



COUNTY OF ERIE
STEFAN I. MYCHAJLIW
COMPTROLLER

October 15, 2014

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

Re: Review of Poloncarz Administration's 2015 Tentative Budget Revenue and Expense Projections

Dear Honorable Members:

Pursuant to my obligations under Article 25, Section 2506 of the Erie County Charter ("Charter"), I am writing to provide your Honorable Body with my office's review of the projected revenues and expenditures submitted by the Poloncarz Administration ("the Administration") for the proposed 2014 Erie County ("County") Budget.

Article 25, Section 2506 states: "On or before the 1st day of October the county executive shall submit to the comptroller all revenue estimates and expenditure estimates for Medicaid, public assistance, and pension contributions and health care insurance costs for county employees to be used in the proposed budget. The comptroller shall review all revenue estimates and expenditure estimates for Medicaid, public assistance and pension contributions and health care insurance costs for county employees to be used in the proposed tentative budget prepared by the county executive and submit to the Legislature in writing by the 15th of October a report indicating whether or not such estimates are suitable estimates for the upcoming fiscal year."

On October 1, 2014, my office received a formal correspondence from Robert W. Keating, Director of the Division of Budget and Management, providing the administration's 2015 tentative budget revenue and expense projections. The administration did not include the Property Tax revenue estimate despite the Charter requirement. It is noteworthy that last year the administration also violated the Charter by not including the Property Tax revenue estimate by October 1st. This despite the fact that the previous administration provided the Property tax revenue estimate in 2009-2011 as well as the entire budget by October 1st.

This correspondence highlights the findings and concerns my office has regarding the 2015 tentative budget revenue and expense projections. Please note that this review is not a comprehensive analysis of the Administration's entire proposed 2015 budget, rather this correspondence is a limited review of the revenue and selected expenditure estimates as presented to my office by the Director of the Division of Budget and Management as required by the Charter. Upon my office's receipt of the Administration's entire proposed 2015 Erie County Budget by October 15, 2014, my office will complete a thorough review of the entire proposed 2015 budget by early November, 2014.

The following table summarizes the revenue categories and expense accounts provided. It includes the 2014 budget as well as the 2014 projection as contained in the August 2014 Budget Monitoring Report ("BMR") released on October 6, 2014 by the administration. No individual projections for the expense accounts were included in the BMR.

ACCOUNT	2014 Budget	2014 Projection	2015 Budget
PROPERTY TAX RELATED	15,359,061	16,675,408	16,937,437
SALES TAX	434,438,173	433,733,853	446,529,002
SALES TAX TO OTHER GOVTS	300,383,134	299,769,985	308,613,200
OTHER LOCAL SOURCE	37,263,390	59,424,481	41,908,261
FEES FINES OR CHARGES	34,165,892	32,901,662	31,920,873
FUND BALANCE	7,405,000	0	8,005,000
FEDERAL AID	175,527,313	175,274,651	180,694,074
STATE AID	167,668,962	162,548,023	170,811,076
INTERFUND	3,912,334	3,912,335	923,086

HEALTH CARE & DENTAL	67,708,768	N/A	65,202,962
PENSION	35,635,887	N/A	33,889,322
EMPLOYEEER CONTRIBUTION STABILIZATION	(8,600,000)	N/A	0
MMIS	214,909,808	N/A	211,425,799
MA GROSS	2,698,240	N/A	1,934,350
FAMILY ASSISTANCE	44,861,871	N/A	51,574,441
SAFETY NET ASSISTANCE	50,747,833	N/A	55,701,333
EMERGENCY ASSISTANCE TO ADULTS	1,134,931	N/A	2,024,289

Executive Summary

The Administration's 2015 Tentative Budget Revenue and Expense Projections does not contain key revenue and expenditure estimates to complete a thorough analysis of the projections. With respect to revenue estimates, the County's 2015 property tax levy was not included despite the Charter requirement to include it.

