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ERIE COUNTY COMPTROLLER

HON. STEFAN I. MYCHAJLIW

October 7, 2016

The Honorable
Erie County Legislature
92 Franklin Street, 4th Floor
Buffalo, New York 14202

RE: Report on 2017 Revenue and Expense Projections

Dear Honorable Members:

Pursuant to my obligations outlined in Article 18, Section 1802-o of the Erie County Charter, I am providing this report on the revenue and expense projections for the 2017 budget that were provided to me by the Budget Director. They were provided in accordance with Article 25, Section 2502-a, which states that "all information used in creating revenue estimates shall be submitted to the comptroller by the 1st day of October in each fiscal year."

FAILURE TO COMPLY WITH THE ERIE COUNTY CHARTER

Unfortunately, the administration has broken the law and failed to provide my office with the property tax revenue estimates they used to balance their proposed 2017 operating budget. Their refusal to comply with the law makes it impossible for me to provide your honorable body with a complete and fair assessment of the suitability of the revenue estimates being proposed.

It is important to note that this is the fifth budget proposed by County Executive Poloncarz and this is the fifth time that he has blatantly chosen to break the law and violate Article 25 of the Erie County Charter, a document he swore to uphold when he took his oath of office. It is equally important to note that before taking the oath of office as County Executive, he twice took the oath to serve as the Erie County Comptroller. In that capacity, he very clearly understood the importance of this charter requirement and what it means to your honorable body.

While this charter obligation is routinely and intentionally violated by the current County Executive, I wish to remind you of his thoughts on the matter when he was the County Comptroller:

"Poloncarz insisted that the county executive hand over his numbers. The county executive refused. So Poloncarz was not able to review the budget until the complete document was released, at the last minute, on October 15."

Source: Artvoice, "The Transparent Mr. Collins," Geoff Kelly, 10/31/08

"An analysis of the budget is difficult to complete without that (Real Property Tax Revenue Projection) hefty slice of the pie chart."

Source: Artvoice, "Running Government Like a Business," Geoff Kelly, 11/05/08

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I feel very strongly that this requirement is a valuable service to you; as you ultimately have the very difficult task of adopting the budget. I lobbied both your honorable body and the Charter Revision Commission to strengthen this language during the most recent effort to update and improve the charter. Unfortunately, my efforts failed and you find yourselves in the familiar position of needing to approve a $1.7 billion spending plan for the county without valuable information that is required and helpful.

SALES TAX REVENUE

The county has officially received the data from the state on the first eight months of sales tax collections in 2016. To date, collections are only up $25,854 from last year which represents 0.00893% growth in 2016. The collections have shown negative or zero growth for most months thus far. If this trend continues in the last four months of the year, the county will be facing a $6.7 million hole in the 2016 operating budget. In order to avoid that, revenues will have to grow by 4.5% for the remainder of the year to meet budget. It is highly unlikely that will happen.

According to the revenue estimates provided for sales tax, the administration expects it to grow 0.68%, or $3,022,211, from the 2016 budget. While this may seem suitable, it is not. It completely ignores the fact that sales tax revenue in 2016 is currently growing at 0.00%, with 2016 revenue currently outpacing 2015 revenue by only $25,854.

Therefore, the administration expects it to grow 2.17% from this year's actuals. While I appreciate the optimism and hope that happens, for the purpose of setting the taxpayer's budget it is irresponsible to assume that sales tax revenue will be $9,724,755 higher in 2017 than it was in 2016.

ECMCC / FUTURE OF IGT PAYMENTS

There has recently been a lot of back room chatter about the county taking the lead on financing nearly $200 million on behalf of ECMCC. In exchange for using the county's lower interest rate, ECMCC would offer the county credits toward our required IGT payment. The county would exhaust all of these points during the first three to five years of the loan, and accrue no further benefit or have offsets available to apply to this growing problem during the remainder of the 30-year bond.

