



ERIE COUNTY COMPTROLLER
HON. STEFAN I. MYCHAJLIW

October 12, 2018

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

RE: Review of 2019 Revenue Projections

Dear Honorable Members:

In Article 18, Section 1802-o of the Erie County Charter it provides that on or before the 15th of October, I provide you with a report indicating whether or not the revenue projections provided by the County Executive are suitable for the ensuing year's budget. In order to do this properly, the County Executive would have needed to give me all of them. He did not, despite his legal requirement to do so that is spelled out in Article 2502-a.

Perhaps, it's possible, that he hasn't gotten that far in reading the charter so he was unaware of it. Clearly that is a joke; I know he has read the charter, which is why this is so frustrating. The frustration is compounded because the current County Executive knows better and was very critical of former County Executive Collins for not providing him with all of the revenues used to balance the 2009 budget. At that time he lamented to reporters that "an analysis of the budget is difficult to complete without that (Real Property Tax Revenue Projection) hefty slice of the pie chart."

Again, this year the County Executive has broken the law and failed to provide me with the projections for property tax revenue in 2019. Property tax revenue is not only one of the largest sources of revenue in the county, it has grown faster under this County Executive than it has under his predecessors, indicating his fondness to collect more in taxes to fund his penchant for spending (our constituents money).

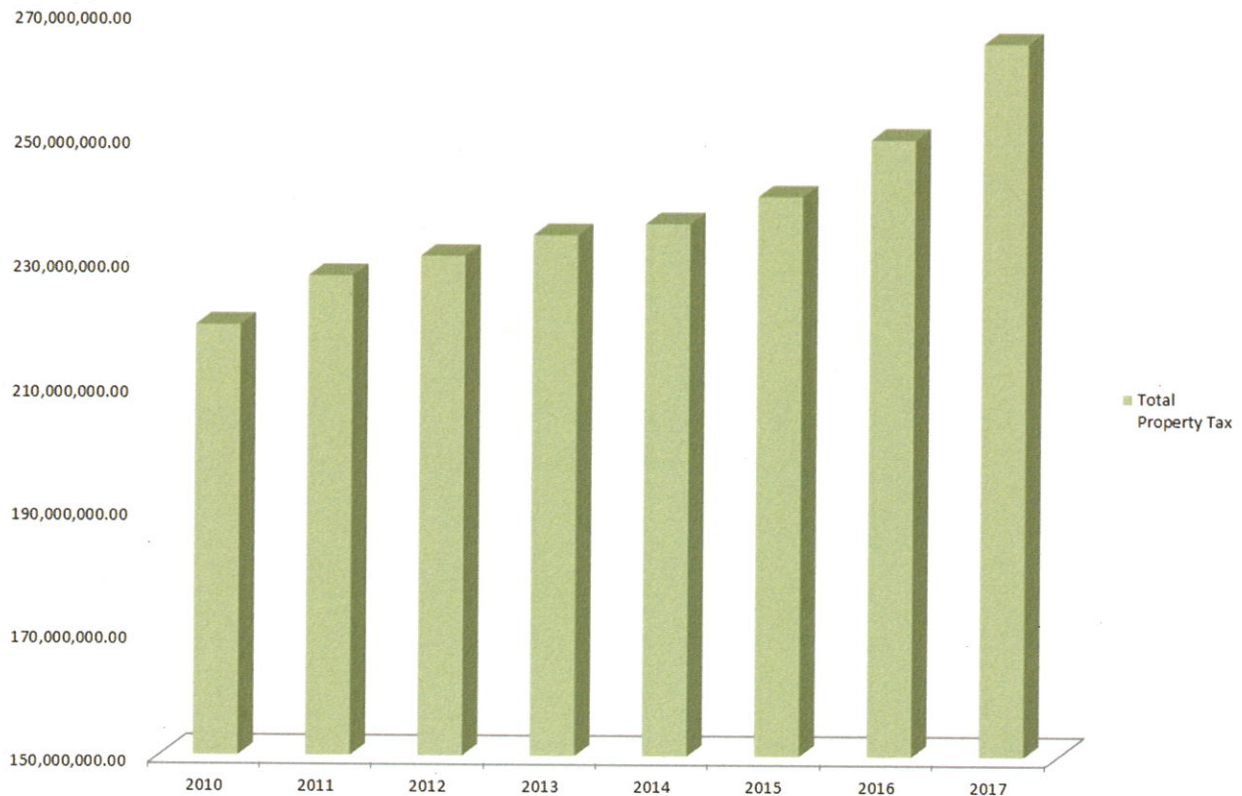
It is my assumption that the property tax will not exceed the tax cap and that its growth will not exceed what is permitted by law. I would not find it suitable if it did, especially considering the county's largest revenue, sales tax, is currently outpacing budget and last year's collection by millions of dollars. This is in large part thanks to federal income tax cuts that has placed more disposable income in everyone's pocket at a time when unemployment is historically low and people are finally experiencing financial freedom and relief again in their retirement accounts with a record-breaking stock market. This