Property Tax Related accounts increased \$1,578,376 or 10.28%. The reason for this increase is the increase in the difference between Interest and Penalties, a Property Tax account and Decrease in Deferred Property Tax, \$1,469,012.

Sales Tax increased \$12,090,829 or 2.78% from the 2014 budget. Year-to-date sales tax receipts indicate a growth rate of 3.63% through August.

The Other Local Source Revenues increased \$4,644,871 or 12.46% from the 2014 budget and decreased \$17,516,220 or -29.48% from 2014 projection. The majority of this decrease is the recognition of Gaming Facilities account 402520 +\$3,480,000.

The Fees, Fines and Other Charges category decreased by \$2,245,019 or - 6.57%. The majority of this decrease was in Election Expenses Other Governments \$909,473 and in various County Clerk revenues that decreased \$200,000 in Recording Fees and \$500,000 in Auto Fees.

State Aid is budgeted to increase \$3,142,114 or 1.87% from the 2014 budget and Federal Aid is budgeted increase \$5,166,761 or 2.94% from the 2014 budget. In the absence of the expense accounts that drive State and Federal reimbursements, any comment on those budgeted amounts are pure speculation. We reserve judgment on these aid accounts until the full budget is released.

Interfund revenue is budgeted to decrease \$2,989,248 from the 2014 budget.

Appropriated Fund Balance is \$600,000 higher than the 2014 adopted budget. Any use of non-recurring revenue to pay recurring expenses is not prudent. As then County Comptroller and now County Executive Mark Poloncarz stated in 2011:

"Use of the County's fund balance for recurring expenses was one of the key factors that led to the 'Red-Green' fiscal crisis." Source: Poloncarz Warns: Erie County's Financial Future Not as Strong as County Executive Says, March 23, 2011

With respect to the expense items provided, it is most noteworthy what was not included. The Intergovernmental Transfer (IGT) appropriation was not included despite it being a derivative of the Medicaid expense. The Medicaid amount included in the October 1, 2014 correspondence represents a decline of \$3,484,009 or -1.62%.

The two public assistance programs included, Family Assistance and Safety Net reflect the disappointing economy of this area. Gross expenditures of the Safety Net program increased \$4,953,500 or 9.76% and the Family Assistance program increased \$6,712,570 or 14.96% over 2014 budget

The other expense items provided: health insurance and retirement estimates are difficult to comment on until the full budget is released as the Health Insurance expense is heavily dependent on number of employees. Gross Pension expense decreased \$1,746,565 or 4.90%. Considering the rates as released by the Office of the State Comptroller decreased by almost ten percent this decrease was expected. Health Care and Dental expense decreased \$2,505,806 or -3.70% was also expected considering the concessions by the County's largest union, CSEA, in its recently approved contracts move all CSEA employees to the lower cost Value plan from the Core plan.

Accounts Presented and Comptroller Comments

- **Property Tax Related-** 2014 Budget \$15,359,061; 2015 Proposed Budget \$16,937,437. Increase of \$1,578,376 or 10.28% over 2014 budget. The increase is due to in the difference between Interest and Penalties a Property Tax account and Decrease in Deferred Property Tax, \$1,469,012. No evidence of property tax collections to date justify this increase.

