



The County of Erie, New York

Modifications to Four-Year Financial Plan, FY2006 – 2009

Transmitted by:

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To

The Erie County Fiscal Stability Authority

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Explanation of Four-Year Plan Modifications

Methodology

1. **Baseline Forecasts:** The revisions to the size of the estimated gaps in this document represent high-level adjustments to the original plan presented in October 2005. We intend to present a complete revision of baseline revenue and expense forecasts in the new four- year plan for fiscal years 2007-10 due on October 15, 2006. The steps to develop the 2007-10 plan are as follows:
 - Forecast of 2006 year-end results based upon detailed review of each departmental budget.
 - Development of 2007 revenue and expense forecasts based upon 2006 year-end results.
 - Development of revenue and expense forecasts for 2008-10 based upon 2007 budget formulation.

2. **Gap-Closing Actions:** Actions to close the gaps for 2006-09 are based upon the following:
 - For 2006, the adopted budget and the results of operation through June 30.
 - For 2007-09, management initiatives from the plan “matrix” and the proposed change to the method of financial assistance to Erie County school districts.

2006 Budget Year

1. Baseline Forecast: The gap number of \$147.4 million represents the revision to plan as presented following the ECMCC settlement in January.
2. Gap-Closing Actions: The projection of a surplus of \$27 million results primarily the positive cash variance of \$12.4 million reported as of June 30 and the \$12.7 million favorable recalculation of the Medicaid cap. (Note: this number is expected to grow more favorable based upon the detailed departmental reviews for 2006 described above.)

2006 Budget Year (\$millions)

Previous Gap Forecast (see attached):	-147.4
.75 sales tax increase:	94.8
2006 property tax increase:	21.0
PFM matrix efficiencies (see attached):	11.1
Tobacco revenues:	15.9
Judgement bonds:	6.5
Recalculation of 2005 Medicaid cap:	12.7
Positive cash variance as of 6/30/06 exclusive of Medicaid recalculation:	12.4
Total:	174.4
Estimated addition to reserve funds (as of 6/30/06):	27.0

2007 Budget Year

1. Baseline Forecast: The revised gap forecast of \$150.9 million results from the favorable recalculation of the Medicaid cap and higher estimates of sales tax revenues and interest earnings.

2. Gap-Closing Actions:

- The plan assumes matrix initiatives of \$29 million: of which \$11.1 million carry forward from 2006 and \$17.9 million are new for 2007. (See attached matrix for details.)
- The plan assumes \$9 million of funding from the \$18 million provided by the State Legislature to the Fiscal Stability Authority for 2007. With regards to the \$18 million, the appropriation language says: “At least fifty percent of the amounts appropriated herein shall be held by the authority to match recurring savings achieved by Erie County through the implementation of initiatives contained in such plan.”

Based upon this language, as the 2007 budget is developed, we will present to the authority \$9 million of savings or enterprise revenues achieved in 2006 that will recur in the 2007 budget. This list of savings will trigger the matching provision described above. We intend to budget these funds in a contingency account to provide a safeguard against unexpected negative events in the 2007 fiscal year. Should the funds not be needed, they would contribute to the \$9.6 million projected surplus for 2007 and to the restoration of fund balance as shown in the following schedules. Use of the \$9 million in this manner will avoid the need for any tax increase in 2007.

2007 Budget Year (\$millions)

Previous Gap Forecast (see attached):	-171.5
Recalculation of Medicaid cap:	13.5
Higher sales tax estimate: *	5.5
Higher interest earnings:	1.6
Revised Gap Forecast:	-150.9
.75 sales tax increase:	97.2
2006 property tax increase:	25.3
PFM matrix efficiencies (see attached):	29.0
Contingency fund: **	9.0
Total:	160.5
Addition to reserve funds from budgetary surplus:	9.6

*The 2006 sales tax receipts are estimated to be \$360.0 versus budget of \$355.2. A growth rate of 2.5% over this \$360.0 will be \$369.2 – versus the previous 2007 forecast of \$364.0.

**This contingency fund will be obtained through the savings match incentive program allocated by the State Legislature to Erie County for 2007 – via the Fiscal Stability Authority.

2008 Budget Year

1. Baseline Forecast: The revised gap forecast of \$165.4 million results from the favorable recalculation of the Medicaid cap and higher estimates of sales tax revenues and interest earnings.

2. Gap-Closing Actions:
 - The plan assumes matrix initiatives of \$35 million: of which \$29 million carry forward from 2006 and 2007 – and \$6 million are new for 2008. (See attached matrix for details.)

