



ERIE COUNTY COMPTROLLER
HON. STEFAN I. MYCHAJLIW

October 13, 2017

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

RE: Report on 2018 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 2018 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, yet again, the administration has broken the law and failed to provide my office with the property tax revenue estimates they used to balance their proposed 2018 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.

As I annually state, it is important to note that this is the sixth budget proposed by County Executive Poloncarz and this is the sixth 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

OFFICE OF ERIE COUNTY COMPTROLLER STEFAN I. MYCHAJLIW • 95 FRANKLIN STREET • ROOM 1100 • BUFFALO, N.Y. • 14202

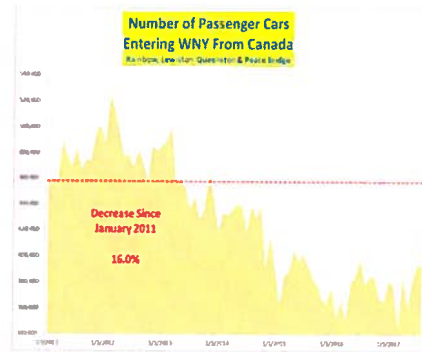
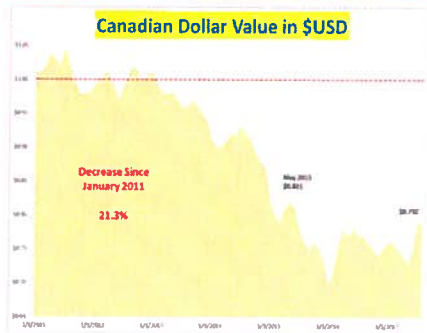
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SALES TAX REVENUE

Sales tax is the county's largest and most volatile revenue. Last year, we saw it significantly miss budget. This year, it has improved significantly. Positive changes in the Canadian oil economy and the creation of more than \$5 trillion in domestic wealth since January has helped boost the consumer confidence necessary to spur spending.

Stronger Loonie May Help Cross-Border Shopping



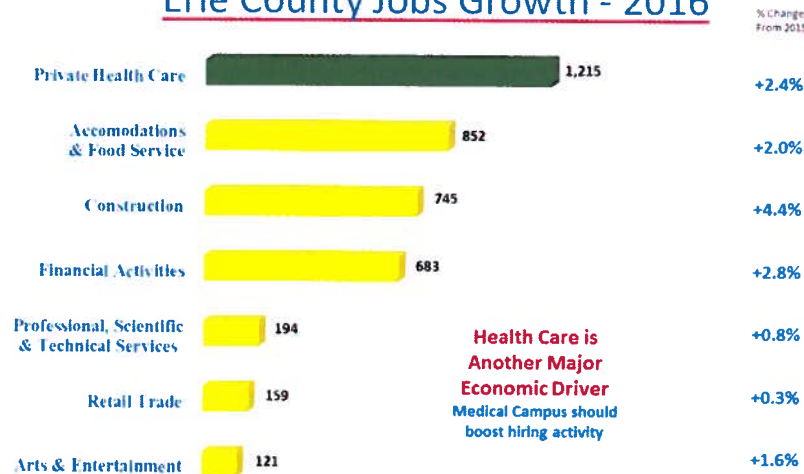
While down 16% since 2011, the number of passenger cars entering WNY via the "Big 3" Canadian bridges has risen 3.7% over the past year and is up 8.0% since May

Sources: Federal Reserve, Peace Bridge Authority, Niagara Falls Bridge Commission

Our own economic success cannot be ignored either. As the Buffalo Niagara Medical Campus in our medical corridor starts to realize its full potential, it is bringing online good paying jobs. They are not alone in job creation. An analysis from M&T Bank economists shows that insurance, banking and financial sectors are also adding more good paying jobs to our economy.

Year-Over-Year Change in Annual Average Jobs

Erie County Jobs Growth - 2016



Sources: U.S. Bureau of Labor Statistics, NYS Department of Labor

This is good news. Wealth, economic progress, and jobs created in the private sector are rescuing the public sector from their own tendencies to make bad decisions. These added factors lead to disposable income that people and families spend, which translates into higher sales tax revenues.

Those revenues are very good for Erie County and the many municipalities and school districts we share them with. This is good for the County taxpayer, but it is a situation that often changes and we need to be vigilant of that.

