

COUNTY OF ERIE

MARK C. POLONCARZ

COUNTY EXECUTIVE

October 23, 2014

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

Re: Comptroller's Review of 2015 Tentative Budget Revenue and Expense Projections

Dear Honorable Members:

On October 15, 2014, the Erie County Comptroller held a press conference attacking the 2015 Erie County Proposed Budget (the "Budget"), even before actually receiving a copy of the Budget to review. The following day, my office received a copy of the Comptroller's Office's Review of the 2015 Tentative Budget Revenue and Expense Projections ("Budget Review"). I would note that this review was officially clocked into the Legislature on October 16th, in violation of the Charter mandated October 15th deadline.¹

As has become a hallmark of his administration, Comptroller Mychajliw has chosen to make a number of inaccurate statements that mislead the public and the Legislature. While this may generate the media attention he so craves, it does an injustice to your Honorable Body as the purported information he is providing to you is inaccurate and will not assist you as you deliberate the Budget. The Comptroller's attention-seeking and often inconsistent generalizations provide no specific details that can be reasonably reviewed or even debated and in the instances in which he makes comments, he deliberately omits key details.

For example, before even receiving the Budget and seeing any detail, Mr. Mychajliw attacked the administration and called for a tax decrease. The rationale used is arbitrary, centering entirely on the fact that he believes the Budget includes a "massive increase in spending." The Erie County General Fund budget for 2015 will be \$1.43 billion, which represents a \$39.7 million increase in spending over 2014. This represents a 2.86% increase in spending, which is in no way "massive" and is actually only slightly above the average rate of inflation of 2.5% over the past 10 years.

¹ While this may be considered a minor delay, the current comptroller has taken it upon himself to go to the media and attack this administration for allegedly delayed reports and I feel it is only appropriate that Mr. Mychajliw be held to the same standard.

Poloncarz Letter on Comptroller's Review of 2015 Tentative Revenue and Expense Projections

October 23, 2014

Page 2 of 4

As you are well aware, over 90% of Erie County's budget is comprised of mandated expenses that we have little to no control over. And, as is the case nearly every year, those mandated costs rise and specifically contribute to annual increases in the budget.

First, I would like to point to two drivers accounting for \$15.5 million, or nearly 40% of the "Increase in spending" that actually has zero impact on the County's Budget, yet must be included for reporting purposes.

- \$8,758,599 increase in sales tax revenue shared with municipalities. Although Erie County does not keep this funding, it nevertheless is required to be budgeted and included in the County's total budget; and
- \$6,712,570 increase in Family Assistance costs for this mandated public assistance program. This 'cost' is 100% reimbursed by the federal government.

By factoring out just these two areas, the actual spending increase drops to approximately \$24.2 million or an increase of only 1.74% which is well below the average rate of inflation noted earlier.

Other drivers of this overall increase in spending include:

- \$8,510,103 increase in salary expense related to union contracts and negotiated step increases for County employees, particularly due to the CSEA contract which was unanimously approved by the County Legislature in 2014. And, with a large number of these contractual salary increases going to employees within the Department of Social Services with either federal or state reimbursement associated, this figure is also artificially inflated to appear greater than its actual budgetary impact. Additionally of note, the 2015 Budget actually features **fewer jobs** than in 2014;
- \$4,953,500 increase in Safety Net Assistance costs for this state constitutionally mandated program;
- \$3,606,852 increase in state mandated costs by the Office of Children and Family Services ("OCFS") for the State Residential Facility program for Erie County youth placed in OCFS's custody and care by the family and criminal courts;
- \$2,437,132 increase in debt service payments on the County's bonds; and
- \$2,000,000 increase in a required payment to Erie County Medical Center Corporation ("ECMCC") under a 2012 agreement approved by the Legislature.

The above costs total \$41,020,408 – above the \$39.7 million increase in the County's 2015 Budget compared to the 2014 Budget. It is important to note that these are all mandated costs and charges, either by the federal government, New York State, by union contracts, and due to legal agreements (such as with ECMCC and local towns, cities, villages and the NFTA). As you can see, these costs are not the "pork and patronage" that Mr. Mychajliw generically charges, but costs we have no control over and must pay for in its entirety.

