



COUNTY OF ERIE

MARK C. POLONCARZ
COUNTY EXECUTIVE

March 3, 2014

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

Re: Preliminary, Unaudited 2013 Financial Results

Dear Honorable Legislators:

The County is currently working to close our 2013 fiscal year and to complete all entries in anticipation of the independent audit to be conducted by the County's outside auditor, Drescher & Malecki, LLP. That audit should be completed by June 2014.

I am pleased to report that due to aggressive management controls, unanticipated revenues from several sources and lower-than budgeted expenditures in some accounts, the County will report a surplus for 2013. After designations, we currently project that the unaudited surplus will be approximately \$2.0 million. While this number may change based on the outside auditors' fieldwork, this is welcome news, and this preliminary surplus projection will provide the County flexibility in 2014 to address known fiscal developments and issues.

Major Positive Factors in 2013

Please keep in mind that a budget is not a static document; it is fluid and constantly changing as events warrant and circumstances change. There were a number of material budgetary and operational changes that I am bringing to your attention.

First, there were a number of major positive factors affecting the County's 2013 fiscal year which I wish to highlight. The largest factors positively affecting the County were under my administration's control and involved Division of Budget and Management-imposed spending controls and management. In addition, many other positive factors involved unanticipated revenues accruing to the benefit of the County that were not, and could not be reasonably predicted or budgeted in September 2012 during the development of the 2013 Budget.

Preliminary, Unaudited 2013 Financial Letter to Legislature

March 3, 2014

Page 2 of 4

Due in part to substantial vacancy control measures and unforeseen developments, the fringe benefit account came in \$7.2 million under budget in 2013 - a level comparable with our 2012 costs. The fringe savings was attained through reduced workers compensation expense associated with ECMCC due to legacy cost reductions, aggressive pharmacy benefit management by the County's pharmacy benefit manager, significantly less health insurance expense due to vacancy control, and a \$1.6 million retirement credit received in 2013.

Further, the County's settlement of collective bargaining agreements in 2012 and 2013 provides savings on health insurance expense, especially moving forward. Compelled by the circumstances created by the Legislature's budget amendments, the Division of Budget and Management maintained an aggressive vacancy control program in 2013 generating savings in personal services related expense.

The County's resumption of the In Rem process and aggressive pursuit of delinquent property taxes is expected to generate at least \$5.0 million in unanticipated revenue in 2013, and, as has been the case for many years due to under-budgeting of expected revenues, the County Clerk's Office came in \$2.1 million over-budget on revenues. Through Governor Andrew Cuomo's 2013-2014 State Budget, the County received \$1.9 million in Medicaid-MMIS credits from New York State that was unexpected. In addition, the County received un-budgeted/settlement revenue or payments in the Early Intervention program (\$1.8 million), from the City of Buffalo for the cellblock function (\$838,451), Erie County Fiscal Stability Authority (\$720,000) and Jail Management Medicaid (\$576,975).

Major Adverse Factors in 2013

In contrast to these positive factors, there were several issues that negatively impacted the 2013 Budget. Some of these factors were unforeseen in September 2012, but some were known during your Honorable Body's deliberations and budget amendments to the 2013 Budget in November and December 2012.

Not surprisingly, as we acknowledged throughout 2013, the largest adverse factor was the sales and compensating use tax revenue. While the County received \$9.36 million in new sales tax revenue in 2013 compared to 2012, sales tax brought in \$5.6 million less than budget in 2013. Sales tax receipts were quite volatile in 2013, with month-to-date revenues ranging from 10.86% growth (October) to -5.38% (December). We also believe that the decline in the value of the Canadian dollar relative to the US dollar is having an effect on Canadian shoppers and thus, sales tax revenue.

On the expense side, as we warned in budget monitoring reports, due to the requirements and conditions imposed through the U.S. Department of Justice Consent Decree/Stipulated Order, Correctional Health spending was over-budget by \$2.8 million in 2013. State-mandated spending in the Constitutional Safety Net program, an account

Preliminary, Unaudited 2013 Financial Letter to Legislature

March 3, 2014

Page 3 of 4

cut by your Honorable Body in the 2013 budget amendments, was \$2.4 million over budget.

As usual, Jail Management overtime, an account also reduced by the Legislature, was also over budget by \$2.1 million in 2013. Sheriff Division overtime was also over budget by \$784,551 in 2013.

The County's required repayment to the Federal Emergency Management Agency from the U.S. Department of Homeland Security audit of the October 2006 Storm is \$705,640, which was an unforeseen and unbudgeted expense. Due to fiscal issues in the Department of Mental Health, local share is expected to be over budget by more than \$2.0 million in 2013 – an area for which corrective action was already taken. Finally, due to the large number of Erie County residents attending out-of-county community colleges (especially Niagara Community College), the County incurred \$880,803 in additional expense in 2013 required to be paid to other community colleges/counties.

While not an adverse factor per se, in 2013, due to the Legislature's approval of the use of appropriated fund balance, including for the settlement of collective bargaining agreements and for the Botanical Gardens capital project, there was a utilization of the County's total fund balance totaling \$3.8 million.

2013 Designations

As previously stated, I am proposing a number of designations from 2013 into 2014 to help the County address several fiscal challenges in 2014. As you know, the 2014 Budget was balanced in part, through the County's potential participation in the New York State Comptroller's Employer Contribution Stabilization program, generating \$8.6 million in 2014 savings. Through the use of a 2013 designation totaling \$7.0 million, the County will be able to forestall or reduce our participation in this program.

In addition, due to the severe conditions and road deterioration during winter 2014, we will consider and conduct additional road work in 2014 and allocate needed funds for highway overtime and salt purchases. These highway designations total \$2.0 million. It is my belief that such an action is judicious and necessary, hence the designation.

I am proposing three additional designations: \$225,000 for the Risk Retention Fund, \$175,000 for In Rem/foreclosure action, and \$100,000 for the purchase of a parcel adjacent to the Seneca Bluffs parkland in south Buffalo.

Preliminary, Unaudited 2013 Financial Letter to Legislature

March 3, 2014

Page 4 of 4

Conclusion

I am pleased that through a combination of hard work and management controls, as well as some fortuitous and unexpected revenue developments, the County will end 2013 in the black with a modest surplus and a replenishment of fund balance. These preliminary unaudited fiscal results reflect my administration's commitment to prudent and realistic budgeting and attentive management. If your Honorable Body has any questions, please do not hesitate to contact me or Budget Director Robert Keating.

Sincerely,



Mark C. Poloncarz, Esq.
Erie County Executive

MCP/mt

cc: Hon. Stefan Mychajliw, Erie County Comptroller
Robert W. Keating, Director of Budget and Management
Erie County Fiscal Stability Authority