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ERIE COUNTY FISCAL STABILITY AUTHORITY ANALYSIS OF THE ERIE COUNTY 2012-2015 FINANCIAL PLAN April 16, 2012

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INTRODUCTION

On April 2nd, 2012, the county forwarded its financial plan based upon the adopted 2012 budget. This plan reflects a new set of priorities that have been brought forward by the Poloncarz Administration. The adopted budget contains a number of adjustments that have an impact on future years of the plan.

Major assumptions in the financial plan include:

- Sales tax growth of 3% per year for 2013, 2014 and 2015. The 2012 base year is 6.3% above the 2011 budget and 3% above anticipated actuals for 2011.
- Real Estate Market Value Growth, impacting the county's property tax levy, is assumed to increase by 1% per year for 2013 through 2015.
- The county portion of the property tax levy increases by $0.8 million in 2012, $2.18 million in 2013, $2.2 million in 2014 and $2.22 million in 2015, a cumulative increase of $7.4 million over the period of the plan.
- A 5% annual increase in health insurance rates
- The continuation of the library system's current structural relationship with the county – the libraries do not become a separate taxing jurisdiction
- No increase in personal services expense other than step increments for the entire plan period
- Allocation for overtime expenses that more closely approximates spending trends over time.
- Annual capital borrowing of $ 20-22 million per year over the period of the plan.
- The plan, as presented, shows no gap for 2012 and shows surpluses for 2013, 2014 and 2015.

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- The continuation of game day expenses for the Buffalo Bills.

MAJOR DIFFRENECES - APRIL 2012 TO SEPTEMBER 2011 PLANS

With a new County Executive taking office in January there have been changes made to the 2012 budget and associated plan to reflect the governing priorities of the Poloncarz administration. Major revenue and spending revisions include:

- Real Estate Market Growth and resulting property tax levies have been adjusted downward. The current plan calls for 1% annual increases over the 4-year period, whereas the previous version assumed an annual 2% increase for 2013-2015. As a result, the increase in the county tax levy has decreased by $20.5 million for the 2013-2015 period.

- The Library system remains under the county structure – the previous plan called for the libraries to break away from the county in 2015 to form a separate taxing district.

- Full time salaries have increased by almost $27 million for the period 2013-2015.

- Anticipated overtime spending is more in-line with recent trends. Allocations for overtime expenses have increased by $8.1 million over the period 2013-2015.

- The previous reduction of 200 positions in 2013 has been trimmed back to 50 for the upcoming fiscal year.

- Fringe benefit rates have been lowered, due primarily to a reduction in workers compensation expenses and health insurance costs.

- Cultural funding has been increased by $2.8 million over the 2013-2015 plan period.

- County stated "gaps" are greater in the most recent version of the plan as compared to the previous one. In September of 2011, the cumulative county surpluses totaled $18.9 million, in the April 2012 plan; the surpluses are $13 million, a reduction of $5.9 million.

- The revised New York State Medicaid cap has been incorporated into the plan, resulting in a $9 million benefit to Erie County.

- The 2013 fiscal year assumes the use of $5.4 million in fund balance as revenue to balance the budget. The previous version had no fund balance usage beyond 2012. Both versions of the plan assumed unrestricted fund balance as a revenue for 2011 and 2012 - $16.7 million in 2011 and $7.4 million in 2012.

PLAN ASSESSMENT

With the allocation of $7.4 million in fund balance, the County's 2012 budget is balanced. The plan lists a cumulative surplus over the 2012-2015 plan period of $13.2 million. The current plan "gap" is an increase of $1.8 million over the common years of the current and previous financial plan.

The following is a comparison of current and previous plan annual gaps (in millions of $'s):

	2012	2013	2014	2015
Current Plan Gap	$0	($0.02)	($2.7)	($10.3)
Previous Plan Gap	$0	($0.90)	($6.1)	($11.9)
Difference	**$0**	**$ .88**	**$3.4**	**$ 1.6**

The "gaps" listed above assume a reduction of 50 positions in 2013.

Baseline Estimates

There are a number of risk items included in the baseline of the plan that are cause for attention:

1. ***Sales Tax Revenues*** – The plan shows a 3% increase in 2012 (over 2011 actuals), with 3.1% increases in 2013, 2014 and 2015. Given recent sales tax trends – a 1.8% increase in 2008, a 3.1% decrease in 2009, an increase of 2.3% in 2010 and an almost 4.5% increase in 2011, the 3% forecasted increase appears reasonable.