economic sunshine has allowed Erie County to weather the local storm of less Canadian commerce, slower than expected economic growth downtown, and the boondoggle that the “Buffalo Billion” has turned into.

Attached to this letter you will find a full report of all of the county’s revenues and expenses. The report includes actual and audited historical numbers from 2012 through 2017, and the YTD numbers for 2018, as they existed on October 11, 2018. You will also find the projections for 2019, listed alongside their 2018 Executive recommendation. Again, I cannot speak to the property tax revenues and that makes it difficult to gauge whether or not the projections listed are actually reasonable. However, my staff and I have analyzed the historical trends and I can say they appear suitable.

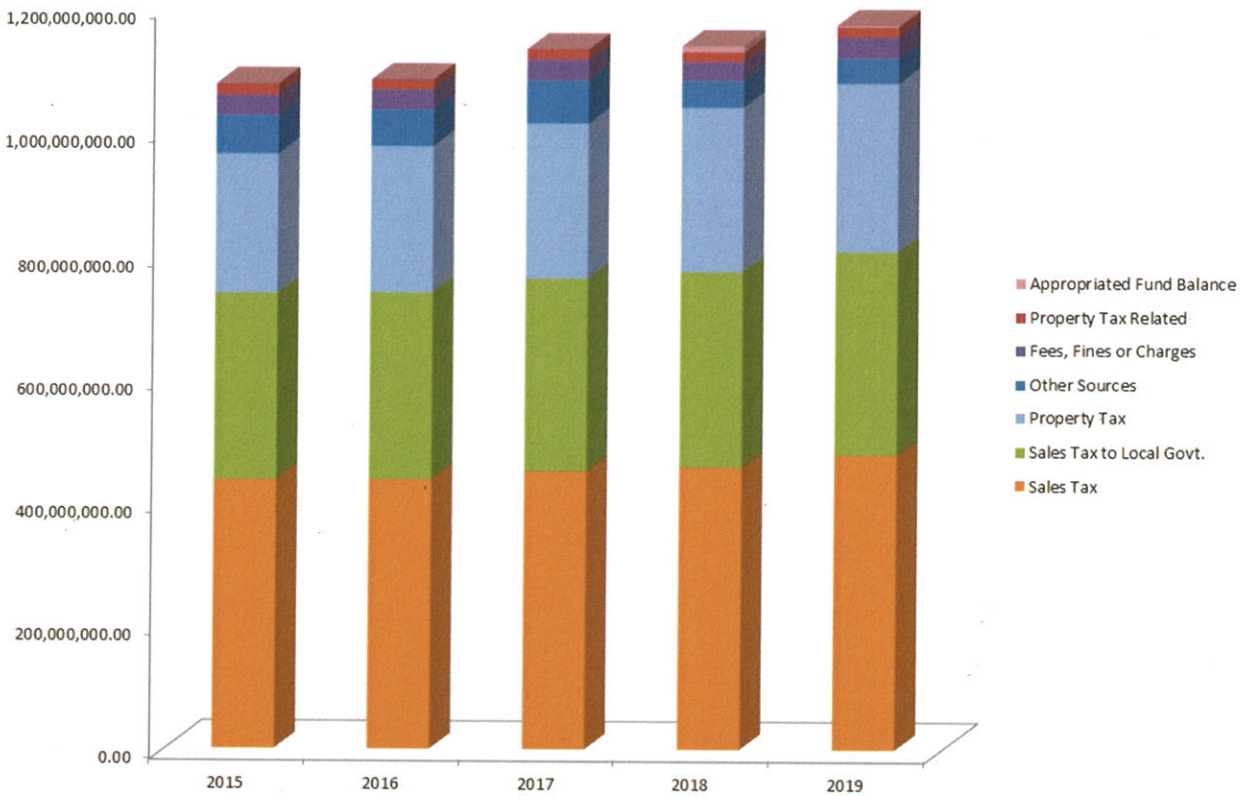
PROPERTY TAX GROWTH

As stated, the County Executive did not provide me with the projections for property tax revenue in 2019. However, I think it is important to provide you with a historical snapshot of property tax revenues over the last several years. General Fund Property tax collections have risen \$45,363,355 since 2010, and \$34,242,114 since 2012 when County Executive Poloncarz took office.



