



County of Erie

JOEL A. GIAMBRA
COUNTY EXECUTIVE

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August 22, 2006

Mr. Anthony Baynes, Chairman
Erie County Fiscal Stability Authority
295 Main Street
Buffalo, New York 14203

Dear Mr. Baynes:

In response to your resolution of July 26, 2006, attached is a revision to our four-year financial plan for fiscal years 2006-2009. The strategy advanced in the attached plan achieves four major objectives: 1) maintains structural balance in the County's operating budget, 2) restores reserve fund balance to the goal of \$75 million by fiscal year 2009, 3) avoids increases in the property tax, and 4) prevents further harmful cuts to our level of public services.

The key to this strategy is a change in the method of providing financial assistance to the Erie County school districts. This change is described in complete detail in the accompanying materials. At present, Erie County shares more than 20% of our total sales tax revenue with school districts – \$108.6 million in the schools' 2004-05 fiscal year. No other county in New York State provides this amount of sales tax revenue to schools. Consequently, we have determined that we are actually lowering the amount of State STAR aid that our school districts could potentially receive.

To address this situation, we propose eliminating the current school sales tax sharing. School districts would then raise their official tax rate to compensate the difference. Using the 2004-05 year to illustrate, this change would have earned the schools an additional \$24.4 million of STAR aid. We propose to hold the school districts "financially harmless" by creating a new Erie STAR Credit Program that would in our base year of analysis have provided the schools districts \$84.2 million of County assistance – the balance of the \$108.6 million. Thus, we would free the \$24.4 million for County budgetary purposes.

We propose to implement this new method of financial assistance to school districts effective for fiscal year 2008. We estimate the retained revenue to the County would be \$26.7 million in 2008 and \$27.5 million in 2009. The steps necessary to make this change with the support of the County Legislature and the State Legislature are also described in the attached documents. Together with \$40 million of efficiency initiatives

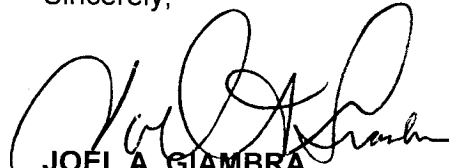
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to be achieved by fiscal 2009, this retained revenue will be adequate to accomplish our financial plan goals.

Our immediate challenge is balance the 2007 budget. Our task is aided by the recalculation of Medicaid costs and higher projected sales tax revenues. We also assume \$29 million of expense reduction and non-tax revenue initiatives. In addition, to ensure a securely balanced budget without tax increases, we will request the \$9 million made available by the State Legislature to the County through the savings match incentive program – via the Fiscal Stability Authority. This proposal is explained in the attached plan document.

We urge your support of the strategies described above. Thank you for your consideration.

Sincerely,



JOEL A. GIAMBRA
ERIE COUNTY EXECUTIVE

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cc: Members, Erie County Legislature