   However, sales tax revenues are a large part of the budget and a volatile revenue source for the county. The 10 year average increase in sales tax receipts for the county is just over 2.3%, while the average increase after a "down" year (a year in which sales tax receipts decrease, the most recent case is 2009) before the next "down" year, is over 3.5%. If sales taxes were to follow the overall trend, revenues could fall short by $27million over the period of the plan. Conversely, if revenues follow the "down" year trend, receipts could come in at $23 million above plan estimates.

2. ***Increasing Property Tax Assessments*** – the financial plan assumes consistent property tax levy increases, based upon upwardly adjusted property values. For 2012, the property tax levy increased by only .4%, significantly less than the increase in overall property values. For the 2013-2015 period, property values/levy increases are assumed to be 1% per year, significantly less than the previous plan. These growth assumptions appear to be reasonable.

   At the state level, there is an applicable property tax cap of 2%, or the rate of inflation (with certain exemptions and modifiers), whichever is lower, that could impact Erie County at some point. The current plan would not be impacted by that cap.

3. ***Property Tax Levy Legal Challenge*** – According to county officials, the litigation was terminated by mutual consent of the parties in December 2011.

4. ***Overtime*** – The current version of the plan includes significant increases in overtime expenses as compared to previous submissions. Overtime was $14.6 million in 2009 and $18.2 million in 2010. In ECFSA's report on the 2011-14 financial plan, it was estimated that 2010 overtime would reach $18 million – that estimate proved to be accurate. 2011 overtime totaled $17.3 million, $3.6 million greater than the 2011 budget of $13.7 million

   The plan assumes $13.5 million in 2012, $16.4 million in 2013, then $16.6 million in 2014, and $16.9 million in 2015. There appears to be an assumption that overtime expense in the 2013-2015 period would be mitigated by the lock-up transfer back to the City of Buffalo. Assuming a marginal decrease in overtime over that period resulting from the transfer, the overtime forecasts appear reasonable. However, 2012 anticipated overtime expenditures appear problematic and could result in a deficit in this account approaching the 2011 shortfall of $3.6 million.

5. ***Fringe Benefits*** – The current version of the financial plan assumes a $2.4 million per year reduction in workers compensation spending. Information provided by the county has indicated a reduction in expenses in this account from $8.2 million in 2010 to $5 million in the 2011 actuals. 2013-2015 expenses are assumed to use the lower 2011 amount, with a small inflation factor, as a base. It is difficult to have a high degree of comfort with a one-year trend, for which there is no programmatic backup provided. Part of the lowered workers compensation costs could be

attributed to the reduction of 50 positions in 2013. However, the previous version of the plan, assuming a reduction of 200 positions in that year, maintained higher workers compensation expenses. Based upon this information, the workers compensation projection should be considered a risk item that should be monitored closely.

In addition, the current plan reduced the increase in health insurance spending from 6% per year to 5%. In the county's response to an ECFSA question regarding this issue, the county indicated an active employee and retires healthcare increase of 4.05% over the last 3 years. Without viewing the underlying data, it is difficult to determine the reasonableness of this reduction.

6. ***Erie Community College*** – As Erie Community College's sponsor, the county provides a level of financial support to the College each year. The College in its 2011-12 budget lists a figure of $17,429,317. The county in its budget and plan submission lists a figure of $15,629,317. The difference appears to be largely the result of a capital component that is not presented in the college section of the county's financial plan.

   In previous versions of the plan, there was a significant non-reconciled difference between the level of support assumed by the county and that of the college. In the most recent revisions of their respective plans, there is no longer a material difference in the county level of support between the organizations.

7. ***Settlement of Labor Agreements*** – The largest unit of the county's largest labor union, CSEA, is at impasse. Teamsters negotiations have not resulted in a contract settlement – a recent contract proposal was voted down by the membership. Absent successful negotiations, the imposition of contracts with these labor unions may lie with the Erie County Legislature. The Legislature is empowered to impose annual financial settlements, without any changes in benefits or work rules. There is no provision in the plan for those potential salary increases.

8. ***Library*** – The current version of the plan includes a dedicated library property tax levy that increases 1% per year starting in 2013. The county also assumes providing a $2 million operating subsidy for the library system for the period of the plan. The previous version of the plan assumed that in 2015, the library system would have become a separate taxing district. The most recent plan reverses that proposal, thereby keeping the libraries under the aegis of Erie County.

9. ***Jail Management Division*** - Staffing and overtime in the County's Jail Management Division have been issues for the county for a number of years. County Law Enforcement officials have pointed to excessive

overtime and related fatigue as contributing factors in a public safety issues that have been recently reported. The NYS Commission of Correction (COC) has been monitoring excessive overtime in the county lockup and corrections facility and is expected to issue a report in the very near future that will recommend hiring additional staff to address the situation. Statements made by law enforcement officials lead one to believe that the COC will recommend between 50 and 70 new positions. However, this need could be mitigated by the retention of 18 positions that were to be utilized for the Buffalo Lockup that will remain in the Jail Management Division budget after the function is transferred back to the City. Without a final COC report, it is difficult to estimate the financial impact on the county, but a reasonable initial estimate of $4 million annually in new county spending could be required.

