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COUNTY OF ERIE

DAVID J. SHENK
COMPTROLLER

November 5, 2012

Erie County Legislature
92 Franklin Street –Fourth Floor
Buffalo, NY 14202

Re: Review of Poloncarz Administration's Proposed 2013 Budget

Dear Honorable Members:

Enclosed please find the Comptroller's Office's review of the County Executive's Proposed 2013 Budget and Four Year Plan. This document includes my comments and concerns and is intended as a resource during your deliberations. I will address your Honorable Body during my scheduled Budget Hearing at 11:30 a.m. on Wednesday, November 13, 2012.

If you have any questions pertaining to this document, please contact me at 716-858-8400.

Very truly yours,

David J. Shenk

David J. Shenk
Erie County Comptroller

Enclosure

cc: Mark C. Poloncarz , Erie County Executive
Robert W. Keating, Director of Budget and Management
Erie County Fiscal Stability Authority

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COUNTY OF ERIE, NEW YORK
OFFICE OF THE COMPTROLLER

COMPTROLLER'S REVIEW
OF THE COUNTY EXECUTIVE'S
PROPOSED 2013 BUDGET
AND FOUR YEAR FINANCIAL PLAN FOR 2013-2016

DAVID J. SHENK

Erie County Comptroller

November 5, 2012

Comptroller's Review of the County Executive's Proposed 2013 Budget and Four Year Financial Plan for Fiscal Years 2013-2016

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Executive Summary

On October 15, 2012, Erie County Executive Mark C. Poloncarz issued his entire Proposed Budget for Fiscal Year 2013 ("FY 13 Proposed Budget"). His submission occurred following submission on October 1, 2012 by Robert Keating, Director of Budget and Management, of the Poloncarz Administration's ("the Administration") 2013 Tentative Budget containing broad projections for revenue and expenditures. In response to the 2013 Tentative Budget Revenue and Expenditure Projections, on October 10 I submitted my set of findings and comments to your Honorable Body.

This is a comprehensive report containing my office's findings along with my comments and concerns regarding the entire FY 13 Proposed Budget and the new Four Year Financial Plan for fiscal years 2013-16. This report is not a line-by-line review of the proposed budget; rather this submission highlights significant revenue and expenditure items and areas of potential significant risk.

Overall, my office and I consider the Administration's FY 13 Proposed Budget to be structurally sound. In addition, while my office and I find the revenue and expenditure estimates are mostly reasonable and appropriate, I have concerns about certain aspects of the proposed budget and accompanying Four Year Financial Plan for fiscal years 2013-16.

The FY 13 Proposed Budget for all operating funds is approximately $1.53 billion which is approximately .9% greater than the 2012 Adjusted Budget, 1.1% more than the 2012 Adopted Budget, and 1.9% higher than Erie County's ("the County") expenditures in fiscal year 2011. Reviewing the FY 13 Proposed Budget more closely, the Administration asserts that increases in mandated expenditures require the General Fund Budget to be increased by $29.96 million (2.1%) over FY 2012. For FY 13, the projected major mandated increases in spending are for the County's payment into the New York State and Local Employees' Retirement System, health insurance expenditures for active and retired employees, sales tax distribution to government entities within the County and the NFTA, and the local share of Medicaid payments.

While the aforementioned projected substantial increases in spending are anticipated and other factors impact the FY 13 Proposed Budget, my office and I have concerns about certain revenue and expenditure projections, proposed use of unassigned fund balance in the General Fund and the new Four Year Financial Plan (which was approved by the Erie County Fiscal Stability Authority, or ECFSA, on October 26, 2012).

Review of 2013 Projected Revenues

- **Property Tax.** In large part due to the rare decline of the County's equalized full market value tax base and an additional apportionment to the Library Fund (returning the Library Fund to its 2010 funding level), the Administration proposes a 3.4% increase to the County's total property tax levy, raising the total levy from

$237.7 million to $245.8 million. To achieve the proposed total property tax levy increase, the Administration proposes to increase the annual tax rate per $1,000 assessed value from $5.03 to $5.21 which translates to an annual tax rate per $1,000 assessed value of more than 3.5%.

During these challenging economic and financial times for County home and property owners, the notion of raising the real property tax levy is undesirable. Our citizens as taxpayers are burdened with some of the highest taxes in New York State and the nation, and the looming expiration (on December 31, 2012) of the temporary reduction of employees' Social Security payroll taxes will adversely impact workers. Effective January 1, 2013, employees' share of the Social Security payroll tax will return to 6.2%, a 47% increase from the current yet temporary 4.2% level that workers' enjoyed in 2011 and this year.

The Legislature, in conjunction with the Administration, should revisit the need to raise the property tax levy and do so only as a last option.

- **Sales Tax.** Sales tax revenues are the single largest revenue source for the County, accounting for approximately 32% of all budgeted revenues. The FY 13 Proposed Budget assumes 3% sales tax growth over the year-end ("YE") 12 projected amount as presented in the Budget Monitoring Report ("BMR") for the period ending August 31, 2012.

The County's actual August 2012 YTD revenue figures, which were finalized with the County's sales tax receipt from New York State on October 15, 2012, shows that growth for actual August 2012 YTD over the actual August 2011 YTD amount is 2.75%, or approximately .24%, greater than the 2012 budgeted amount. However, while the 2012 Adopted Budget appears to be on track for a positive variance for the FY 12, achievement of the YE 12 projection amount as presented in the August and September 2012 BMR's (projected at 3.15% above the 2011 actual amount) could be at risk. If this trend continues, the 2013 proposed amount will reflect growth greater than 3%, and could result in being an over optimistic estimate.

For FY's 12 and 13, the National Hockey League's player lockout threatens the Buffalo Sabres' entire season, and a result includes the adverse financial impact the potentially lost season may have on area overnight accommodations, restaurants and related businesses that rely on sales to the team's fans, opponents and opponents' fans. The potential loss of a significant number of sales will likely lead to a substantial amount of lost taxable sales revenues, which will further lead to reduced sales tax revenues for Erie County, municipalities, school districts and the NFTA.

With respect to the projected sales tax distribution to government entities in the County, the anticipated increase from approximately $315.3 million (2012 Adopted Budget) to $326.3 million (FY 13 Proposed Budget) – i.e., a 3.5% increase – may be over optimistic.

Review of 2013 Projected Expenditures

- **Fringe Benefits.** In the FY 13 Proposed Budget, the total amount of $126.8 million for fringe benefits is $8.0 million (6.7%) greater than the projected 2012 expenditure of $118.8 million as reported in the Budget Office's BMR for the period ending September 30, 2012. This projected increase is reasonable.

  Considering the health insurance component of fringe benefits expenditures, the most notable difference from the review report I issued on October 10 is that the FY 13 Proposed Budget for health insurance is at $67,631,884 and the 2012 Adopted Budget is $56,066,869, translating to an increase of $11,565,015 or 20.6%. This includes employee health, retiree health and ECMCC and Home retiree health insurance for which the County is responsible under the present agreement with ECMCC.

  The Administration recently informed my office that the 2013 health insurance component is projected to increase 8.4% over FY 2012 projected health insurance costs. Considering LMHF's rates are set to increase 7.9% in 2013, the Administration's estimate may be too high. My office will continue to monitor this particular category.

- **Risk Retention.** Considering that as of September 30, 2012, $2.71 million remains available in the Risk Retention Fund, the FY 13 Proposed Budget includes $3 million for the Risk Retention Fund, and the average annual expenditure from 2004-2011 was $2.6 million (excluding an atypical settlement in 2011), I recognize the value of eliminating or at least reducing the proposed $3 million amount.

  Note that since 2006, all or a portion of unexpended balances in this Fund have been carried forward annually. This practice will likely continue at year-end 2012.

- **ECMCC IGT (UPL/DSH) Obligations.** In 2011, the County's original Excess Operating Support ("EOS") Credit balance was exhausted due to the County's total gross Intergovernmental Tax ("IGT") obligation exceeding the EOS Credit by approximately $15.2 million thus leading to a net cost over the 2011 budget of approximately $7.7 million.

  In 2012, the County projected to remit as much as $45.3 million in Medicaid-related Disproportionate Share ("DSH") and Upper Payment Limit ("UPL") payments for the benefit of ECMCC, which far exceeds the $16.2 million budgeted fixed subsidy. Since the original EOS credit was exhausted in 2011, the County's obligation in 2012 was expected to be approximately $29.1 million over budget. However, three anticipated payments in 2012, amounting to nearly $28 million, have been challenged or postponed to 2013 leading to the County's total IGT outlay for 2012 at $17.37 million, or approximately $1.17 million more than the County's budgeted annual subsidy.

Also in 2012, to mitigate the County's financial challenges associated with its gross DSH/UPL payment obligations, the Administration has negotiated with ECMCC officials to amend the 2010 settlement agreement between ECMCC and the County to create and provide the County with a $28 million "credit" the County may use to settle County IGT obligations in excess of the $16.2 million annual subsidy in 2013, 2014 and 2015. In return, the County has agreed to repay any utilized credits, starting in 2015, with a $2 million annual repayment to ECMCC.

To be made binding, the First Amendment to the Settlement Agreement must be ratified by the County Legislature and a justice of the New York State Supreme Court. These formal actions are pending.

The FY 13 Proposed Budget's gross total DSH expense of $16.2 million (the UPL Expense is listed at $0) may not be realistic, especially if the First Amendment to the Settlement Agreement is not ratified, thus leaving the County exposed to pay the two postponed 2012 DSH/UPL payments and possibly pay the challenged UPL payment amounting to approximately $28 million. Also, since the County's required gross subsidy amounts during FY's 2009-2012 were substantially more than $16.2 million, it is unrealistic to expect the proposed amount to be so low. Further consider that during the four-year period FY 2009-2012, with the gross amount for FY 2012 at $17.37 million, the County's average gross amount for DSH/UPL payments was $25.65 million.

I am concerned about the viability of some of the Administration's assumptions regarding the County's IGT payments for ECMCC's benefit, especially no projected increase in County financial support to ECMCC given ongoing and increasing DSH payments above the standard $16.2 million amount.

- **Personal Services.** Comparing the FY 13 Proposed General Fund Budget to the County's 2012 Adopted General Fund Budget, there is a net increase of 37 full-time and regular part-time positions from 2012 to proposed FY 13. Compared to the County workforce at October 3, 2012 that is presented in "Current Year 2012" column in the 2013 General Fund Proposed Budget, there is a net decrease of two full-time and an increase of two regular part-time ("RPT") positions. Part-time positions in the General Fund are reduced by six, and positions in other funds are reduced by approximately 22.

With respect to overtime, this consideration as it applies to the Sheriff's Division of Jail Management continues to be a concern. Through October 31, 2012, overtime in the Division exceeds the Division's entire allocation for FY 12 by $373,200, and the FY 13 Proposed Budget contains the same amount of $8,127,498. An additional consideration is that the Division is budgeted to have 33 additional full-time deputies which should diminish the need for overtime.

