making the IGT payment from 2012 to this year, 2013.

Factoring in the additional revenue that was borrowed but never used for the IGT payment that was delayed until 2013, Erie County **should have ended 2012 with approximately $41 million.** At this point the Office of Comptroller has determined Erie County ended 2012 with significantly less "cash in hand:" **only $9.6 million.** That's a difference of approximately $31.4 million.

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[1] Source: First Quarter Financial Report, Office of the Erie County Comptroller, March 2012.

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Had the County actually made the $29 million IGT payment as scheduled in 2012, there is a strong chance we would not have been able to pay vendors and could have ended the year with a cash deficit.

Thankfully the County had a small "cash cushion" come in at the end of 2012. In late December we received a $5.2 million reimbursement from the New York State Department of Mental Health and a $4 million reimbursement from the New York State Health Department. Had these reimbursements not been received late in the year Erie County could have ended the year with about $400,000 in the bank.

To make matters even more challenging, our office received correspondence from New York State on January 2nd, 2013 requesting a $15 million IGT payment to be made next week.

Our office wants to work with you collaboratively and proactively to formally request that this payment be postponed, preferably to March 2013, when Erie County's cash flow can accomodate the payment. There isn't enough money to pay that high of a bill right now, especially one for $15 million New York State wants the County to pay next week.

My office is available to work with you and members of your staff in order to determine why the County ended 2012 with $9.6 million in cash compared to the previously anticipated $41 million, a difference of $31.4 million.

We will also work collaboratively with the administration in how we can postpone the $15 million payment New York State just requested.

Concerning the issue of cash flow, we have identified **delayed** RF2 (Social Services) and Consolidated Highway Improvement Program (CHIP's) receipts totaling approximately $19 million. We anticipated that New York State would have made the CHIP's reimbursement to Erie County in December 2012, however, the reimbursement of funds is being pushed back by New York State to 2013.

Even if the $19 million had been received in 2012 as anticipated, that still would have made the cash balance $28.6 million, still less than the anticipated $41 million.

Erie County very well could have delayed paying our bill to the New York State Retirement System, from the pre-paid total of $45,831,169 on December 15th, 2012. Moving the payment date to February 1st, 2013 would have hurt taxpayers, as New York State would have charged us an additional $416,193 because of the loss of early payment savings. Delaying this retirement payment from December 15th, 2012 to February 1st, 2013 would have cost taxpayers a total of $46,247,362.

I am in the construction business. It is my goal to work collaboratively with the administration to build Erie County into a model of fiscal discipline. Our team determined it was important to make you aware of these issues and offer our services in any way we can. This spirit of cooperation and collaboration best serves taxpayers.

Thank you very much for your prompt attention to this matter. Our office looks forward to working with you on behalf of Erie County taxpayers.

Sincerely,

Stefan I. Mychajliw Jr.
Erie County Comptroller

cc: Honorable Mark C. Poloncarz, Erie County Executive
Honorable Betty Jean Grant, Erie County Legislature Chairperson
Honorable John J. Mills, Erie County Legislature Minority Leader