10. ***Erie County Medical Center*** – At the end of 2009, an agreement was signed by the county that would essentially establish a base of $16.2 million as an annual financial transfer from Erie County to the Medical Center Corporation. It was anticipated, when the agreement was signed, that the amount of support would remain fairly constant, thereby allowing both the county and hospital corporation to have a consistent, agreed upon ECMCC revenue and related county expense. However, increases in Disproportionate Share (DISH) and Intergovernmental Transfer (IGT) revenues for Hospital and Long Term Care functions (respectively) have apparently outstripped the base amount agreed to by the county.

    In 2011, the amount was $40,431,286. Reports from ECMCC for fiscal year 2012, indicate an additional $17.4 million will be required to be paid beyond the $16.2 million budgeted by Erie County. However, ECMCC officials have indicated a willingness to work with the county on timing of this disbursement – to the extent of deferring payments over a number of years.

11. ***Buffalo Bills*** – The Buffalo Bills lease is up in 2013. Media reports have pointed to the Bills looking for $200 million in capital improvements to Ralph Wilson Stadium as part of a new agreement. It is not clear as to who will underwrite those improvements.

12. ***Fund Balance*** - The 2013 fiscal year assumes the use of $5.4 million in fund balance as revenue to balance the budget. The previous version of the county's financial plan had no fund balance usage beyond 2012. Both versions of the plan assumed unrestricted fund balance as a revenue for 2011 and 2012 - $16.7 million in 2011 and $7.4 million in 2012. Once the 2011 county books are closed, the fund balance is anticipated to be in the range of $100 million. However, recurring use of fund balance as revenue would begin to erode that amount.

Gap Closers

There is no stated financial gap for any year of the financial plan. However, within the baseline estimates of the submission, there is an assumption of a 50 position reduction in the 2013 budget. Gross savings estimates for the 50 reductions exceed $3.1 million for that budget year alone.

The second potential gap closer is fund balance. It is estimated that the county's unrestricted fund balance, after 2011 financials are issued, would be approximately $100 million, which exceeds 5% charter requirement by approximately $32 million, including sales tax transfers to municipalities. In previous submissions, the county's presentation assumed the required percentage to be based upon the county's budget, minus sales tax transfers to municipalities. It has been argued by the ECFSA that the budget, including those transfers, is a more appropriate measure.

SUMMARY

The ECFSA's review of the current budget and financial plan indicates that the county's finances have been improving. Regional economic conditions have improved in Erie County and the county's plan benefits from those conditions, a willingness of the county to pursue cost cutting and revenue enhancing initiatives to balance the budget, and expenditure reductions related to the 2012-13 New York State budget, particularly the revision in the Medicaid cap inflation factor.

In the latter part of 2010 and into 2011, sales tax revenues have rebounded. 2011 sales tax receipts increased by approximately 4.5% over 2010 actuals. This turnaround is particularly noteworthy given the over 3% reduction in 2009. The first quarter of 2012 has continued the upward trend established in the two previous years.

In 2011, the county cut over 400 positions from its budget, with an additional 50 anticipated in 2013. Assuming those significant levels of reductions can be maintained and sales tax revenues stay near their long-term averages, the county's plan appears achievable. However, there are still a number of issues, which have been referred to in this document, that the county must be diligent in addressing.

For 2012, overtime expense appears to be an issue, as it has been for a number of years. For the period 2013-2015, plan overtime forecasts, as compared to previous versions, have been increased to more reasonable levels that should address most, if not all, the previously anticipated shortages.

There is also the potential for ECMCC related expenses in 2012 that are double the amount the county has budgeted for that year. However, ECMCC officials have expressed a willingness to work with the county on spreading that item over a series of years so that the item is not a 2012 "budget buster".

When the Commission of Correction report is issued, there will most probably be an impact on the county's budget as early as mid-year 2012. Although the report is not finalized yet, county officials have publically spoken of the need for addition of significant numbers of new positions to address the anticipated findings in the report.

The county's largest labor union still does not have a new contract, and there is no provision in the plan for potential contractual raises. And, although overall property values in Erie County are rising, they have been rising at a lower rate each year since 2007.

Finally, with this, most recent version of the plan, the county will be using fund balance as revenue for three consecutive years – 2011, 2012 and 2013. Although the county's fund balance is currently estimated at $100 million, continuing usage of fund balances to support current operations would serve to erode that equity account over time and weaken the county's financial position going forward.