Review of Use of Fund Balance in the General Fund

In recent years, the FY 11 Adjusted Budget appropriated $33.4 million in fund balance, the FY 12 Adjusted Budget appropriates $7.55 million in fund balance, and the FY 2013 Proposed Budget appropriates $5.4 million to cover gaps in the respective fiscal year budgets. This practice of appropriating fund balance to supplement revenues to meet expenditures is of significant concern.

Although the proposed appropriation in 2013 of $5.4 million of fund balance from the County's General Fund will not reduce unassigned fund balance below the County's minimum required amount (projected at $54.5 million), it continues the disturbing trend of County government relying on fund balance to balance the proposed and upcoming FY (2013) operating budget. Over the past five fiscal years, the year-end fund balance in the General Fund increased by $9.31 million in FY 07, $10.65 million in FY 08, $43.65 million in FY 09, $23.48 million in FY 10 and *decreased* by $9.18 million in FY 2011.

For 2012, based on the Administration's latest BMR for the period ending September 30, 2012, although the County budgeted use of $7.55 million of fund balance in the General Fund, only a projected amount of approximately $3.3 million of fund balance will be used; that is, $7.55 million appropriated less $4.29 million 2012 projected year-end budget surplus.

Considering the County's projected use of fund balance in the General Fund to balance the County's proposed FY 2013 operating budget for the third consecutive year – on this occasion leading to an overall net reduction in total fund balance in the General Fund – I reiterate my call for the County to develop and establish a comprehensive fund balance policy, containing agreed upon reasons for the County to use fund balance, and a sound replenishment strategy for occasions in which the fund balance in the General Fund decreases below the required level of five percent.

A replenishment strategy will protect the County from financial distress, improve transparency and enhance the County's ability to achieve credit rating upgrades from the three major credit rating agencies, thereby potentially reducing the County's costs of borrowing.

Revisiting the proposed increase to the County property tax levy, I suggest – as a last resort to avoid an increase to the property tax levy – the County consider repurposing some or all of the $7.4 million of remaining assigned fund balance, which is currently intended for construction of a new building on one of Erie Community College's ("ECC") campuses, to substantially reduce or eliminate the proposed increase to the total real property tax levy. This action will not decrease the amount that unassigned fund balance exceeds the County Charter cap.

Any remaining fund balance assignment for this ECC building construction project is set to expire on December 31, 2012. More details are provided in the section titled General Fund – Fund Balance.

Review of the Four Year Financial Plan for Fiscal Years 2013-2016 ("the Plan")

While the 3% growth in Sales Tax revenue for FY 13 could be problematic in the short-term, the growth for 2014-2016 at 2.75% decreases the projection closer to recent three-year average performance levels. The County's 10-year average annual increase for 2002 to 2011 is approximately 2.38%. This more conservative estimate in the out-years 2014-16 is reasonable.

Regarding the Property Tax/Rate, if the significant decrease in taxable assessed value for the Huntley Power Plant (amounting to $121 million) did not occur, thus impacting the 2013 tax levy, then the equalized full market value tax base would have increased by .16% rather than a .18% decrease. If increases to assessment growth remain at this level along with the assumption that the property tax rate will not be changed, there would be a shortfall during the three out-years of the Plan.

With respect to growth in personal services, there are no provisions for future union contracts.

Reviewing Health Insurance Growth, the 8% estimate is an increase over the 5% estimate used for the out-years in the 2012 approved plan, which is in-line with current market expectations and appears reasonable.

With respect to the Pension Rate, the Four Year Financial Plan for 2013-16 projects a substantial increase in expenditure in 2014 of $4.9 million (13.5%) followed by growth of 4.9% for 2015 and 5.9% for 2016. The pension rate assumptions (based on estimated salaries) of 23.0%, 24.38% and 25.36%, respectively for 2014-2016 currently appear reasonable given the estimated rates that were released in September 2012 by the Office of the State Comptroller.

Additional Comments:

- Renewal of the County's Lease with the Buffalo Bills – The new Four Year Financial Plan does not take into account likely improvements and upgrades to Ralph Wilson, Jr. Stadium, given that a new lease agreement may be finalized in FY 12 or 13. Recent reports estimate the costs associated with the improvements and upgrades will exceed $200 million. Furthermore, the portion of the costs to be borne by the County is unknown.

- The Plan does not contain alternatives in the event that revenues fall short of – or expenditures exceed – expectations.

- Although not necessary and unlike prior years, the amount of Property Tax allocated to the Library is not presented.

2013 Proposed Budget

The FY 13 Proposed Budget for all operating funds (excluding Sewer Operating, Grants/Library Grants, Community Development, and Sewer District Debt Service funds) is $1,533,442,542. This compares to $1,516,950,708 (increase of approximately 1.1%) for the 2012 Adopted Budget and $1,519,559,546 (.9% increase) for the 2012 Adjusted Budget. Further by comparison, actual expenditures for FY 11 amounted to $1,504,536,019, translating to a 1.9% increase from FY 11 to the 2013 Proposed Budget. County spending in FY 2013 is proposed to increase by $13,882,996 compared to the 2012 adjusted amount.

For FY 13, the projected major increases in spending are for (1) employee and retiree health insurance, (2) sales tax distributed to other municipalities, school districts and the NFTA, and (3) Medicaid local share in the General Fund, net of decreases in utility charges and general debt service.

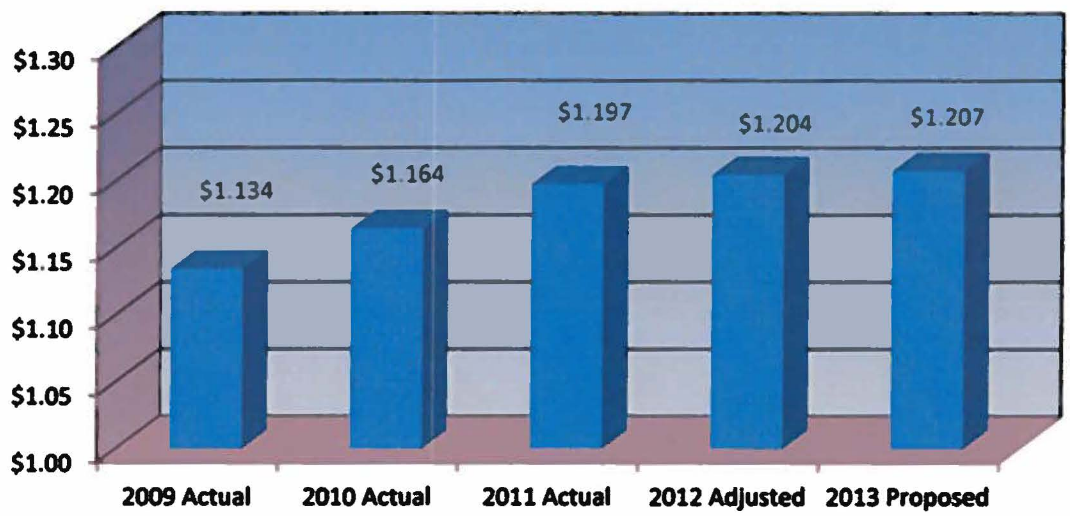
The following table is a summary by fund:

Fund	2011 Actual		2012 Adopted	2012 Adjusted	2013 Proposed
General	$ 1,350,597,769		$ 1,352,919,032	$ 1,355,012,870	$ 1,384,970,457
General Debt Service	68,878,001	*	63,959,379	63,959,379	58,226,795
Utilities	25,947,639		37,718,101	37,718,101	27,034,515
Road	27,978,595		29,721,616	29,721,616	29,891,236
E-911	6,816,015		7,298,303	7,565,303	7,621,494
Library	24,318,000		25,334,277	25,582,277	25,698,045
	$ 1,504,536,019		$ 1,516,950,708	$ 1,519,559,546	$ 1,533,442,542

* Payment to the County's fiscal agent for refunded bond escrow account ($31,463,879), as a result of the issuance of refunding bonds in 2011, is removed for comparison purposes.

The following chart illustrates the County's budgets and spending, since 2009, for all funds after deducting shared sales tax with local governments, school districts, and the NFTA.

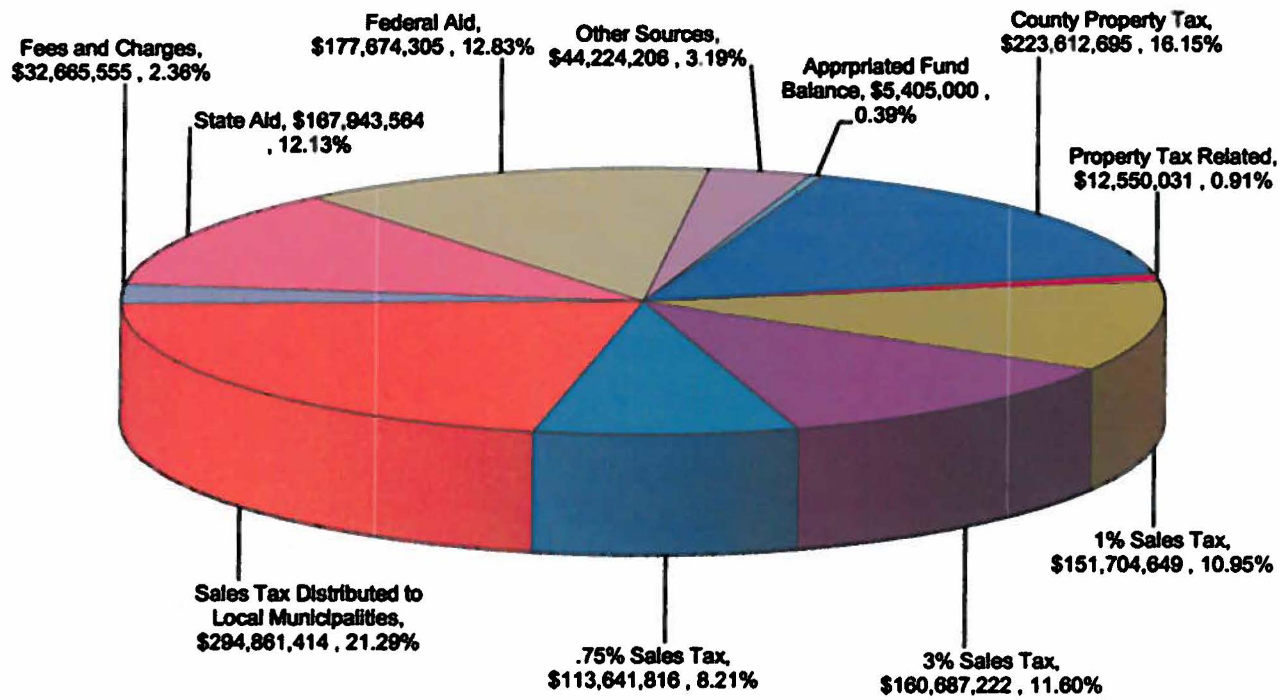
Recent County Spending (amounts in billions)



The County property tax levy presented in the 2013 Proposed Budget totals $245,785,152 of which $223,612,695 is allocated to the General Fund and $22,172,457 is allocated to the Library Fund.

