ECLEG JAN28'13 AM11:18

MEMORANDUM
ERIE COUNTY DIVISION OF BUDGET AND MANAGEMENT

TO: County Executive Mark C. Poloncarz, Esq.
Honorable Members, Erie County Legislature

FR: Division of Budget and Management

CC: Erie County Department Heads

DATE: January 28, 2013

RE: Initial Review of Governor Andrew Cuomo's 2013-2014 Executive Budget

On January 22, 2013, New York State Governor Andrew Cuomo released his proposed 2013-2014 State Budget ("Executive Budget").

The Erie County Division of Budget and Management has conducted an analysis of the Executive Budget for its potential financial impact on Erie County ("County") and is pleased to provide this initial report to the County Executive and the Erie County Legislature.

This report highlights only those noteworthy changes in Governor Cuomo's Executive Budget that are likely or have the potential to *significantly or negatively* impact the County. This report is not an exhaustive or comprehensive review of all aspects of the Executive Budget which may affect Erie County as many details of the Governor's proposed budget remain unknown and will be further detailed starting next week when the New York State Assembly and Senate commence their budget hearings.

However, as noted, this is the Governor's proposed budget, and as we have seen in the past, the adopted state budget is often modified in varying ways by the time it has been fully adopted by the New York State Assembly and Senate. Therefore, it is difficult to say whether all of these proposals will be included in the final adopted state budget.

Mandate Relief

Unlike recent years, the Executive Budget, likely due to the effects of Hurricane Sandy, provides little mandate relief or specific measures to assist counties with the tremendous and growing costs of administering State-mandated services and programs.

Medicaid

The Executive Budget continues the Medicaid Cap which first took effect in the County's 2007 fiscal year and includes, as expected, provisions for the phasing-in of the "hard cap" which will stop all future growth in Medicaid-MMIS expense borne by counties starting in 2015.

IGT/Disproportionate Share Obligations

The Executive Budget continues to maintain obligations on Erie County, as required by federal law and state regulations, for intergovernmental transfer/disproportionate share/upper payment limit ("IGT/DSH/UPL") payments to Erie County Medical Center Corporation ("ECMCC"). Despite cooperation in 2012 and 2013 from ECMCC regarding spreading the net cash impact of IGT/DSH/UPL over up to 14 year period, this obligation continues to be a negative financial factor against the County and the State is continuing to allocate funds for indigent and underinsured care at major public general hospitals including ECMCC.

Article VII, Legislation for Health and Mental Hygiene, Part C of the Executive Budget includes new language pertaining to DSH and indigent care. The Division of Budget and Management has reviewed this section with the Department of Social Services and we are consulting with the New York State Association of Counties, the State Department of Health, and our outside special Medicaid counsel regarding the amendments to Part C and their impact on Erie County.

Pension Amortization

The Executive Budget provides for a new voluntary program called the "Stable Rate Pension Contribution Option" to help even out the growing costs of State-mandated pension payments for local governments to the New York State and Local Retirement System. Under the program, local governments would see pension payments reduced modestly now, and in return, in future years, when their payments are expected to decline as more Tier 1-4 employees retire and are replaced by Tier 6 employees, the pension payments would remain the same and not decline. The program would reduce the County's next pension payment amount, but would lock-in the County's future annual rates to the State for 25 years.

Our estimate shows that the County could potentially save $14.9 million in 2013 and $5 million for the first quarter of 2014 (and potentially more in 2014) through the option, but many questions remain to be answered.

If the County chose this option to receive relief in 2013-2014, and in later years our traditional annual pension amount calculation were to decline due to the growth of Tier 6 employees along with positive market or other conditions, the County could be saddled with a much higher annual payment to the New York State and Local Retirement System than otherwise necessary under the current process. In effect, if the County chose the option, it could have smaller payments in the short term, but could pay more in the long run as compared to the current process.

We are awaiting further details and comment from the Office of the State Comptroller regarding the Governor's proposal.

