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ERIE COUNTY COMPTROLLER

HON. STEFAN I. MYCHAJLIW

October 15, 2015

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

Re: Review of 2016 Tentative Budget Revenue and Expenditure 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 Administration for the proposed 2016 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, 2015, my office received a formal correspondence from Robert W. Keating, Director of the Division of Budget and Management, providing the administration's 2016 tentative budget revenue and expenditure projections. The

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administration did not include the Property Tax revenue estimate despite the Charter requirement. This is not the first time the administration has intentionally left out this information. I mention this fact because this information is critical to conducting a true analysis of county revenue estimates.

This correspondence highlights the findings and concerns my office has regarding the 2016 tentative budget revenue and expenditure projections. Please note that this review is not a comprehensive analysis of the Administration's entire proposed 2016 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. The administration is required to submit the proposed budget to your honorable body by October 15th. After that submission, my office will complete a more thorough analysis of the proposed budget.

The following table summarizes the revenue categories and expenditure accounts provided. It includes the 2015 budget as well as the 2015 projection as contained in the August 2015 Budget Monitoring Report ("BMR"). No individual projections for the expenditure accounts were included in the BMR.

ACCOUNT	2015 Budget	2015 Projection	2016 Budget
REVENUES			
PROPERTY TAX RELATED	16,937,437	17,662,865	17,585,318
SALES TAX	446,529,002	438,235,518	444,407,414
SALES TAX TO OTHER GOVTS	308,613,200	302,913,334	307,179,419
OTHER LOCAL SOURCE	42,632,605	56,581,597	45,302,561
FEES FINES OR CHARGES	31,976,228	32,420,977	32,350,327
FUND BALANCE	8,005,000	0	6,000,000
FEDERAL AID	181,329,401	172,757,075	178,569,357
STATE AID	171,853,158	164,069,276	170,699,050
INTERFUND	923,086	937,788	1,797,388
EXPENDITURES			
HEALTH CARE & DENTAL	64,884,342	N/A	76,978,756
PENSION	33,879,389	N/A	29,343,798
EMPLOYEER CONTRIBUTION STABILIZATION	0	N/A	0
MMIS	211,425,799	N/A	205,528,355

MA GROSS	1,934,350	N/A	973,611
FAMILY ASSISTANCE	51,574,441	N/A	47,169,442
SAFETY NET ASSISTANCE	55,701,333	N/A	51,900,527
EMERGENCY ASSISTANCE TO ADULTS	2,024,289	N/A	2,225,002

Executive Summary

The Administration's 2016 Tentative Budget Revenue and Expenditure Projections do not contain key revenue and expenditure estimates necessary to complete a thorough analysis of the projections. As previously stated, the administration did not provide property tax revenue estimates for 2016 despite a charter requirement to do so.

Property Tax Related accounts increased $647,881 or 3.83%.

Sales Tax decreased $2,121,588 or -0.48% from the 2015 budget. Year-to-date sales tax receipts indicate a growth rate of 0.75% through August 2015.

The Other Local Source Revenues increased $2,669,956 or 6.26% from the 2015 budget and decreased $11,279,036 or -19.93% from the 2015 projection.

The Fees, Fines and Other Charges category increased by $374,099 or 1.17%. This represents a minor change.

State Aid is budgeted to decrease $1,154,108 or -0.67% from the 2015 budget and Federal Aid is budgeted to decrease $2,760,044 or -1.52% from the 2015 budget. In the absence of the expenditure accounts that drive State and Federal reimbursements, any comment on those budgeted amounts would be pure speculation. We reserve judgment on these aid accounts until the full budget is released.

Interfund revenue is budgeted to increase $874,302 from the 2015 budget. This represents a 94.72% increase. This represents an unusually large increase, which the Legislature should request an explanation for.

Appropriated Fund Balance is $2,005,000 lower than the 2015 adopted budget. Any use of non-recurring revenue to pay recurring expenses is not prudent. It is positive to see this number decrease.

The Medicaid amount included in the October 1, 2015 correspondence represents a decline of $5,897,444 or -2.79%. While this represents a decrease in the

amount Erie County taxpayers have to pay on their local tax bill, the cost is simply being shifted to the Federal government.

Safety Net Assistance decreased $3,800,806 or -6.82%. Family Assistance decreased $4,404,999 or -8.54%.