General Fund - Proposed 2013 Revenues

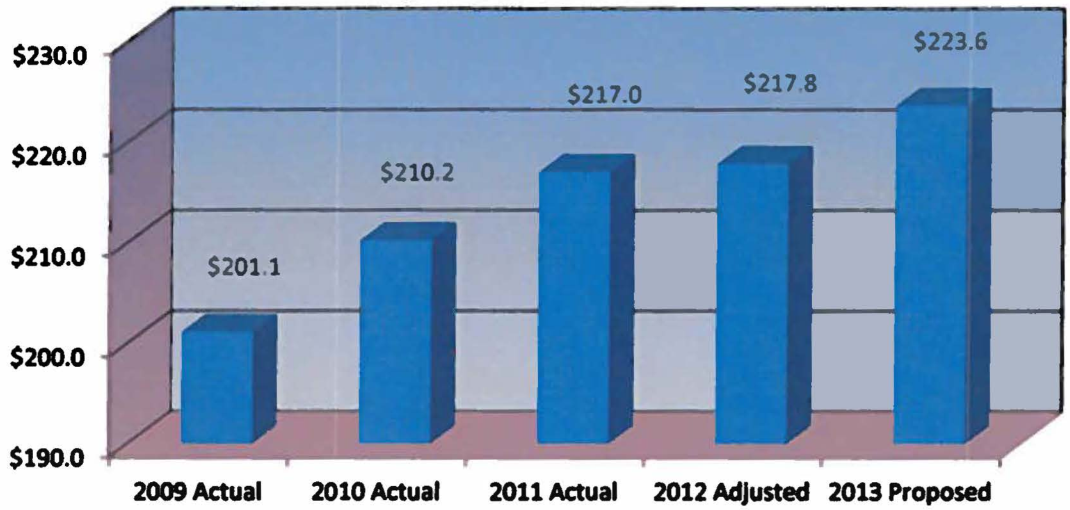
The Proposed 2013 General Fund Budget amounts to $1,384,970,457. This amount compares to the 2012 Adopted Budget amount of $1,352,919,032 (approximately 2.4% increase) and actual revenues of $1,341,420,289 (3.25% increase) from FY 11 actual to the FY 13 Proposed Budget.



Property Tax

To achieve the Administration's proposed total property tax levy increase of 3.4%, the Administration proposes to increase the annual tax rate per $1,000 assessed value from $5.03, which has been in effect since FY 09, to $5.21. This action will result in a 3.57% increase in the annual tax rate per $1,000 assessed value. The General Fund property tax levy will increase from $217,820,374 in FY 12 to $223,612,695 in FY 13, an increase of $5,792,321 (or nearly 2.7%), as a result of net ***negative*** assessment growth (-$421,897), the rate increase ($8,514,218), and additional apportionment to the Library Fund (-$2,300,000). Note that the additional Library subsidy returns the Library to the 2010 funding level from this revenue source.

County Share Real Property Tax Levy (amounts in millions)



Pursuant to enactment of the Property Tax Cap Law (Chapter 7 of NYS Laws of 2011), the County's total property tax revenue will again be regulated. The levied tax, in accordance with the 2013 Proposed Budget, is within the calculated allowable limit for 2013 as specified by the Property Tax Cap Law.

Key figures in the calculation are as follows:

2012 Real Property Tax Levy (all funds)	$ 287,845,835	
Tax Base Growth Factor Provided by the NYS OSC	1.0060	
Allowable Levy Growth Factor (2%)	1.0200	
Carry Forward from 2012	$ 2,762,693	
Tax Levy Limit Plus Exclusions	$ 297,025,612	
2013 Proposed Real Property Tax Levy	$ 294,945,060	
Difference between Tax Levy Limit Plus Exclusions and Proposed Levy	$ 7,099,225	*
2013 Real Property Tax Levy Cap	$ 9,179,777	*
Amount of 2013 Taxes Under the Cap	$ 2,080,552	*

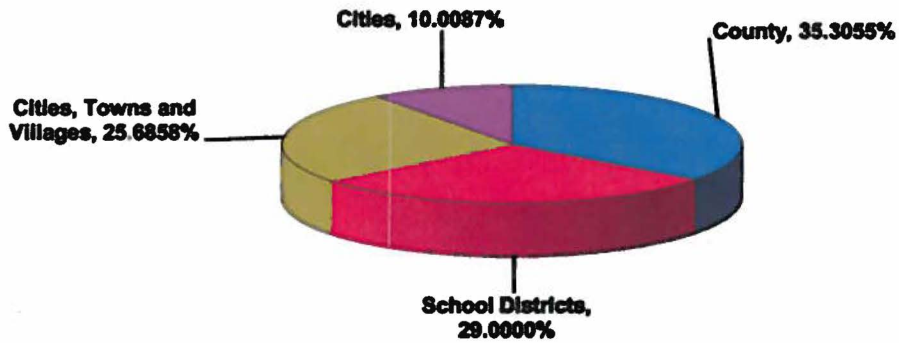
* The reported amounts are slightly different than the amounts listed in the 2013 Proposed Budget Message and Summary resulting from corrected information obtained from the NYS Comptroller's Office after the 2013 Proposed Budget was released.

Sales Tax

Overview of Erie County's Sales Tax Distribution

In Erie County, a sales and compensating use tax of 8.75% is levied on applicable products and services. Of that total, 4% is allocated to the State and 4.75% is the County share. Of the County's 4.75% share, 3% is allocated as revenue between the County, cities, towns, villages and school districts in Erie County pursuant to a 1977 sales tax sharing agreement entered into by the County and the Cities of Buffalo, Lackawanna and Tonawanda. The 3% allocation formula is as follows:

3% Sales Tax Allocations



The County retains 35.3055% of the total revenue derived from the 3% sales tax. 10.0087% is allocated to the Cities of Buffalo, Lackawanna and Tonawanda on the basis of population. 25.6858% is divided among the Cities of Buffalo, Lackawanna, Tonawanda and the towns on the basis of population. The amount belonging to the towns is divided on an alternating basis of full value and population. Full value is used to distribute the receipts for the quarters beginning January 1 and July 1, and population is used for the quarters beginning October 1 and April 1. Villages receive a portion of the town amount based on the ratios that the full valuation of real property in such village or portion thereof within the town and the full valuation of real property in the portion of the town outside of such village or villages, respectively bear to the aggregate full valuation of the entire town. 29.0000% is divided among all the school districts with territory in the County on the basis of the average daily attendance of public school pupils who are residents of the County.

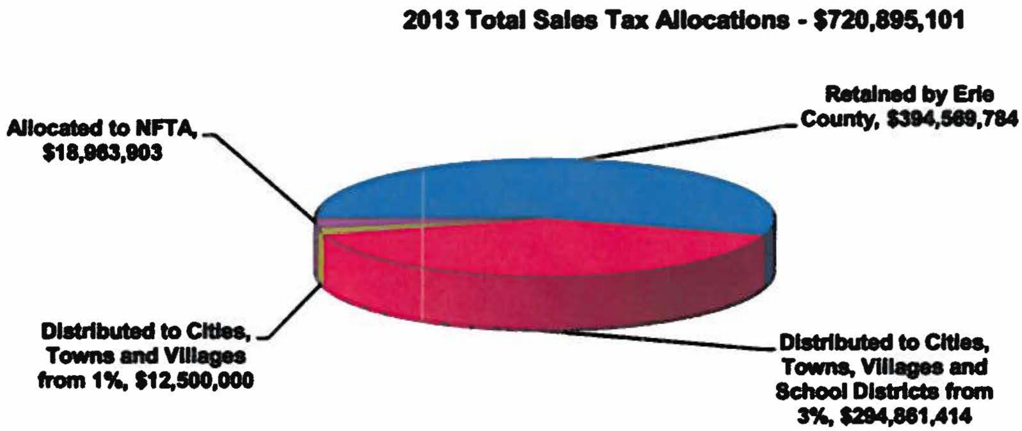
In 2006, the New York State Legislature reauthorized the 1.00% sales tax for a two-year period, expiring on February 29, 2008. However, the state legislature required the County to share $12,500,000 of revenues derived from the 1.00% sales tax with the cities, towns and villages (but not the school districts) for this period. In 2008, 2010 and again in 2011, the 1% sales tax was reauthorized now until November 30, 2013 with the provision for sharing $12,500,000 continuing in perpetuity as long as the County imposes the 1.0% tax. The Four Year Financial Plan assumes the Erie County Legislature and State Legislature will approve the renewal of the 1.00% sales tax for the future years.

In June 2005, due to the County's budget crisis, and pursuant to Home Rule Requests of the Erie County Legislature and the approval of enabling legislation by the New York State Legislature, an additional 0.25% sales tax was instituted for County purposes. In November 2005, the Erie County Legislature approved a further additional 0.5% sales tax for County purposes, with that 0.5% sales tax commencing on January 15, 2006. The 0.75% sales tax revenue is retained exclusively for the County. The

0.75% sales tax was reauthorized in 2007, 2009 and 2011 and is set to expire on November 30, 2013. The Four Year Plan assumes the Erie County Legislature and State Legislature will approve the renewal of the 0.75% sales tax for the future years.

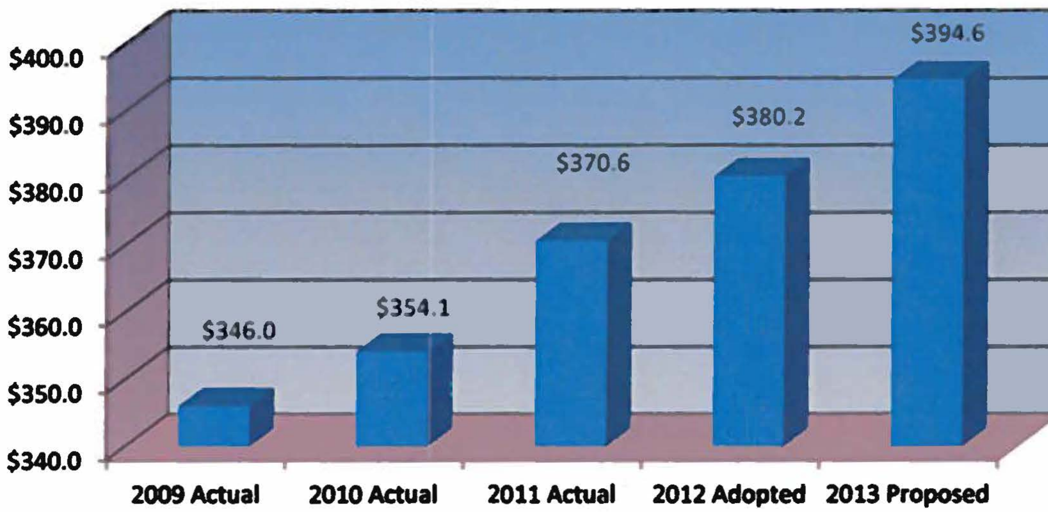
2013 Proposed (Projected) Sales Tax Revenue

The total revenue expected to be generated by the sales tax in the FY 13 Proposed Budget is $720,895,101, a 3.65% increase from the Adopted 2012 Budget amount of $695,536,230.