As the County's Chief Accounting Officer, I take issue with a borrowing scheme that intends to credit 30 years worth of savings into the first five years the debt is owed. This is the very definition of "kicking the can" on an obligation, and we owe the taxpayers better. What is more concerning to me is that despite this being talked about as happening "before Election Day," there is no mention of its occurrence in the 2017 revenue and expense report provided to me by the administration. The IGT payment owed by the county is paid from the general fund, and if we are paying it and having it returned to us, that return payment should be recorded as revenue in the general fund/operating budget. Unless this is another revenue source the administration is refusing to provide, it is not in the 2017 budget.

ECMCC has provided my office with their projections on the future of IGT payments. Their projections do not show the expense going down after five years. Instead, it increases significantly. On the sixth year, after the expected credit runs out, our annual obligation is projected to be $42 million. It is currently budgeted for $16.2 million, despite our knowledge that costs are significantly higher.

COUNTY CLERK REVENUES

The 2017 budget projects Auto Bureau revenues will increase $1,219,440. This is a substantial increase over and above their office expenses. These increased revenues will be returned to the General Fund to sustain critical county services. The revenue increase is the result of next year being the high point in the eight-year driver's license renewal cycle and the Clerk's continued efforts to encourage the local renewal of auto registrations.

Knowing that this revenue reflects the eight year high point in the license renewal cycle, it is important that all elected leaders support the Clerk's efforts to promote the benefits of renewing your auto registrations locally. When residents do this, 12.7% of the transaction fee stays in Erie County.

USE OF FUND BALANCE

The 2017 budget is being balanced on a $6 million loan from the county's fund balance. While this represents a relatively small portion of the total fund balance, it is never advisable to use non-reoccurring revenue to fund reoccurring operating expenses. This concept should be common sense. No one that we represent would plan to use a portion of their savings each and every year to fund their daily expenses. The purpose of savings is to add to it in case of an emergency. When you begin to raid your savings account, or fund balance, you pave the way for a fiscal meltdown.

In fact, on March 23, 2011, then Comptroller Poloncarz agreed, citing "use of the county's fund balance for reoccurring expenses was one of the key factors that led to the 'Red-Green' fiscal crisis."

HEALTH CARE EXPENSE

Our health insurance costs for employees and retirees continue to rise at an alarming rate. It is apparent that the Affordable Care Act has had no impact on stabilizing the market in this regard. According to the projections provided, health insurance and dental insurance costs are expected to rise 8.76% next year. This increase will cost taxpayers an additional $6,743,276 in 2017.

STATE AND FEDERAL AID

Federal Aid is budgeted to drop $3,343,997 in 2017, with State Aid growing $3,040,117. Additionally, Medicaid expenses are expected to drop by $1,694,317. It is the assumption of this office that these funding drops correlate to decreasing expenses, however we won't have the data to back that assumption up until the final budget is released.

MAJOR EXPENSES

There is a new budget item in 2017, entitled "Medicaid Indigent Care IGT," and it is budgeted at $6,851,114. The Administration did not provide data on what this is for, but the title would create the assumption that it will cover planned losses at the hospital. Unfortunately, no information was provided on how this expense might relate to revenue involving the ECMCC capital borrowing scheme that is being worked up in back rooms without our involvement. The plan to borrow on ECMCC's behalf is one that could add nearly $200 million to the county's balance sheet, and it is shocking that the revenue and expense projections for 2017 say nothing about it.

Should your honorable body have any questions about this report or any other matter, please don't hesitate to ask. My staff and I will be available when this letter comes up for discussion before the Finance and Management Committee. Additionally, we will submit for your consideration an analysis of the County Executive's proposed 2017 budget.

Sincerely,

STEFAN I. MYCHAJLIW
Erie County Comptroller

cc: Hon. Mark C. Poloncarz, County Executive
Erie County Fiscal Stability Authority
Mr. Robert Keating, Director of Budget and Management