 - The plan assumes a financial benefit of \$26.7 million to the County from the proposed change in method of financial assistance to the school districts.

3. Contingency Plan: The creation of the Erie STAR program requires State approval. As a contingency should this approval not occur, we propose the following actions:
 - A 200-person reduction in headcount through a program of managed attrition and operational re-engineering -- targeted to save \$10 million.

 - An increase of 3.5% in the property tax to produce \$6.5 million of revenue.

2008 Budget Year (\$millions)

Previous Gap Forecast (see attached):	-186.0
Recalculation of Medicaid cap:	13.5
Higher sales tax estimate: *	5.4
Higher interest earnings:	1.7
Revised Gap Forecast:	-165.4
.75 sales tax increase:	99.6
2006 property tax increase:	25.3
PFM matrix efficiencies:	35.0
Benefit from County STAR program:	26.7
Total:	186.6
Addition to reserve funds:	21.2
<u>Contingent Scenario to implementation of County STAR:</u>	
Revised Gap Forecast:	-165.4
.75 sales tax increase:	99.6
2006 property tax increase:	25.3
PFM matrix efficiencies:	35.0
200-person headcount reduction at \$50,000 average:	10.0
3.5% increase to 2007 property tax of \$188.0:	6.5
Total:	176.4
Addition to reserve fund under contingent scenario:	11.0

* This estimate assumes \$378.4 of sales tax receipts – a 2.5% increase over the 2007 amount of \$369.2 – versus the previous 2008 forecast of \$373.0.

2009 Budget Year

1. Baseline Forecast: The revised gap forecast of \$185.6 million results from the favorable recalculation of the Medicaid cap and higher estimates of sales tax revenues and interest earnings.

2. Gap-Closing Actions:

- The plan assumes matrix initiatives of \$40 million: of which \$35 million carry forward from 2006, 2007, and 2008 – and \$5 million are new for 2009. (See attached matrix for details.)
- The plan assumes a financial benefit of \$27.5 million to the County from the proposed change in method of financial assistance to the school districts.

3. Contingency Plan: The creation of the Erie STAR program requires State approval. As a contingency should this approval not occur, we propose the following actions:

- A further 200-person reduction in headcount through a program of managed attrition and operational re-engineering -- targeted to save \$10 million.
- An increase of 2.5% in the property tax to produce \$4.8 million of revenue.

2009 Budget Year (\$millions)

Previous Gap Forecast (see attached):	-206.6
Recalculation of Medicaid cap:	13.5
Higher sales tax estimate: *	5.7
Higher interest earnings	1.8
Revised Gap Forecast:	-185.6
.75 sales tax increase:	102.0
2006 property tax increase:	25.9
PFM matrix efficiencies:	40.0
Benefit from County STAR program:	27.5
Total:	195.4
Addition to reserve funds:	9.8
<u>Contingent Scenario to implementation of County STAR:</u>	
Revised Gap Forecast:	-185.6
.75 sales tax increase:	102.0
2006 property tax increase:	25.9
PFM matrix efficiencies:	40.0
Headcount reduction from 2008:	10.0
2008 property tax increase:	6.5
200-person headcount reduction at \$50,000 average:	10.0
2.5% increase to 2008 property tax of \$194.6:	4.8
Total:	199.2
Addition to reserve funds under contingent scenario:	13.6

* This estimate assumes \$387.9 of sales tax receipts – a 2.5% increase over the 2007 amount of \$378.4 – versus the previous 2008 forecast of \$382.2.

Summary of Addition to Reserve Funds:

1. Reserve funds at year-end 2005:	14.0
2. Projected 2006 surplus:	27.0
3. Projected 2007 surplus:	9.6
4. Projected 2008 surplus:	21.2
5. Projected 2009 surplus:	9.8

Total (millions): \$81.6

Summary of Addition to Reserve Funds Assuming Contingent
Scenarios of Headcount Reductions and Real Estate Tax Increases
In 2008 and 2009:

1. Reserve funds at year-end 2005:	14.0
2. Projected 2006 surplus:	27.0
3. Projected 2007 surplus:	9.6
4. Projected 2008 surplus:	11.0
5. Projected 2009 surplus:	13.6