- **Sales Tax-** 2014 Adopted Budget \$434,438,173; 2015 Proposed Budget \$446,529,002. Increase of \$12,090,829 or 2.78% over 2014 budget. This account is the largest revenue in the County budget with a two month lag in accounting. This means we will not know final 2014 numbers until February 2015. Through the first eight months of 2014 receipts the growth rate has been 3.63%. This office will continue the monthly monitoring of this revenue throughout 2015 as it has through 2014.
- **Sales Tax Local Government-** 2014 Adopted Budget \$300,383,134; 2015 Proposed Budget \$308,613,200. Increase of \$8,230,066 or 2.74%. This revenue is equal to budgeted expense item in the same amount representing payments to cities, towns, villages and school districts in the County. As such has no net affect on the County budget.
- **Other Local Source Revenue-** 2014 Budget \$37,263,390; 2014 Proposed Budget \$41,908,261. Increase of \$4,644,871 or 12.46%. The majority of this increase is the recognition of Gaming Facilities revenue \$3,480,000 that was announced by the Governor's Office last year but was not included, in the 2014 budget.
- **Fees Fines or Charges-** 2014 Budget \$34,165,890; 2015 Proposed Budget \$31,920,873. decrease of \$2,245,019 or -6.57%. Primarily due to decreases of \$500,000 in Auto Fees and \$200,000 in Recording Fees in the County Clerk Office; and \$909,473. Election Expense's Other Governments.
- **Appropriated Fund Balance-** 2014 Adopted Budget \$7,405,000; 2015 Proposed Budget \$8,005,000. An increase of \$600,000. Fund Balance is the County's savings account. It is a measure of the County's liquidity. As such it is a major item when credit reviews are done by Moody's, Standard and Poor's and Fitch rating agencies. Over the past several years, all three rating agencies have recognized the County's improved financial position to the point now that the County enjoys "A" level ratings from each agency. Any use of fund balance without a plan on replenishing it weakens County finances. Paying for recurring expenses with non-recurring revenue was another hallmark of the red/green budget meltdown.
- **Federal Revenue-** 2014 Budget \$175,527,313; 2015 Proposed Budget \$180,694,074. An increase of \$5,166,761 or 2.94%. Absent the complete expenditure budget I can not express an opinion on the reasonableness of these items.

- **State Revenue-** 2014 Budget \$167,668,962; 2015 Proposed Budget \$170,811,076. An increase of \$3,142,114 or 1.87%. As stated above regarding Federal revenues the same lack of expenditure details precludes me from voicing an opinion on the reasonableness of these estimates. In addition while the State deficit numbers are smaller than the federal government, the 2015/16 State budget will not be revealed until early next year.
- **Fringe Benefits-** 2014 Budget \$94,744,655; 2015 Budget \$99,092,284. An increase of \$4,347,629 or 4.59%. The health insurance amount provided included employee health and dental, retiree health as well as ECMCC and Home retiree health insurance the County is responsible for under the present agreement with ECMCC. The health insurance component decreased \$2,505,806 or -3.70% over the 2014 budget. Absent complete budget information concerning number of employees it is difficult to express an opinion. However, considering the concession by the largest labor union, CSEA, switching from the Core plan to the Value plan in addition to all new employees paying part of their health insurance cost, a drop was expected. The retirement expense of \$33,889,322 compared to the 2014 adopted budget of \$35,635,887, a decrease \$1,746,565 or -4.90% appears reasonable given the rates released last month by the State Comptroller.
- **Public Assistance-** 2014 Adopted Budget \$314,352,683; 2015 Proposed Budget \$322,660,212. An increase of \$8,307,529 or 2.64%. The Medicaid budget appears to be in-line with the latest cap adjustments announced by the State. Safety Net Assistance gross cost increased \$4,953,500 or 9.76%. While the Family Assistance program is paid almost completely by federal aid the Safety Net program is 71% County share. The growing costs of social services programs is a reflection of the economy and lack of full recovery from the Great Recession. Lack of complete case data, including number of cases and cost per case make expressing an opinion difficult. We again, request that your Honorable Body request such information from the administration not only to review the 2015 budget but to assist monitoring the budget in the future.

Conclusion

I echo the concerns expressed by then County Comptroller Mark Poloncarz in 2011 that any use of non-recurring revenue to pay recurring expenses is a bad idea. It was one of the reasons for the red green budget meltdown of the last decade and without a plan on how to use the "rainy day" fund dependence on non-recurring revenue could lead to disaster.

When the entire budget is released along with the property tax levy my office will provide you with a complete analysis. In the meantime, if your Honorable Body has any questions please feel free to contact this office.

Sincerely yours,



Stefan I. Mychajliw
Erie County Comptroller

Cc: Erie County Fiscal Stability Authority
Mark Poloncarz, Erie County Executive
Robert Keating, Director of Budget & Management