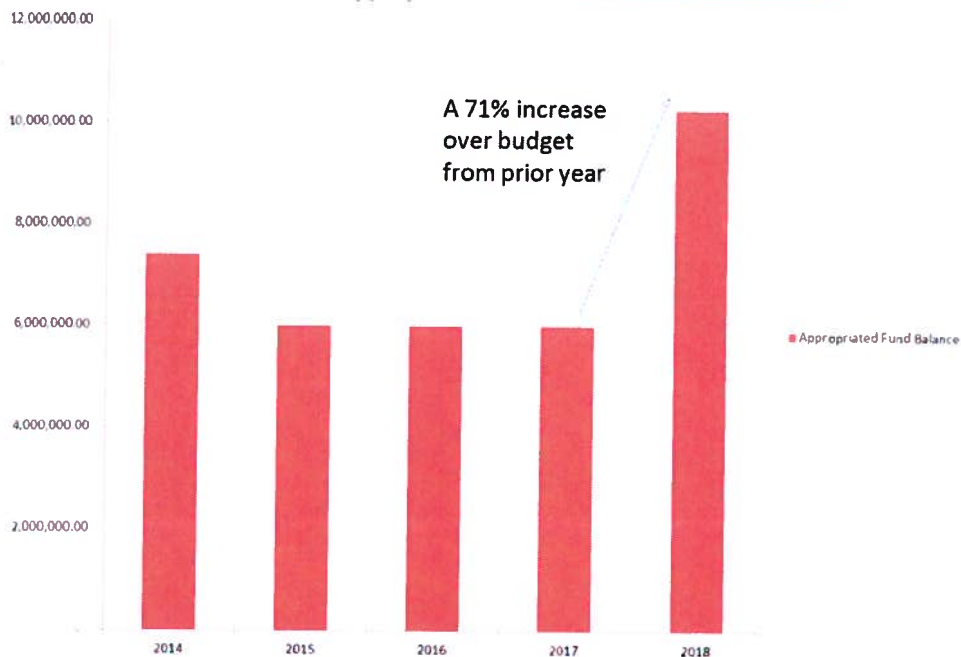
Currently, in 2017, sales tax growth is \$7.9 million higher than it was at this time in 2016 and actual collections are \$2.2 million over budget. The proposed 2018 budget makes the assumption that it will grow another 2.6%. This growth rate is not unreasonable, if current conditions persist.

USE OF FUND BALANCE

On March 23, 2011, then Comptroller Poloncarz said “use of the County’s fund balance for reoccurring expenses was one of the key factors that led to the ‘Red-Green’ fiscal crisis.” He wasn’t wrong. I agree with Mark Poloncarz of the not-so-distant past. I have continually stated before your honorable body and in writing that using non-recurring revenue to fund recurring expenses is irresponsible. It is also risky. It places the services that taxpayers demand and deserve in jeopardy because their funding is artificial. Despite the need to fund critical services well into the future, on our current course the funding will run out as soon as our fund balance is depleted.

In the 2018 budget, the County Executive proposes using \$10,260,000 from fund balance to balance the budget, an increase of 71% from 2017. In 2017, the budget was balanced similarly using \$6 million from fund balance.

2014-2018 Appropriated Fund Balance



This revenue source is irresponsible to begin with, and as expenses continue to rise, the County Executive needs to show leadership and find ways to pay for them with revenue sources other than fund balance. If he can't, or doesn't want to, he should cut those expenses. If cutting taxes and spending isn't desirable to County Executive Poloncarz, he should turn his focus to prioritization, not gimmicks.

Simply put, the County cannot continue to meet its obligations to taxpayers long-term if the necessary funding streams aren't recurring. While the dollar amount is larger, the concept isn't much different from what those that we represent at home are dealing with. When you live beyond your means, and rely on your savings account and credit cards to pay the bills, eventually that money runs out.

HEALTH CARE EXPENSE/FRINGE BENEFITS

The proposed 2018 budget is balanced with an assumption that health insurance costs (including dental) will decline by 2.26%, with total fringe benefit costs declining 1.62%. County and industry healthcare costs continue to rise, which indicates that these accounts may have been overfunded in past years.

RETIREMENT

The New York State Comptroller manages the state's retirement fund and on an annual basis determines the rates that participating municipalities and entities pay. Those rates are based on the retirement tier system. Contributions for employees in the lower tiers are more expensive than those who are hired today in tier 6. Thus far, 130 employees have retired in 2017. New employees hired as their replacements are starting in retirement tier 6. This factor, along with a very strong fund performance, should be lowering our retirement contribution.