Total (millions): \$75.2

**ERIE COUNTY FOUR-YEAR FINANCIAL PLAN
GAP CLOSING ACTIONS**

	October Plan (\$Millions)	January Revised Plan After ECMCC Settlement (\$Millions)
<u>2006 Projected GAP</u>	<u>(141.2)</u>	<u>(147.4)</u>
Previous .25 Sales Tax Increase	31.6	31.6
Additional .5 Sales Tax Increase	63.2	63.2
Property Tax Increase	21.0	21.0
Cut to ECMCC Subsidy	13.5	-
Cost Savings/Revenue Initiatives	14.0	11.8
Toabacco Revenues	-	15.9
Judgement Bond	-	6.5
Contingency/Restoration to Fund Balance	(2.1)	(2.6)
<u>2007 Projected GAP</u>	<u>(157.2)</u>	<u>(171.5)</u>
Previous .25 Sales Tax Increase	32.4	32.4
Additional .5 Sales Tax Increase	64.8	64.8
Property Tax Increase	25.3	25.3
Cut to ECMCC Subsidy	13.5	-
Cost Savings/Revenue Initiatives	53.7	50.3
New Revenues to Offset Sales Tax Sharing	-	12.5
Contingency/Restoration to Fund Balance	(32.5)	(13.8)
<u>2008 Projected GAP</u>	<u>(172.2)</u>	<u>(186.0)</u>
Previous .25 Sales Tax Increase	33.2	33.2
Additional .5 Sales Tax Increase	66.4	66.4
Property Tax Increase	25.5	25.5
Cut to ECMCC Subsidy	13.5	-
Cost Savings/Revenue Initiatives	81.4	75.0
New Revenues to Offset Sales Tax Sharing	-	12.5
Contingency/Restoration to Fund Balance	(47.8)	(26.3)
<u>2009 Projected GAP</u>	<u>(187.1)</u>	<u>(206.6)</u>
Previous .25 Sales Tax Increase	34.0	34.0
Additional .5 Sales Tax Increase	68.0	68.0
Property Tax Increase	25.9	25.9
Cut to ECMCC Subsidy	11.5	-
Cost Savings/Revenue Initiatives	108.1	98.7
New Revenues to Offset Sales Tax Sharing	-	12.5
Contingency/Restoration to Fund Balance	(60.4)	(32.5)
 Cummulative Fund Balance as of 12/31/09	 (142.8)	 (75.2)

Explanation of Modifications
October Plan vs. January Plan Amendments
(\$millions)

2006 Changes

October Gap Estimate: \$141.2

- | | |
|---------------------------------|--------|
| 1. Effect of ECMCC Settlement | (6.7) |
| -Baseline assumption of subsidy | 13.5 |
| -Revised subsidy | (14.0) |
| -Retiree health | (5.2) |
| -Malpractice | (1.0) |
| 2. Refunding Savings | .5 |

Revised January Gap Estimate: \$147.4

Note: the cost/saving revenue initiatives were reduced from \$14 million to \$11.8 million because of the addition of \$2.2 million to the Risk Retention Fund.

2007 Changes

October Gap Estimate: \$157.2

- | | |
|--------------------------------------|--------|
| 1. Effect of ECMCC Settlement | (2.6) |
| -Baseline assumption of subsidy | 13.5 |
| -Revised subsidy | (8.0) |
| -Retiree health | (4.0) |
| -Malpractice | (1.0) |
| -Debt service | (3.1) |
| 2. Cost of Revenue-Sharing Agreement | (12.5) |
| 3. Refunding Savings | .4 |
| 4. RAN Savings | .4 |

Revised January Gap Estimate: \$171.5

Note: The cost saving/revenue initiatives were reduced from \$53.7 million to \$50.3 million because of the decision to retain the full Erie Community College subsidy.

2008 Changes

October Gap Estimate::	\$172.2
1. Effect of ECMCC Settlement	(3.6)
-Baseline assumption of subsidy	13.5
-Retiree health	(4.7)
-Debt service	(12.4)
2. Cost of Revenue-Sharing Agreement	(12.5)
3. Refunding Savings	.3
4. RAN Savings	2.0
Revised January Gap Estimate:	\$186.0

Note: The cost saving/revenue initiatives were reduced from \$81.4 million to \$75.0 million because of the decision to retain the full Erie Community College subsidy.

2009 Changes

October Gap Estimate:	\$187.1
1. Effect of ECMCC Settlement	(10.3)
-Baseline assumption of subsidy	11.5
-Retiree health	(5.4)
-Debt service	(16.4)
2. Cost of Revenue-Sharing Agreement	(12.5)
3. Refunding Savings	.3
4. RAN Savings	3.0
Revised January Gap Estimate:	\$206.6

Note: The cost saving/revenue initiatives were reduced from \$108.1 million to \$98.7 million because of the decision to retain the full Erie Community College subsidy.