Subtracting the projected appropriation of $326,325,317 in sales tax revenue shared with local governments, school districts and the NFTA leaves $394,569,784 in net sales tax revenue budgeted for County purposes in 2013. This compares to $380,224,537 in net sales tax revenue for County purposes in the 2012 Adopted Budget, resulting in an increase of $14,345,247 or nearly 3.8%.

County Share Sales Tax (amounts in millions)



The FY 2013 Proposed Budget assumes 3% sales tax growth over the YE 2012 projection amount as presented in the August and September 2012 BMR's. The 2012 Erie County Budget indicates the County's share of sales tax revenues to increase 2.51% over the County's 2011 actual sales tax revenue. The August 2012 YTD actual revenue figures that were finalized with the sales tax receipt on October 15, 2012 from New York State shows that actual August 2012 YTD growth over actual August 2011 YTD is 2.75%, or about 0.24%, greater than the budgeted amount for 2012. However, although the 2012 budget appears to be on track for a positive variance for FY 12, achievement of the FY 12 projection amount, as presented in the August and September 2012 BMRs (projected at 3.15% above the 2011 actual amount), could be at risk. If this trend continues, the proposed/projected amount in 2013 will reflect growth more than 3% and could be an overly optimistic estimate.

The County's sales tax revenue depends on the economy and remains the single largest revenue source to the County, accounting for approximately 32% of all budgeted revenues. Given the potential for a double-dip recession after the Great Recession (2007-09), this budgeted amount may prove over optimistic and problematic. This revenue must be constantly and closely monitored.

Federal Aid

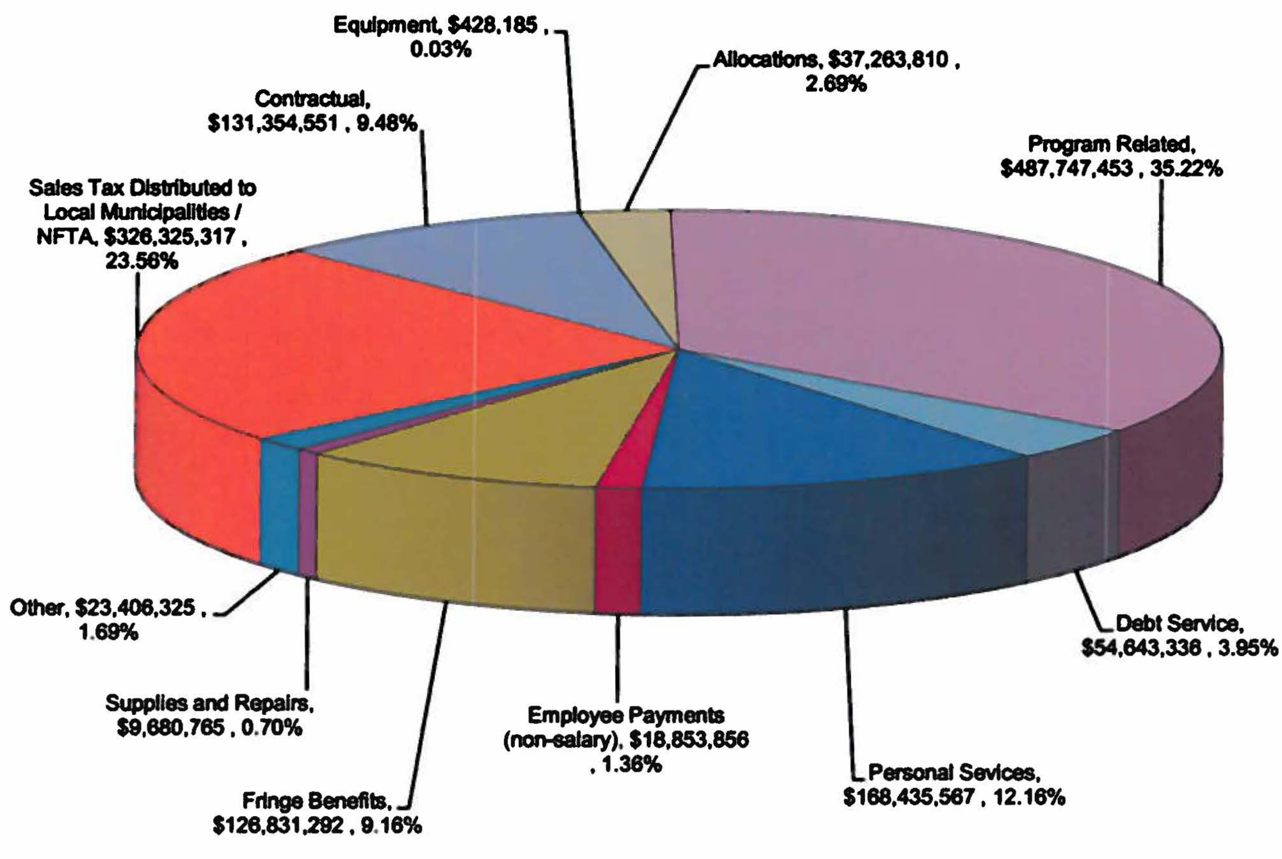
The FY 13 Proposed Budget is $177,674,305 and the 2012 Adopted Budget is $173,447,146, translating to an increase of $4,227,159 or 2.44%, which appears reasonable. Note that the federal government is facing mounting deficits and sequestration. The sequestration cuts laid out under the Budget Control Act of 2011 are scheduled to take effect, in accordance with the provisions of the law, beginning in January 2013.

State Aid

The FY 13 Proposed Budget is $167,943.564 and the 2012 Adopted Budget is $167,531,819, translating to an increase of $411,745 or 0.25%. The New York State Budget for 2013-14 shall be established by March 31, 2013 and, as stated in the Administration's Budget Monitoring Report for the Period Ending August 31, 2012, uncertainty remains on rates for the Pre-School Transportation program in Persons with Special Needs for 2010-11 and 2011-12.

General Fund - Proposed 2013 Expenditures

The Proposed 2013 General Fund Budget amounts to $1,384,970,457. This amount compares to the 2012 Adopted Budget amount of $1,352,919,032 (2.4% increase) and actual expenditures of $1,350,597,769 (2.5% increase) in 2011.



Overview of Personal Services

The FY 13 Proposed Budget for personal services and other employee payments (non-salary) amounts to $187,289,423. This compares to $186,653,752 in the 2012

Adopted Budget (.3% increase) and actual expenditures for the 2011 fiscal year in the amount of $185,141,303 (1.2% increase).

The FY 13 Proposed General Fund Budget includes a net decrease of 2 full-time and an increase of 2 regular part-time ("RPT") positions compared to the County workforce at October 3, 2012 that is presented in "Current Year 2012" column in the 2013 Proposed Budget. Part-time positions are proposed to be reduced by a total of 6. There are 20 positions proposed to be re-classified from RPT to full-time, and 1 Senior Administrative Clerk position in the Legislature is proposed to be upgraded from Job Group 9 to 10. Finally, there were 87 positions transferred and gained within the General Fund.

General Fund Position Changes – October 3, 2012 to the Proposed FY 13 Budget*

Fund		Full-time		RPT	Part-time		Net		
Center	Fund Center Name	New	Delete	New	New	Delete	Change	Reclass	Note
100	Legislature	-	-	-	-	-	-	1	Upgrade Sen Adm Clerk
105	DISS	-	(1)	-	1	(1)	(1)	-	
116	Jail Management	33	-	-	-	-	33	-	
120	DSS	-	(21)	-	-	(1)	(22)	-	
163	Senior Services	-	(1)	-	-	(2)	(3)	-	
10810	Eq.Emp.Opportunity	-	(1)	-	-	-	(1)	-	
11110	Real Prop Tax Svces	-	(1)	-	-	-	(1)	-	
11200	Comptroller	-	(1)	-	-	-	(1)	-	
11320	Clerk - Auto Bureau Division	-	-	-	-	-	-	18	RPT to Full-time
12220	DPW - Buildings & Grounds	-	(6)	-	-	-	(6)	1	RPT to Full-time
12420	Forensic MH Services	-	-	2	-	-	2	-	
12520	Youth Detention	-	-	-	-	-	-	1	RPT to Full-time
12610	Probation	-	(1)	-	-	-	(1)	-	
12700	Health Division	-	(1)	-	-	(1)	(2)	-	
12740	Medical Examiner	-	-	-	-	-	-	-	
12760	Correctional Health	-	(1)	-	-	-	(1)	-	
16110	Personnel	-	-	-	-	(1)	(1)	-	
16500	Central Police Srvcs	-	-	-	1	(1)	-	-	
1650060	DWI / Traffic Safety	-	-	-	-	(1)	(1)	-	
		33	(35)	2	2	(8)	(6)	21	

*Excludes all transfers and gains which net to zero change.

With respect to the Administration's unilateral decision to delete the Director of Grant Accounting Services position in the Comptroller's Office, this is a serious concern because it is a critical senior level position that assists the Comptroller and the entire Comptroller's Office with (1) essential accounting, finance, budgeting and forecasting, and financial reporting responsibilities, (2) management of the accounts payable and trust services functions, and (3) oversight of the County's capital projects and related finances. The institutional knowledge required to properly execute the duties of this position cannot be abruptly transferred to remaining senior level staff. This deletion will hamper my office's ability to perform its high-level Charter responsibilities in a timely manner, and will require the Comptroller's Office to contend with another purposeful targeted cut.

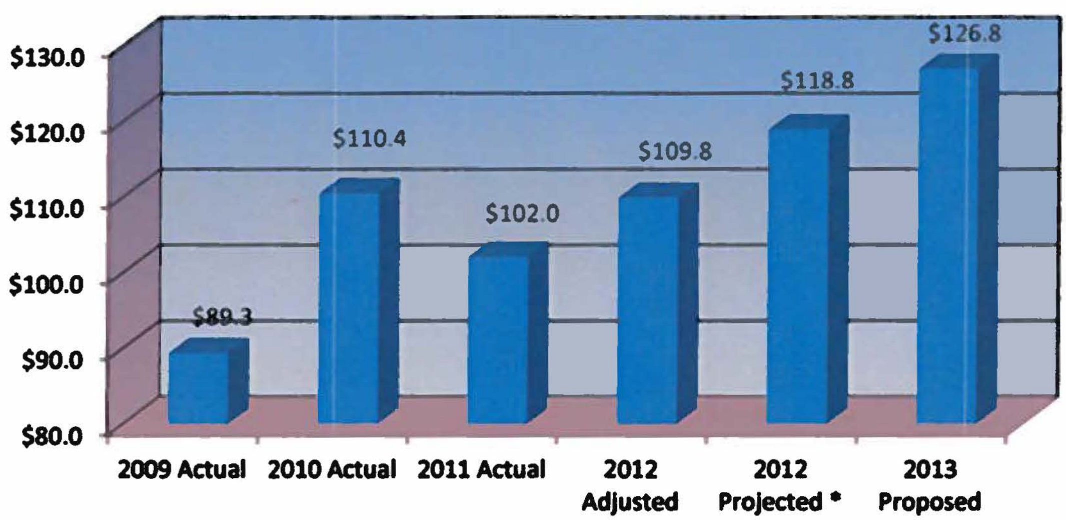
When compared to the 2012 Adopted Budget, the total number of full-time and RPT positions in the FY 13 Proposed Budget increase by 37.