2014 vs. 2016 NYSLRS Pension Expense

Tier	2014 Payment		2016 Payment	
	Reported Salary	Rate	Reported Salary	Rate
1	904,726	27.7%	1,041,840	21.8%
1	2,124,815	27.7%	1,841,542	21.8%
2	847,874	25.4%	777,560	19.9%
2	2,617,568	25.3%	2,388,679	19.8%
3	441,449	32.6%	301,829	26.1%
3	2,611,031	20.4%	2,279,432	16.1%
3	18,594,528	20.3%	12,924,650	16.0%
3	-	0.0%	108	16.0%
4	10,452,649	32.6%	10,804,537	26.1%
4	13,208,476	20.4%	13,752,953	16.1%
4	153,971,655	20.3%	153,134,019	16.0%
5	722,105	29.7%	745,840	23.8%
5	1,471,375	16.7%	1,411,852	13.2%
5	13,720,185	16.6%	13,586,223	13.2%
6	-	0.0%	371,269	19.1%
6	15,559	22.6%	11,214	9.3%
6	1,796,617	11.0%	3,571,786	9.4%
6	19,522,825	10.9%	36,493,311	9.3%
Total	243,023,437		255,378,644	

Declining Pension Costs

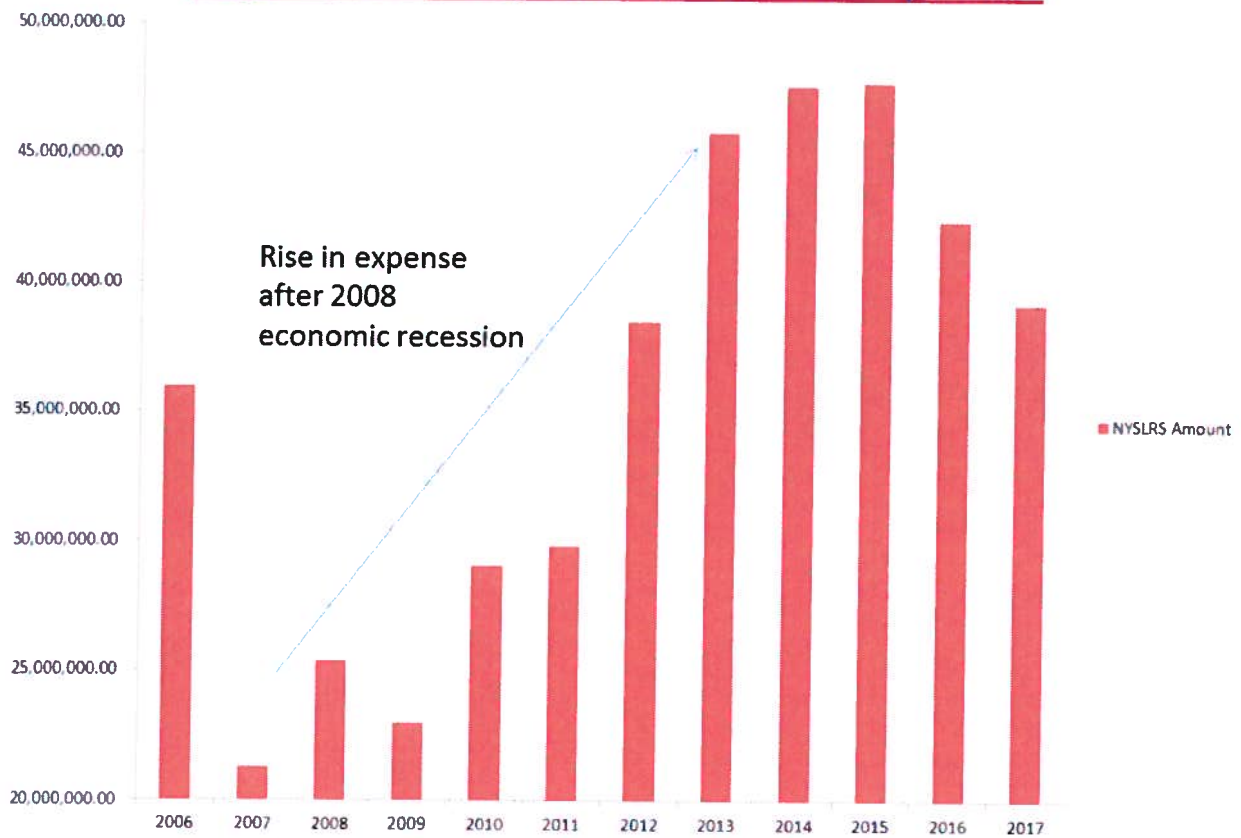
The annual pension payment from Erie County to New York State has steadily declined since 2014. This is mainly due to more retirees and the addition of New York State Retirement Tiers 5 and 6.

Billing rates have slowly declined for each plan over the past few years and into 2018.

Erie County currently has nearly 500 employees that will be eligible to retire without penalty from New York State, which would decrease the cost more.

The 2018 budget shows retirement costs increasing 0.24%. There are a number of factors that I don't have access to at this point that could impact this number. For example, I don't know if there are a lot of new employees being added to the budget. At this time, all I have is an incomplete set of revenues. When the actual budget comes out, I would encourage you to inquire further about why Erie County's retirement costs aren't decreasing with new retirement tiers and an over performing retirement fund.

