COUNTY OF ERIE

DAVID J. SHENK
COMPTROLLER

ECLEG APR13'12 AM10:58

April 12, 2012

Mr. James Sampson, Chairman
Erie County Fiscal Stability Authority
295 Main Street, Room 946
Buffalo, NY 14203

Re: Comptroller's Review, Findings and Comment Report on the Proposed Erie County Four Year Financial Plan for Fiscal Years 2012-15

Dear Chairman Sampson:

In accordance with New York Public Authorities Law section 3957, on April 2, 2012, Erie County Executive Mark C. Poloncarz issued his proposed Erie County Four Year Financial Plan for fiscal years 2012-15 (the "Plan") to the Erie County Fiscal Stability Authority ("ECFSA"). The Plan is based on certain adjustments made since County Executive Poloncarz took office on January 1, 2012, actual year-end data for the 2011 Budget and updated projections for the 2012 Adopted Budget coupled with details contained in the adopted New York State Budget for fiscal year 2012-13.

County Executive Poloncarz's proposed Plan included a cover letter containing 12 major assumptions.

The following is Erie County Comptroller David J. Shenk's Review, Findings and Comment Report on the proposed Plan and stated assumptions.

Stated Assumptions and Comptroller's comments:

- **1% Property Tax Assessment Growth** – This is a reduction from the 2% property tax growth which was assumed by the previous administration in its Four Year Financial Plan for fiscal years 2012-15 which was approved by the ECFSA in October 2011 (hereafter referred to as the "original plan"). The 1% property tax assessment growth appears to be reasonable. It results in a reduction of $20,487,217 in property taxes raised for the County's General Fund for 2013-2015 (in contrast with the original plan).

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The following table details the last 12 years of equalized full market value of real property:

	$000's	Annual Change
2001	31,941,365	
2002	32,145,256	0.6%
2003	33,578,751	4.5%
2004	34,492,757	2.7%
2005	35,982,862	4.3%
2006	38,102,216	5.9%
2007	40,477,682	6.2%
2008	42,445,603	4.9%
2009	44,382,615	4.6%
2010	46,120,910	3.9%
2011	46,738,120	1.3%
2012	47,235,307	1.1%

- **1% property tax revenue growth sharing with the Buffalo and Erie County Public Library ("BECPL")** – The Library levy is not separately reported in the Plan and it should be reported. The previous administration did not share this growth with the BECPL. Therefore, this reduces the amount of levy available for all funds excluding the BECPL.

- **Continued $2 million Inter-fund subsidy to the BECPL 2012-2015** – This subsidy was included in the previous administrations plan for the years 2012-2014. This assumption, coupled with the previous assumption, appears to signal the intention of the Poloncarz Administration to maintain the BECPL as a component of County government.

- **Use of $5.4 million in Appropriated Fund Balance in 2013, $0 in 2014 and 2015** – This continues the trend of an existing administration assuming use of fund balance for the purpose of balancing the budget. The previous administration's plan utilized no fund balance in the years 2013-2015, but used fund balance in the 2011-2012 actual budgets. Preliminary 2011 financial results indicate a total fund balance of $130.2 million as of December 31, 2011, an increase of $4.8 million over the previous year. Unassigned fund balance has also increased by $28 million over the previous year to $94.9 million.

- **3% growth in sales tax revenue** – Utilizing the final 2011 sales tax numbers resulted in an increase of $6,291,853 for the years 2013-2015 of the Plan. The average growth rate for the last five years is 2.53%. Recognizing the impact of Canadian shoppers on County sales tax revenue, starting June 1, 2012 Canadian shoppers will be permitted – who have been outside Canada for more than 24 hours but less than 48 hours – to return with up to $200 worth of duty-tax exempt purchases which is an increase from the present limit of $50. Sales tax revenue is the single greatest revenue source for the County and is constantly monitored by the Comptroller's Office.

- **Reduction of 50 full time positions via attrition** – The 50 positions assume a 40% local share, $1,262,660 annual savings. This is in contrast to the original plan which called for deleting 200 positions in 2013 at a 25% local share, $2,704,596 annual savings.