In 2015, 2016, 2017 and 2018 your honorable body amended the proposed budget to lower the tax rate. However, the amount collected still continues to climb due to increases in assessments and (some) new development. Unfortunately, our belts haven’t tightened enough and the administration continues to propose budgets that spend this revenue increase, rather than cut taxes.

ERIE COUNTY'S MAJOR REVENUES

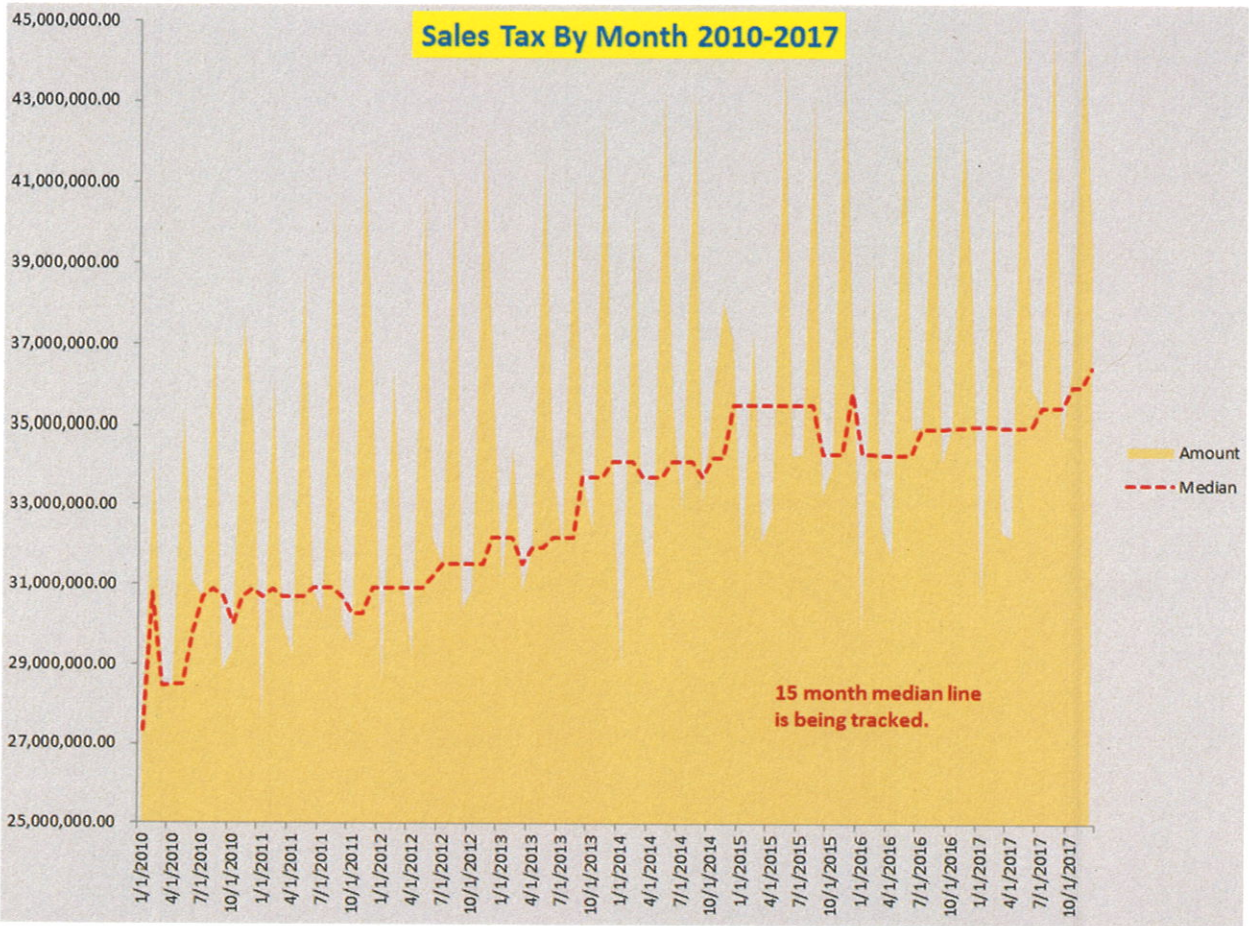


SALES TAX

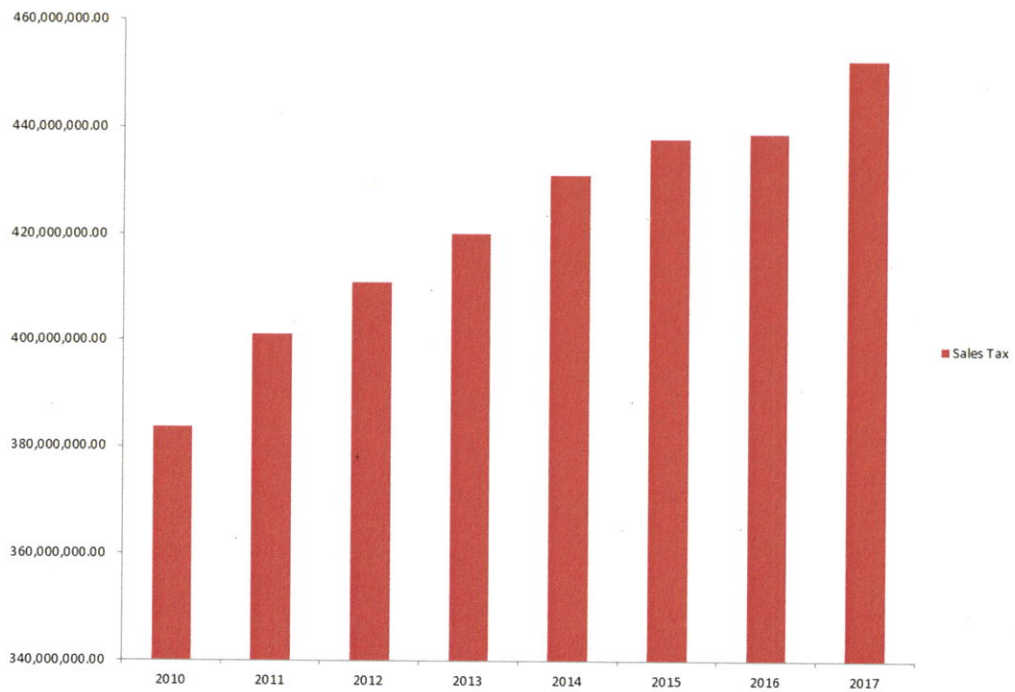
Sales tax is Erie County's largest revenue and it is currently outperforming budget and will likely be the cause of a significant budget surplus for the county in 2018.