Please reference Appendix A for more details on the changes in General Fund full-time and RPT positions from the FY 2012 Adopted Budget to the FY 2013 Proposed Budget.

Fringe Benefits

Fringe benefits include FICA, medical and dental insurance for active employees, medical insurance for retirees, workers' compensation, unemployment insurance and annual payments to the NYS retirement system. While the total proposed amount of $126.8 million for fringe benefits is a substantial portion of the Proposed FY 13 Budget, the $8.0 million (6.7%) increase from the projected 2012 expenditure of $118.8 million appears reasonable. As reported in the September 2012 BMR, fringe benefits are projected to exceed the current 2012 Adjusted Budget of $109.8 million by $9.0 million (or 8.2%).

Fringe Benefits (amounts in millions)



*September 2012 BMR

In comparison to 2009 actual expenditures, salaries and payments to employees are proposed to decrease by $7.87 million in the 2013 Proposed Budget while fringe benefits are projected to increase by $37.49 million. The primary increases since 2009 have been health and dental insurance for employees ($9.33 million), health insurance for retirees ($6.88 million) and payments to the NYS Retirement System ($20.36 million). This causes total fringe benefits, expressed as a percentage of total payments to employees, to rise to 67.7% in the FY 13 Proposed Budget.

Personal Services and Fringe Benefits Growth (amounts in millions)

	2009 Actual	2010 Actual	2011 Actual	2012 Adopted	2012 * Projected	2013 Proposed
Payments to Employees	$ 195.16	$ 201.31	$ 185.14	$ 186.65	$ 183.49	$ 187.29
Fringe Benefits	89.34	110.35	102.02	109.68	118.78	126.83
Total	$ 284.50	$ 311.66	$ 287.16	$ 296.33	$ 302.27	$ 314.12
Fringe Benefits as a Percentage of Payments to Employees	45.78%	54.82%	55.10%	58.76%	64.73%	67.72%

* September 2012 BMR

Health Insurance Costs

The FY 13 Proposed Budget is $67,631,884 and the 2012 Adopted Budget is $56,066,869, translating to an increase of $11,565,015 or 20.6%. This includes employee health, dental, retiree health and ECMCC and Home retiree health insurance for which the County is responsible under the present agreement with ECMCC. The Administration has recently informed my office that the 2013 health insurance component is projected to increase 8.4% over 2012 year-end projected health insurance costs. Considering LMHF's rates are set to increase 7.9% this estimate may be too conservative.

Pension Costs

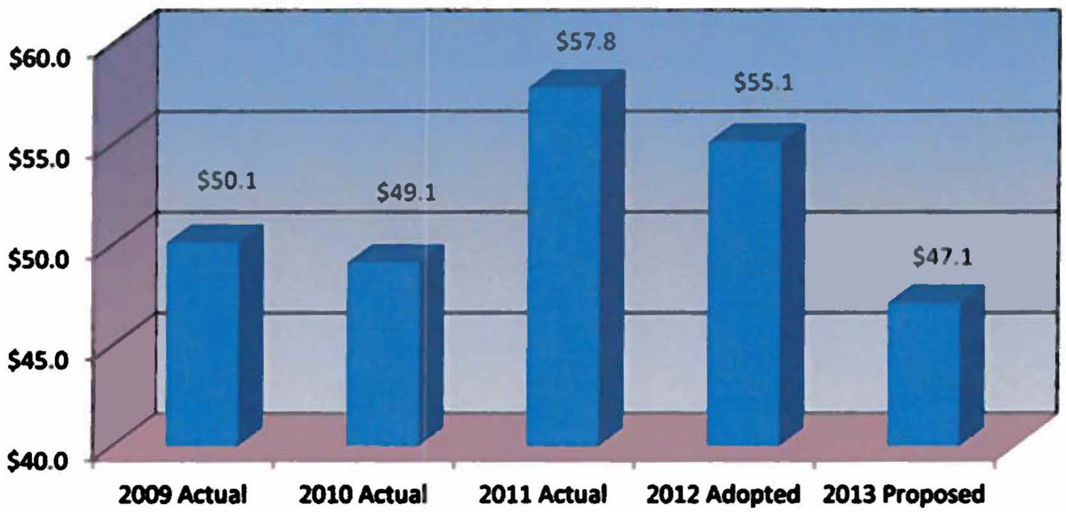
The County's General Fund recurring pension costs for New York State and Local Employees' Retirement System ("System") billings increased from $20.2 million in 2010 to $26.5 million in 2011, translating to an increase of approximately 31%. Due in large part to the 2008-09 financial meltdown and the related negative effects on the State pension fund earnings, the County's local contributions continue to rise with a projected 2012 expenditure of $33.8 million. The FY 13 Proposed Budget includes $36.4 million for 2013 costs (an increase of $3.1 million, or 9.3%, over the 2012 adopted budget of $33.3 million) which is reasonable given the estimated rates that were released in September 2012 by the Office of the State Comptroller.

Debt Service

The County's total net indebtedness, after statutory exclusions (i.e., self-financing Sewer Districts), will decrease from $511.6 million at YE 2011 to $485.2 million at YE 2012; i.e., $26.4 million or 5.16% reduction.

The General Fund county-wide subsidy (Fund Center 140020) for General Debt Service (excludes departmental subsidies for DISS, Youth and Tourism projects) in the FY 13 Proposed Budget is $47,140,408 which is a 14.50% decrease from the 2012 adjusted appropriation of $55,133,553.

General Fund Debt Service Subsidies (amounts in millions)



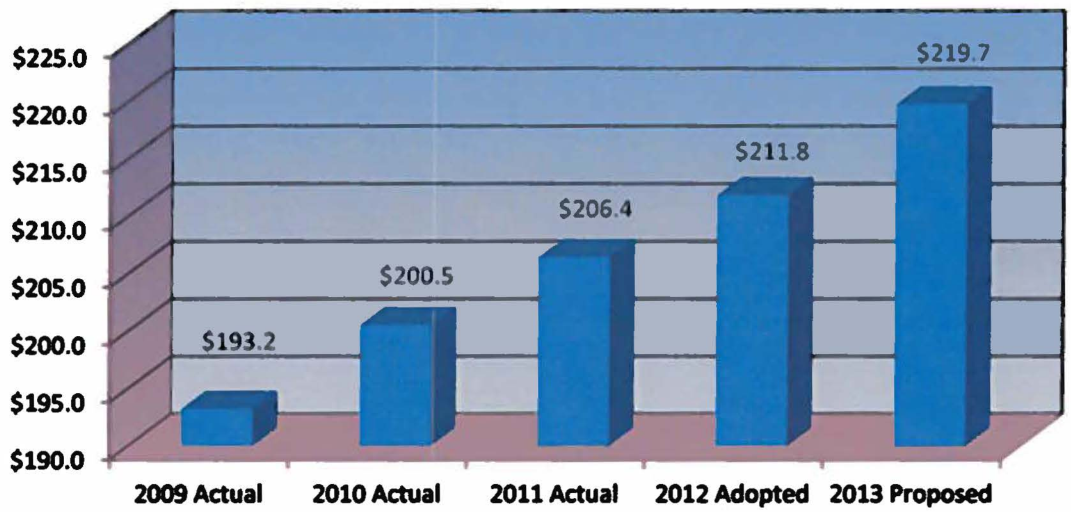
Payments from the Debt Service Fund for General Debt will decrease from $63,959,379 in the FY 12 Adjusted Budget to $58,226,795 in the FY 13 Proposed Budget.

Medicaid-New York State Medicaid Management Information System

In 2006, following legislation enacted by the State in 2005, county governments across New York State experienced a cap on their local share of Medicaid spending, with limited growth in Medicaid spending and the State absorbing more of the cost burden. Erie County benefited from the cap in Medicaid spending growth. Actual 2009 Medicaid expenditures were $193.2 million, the 2010 expenditures were $200.5 million, and the 2011 expenditures were $206.4 million.

The FY 12 Adopted Budget appropriation was $211.8 million and we project the actual expenditures to equal the $211.8 million budget for 2012. The FY 13 Proposed Budget appropriation is $219.7 million based on a 53-week payment schedule. Taking into account all available information, this appropriation is reasonable.

County Medicaid Costs (amounts in millions)



Risk Retention Fund

As in fiscal years 2009 through 2011, the FY 13 Proposed Budget includes $3 million for the Risk Retention Fund. However, the entire FY 2012 adjusted budget amount of $5.0 million was carried forward from 2011.

As of September 30, 2012, $2.71 million remains available in the Fund. All or a portion of unexpended balances in this Fund have been carried forward annually since 2006. This practice will likely continue at year-end 2012.

Based on these considerations, we recognize the potential value of eliminating or at least reducing this estimate from the $3 million amount. The available balance of $2.71 million, plus a reduced FY 13 estimate, may be sufficient to satisfy the County's risk retention needs for remaining anticipated FY 12 and FY 13. Dating back to 2004, except for the atypical settlement in 2011 in the amount $7 million, the greatest annual expenditure has been $4.1 million. In addition, excluding the extraordinary settlement in 2011, the average yearly expenditure from 2004-2011 has been $2.6 million.

Workers' Compensation

The FY 13 Proposed Budget appropriates $7,374,740 for Workers' Compensation claims through the County Attorney's Office. Actual 2011 expenditures were $5,024,197. The Adopted 2012 Budget appropriated $5,183,729, and through September 2012, YTD expenditures were $6,237,989 compared to the September YTD 2011 amount of $3,747,674. The September 2012 BMR projects total 2012 General Fund expenditures of approximately $7,860,000. As such, there will be a negative variance in 2012. If this trend in 2012 continues during 2013, then the General Fund portion of this expenditure will be under budgeted for 2013.

Erie County Medical Center Corporation ("ECMCC")

The FY 13 Proposed Budget includes four (4) separate fund centers with appropriations to or related to ECMCC. In the ECMC fund center, $8,132,208 is appropriated for retiree health insurance and workers compensation expenses related to the pre-2004 operations at the hospital. In the Erie County Home fund center, $2,007,371 is appropriated for retiree healthcare and workers compensation expenses. In the Countywide Budget Accounts fund center, $1,431,180 is appropriated to ECMCC as "department payments to ECMCC." Total 2012 County payments associated with ECMCC in these accounts total $11,570,759.

In 2010, the County and ECMCC agreed to a master settlement agreement specifying the County's financial obligations to the hospital corporation. The largest component is an annual County payment which is the larger of either (1) an annual County operating subsidy to ECMCC amounting to $16.2 million, or (2) the combined amount owed under the State-mandated Disproportionate Share Hospital ("DSH") and Upper Payment Limit ("UPL") payments to the New York State Department of Health ("NYSDOH"). Under the agreement, if the County's DSH/UPL expenses exceed the $16.2 million annual subsidy, the master agreement allows the County to access, with ECMCC permission and a "satisfactory" outside legal opinion, an ECMCC-controlled credit balance called the Excess Operating Support ("EOS") Credit.