Preschool Special Education

The Executive Budget proposes to expand preschool special education, of which counties, including Erie County, are required to pay for the program which is administered by the State and services are provided by local school districts. Given minimal details available at this time from the State, this program will require close monitoring. The Executive Budget also includes new anti-fraud and compliance provisions allowing counties to more aggressively pursue fraud in the preschool special education system and to retain a larger portion of fraud recoveries.

Funding for Senior Programs

While there is nothing specific in the Executive Budget creating new concerns about funding for programs for the elderly, including nutrition funding for in-home (Meals on Wheels) and congregate dining programs, the County remains wary about strong indications that state and federal funds funneled to Erie County by the New York State Office for the Aging may be reduced later in 2013. This would create significant pressure on the County's 2013 Budget and the Department of Senior Services' nutrition programs.

Economic Development/Buffalo Bills

The Executive Budget commits $100 million through a new ten (10) year process under the Governor's prior 2012 pledge of $1 billion for Buffalo/Western New York for economic development. This will come in the form of $75 million in cash and $25 million in Excelsior Tax Credits. Specific details concerning the potential projects to be awarded funds are not available at this time.

The Executive Budget also provides for $60 million for the State's commitment under the new seven year Buffalo Bills lease, of which $54 million will be allocated for the improvements to Ralph Wilson Stadium.

Minimum Wage

The Executive Budget proposes raising the minimum wage from $7.25 to $8.75 per hour effective July 1, 2013. The County employs a number of seasonal employees in the Department of Parks ("Parks") for summertime work, including lifeguards and park attendants who would be impacted. We calculate the potential impact in Parks at approximately $14,000 if traditional levels of hiring occur in 2013. The Buffalo and Erie County Public Library system ("BECPL") employs approximately 400 part time pages who shelve books and perform other non-professional services. The proposed increase will have a financial effect on the BECPL and could lead to fewer such positions being filled by the Library. The Library has estimated the new first year costs of the minimum wage increase to be approximately $335,000, all of which would be absorbed by the Library and not the County.

Early Intervention

The Executive Budget continues an ongoing State initiative to transfer administrative and eligibility functions and responsibilities from county governments to a new State-managed contractor. In theory, this initiative may reduce Erie County expense modestly via an ability to reduce the workforce through a minor headcount reduction.

Sales Tax Rate Renewals

The Executive Budget includes language allowing county governments to renew their existing local sales and compensating use taxes without any action by the New York State Legislature. This measure, if approved, would remove a lengthy, multi-step process by which counties annually or biennially request home rule messages and approvals and votes by county legislatures and the New York State Assembly and Senate to renew existing authority to levy and impose sales taxes. Whether this would affect the County's forthcoming request to the State to continue to levy and impose the 1.75% sales tax is unknown at this time.

Consolidated Highway Improvement Program

The Executive Budget maintains Consolidated Highway Improvement Program ("CHIPs") funding at its current 2012-2013 level state-wide.

Binding Arbitration for Police

The Executive Budget includes language amending the terms of imposed binding arbitration for police and fire service employees of local governments that are experiencing some form of fiscal 'distress.' In Erie County, there are approximately 120 sworn police officers in the Erie County Sheriff's police division that could potentially be impacted in the future if the County was unable to come to terms with the Sheriff's Police Benevolent Association bargaining unit, and the County was deemed to be in some form of fiscal 'distress.'

State-Level IDA Reform

The Executive Budget Revenue Article VII Legislation (Section J) includes a provision that would require authorization by the Commissioner of the State Department of Economic Development to approve an industrial development agency ("IDA") at any level (county, city and town) offering of an exemption to any portion of the state sales tax. This provision is similar in intent, though different in scope to legislation introduced by Buffalo Assemblyman Sean Ryan and supported by the administration requiring town-level IDAs in Erie County to receive permission from a municipality before offering an exemption to their taxes (county, village or school district property taxes and the ECIDA on behalf of all municipalities for use of local and state share of sales tax).