To date, 2018 sales tax collections are 4.53% higher than they were in 2017. Through July 2018, Erie County is above 2017 actual by \$11,438,567 in sales tax revenue.

Monthly sales tax receipts have been above 15% of its 15 month median average 28 times over the last eight years. It has only been below 15% once. This is a very positive trend for Erie County, and current collection results and projections indicate it will continue.

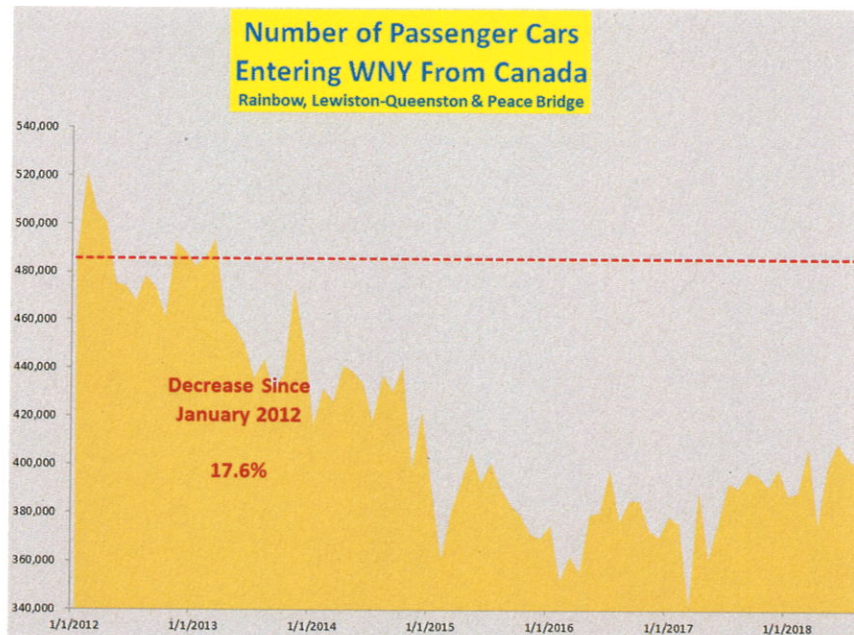


SALES TAX GROWTH 2010 – 2017 (Actual)