In 2011, the original EOS Credit balance was exhausted due to the County's total gross obligation of $40.43 million in DSH/UPL payments: the $40.43 million amount exceeded the $16.2 million budgeted fixed subsidy by more than $24.23 million thus exhausting the total EOS credit balance of approximately $15.17 million and leading to a net cost over 2011 budget of approximately $7.66 million (the $1.4 million difference relates to an FMAP benefit in 2011).

In 2012, the County projected to remit as much as $45.28 million in Medicaid-related DSH and UPL payments for the benefit of ECMCC, which exceeds the $16.2 million budgeted fixed subsidy. Since the original EOS credit was exhausted in 2011, the County's obligation in 2012 was expected to be approximately $29.08 million over budget. However, one projected UPL payment in the amount of approximately $5.34 million was challenged in summer 2012 and has since been postponed pending outcome of the challenge.

Once the County's scheduled $12.32 million DSH payment was made in September, coupled with the County's scheduled $5.05 million UPL payment in June, the County's total DSH/UPL outlay to-date for 2012 is approximately $17.37 million. In early October 2012, the Budget Office learned the remaining two DSH/UPL payments for 2012, amounting to approximately $22.57 million, may be postponed to early 2013 and, if paid in 2013, will be recognized as a 2013 expenditure; i.e., the County's 2012 DSH/UPL payment obligation to ECMCC may be considered "complete" at approximately $17.37 million which is approximately $1.17 million greater than the County's budgeted annual subsidy of $16.2 million.

To mitigate the County's financial challenges associated with its gross DSH/UPL payment obligations (which have substantially exceeded the budgeted $16.2 million annual subsidy), the Administration has negotiated with ECMCC officials to amend the 2010 settlement agreement. Specifically, the First Amendment to the Settlement Agreement includes ECMCC's agreement to create and provide the County with a $28 million "credit" which the County may use to settle County obligations as detailed in the 2010 settlement agreement including, primarily, any DSH and UPL payments in excess of the $16.2 million annual subsidy in 2013, 2014 and 2015. In return, the County has agreed to repay any utilized credits – starting in 2015 – with a $2 million annual repayment to ECMCC. If the County does not utilize credits, then it will not be responsible for any repayment.

The County's Administration anticipates the First Amendment to the Settlement Agreement will smooth out any unexpected financial obligations related to settlement agreement. Beginning in 2014, anticipated Medicaid reforms related to the Affordable Health Care for America Act are expected to alleviate the County's financial obligations relating to gross DSH/UPL payment obligations.

To make binding, the First Amendment to the Settlement Agreement must be ratified by the County Legislature and a justice of the New York State Supreme Court. These formal actions are pending.

The 2013 Proposed Budget's gross total DSH expense of $16.2 million (UPL Expense is listed at $0) may not be realistic, especially if the First Amendment to the Settlement Agreement is not ratified, thus leaving the County exposed to pay the two postponed 2012 DSH/UPL payments (amounting to approximately $22.57 million) and possibly pay the challenged UPL payment (amounting to approximately $5.34 million) amounting to approximately $27.91 million. Also, since the County's required gross subsidy amounts during FY's 2009-2012 were substantially more than $16.2 million, it is unrealistic to expect the proposed amount to be so low. Consider: during the four-year period FY 2009-2012 (with the gross amount for FY 2012 at $17.37 million), the County's average gross amount for DSH/UPL payments was $25.65 million.

We question the viability of some of the Administration's assumptions regarding the County's IGT payments for the benefit of ECMCC, especially no projected increase in County financial support to ECMCC given ongoing and increasing DSH payments above the standard $16.2 million amount.

DSH/UPL (IGT) Payments - ECMCC (amounts in millions)

	2010	2011	2012	2013 *
Gross	$23.800	$40.430	$47.330	$16.290
FMAP Benefit	(1.860)	(1.400)	(2.050)	-
EOS Credit	(5.740)	(15.170)	-	-
Postponed	-	-	(27.910)	27.910
Negotiated Add'l Credit	-	-	-	(28.000)
Net Cost	16.200	23.860	17.370	16.200
Budget	16.200	16.200	16.200	16.200
Variance	$ -	$ (7.660)	$ (1.170)	$ -

* Assumes entire amount postponed from 2012 will be paid in 2013. Additional 2013 payments cannot exceed $16.290 million without creating another negative budget variance.

Erie Community College ("ECC")

The 2013 Proposed Budget includes the full operating subsidy requested in the College's adopted budget for 2012-2013. In addition, the 2013 Capital Budget includes funding for four projects in 2013 totaling $5,000,000 compared with one project for $1,800,000 in the 2012 Capital Budget. The 2013 capital spending is funded by $1,500,000 in State aid and $3,500,000 through the issuance of bonds.

Community College Chargebacks

Community college sponsors; i.e., county governments, in New York State are required to pay community colleges in other counties a fee for local residents attending the community college in the other county. For example, Erie County is required to pay a fee to Niagara County Community College ("NCCC") for each Erie County resident-student attending NCCC. This process is referred to as the "chargeback" and the formal name of the account is "County Residents Enrolled Community College."

NCCC, by itself almost half the cost of Erie County's entire community college chargeback total, is increasing its chargeback rate by 13% for the 2012-2013 school year. This will increase Erie County's total chargeback expenditure from approximately $4.3 million in 2012, to approximately $4.6 million in 2013. Based on this, the 2013 budget expenditure estimate of $4,564,640 is reasonable.

Tourism, Visitors and Convention Services

Erie County owns the Buffalo/Niagara Convention Center. Visit Niagara Buffalo, formerly the Buffalo Niagara Convention and Visitors' Bureau, operates and manages the complex for the County. Under the terms of the Hotel Occupancy Tax Law, a special tax is levied on all guests at overnight accommodations establishments in the County. The tax revenue is partially used to offset debt service expenses at the Convention Center, as well as to promote tourism in Erie County.

Since 2005, the County has increasingly used revenue from the tax to support the County's operations. In recent years, the County has appropriated funds for tourism and convention services against budgeted revenues as follows:

Year	Appropriations	Revenues	Difference
2009	$ 4,250,000	$ 7,300,000	$ 3,050,000
2010	5,000,000	7,752,000	2,752,000
2011	4,900,000	7,752,000	2,852,000
2012	4,950,000	8,400,334	3,450,334
2013 *	4,950,000	8,728,122	3,778,122

*Proposed

The Proposed FY 13 Budget projects Hotel Occupancy Tax revenue of $8,728,122, which is a 3.9% increase over the 2012 budgeted amount, and a total of $4,950,000, with no changes from the 2011 budgeted amount, to be appropriated to the Buffalo Convention Center and Visit Buffalo Niagara. In addition, the Proposed 2013 Budget allocates $1,314,191 to pay down County debt service associated with prior year bonded capital projects at the Convention Center.

The agreement for 2008 and 2009 between the County and Visit Buffalo Niagara included a provision requiring Visit Buffalo Niagara to refund any surplus or unappropriated funds to the County.

In March 2011 the Comptroller's Office completed an audit of Visit Buffalo Niagara. In the audit, the Comptroller contends that because the contract was written poorly, specifically with respect to the way a surplus is calculated, Visit Buffalo Niagara may have had surpluses in previous years and failed to reimburse the County. The contract language has since been changed to more clearly define how any surplus is to be calculated and the timing of any refund. The contract still allows for Visit Buffalo Niagara to retain some, or all, of the surplus that would be required to be paid back to the County with the approval of the Budget Director and the Legislature.

Dedicated Cultural Funding

The 2013 Proposed Budget appropriates a total of $5,570,000 to 58 cultural organizations which is $148,159 or 2.73% more than the total amount of $5,421,841 the County funded in the 2012 Adopted Budget to 47 cultural organizations. This increase, coming after the Poloncarz Administration increased funding to cultural organizations in FY 12 by $931,841 (or 20.75%) above the Collins Administration's 2012 Proposed Budget amount of $4,490,000 to 10 organizations, translates to an overall increase of $1,080,000 (24%) in proposed funding to arts and cultural organizations from the Collins Administration's 2012 Proposed Budget to the Poloncarz Administration's 2013 Proposed Budget.

In May 2012, the County Executive introduced a new cultural funding application program and process, used beginning with the County's FY 13 Budget, which was designed to appropriate funding to the County's cultural institutions in an objective manner that is based on need and merit. Beginning in 2012 for FY 13, all cultural institutions throughout the County have the same opportunity to compete for County financial support. Final funding decisions are made by the new independent Erie Arts Cultural Advisory Board.

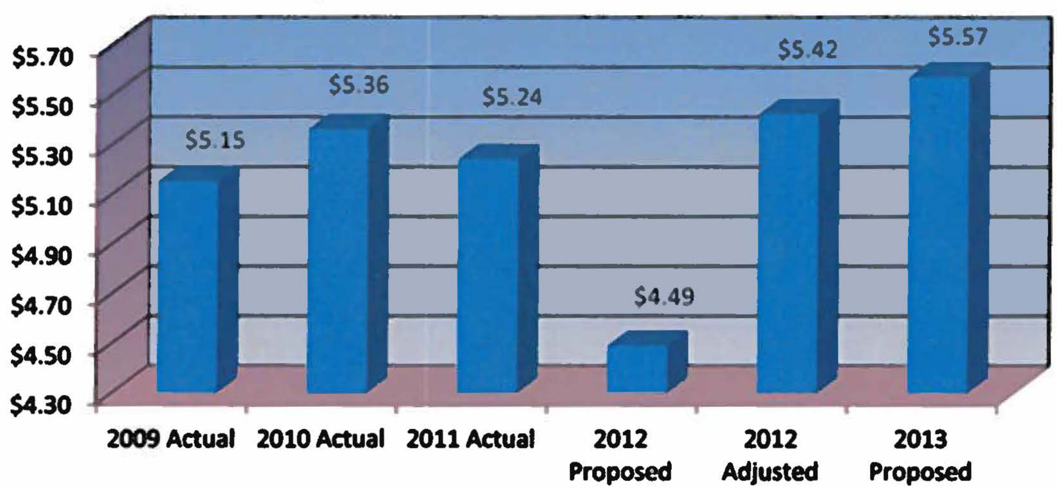
The FY 13 Proposed Budget includes:

- Providing a total of $102,500 in funding to 14 organizations that were not funded in 2012 (most notably the Buffalo & Erie County Botanical Gardens, the Niagara 1812 Bicentennial Legacy Co., the Jewish Repertory Theatre, Torn Space Theatre and the Museum of DisABILITY History)

- No funding for three organizations that were funded in 2012: the Colored Musicians Club, Folkloric Dance and the Langston Hughes Institute (Note: none of the three organizations applied for 2013 funding)

- No funding for two organizations that were funded in 2011 but not in 2012: Studio Arena and the Iron Island Museum

Recent Cultural Funding: 2009 Actual-2013 Proposed
(amounts in millions)



General Fund – Fund Balance

The County must maintain an adequate fund balance in its General Fund to ensure financial viability and stability. An adequate fund balance in the General Fund helps to ensure stable tax rates and mitigates current and future risks associated with unexpected revenue shortfalls and unanticipated expenditures.