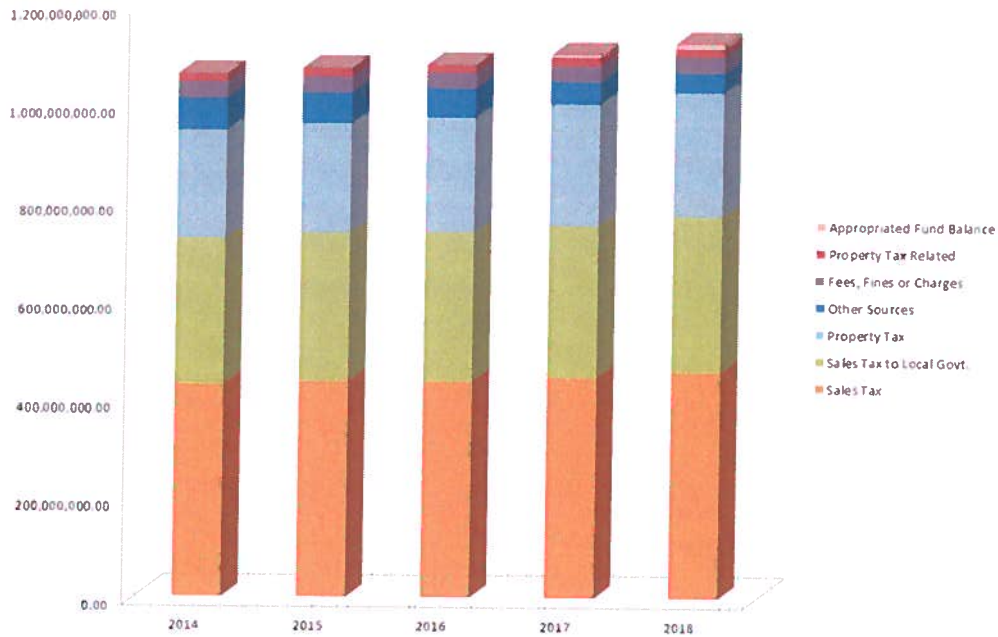
2006-2017 NYSLRS Pension Expense



STATE AND FEDERAL AID

In 2017, Federal Aid was budgeted to drop \$3,343,997. The good news for 2018 is that drop is far less drastic. In 2018, the administration is estimating that Federal Aid will only drop 0.04% or \$78,563. State Aid is projected to drop \$801,433. Additionally, Medicaid expenses are expected to drop by \$462,816.

2014-16 Local Source Revenue (Actual) 2017-18 (Budgeted)



These decreases may correlate to decreasing expenses impacting reimbursement rates. However, we won't have the data to back that assumption up until the final budget is released.

IGT PAYMENTS TO ECMCC

The Poloncarz administration did not include a crucial component of the Medicaid expense, namely the Intergovernmental Transfer ("IGT"), which includes Disproportionate Share for Hospitals ("DSH") and Upper Payment Limit payment for Nursing Homes ("UPL"). In 2016, the County paid \$40,069,172 in combined DSH and UPL payments. In 2017, to date the County has paid \$41,289,685 in combined DSH and UPL payments. The County was recently notified of an UPL payment of \$9,428,363 due this year. The administration is working on a plan to delay \$6,241,123.50 of this until 2018. In addition, on October 13, 2017 the County was notified of an additional \$1,317,522 due for Indigent Care Adjustments on October 31, 2017. The addition of these two payments will bring the total payments to date for 2017 to \$45,614,331. The 2017 budget for DSH is \$16,200,000 and an additional \$6,851,114 is budgeted for Indigent Care Adjustment for a total of \$26,051,114. Consequently there will be a deficit in this expense of \$19,563,217.

In 2016, ECMCC prepared revenue estimates through 2022 as part of its budget and planning. It projected \$63,717,000 (\$31,858,000 Erie County share) for 2017. We now know that Erie County's payment was much higher than that projection for 2017. It projected an increase of nearly 10% to \$69,582,000 (\$34,791,000 Erie County share) for 2018.

Your Honorable Body should also be aware of the status of the DSH program at the federal level. The program was scheduled to begin a phase out for the federal 2018 fiscal year, which began on October 1, 2017. The phase out had been delayed by previous legislation. The phase out is scheduled

to be completed by 2025. Currently, the phase out has not been delayed again via legislation, although this may occur. I will continue to monitor this situation. Your Honorable Body should also be aware of this situation and monitor its impact on Erie County's obligations to ECMCC.

I look forward to working with you throughout the coming months to help pass a budget that is respectful to taxpayers. Should you have any questions about this report or other matters relating to the 2018 budget, please feel free to call. My staff and I are always available to help.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stefan I. Mychajliw', with a long horizontal flourish extending to the right.

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