SALES TAX PERFORMANCE INDICATORS

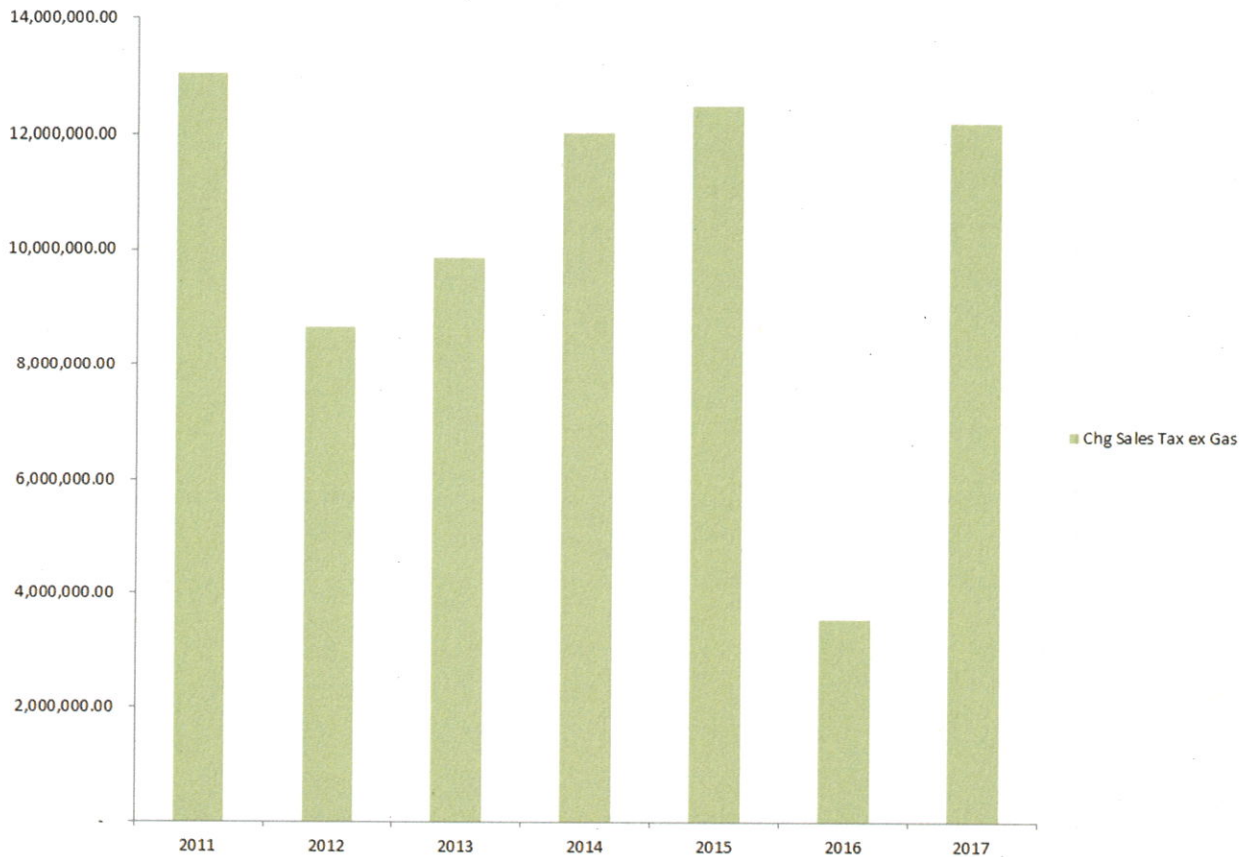
Traditionally sales tax has been very volatile, and ebbed and flowed in a direct correlation with cross-border traffic traveling to the United States from Canada. Current traffic patterns have increased from last year, but remain historically low for the last decade.



Despite this decrease in visitors from Canada seeking bargains in the States, our sales tax revenue continues to climb. 2018 actuals are showing an increase of 4.53% in collections, which has revenue outpacing the 2018 budget by \$5,769,979.

My office has regularly tracked gas prices and their impact on our sales tax collection. We have even added a "Gas Tax Calculator" to our webpage so people can track how much they pay per gallon. Gas prices have been very volatile over the past few years, but sales tax collections continue to rise. My office concluded in a report to your honorable body that this is because sales tax collection is the result of the availability of disposable income a person has to spend, and not necessarily the price of an item they are purchasing. A commodity like gasoline is more often a necessity, not a luxury. Therefore when the price of it goes up, most people still have to buy it and they sacrifice buying other things.