Poloncarz Letter on Comptroller's Review of 2015 Tentative Revenue and Expense Projections

October 23, 2014

Page 3 of 4

Furthermore, I find it the height of hypocrisy for Mr. Mychajliw to talk about patronage when over the last two years he has filled two of his top three appointed positions with politically connected individuals while he is actively trying to terminate and layoff career civil service auditors.²

Based on his assertions in his October 16, 2014 report, also troubling is Comptroller Mychajliw's fundamental misunderstanding of what cash flow and liquidity are. This is not the first time Mr. Mychajliw has confused these two elementary accounting principles.

For example, on January 15, 2013, Mr. Mychajliw issued a press release confusing cash flow and budgeting, and falsely stating that "initial cash flow projections from the office of Erie County Comptroller show Erie County would have to borrow \$110 million to keep the 2013 budget balanced..." Mr. Mychajliw also stated: "The first sign of potential budget problems are when a government entity experiences cash flow issues. These preliminary fiscal signs are not good." Despite his skepticism, the County ended 2013 on solid financial footing.

Fast forward to October 16, 2014, where, in his criticism of appropriating \$8,005,000 in fund balance as part of the Budget, Mr. Mychajliw wrote: "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... Any usage of fund balance without a plan on replenishing it weakens County finances."

This is not correct. Fund balance is not a measure of the County's liquidity but of the County's reserves; whereas liquidity refers to the day-to-day cash position of the County. In explaining this, I would like to take directly from Fitch Ratings' assessment of Erie County's finances directly from their most recent review from October 10, 2014 where they upgraded the County's outlook from "stable" to "positive." When noting the County having "adequate reserves," Fitch wrote: "For 2013, the unrestricted general fund balance totaled \$109.9 million or an adequate 8.1% of general fund spending... Reserve levels are well in excess of the county's 5% policy." Separately, Fitch discussed the County's liquidity negatively, specifically writing, "... hindering financial flexibility is the County's narrow liquidity. The county reports high levels of receivables and utilizes annual cash flow borrowing to cover its expenditures." I would remind your Honorable Body that both cash flow and cash flow borrowing are wholly within the purview of the Comptroller's Office and not the administration. And, subsequently, any criticism of weakening the County's finances due to narrow liquidity should be directed by Mr. Mychajliw back to his own office.

Additionally, in his most recent round of criticism, the Comptroller reiterated his opposition to any use of fund balance without a plan to replenish it. However, Mr. Mychajliw was strangely silent when your Honorable Body allocated \$5 million in fund balance for additional road repairs earlier this year without any plan to replenish. The Comptroller questions the use of a modest amount of appropriated fund balance to help close gaps, but offers no alternatives for gap closers.

² As you may know, the Comptroller has recently hired a new Deputy Comptroller for the Division of Audit and Control, his third such hire for that position in less than two (2) years in office. For comparison sake, the undersigned had only one (1) Audit Deputy (a certified internal auditor with a MBA and who was a career Civil Service internal auditor) during my entire six (6) year tenure as Comptroller.

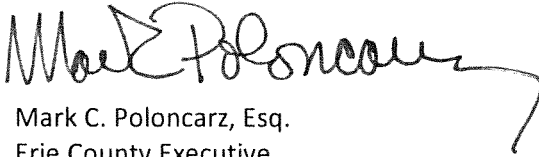
Poloncarz Letter on Comptroller's Review of 2015 Tentative Revenue and Expense Projections

October 23, 2014

Page 4 of 4

In his short tenure as Comptroller, Mr. Mychajliw has made a habit of not working with the Division of Budget and Management to address financial concerns and issues in a cooperative and collegial manner. His latest report bears that out; leaving me with no choice but to correct his errors so that your Honorable Body has a clear picture of the Budget as you begin your deliberations. It is my hope, in the future, he will consult with the Division of Budget and Management before inaccurately commenting on the County's finances.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mark C. Poloncarz". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mark C. Poloncarz, Esq.
Erie County Executive

MCP/mc

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