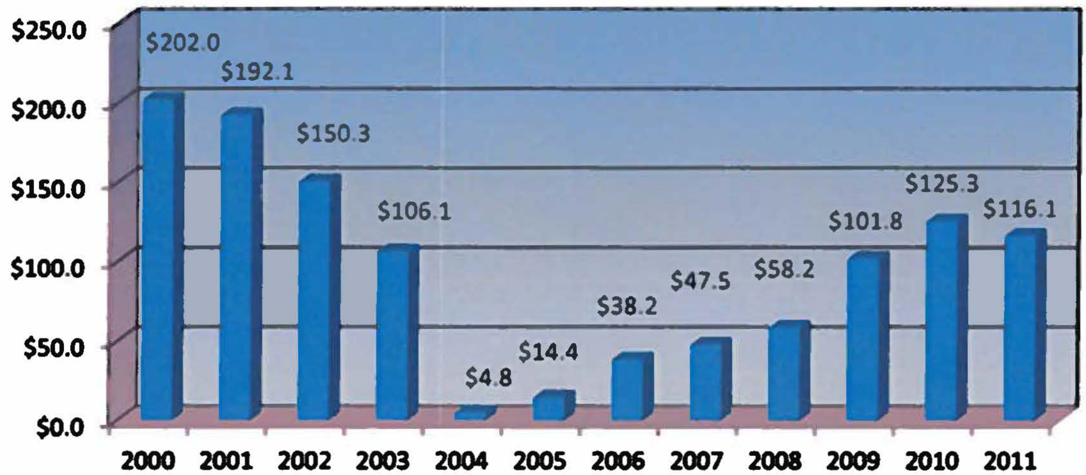
After the County's "Red-Green" budget crisis in 2004-05, the County experienced five consecutive years of financial rebuilding without appropriating undesignated fund balance from the County's General Fund. However, in recent years, the FY 11 Adjusted Budget appropriated an additional $33.4 million, the FY 12 Adjusted Budget appropriates $7.55 million, and the FY 2013 Proposed Budget appropriates $5.4 million to cover gaps in the respective fiscal year budgets. This practice of appropriating fund balance to supplement revenues to meet expenditures is of significant concern.

The proposed appropriation in 2013 of $5.4 million of fund balance from the County's General Fund will not reduce the unassigned fund balance below the County's minimum required amount (projected at $54.5 million).

Over the past five fiscal years, the year-end fund balance in the General Fund increased by $9.31 million in FY 07, $10.65 million in FY 08, $43.65 million in FY 09, $23.48 million in FY 10 and *decreased* by $9.18 million in FY 2011. This leaves a total fund balance in the General Fund of approximately $116.14 million at fiscal year-end 2011, of which $83.49 million was unassigned. For 2012, based on the Administration's latest Budget Monitoring Report (for the Period Ending September 30, 2012), although the County projected to use $7.55 million of fund balance in the General Fund, only a projected amount of approximately $3.26 million of fund balance will be used; i.e., $7.55 million appropriated less $4.29 million 2012 projected year-end budget surplus.

Considering the requirements of the Four Year Financial Plan, sound municipal finance practice and the recommendations of the Government Finance Officers Association ("GFOA"), accretion and maintenance of an adequate fund balance is essential. In fact, GFOA recommends municipalities maintain, at a minimum, a total unrestricted fund balance in the General Fund of 16.7% or 2 months of the municipality's regular general fund operating revenues or expenditures. In practice, a level of unassigned fund balance that is lower than GFOA's recommended minimum may be appropriate for larger governments (e.g., cities counties and school districts) because they are often in a better position to predict contingencies, and because their revenues and expenditures are frequently more diversified and potentially less subject to volatility.

General Fund Year End Total Fund Balance; 2000-2011
(amounts in millions)



In July 2012 the County Legislature approved the County's Budget Modernization Act of 2012 which revised the County Charter allowing the County to maintain an unassigned fund balance in the General Fund equal to or greater than five percent of the amount contained in the adopted budget of the General fund of the County's last audited financial statements (for proposed FY 2013, the projected required amount is $54.5 million). The total General Fund calculation does not include sales and compensating tax revenues shared with local governments and school districts. Fund balance may be included as revenue in an approved budget of the General Fund provided there shall remain an unassigned balance of at least five percent as provided above.

With respect to the County's projected use of fund balance in the General Fund to balance the County's proposed and upcoming FY (2013) operating budget for the third consecutive year – on this occasion leading to an overall net reduction in total fund balance in the General Fund – the County must develop and establish a comprehensive fund balance policy including (1) an agreement on reasons for the County to use fund balance and (2) a sound replenishment strategy for occasions in which the fund balance in the General Fund decreases below the aforementioned required level of five percent. A replenishment strategy will protect the County from financial distress, improve transparency and enhance the County's ability to achieve credit rating upgrades from the three major credit rating agencies, potentially reducing the County's costs of borrowing.

Regarding the proposed increase to the property tax levy, ECC and the County have been in discussions concerning a $30 million building project involving the construction of a new academic building with the County and ECC contributing $7.5 million each and the State University of New York ("SUNY") contributing $15 million. At years-end 2010 and 2011, the County assigned $7.5 million of fund balance for this purpose, using $100,000 in 2012 for a space utilization study and a related program needs study. To-date, ECC has raised less than half of its required contribution total and the State contribution has not been appropriated in the State Budget.

Since the ECC building construction project has various significant hurdles that are beyond the County's control, I suggest – as a last resort to avoid an increase to the property tax levy – the County consider repurposing some or all of the $7.4 million of remaining assigned fund balance to substantially reduce or eliminate the proposed increase to the total real property tax levy. This action will not decrease the amount that unassigned fund balance exceeds the County Charter cap. In the future, the County can revisit the ways to best finance its share of this project when ECC and SUNY get closer to meeting their respective funding requirements.

Any remaining fund balance assignment for this ECC building construction project is set to expire on December 31, 2012.

Utilities Fund

The FY 13 Proposed Budget appropriates a total of $27,034,515 compared to the 2012 Adopted Budget amount of $37,718,101 and 2011 actual expenditures of $25,947,639. It appears the 2012 Adopted Budget was overstated. Actual expenses for 2010 and 2009 were $28,586,654 and $27,489,773 respectively. The revenue amounts to be received from other funds increases to $9,389,764 from the 2011 actual expense of $8,614,138. The 2013 Proposed Budget appears to be in line with 2009-2011 actual results and appears reasonable.

Road Fund/CHIP/Highway Funding

In the FY 13 Proposed Budget, the Administration proposes to decrease the General Fund subsidy to the Road Fund from $14.0 million (budgeted) in 2012 to $13.8 million in FY 2013. The FY 13 Proposed Budget also provides $29.9 million for Road Fund spending, an increase from $29.7 million in 2012. Actual spending in 2011 was $28.0 million, and $700,000 of the proposed spending increase relates to the additional transfer of Consolidated Highway Improvement Program (CHIPS)-related funding to the Capital Fund. Since the majority of CHIPS reimbursement relates to Capital expenditures, we support this action. CHIPS-budgeted 2013 revenue from the State is identical to the 2012 expected actual revenue, both of which are $7.5 million.

As of September 30, 2012, YTD Transfer Tax revenue is virtually the same as the amount earned during the same period in 2011. Transfer Tax revenue for 2011 was $8.352 million. The FY 13 Transfer Tax in the Proposed Budget is $8.3 million and appears to be a reasonable amount.

E-911 Fund

The FY 13 Proposed Budget amounts to $7,621,494 an increase of $323,191 from the FY 2012 Adopted Budget of $7,298,303 and an increase of $56,191 from the FY 12 Adjusted Budget of $7,565,303. Also, the FY 13 Proposed Budget maintains the 911 Dispatch Operations within the Sheriff's Office that was transferred back from the Department of Emergency Services via INTRO 5-6 that was carried unanimously on March 15, 2012.

Library Fund

The FY 13 Proposed Budget allocates $22,172,457 from the property tax levy in comparison to the FY 12 Adopted Budget which allocated $19,872,457 from the property tax levy and a $2,000,000 subsidy from the General Fund. The increase of $300,000 is budgeted for service restoration.

There are no other substantive changes to any of the Library's budget lines.

Capital Budget

The FY 13 Proposed Budget includes a Capital Budget amounting to $58,242,882, an increase of $8,671,056, or 17.5%, from $49,571,826 in the FY 12 Budget. Pay-as-you-go funding will be $6,950,000, proceeds from issuance of bonds $38,987,229, and Federal, State and other local source funding at $12,305,653. The total six-year Capital Program has been reduced from $429,250,943 (2012-2017) to $249,448,882 (2013-2018), a reduction of $179,802,061 (41.9%) or an average of approximately $30 million per year.

Significant proposed changes from the 2012 Adopted Budget include:

- The County will spend $2,990,000 for improvements to Ralph Wilson, Jr Stadium, an increase from $2,900,000 in 2012. Unlike prior years where no funding was projected in the final five years of the Capital Program, the amount of $2,990,000 is presented for each of the years (2014-2018) in the FY 2013 Proposed Budget. The lease with the Buffalo Bills expires on July 31, 2013 and is further considered in the following section titled "Comment on Four Year Plan Projections (2013-2016)."

- Capital funds in the amount of $11,000,000 for the Buffalo and Erie County Botanical Gardens have been added to 2013-2018 Capital Program, with $1,000,000 budgeted for 2013.

- Road, bridge and fleet projects are decreased by $9,164,358 in 2013. For the six-year period from 2013-2018, planned spending in this category will decrease by a total of $216,008,358 from the amount contained in the 2012-2017 Capital Budget.

- Parks spending for 2013-2018 is down $4,150,000 from the amount contained in the 2012-2017 Capital Budget due to the removal of culvert replacement projects amounting to $5,000,000. The 2013 budget amount of $3,000,000 is $750,000 higher than the amount planned in the 2012 Capital Budget.

- Projects for the Sheriff's Office have increased $5,752,650 over the amount in the 2012-2017 Capital Budget, including an increase of $752,650 in 2013 over the 2012 budget amount .

- Capital funds, amounting to $1,480,900 have been allocated to various new Central Police Services, County Clerk, Senior Services, and Information and Support Services projects in 2013-2018, of which $713,900 is planned for 2013.

- A total of $9,522,982 is provided for the Industrial Re-development, Evans Shoreline Trail Beaches and Darwin Martin House Interior Restoration Projects in 2013.

- Building improvement projects at ECC have been added to 2013-2018 Capital Program in the amount of $12,200,000, with $3,200,000 budgeted for 2013. Spending for college-wide equipment remains at $1,800,000 per year. Note that previous plans for SUNY to contribute, along with the County and ECC, towards a new academic health sciences building at the college's north campus have not yet occurred. However, $7,400,000 of fund balance in the General Fund remains assigned for this purpose.