To demonstrate this theory further, my staff ran calculations to estimate the impact on sales tax revenue if you removed revenue related to gasoline purchases. The estimate (using 8 year averages from 2010-2017) assumed each participant in the labor force used one gallon of gasoline per day. It then considered the amount they would pay in sales taxes per gallon for the year. The analysis concluded that we would experience significant dips in sales tax in years in which the average price of gasoline was low, and spikes when it was high. The graph below demonstrates the amount of sales tax that would have been generated from gasoline sales.



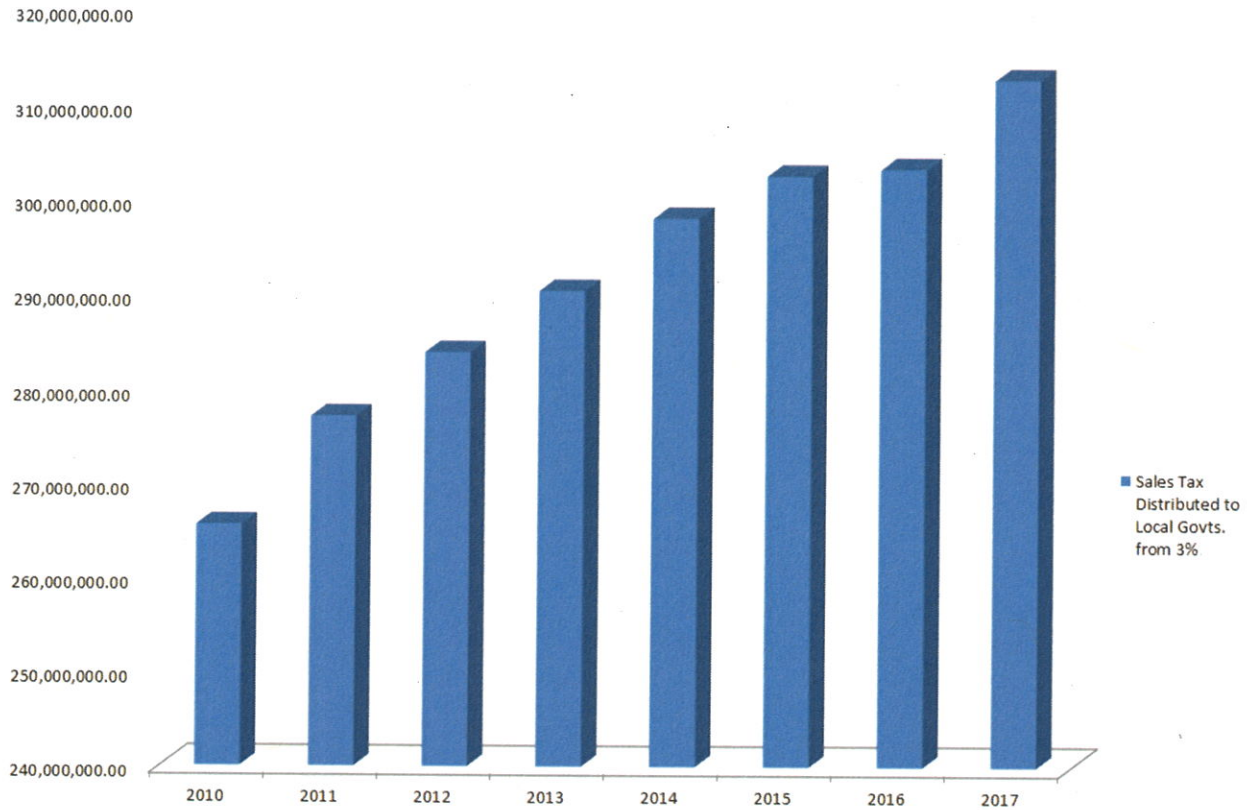
When prices were very low in 2016, sales tax still grew from 2015. It didn't decline by a significant amount. Couple that with the decrease in Canadian cross-border traffic and it bolsters the theory that a strong economy, low unemployment and additional disposable income in the pockets of people living in Erie County are the primary drivers of sales tax revenue. With year to date increases of 4.53% in 2018, it is clear that federal income tax cuts have had a positive impact on our sales tax revenue.