- **No increases in Personal Services Expense other than step increments during union contract negotiations** – While this appears reasonable, note that total Personal Services and Fringe Benefit Gross Expenses increase by $36,048,957 for the years 2013-2015 in comparison to the previous administration's (original) plan. Also, the majority of County employees have been working without a contract for many years.

The following schedule provides the status of union contracts:

Union Name	Date Contract Expires/Expired	Represents
CSEA	12/31/06	White Collar
AFSCME	12/31/15	Blue Collar
NYSNA	12/31/11	Nurses
CSEA CO's*	N/A	Sheriff-Correction Officers
Teamsters	12/31/04	Sheriff-Guards
PBA	12/31/08	Sheriff-Road Patrol
Librarians	12/31/06	Librarians
Faculty	12/31/09	ECC Faculty
Administrator's	08/31/11	ECC Administration

***CSEA Corrections Officer Unit is a new unit and has not yet negotiated a stand alone agreement. They remain covered by the CSEA proper Collective Bargaining Agreement.**

Evidently any cost associated with new labor agreements will significantly impact this proposed Plan.

- **5% growth in Health Insurance Expense** – The original plan contains a slightly higher growth rate (6%) than this. While the County has experienced lower-than-expected growth in health insurance expense over the past few years, the latest rate increase by Labor Management Health was 6.8%.

- **Continued 2.5% annual increases in Pension Expense** – This increase is of the total dollars expended and not a rate increase. As noted above, the Plan assumes a 1.5% increase in salaries solely due to step increases. No provision has been made for union contract increases which will also impact this item. Over the past couple of years, the County has experienced a substantial increase in pension rates: the overall rate has increased from 11.83% in 2010-11 to 16.39% in 2011-12 to 19.06% in 2012-13; i.e., a 61% increase in rate over those years. The State Budget includes the new Tier VI which positively impacts this item.

- **More realistic overtime budgeting** – Assuming no additional positions are added to the budget and the Plan assumes a reduction of 50 positions, it is appropriate to budget overtime based on recent trends.

- **No Turnover Account** – While some turnover within the County is expected, not budgeting for it is a conservative approach.

- **Continued funding of cultural agencies and Operation Prime Time youth programs (at 2012 level)** – This is an increase of $3,995,523 during 2013-2015 over the original plan. This is a policy decision of the Poloncarz Administration and the County Legislature.

Comptroller's additional observations and concerns:

- The Plan includes a decrease in the amount of $14,864,236 in Medicaid expense from the previous administration's (original) plan for fiscal years 2013-15 due to the State Budget's phased in assumption of Medicaid growth by 2015.

- The Plan does not include the increase in UPL/DSH Subsidy to ECMCC despite previous assertions that the 2012 budget line will be short $16-17 million based on estimates of payments due.

- No staffing increase in Jail Management despite Sheriff Howard's statement that he expects the State Commission on Corrections to recommend an increase in staffing.

- Reduction in program cost other than UPL/DSH and Medicaid of $7,197,140 for the years 2013-2015.

- The Plan contains an increase in federal and state aid for the years 2013-2015 at $7,015,602.

- For the out-years 2013-15, the Plan includes a reduction in Road Fund subsidy of $1,454,933, in the E911 subsidy of $1,612,778, and in County Share utilities of $4,386,502 leading to a combined total of $7,454,213 in reductions.

- The Buffalo Bills lease – It is unknown what the impact, if any, of the impending Buffalo Bills lease will have on the Plan.

- The Plan provides no alternatives beyond use of Fund Balance and 1% tax assessment growth.
    - What if challenges arise that take the Plan out of balance?
    - Possible actions: potential cuts, vacancy control, additional use of Fund Balance, increase tax rate

I plan to attend the ECFSA's Finance Committee meeting scheduled for Friday, April 13 at 10:00AM at which time you or your fellow committee members may provide me with questions; meantime, you are welcome to contact me at 858-8400.

Sincerely,

David J. Shenk
Erie County Comptroller

DJS/nr
Cc: Erie County Executive Mark C. Poloncarz
Robert Keating, Director, Budget & Management
Erie County Legislature