- Major health-related projects include $1,000,000 for improvements to buildings owned by the County and occupied by the Health Department at the ECMCC campus, and $2,600,000 to renovate and reopen the Heath Clinic at 1500 Broadway in the City of Buffalo.

- As in the 2012-2017 Capital Budget, no capital projects are planned for the Library system.

Budget Resolutions

Each year the Proposed Budget includes a series of Budget Resolutions designed to address gaps in the adopted budget, and to codify certain issues. We observe several noteworthy budget resolutions in the FY 13 Proposed Budget which we bring to your attention.

NEW BUDGET RESOLUTIONS

2013 Budget Resolution #12

This new resolution appropriates $5,000 for compensation to the County Historian from the Office of Public Advocacy.

2013 Budget Resolution #35

This new resolution authorizes the County Executive to execute a Personal Services contract with a named certified Statewide Automated Fingerprint Identification System Latent Examiner for the period of January 1, 2013 to December 31, 2013 for the Department of Central Police Services.

2013 Budget Resolution #36

This new resolution authorizes the County Executive to enter into contract with the Reverend Joseph Bayne, OFM, in the amount of up to $150 per month for reimbursement of mileage expense associated with his response to emergencies in providing assistance through stress debriefings for first responders, their families, and victims and their families during times of crisis. The funding is provided in the Department of Emergency Services Professional Services and Contracts Account in the 2013 Proposed Budget.

2013 Budget Resolution #38 and #39

These new resolutions authorize the County Executive and Commissioner of Social Services to enter into contracts with various community agencies for the purchase of specific social services programs and provides flexibility to adjust the contractual amounts within the budgeted program categories provided there is no increase in County cost.

2013 Budget Resolution #45

This new resolution authorizes the County Executive and Commissioner of Social Services to enter into contracts for non-residential services for victims of domestic violence. The funding is provided by annual special funding allocations dedicated to State approved providers as contained in the New York State Budget.

2013 Budget Resolution #66

This new resolution authorizes the County Executive to enter into contracts with Jewish Family Services of Buffalo and Erie County to provide geriatric counseling services in an amount not to exceed $15,000 as appropriated in the budget for the period January 1, 2013 through December 31, 2013.

2013 Budget Resolution #85

This new resolution authorizes the Division of Budget and Management and the Comptroller's Office to wholly or partially close capital projects in Funds 410, 420, 480 and 490 and to transfer the available funds in 2013 to Fund 310 Debt Service, to be utilized in 2013 to assist in the payment of the outstanding principal and interest related to over 100 capital projects listed totaling $1,761,403. In addition, authorization is provided to make any and all budgetary and financial entries required to implement the transfer and funds utilization for those projects.

DELETED BUDGET RESOLUTIONS

2012 Budget Resolution #7

This resolution, added in 2012, authorized $1,197,166 in Federal and State reimbursements received as a result of the October 2006 Storm to be utilized in the 2012 Budget. Additionally, it authorized the Budget Director and Comptroller to transfer these funds from the Emergency Response Fund, Fund 250, to the General Fund 110. This action was not completed in 2012, so we recommend that the transaction be completed in 2013 and that the use of this funding, or transfer to the General Fund be subject to legislative approval.

2012 Budget Resolution #13

This resolution added in 2012, authorized the Personnel Department to increase the hourly rate an additional 50 cents over the CSEA non-bargaining pay scale for several part-time and seasonal positions within the Parks Department.

2012 Budget Resolution #34

This resolution delayed the effective date for the termination of the 2003 agreement with the City of Buffalo to provide its cellblock function under contract at the Erie County Holding Center from October 1, 2012 to March 2013.

2012 Budget Resolution #39

This resolution authorized the Department of Social Services to apply any unused balances, and the associated local share from prior year grant funds to the 2012 fiscal year grant funds as appropriate.

2012 Budget Resolution #81 and #82

These resolutions authorized the Commissioner of Personnel in conjunction with the District Attorney and Director of Budget and Management to implement the adjustment of line 32 in Budget Book A.

2012 Budget Resolution #83

This resolution directed the County Executive, Sheriff and Commissioner of Public Services to hold consultations in order to effect the movement of the E-911 Dispatchers to the supervision of the Sheriff within the year 2012.

Comment on Four Year Financial Plan Projections (for FY 2013-2016)

The Administration's latest Four Year Financial Plan (approved by the ECFSA on October 26, 2012) projects a gap of $5,405,000 in 2013 to be closed by use of fund balance and surpluses of $366,881 in 2014, $660,340 in 2015 and $1,175,904 in 2016. With surpluses projected for 2014-2016, the Four Year Financial Plan does not include any amounts for appropriated fund balance in these years.

Review of Main Assumptions

Sales Tax – As previously noted, while the 3% growth in Sales Tax for 2013 could prove to be problematic in the short-term, the growth for 2014-2016 at 2.75% decreases the projection closer to recent 3-year average performance levels. The County's 10-year average yearly increase for 2002 to 2011 is approximately 2.38%. The County's 3 year average sales tax growth since 2001, presuming 2011-2012 growth at 3.15%, is approximately 7.19% or 2.40% per year. This more conservative estimate in the out years is reasonable.

Property Tax/Rate – The Administration has projected the real estate market value growth to be 1% in 2014 and 2015 and 2% in 2016. If the extraordinary $121,386,700 decrease in taxable assessed value for the Huntley Power Plant did not occur for the 2013 tax levy, the equalized full market value tax base would have increased by .16% as opposed to a .18% decrease. If increases to assessment growth remain at the .16% level along with the assumption that the property tax rate will not be changed, there will be a shortfall in this category during the three out-years of the plan.

Personal Services Growth – No provision is made for the cost of potential future bargaining agreements. Considering future step increases and the planned hiring of additional Jail Management staff, the growth estimates appear reasonable.

Health Insurance Growth – The 8% estimate is an increase over the 5% estimate used for the out years in the 2012 approved plan, in-line with current market expectations, and appears reasonable.

Pension Rate – The Four Year Financial Plan for 2013-16 projects a material increase in 2014 of $4.9 million (13.5%) followed by growth of 4.9% for 2015 and 5.9% for 2016. The pension rate assumptions of 23.0%, 24.38% and 25.36% for 2014-2016, respectively, appear reasonable at this time given the estimated rates that were released in September 2012 by the Office of the State Comptroller.

Renewal of Buffalo Bills Lease

The new Four Year Financial Plan does not include likely improvements and upgrades to Ralph Wilson, Jr. Stadium should a new lease agreement be negotiated. Recent reports estimate these costs will likely exceed $200 million; however, it is not known what portion of these costs will be borne by the County.

Medicaid Growth Rate

The State fiscal year 2012-2013 State Budget has included a phase out of the local share increases which now will be limited to 2% in 2013, 1% in 2014 and no increase in 2015 and beyond, as currently legislated. In any year, if actual local share costs are lower than the Medicaid Cap amount, counties will be refunded the overpayment.

Additional Comments

- The County's annual DSH obligation to ECMCC is projected to increase by $2 million in 2015 and 2016 to $18.2 million each year. The increase represents credits due to ECMCC for certain post-retirement healthcare payments made or realized by ECMCC. Over time this will offset a $28 million credit that the County will most likely receive in 2013 for certain worker's compensation benefits paid by the county on behalf of ECMCC. There are no increases in the County's base DSH obligation to ECMCC of $16.2 million. Excluding credits received from ECMCC, this amount has been exceeded by a significant amount in each of the last four years and is therefore is a significant concern.

  As previously stated, beginning in 2014, anticipated Medicaid reforms related to the Affordable Health Care for America Act are expected to alleviate the County's financial obligations relating to gross DSH/UPL payment obligations.

- The Plan includes $650,000 in vacancy savings for the period 2014-2015, an increase from the 2013 Proposed Budget amount of $600,000. Although not including this provision would provide the most conservative approach, the amounts do not appear unreasonable. The Budget Office will need to closely monitor the time between vacancies occur and the time positions are filled to ensure these targets are reached.

- Total General Fund subsidy for debt service is projected to increase from $54.2 million in the FY 13 Proposed Budget to $60.2 million in 2016, or $6 million, as presented in the new/proposed Four Year Plan for 2013-16.

- The Plan mentions no alternatives should revenues fall short of, or expenditures exceed expectations.

- Although not necessary and unlike prior years, the amount of Property Tax allocated to the Library is not presented.

Appendix A

Changes in General Fund Full-time and Regular Part-time (RPT) Positions from the FY 2012 Adopted Budget to the FY 2013 Proposed Budget

Fund Center	Fund Center Name	2012 Adopted Full-time	2012 Adopted RPT	2012 Adopted Total	2013 Exec Rec Full-time	2013 Exec Rec RPT	2013 Exec Rec Total	2013 Proposed to 2012 Adopted Total
100	Legislature	34	2	36	33	3	36	-
105	DISS	42	1	43	41	1	42	(1)
116	Jail Management	685	1	686	731	1	732	46
120	DSS	1,454	6	1,460	1,435	4	1,439	(21)
163	Senior Services	11		11	10		10	(1)
10110	County Executive's Office	9		9	13		13	4
10210	Budget & Mgmt.	6	1	7	7	1	8	1
10310	Labor Relations	2	1	3	2	1	3	-
10610	Division of Purchase	6		6	6		6	-
10710	Fleet Services	2		2	2		2	-
10810	Eq.Emp.Opportunity	4		4	3		3	(1)
10910	Office of Public Advocacy	1		1	1		1	-
11110	Real Prop Tax Svces	13		13	12		12	(1)
11200	Comptroller	34		34	33		33	(1)
11310	Clerk - Registrar Division	51		51	51		51	-
11320	Clerk - Auto Bureau Division	48	18	66	66	-	66	-
11400	District Attorney	119		119	122		122	3
11510	Sheriff Division	151		151	153		153	2
12210	DPW - Commissioner	4		4	4		4	-
12220	DPW - Buildings & Grounds	120	7	127	116	6	122	(5)
12230	DPW - Weights & Measures	11		11	11		11	-
12410	Mental Health - Program Admin.	13		13	13		13	-
12420	Forensic MH Services	23	6	29	23	8	31	2
12520	Youth Detention	78	1	79	78	-	78	(1)
12530	Youth Bureau	2		2	4		4	2
12610	Probation	110		110	115		115	5
12700	Health Division	101	10	111	47	5	52	(59)
12720	EMS	3		3	3		3	-
12730	Public Health Lab	74	1	75	74	1	75	-
12740	Medical Examiner	32		32	20		20	(12)
12750	Special Needs	27		27	27		27	-
12760	Correctional Health	-	-	-	65	5	70	70
13000	Ofc of Veterans' Svc	3		3	3		3	-
15000	Board of Elections	76	2	78	76	2	78	-
16010	Dept of Law/Cnty Att	17		17	23		23	6
16110	Personnel	23		23	23		23	-
16200	Environ. & Planning	12		12	12		12	-
16410	Parks	51		51	51		51	-
16500	Central Police Srvcs	11		11	10		10	(1)
16700	Emergency Services	8		8	8		8	-
1650060	DWI / Traffic Safety	4		4	4		4	-
	General Fund Totals	3,475	57	3,532	3,531	38	3,569	37