SALES TAX SHARED WITH LOCAL GOVERNMENTS

The steady increase in sales tax revenue is not only beneficial for Erie County, but it also significantly aids our municipal and governmental counterparts in local towns, villages, and school districts. Pursuant to the 1977 Sales Tax Sharing Agreement, Erie County agrees to share sales tax revenue with local municipalities in exchange for the cities not electing to collect their own tax. This arrangement is unique to Erie County. The recent sales tax growth should help local governments live within their means without raising property taxes.

In 2017, Erie County shared \$9,408,691 more with localities than it did in 2016.

Sales Tax Shared with Local Municipalities:

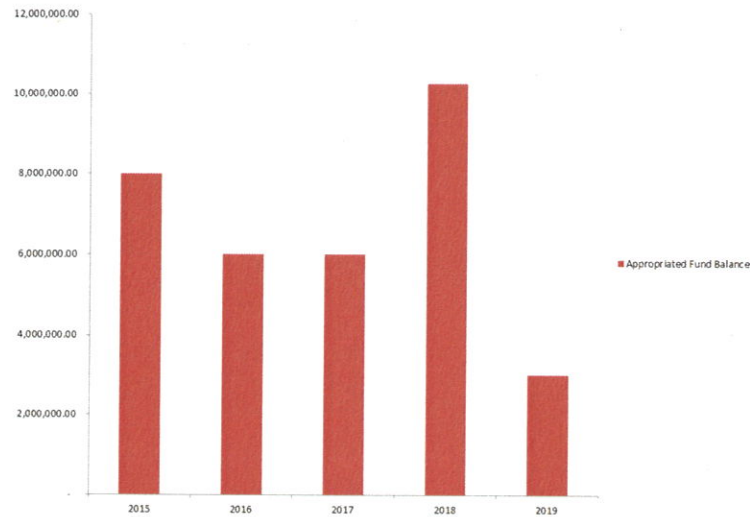


2018 sales tax revenue is outpacing budget by 2.24% and if that continues, we will share \$14,159,763 more with local governments in 2018 than we did in 2017.

USE OF FUND BALANCE

The 2018 budget was balanced on a huge loan (revenue) from Erie County's fund balance. Last year I cautioned your honorable body about that. As we all know, it is irresponsible to rely on one-time revenues to pay reoccurring expenses. 2018 sales tax performance will save the county from having to use that fund balance revenue this year. I believe the same will be true for next year; however, the 2019 projections provided to me still use \$3,000,000 of fund balance as a revenue in the budget. I am happy to see that it is significantly less than last year, but still uncomfortable with using fund balance in this fashion. As a side note we did not receive from the administration any Fund Balance Special that relates to the ECMCC bond deal and was announced to be used annually in the amount of \$4,260,000.

Below is a graph depicting use of fund balance as a revenue in the budget over the last five years.



As an update, Erie County's current undesignated fund balance is \$101,939,000, with \$36,837,000 designated to the following purposes:

- \$10,226,000 – Designated for 2018 Budget
- \$1,500,000-Judgements & Claims
- \$8,603,000-Prepayments
- \$162,000-Handicapped Parking
- \$16,346,000-Other including Encumbrances