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 expenditure decreased $4,535,591 or -13.39%. This is the result of positive retirement fund growth combined with new employees enrolled in different retirement tiers (5&6) that are less costly to taxpayers.

Health Care and Dental expenditure increased $12,094,414 or 18.64%. This increase is a sharp contrast to last year's 3.70% decrease in expenditures, which was largely due to the county's largest union (CSEA) agreeing to a contract that moved their members to a more affordable health insurance plan. An increase of nearly 20% this year, after declining nearly 4% last year is alarming. This massive cost swing is the combination of a 6% increase in premium costs, more employees choosing to retire after the recent ratification of the CSEA contract, and the addition of nearly 100 new employees to the county payroll.

Accounts Presented and Comptroller Comments

- **Property Tax Related**- 2015 Budget $16,937,437; 2016 Proposed Budget $17,585,318. Increase of $647,881 or 3.83% over 2015 budget. This increase is primarily realized as a result of interest and fines levied on late property tax payments.

- **Sales Tax**- 2015 Adopted Budget $446,529,002; 2016 Proposed Budget $444,407,414. Decrease of $2,121,588 or -0.48% over 2015 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 2015 numbers until February 2016. However, declining sales tax revenue is something that deserves your consideration.

- **Sales Tax Other Governments**- 2015 Adopted Budget $308,613,200; 2016 Proposed Budget $307,179,419. Decrease of $1,433,781 or -0.46%. 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**- 2015 Budget $42,632,605; 2016 Proposed Budget $45,302,561. Increase of $2,669,956 or 6.26%.

- **Fees Fines or Charges**- 2015 Budget 31,976,228; 2016 Proposed Budget $32,350,327. Increase of $374,099 or 1.17%. This represents a minor increase.

- **Appropriated Fund Balance**- 2015 Budget $8,005,000; 2016 Proposed Budget $6,000,000. A decrease of $2,005,000. 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. Any use of fund balance without a plan on replenishing it weakens County finances. Paying for recurring expenses with non-recurring revenue (fund balance) is not prudent.

  Further, Drescher & Malecki's audit of the basic financial statements for the year ended December 31, 2014 discusses fund balance. The audit asks for the county's rationale for a five percent fund balance threshold. GFOA Best Practice recommends an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. GFOA recognizes that America's largest governments may require an unrestricted fund balance lower than two months recommended. One of the benefits of an appropriate fund balance is avoiding the necessity of securing Revenue Anticipation Notes, a regular occurrence in Erie County. In any case, the county should determine an appropriate level of fund balance prior to depleting it.

- **Federal Revenue**- 2015 Budget $181,329,401; 2016 Proposed Budget $178,569,357. A decrease of $2,760,044 or -1.52%. Absent the complete expenditure budget I cannot express an opinion on the reasonableness of these items.

- **State Revenue**- 2015 Budget $171,853,158; 2016 Proposed Budget $170,699,050. A decrease of $1,154,108 or -0.67%. As stated above regarding Federal revenues, the same lack of expenditure details precludes me from voicing an opinion on the reasonableness of these estimates.

- **Fringe Benefits**- 2015 Budget $98,763,731; 2016 Budget $106,322,554. An increase of $7,558,823 or 7.65%. 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 increased $12,094,414 or 18.64% over the 2015 budget.

- **Public Assistance**- 2015 Adopted Budget $322,660,212; 2016 Proposed Budget $307,796,937. A decrease of $14,863,275 or -4.61%. Safety Net Assistance gross cost decreased $3,800,806 or -6.82%. While the Family Assistance program is paid almost completely by federal aid the Safety Net program is 71% County share. Without caseload information, it is difficult to express whether or not this expenditure is reasonable, but a decrease in this expense is a positive sign.

Conclusion

While these estimates appear reasonable, it is unfortunate that my office was not provided property tax revenue estimates which are necessary to perform a complete review. From analyzing the information that was provided, I was pleased to see welfare spending declining. This is a positive signal for our region. I am also pleased to see that this budget will rely on $2 million less in fund balance to make ends meet. It is good to see this revenue trending downward, however using the taxpayer's rainy day fund when we are told the forecast is clear is not a good idea. As stated previously, non-recurring revenues should not be used to pay for re-occurring expenses. My office will also continue to closely monitor the giant spike in healthcare costs. As these costs rise, it pushes Erie County closer to a threshold within the Affordable Care Act that will tax "Cadillac" health insurance plans like the ones we provide our employees.

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