HOTEL OCCUPANCY TAX

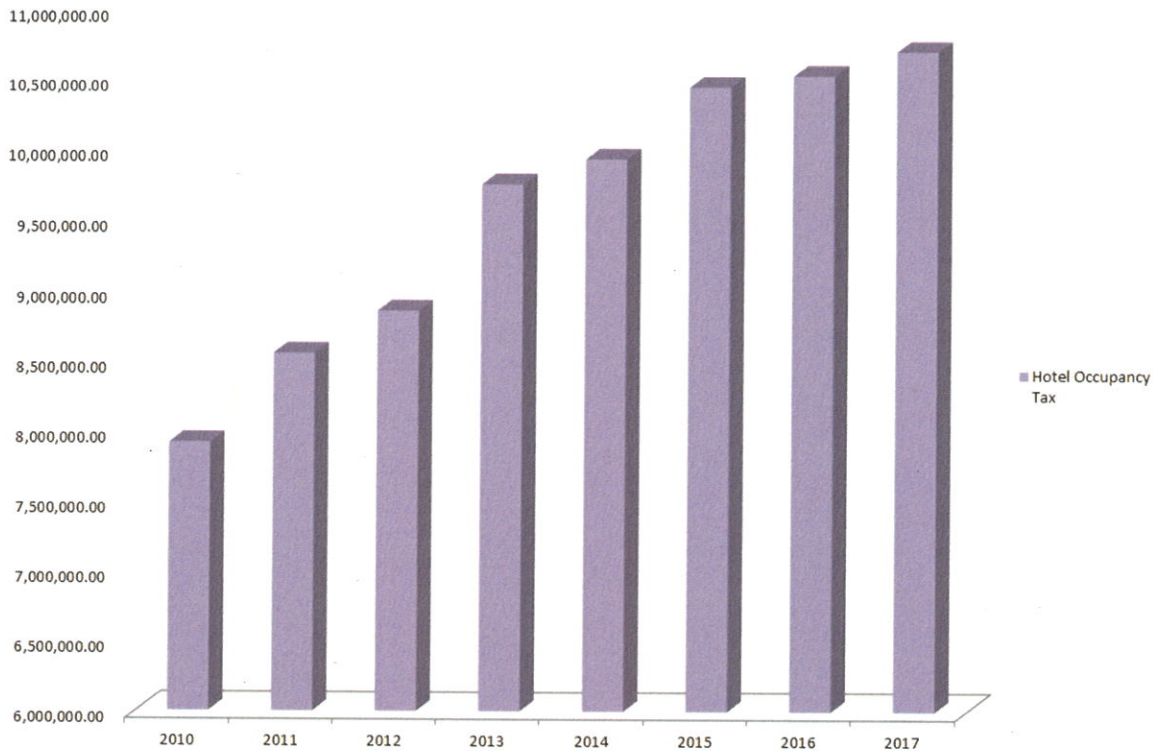
The Erie County Hotel Room Occupancy Tax, often referred to as the "Bed Tax," is not overly significant revenue in the county budget and normally doesn't attract individual attention in this revenue report. However, with all of the recent talk regarding building a new convention center, I thought I would share the data with you.

The tax was originally put in place in 1974 and has been amended in 1975, 1983, 1987 and 2007. In short, the tax places a charge of 3% on the cost of a hotel room in Erie County. Proceeds from the tax are directed to the county's general fund. They are not provided to Visit Buffalo Niagara, the Convention Center or tourism efforts. However, the amount of revenue raised from the hotel occupancy tax provides a good indicator to assess the strength of the tourism industry.

Hotel Occupancy Tax Collected:

2018 YTD	\$7,696,915
2017	\$10,696,994
2016	\$10,523,063
2015	\$10,442,091
2014	\$9,928,615
2013	\$9,751,128

In 2019, the administration has projected Hotel Occupancy Tax revenues to be \$11,225,000. Below is a graph showing its historical growth between 2010 and 2017.



STATE AND FEDERAL AID

The 2019 County budget for federal aid is \$176,087,942, a decrease of \$941,145 from the 2018 budget of \$175,146,797. The 2019 County budget for state aid is \$179,208,881, an increase of \$6,271,147 from the \$172,937,734. The majority of the state aid increase is in one line: \$3,746,789 for SA Raise the Age, a new program enacted in 2018 after that budget was adopted. It is impossible to express an opinion on federal and state aid until the entire 2019 budget is released, as these revenue items are based on expenditures in every reimbursable program.

RETIREMENT/PENSION COSTS

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. To date, 107 Erie County employees have retired or announced their retirement in 2018. This is 23 less than last year when I drafted this letter. When these employees are replaced they are, for the most part, hired as tier 6 employees at a lower cost to Erie County. This factor, along with strong fund performance, has been very positive for our pension expense/obligation.

The annual pension payment from Erie County to New York State has steadily declined since 2014, and leveled off in 2018. The General Fund pension expenses have declined from \$35,406,545 in

2014 vs. \$28,820,827 in 2017, a decline of \$6,585,718 or 18.6%. Based on the preliminary pension bill to be paid on December 14, 2018, we estimate the General Fund's expense to be approximately \$29,000,518. The 2018 General Fund budget for retirement is \$29,124,530.

The 2019 revenue projections show that the budget will be \$32,090,256 next year, an increase of \$2,965,726 or 10.2%. This projection opposes the trend and will require further explanation from the administration during budget hearings. It is even more difficult to determine whether or not this expense is reasonable without having the entire budget available to review. For example, there may be additional positions added within the budget that would adjust our pension obligation upward.

Attached to this letter is a report providing a full accounting and historical look back of revenues and expenditures for the county. As stated, the revenues provided appear to be suitable. My staff and I look forward to working with you throughout the 2019 budget process. Should you have any questions about this report, don't hesitate to ask.

Sincerely,



STEFAN I. MYCHAJLIW
Erie County Comptroller

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

Attachments: Revenue and Expense Report