ERIE COUNTY FISCAL STABILITY AUTHORITY
ANALYSIS OF THE ERIE COUNTY
2011-2014 FINANCIAL PLAN
October 20, 2010

INTRODUCTION

Erie County released its 2011 budget and financial plan on October 1st, 2010. The 2011 budget, which is the 1st year of the plan, included a significant reduction in budgeted positions, resulting in a $15 million decrease in full-time salaries from the 2010 adopted budget. 2011 assumes a 20% reduction in library funding (from $22.17 million to $18.17 million), no additional funding for Erie Community College, a significant increase in NYS mandated pension costs, and a 32% reduction in cultural agency funding (from $6.51 million to $4.44 million).

Major assumptions in the financial plan include:

- Sales tax growth of 3% per year for 2012, 2013, and 2014.
- Real Estate Market Value Growth is assumed to increase by 2% in 2012, 3% in 2013 and 3% in 2014.
- There is no property tax rate increase for 2011-2014. Though, the county portion of the property tax levy increases by $7.2 million in 2011, $4.7 million in 2012, $7.2 million again in 2013 and $7.4 million in 2014, a cumulative increase of $26 million over the period of the plan.

PLAN CONCERNS

As a result of the allocation of $13 million in federal stimulus funds and $16.7 million in fund balance, the County's 2011 budget is balanced at this time. With the stimulus dollars and fund balance in 2011 and 2012, the 2010-2014 cumulative gap is $54.7 million. This gap is a decrease of $47 million over the $101.7 million in the previous submission.

A comparison of current and previous plan annual gaps (in millions of $'s), as follows:

	2011	2012	2013	2014
Current Plan Gap	$0	$20.4	$13.8	$20.5
Previous Plan Gap	$20.4	$38.7	$42.6	____
Difference	**($20.4)**	**($18.3)**	**($28.8)**	

The county, in its submission lists a number of reform initiatives, but does not specifically tie those items to gaps in specific years of the plan. From the information provided, it is difficult to determine their affect in addressing the stated or any adjusted shortfalls.

Baseline Estimates

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

1. ***Sales Tax Revenues*** – The county assumes a 3.1% increase in 2011 (over the 2010 budget), with 3% increases in 2012, 2013 and 2014. Given recent sales tax trends – a 1.8% increase in 2008, a 3.1% decrease in 2009 and a .25% (1/4 of 1%) increase in year to date cash collections thus far in 2010), the 3% forecasted increase appears risky. Using the 2006-2010 average rate of increase as a base, (1.46%) for the period of the plan, sales tax revenues would need to be adjusted downward by over $59 million total between 2011 and 2014. Using the 2001-2010 average of 1.85%, the shortfall would still be in excess of $45 million.

   Additional note – both the 1% and .75% sales tax are set to expire on 11/30/2011.

2. ***Increasing Property Tax Assessments*** – the financial plan assumes consistent property tax levy increases, based upon upwardly adjusted property values. For 2011, the growth is 1.39%, 2012 is 2%, 2013 and 2014 are each 3%. These growth assumptions appear to be contrary to recent trends. Over the last 5 years, the increase in property values has gone down each year, from a high of 6.2% in 2007, to the 2011 increase of 1.39%. At the state level, there is the potential of a property tax levy

cap of 2%. Using that cap alone, property tax revenues would fall short of plan projections by $9.5 million.

3. ***Overtime*** – The plan assumes significant, permanent reductions in overtime expenses, with the basic assumption that returning the processing and holding of pre-arraigned arrestees to the City of Buffalo will result in a measurable overtime reduction within the jail management division. Overtime was $14.6 million in 2009. Through nine months of 2010, the county has already exceeded its $11.4 million overtime budget. If current trends continue, overtime spending for 2010 will approach $18 million. The plan assumes $14 million for 2011, which is reduced to $13 million in 2012, then $13.1 million in 2013, before increasing to $13.2 million in 2014. While it is possible that overtime expense could be mitigated by the lock-up transfer, there has been no evidence provided by the county to substantiate the proposed reductions. Assuming the current overtime trend continues, aggregate plan projections would fall short by over $20 million.

4. ***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 2010-11 budget lists a figure of $17,429,317. The County in its budget and plan submission lists a figure of $15,420,778. The difference appears to be a capital component that is not presented in the College section of the County's financial plan.

   There is a non-reconciled difference between the College's financial plan and that of Erie County. Starting in 2011-2012, ECC assumes a $500,000 increase per year in the County's support to the College, while Erie County assumes no increase in its annual contribution.

Year	Annual Difference	Cumulative Difference
2011-12	$ 500,000	$ 500,000
2012-13	$1,000,000	$1,500,000
2013-14	$1,500,000	$3,000,000
2014-15	$2,000,000	$5,000,000

   By 2014, that cumulative difference of $5 million, if not addressed, will create significant financial difficulties for the College, the County, or both. Both the College and the County are already listing out-year gaps in their respective financial plans that need to be addressed. ECC officials indicate that the college's projection on this item is adjusted based upon operating results.

5. ***ECMCC issues –*** In previous ECFSA reports, notation was made of significant issues related to ECMCC that could have material, negative impacts on county finances. On December 31, 2009, the county and ECMCC entered into agreement that calls for an annual base subsidy to ECMCC of $16.2 million for the period of the current financial plan and beyond.

   - That $16.2 million subsidy would be exceeded in the event Upper Payment Limit (UPL), and or Disproportionate Share (DSH) payments exceed a "credit" formula discussed in section 4.5.1 of the agreement. According to a report, dated October 13th, by the Erie County Comptroller, "when the EOS credit balance is exhausted, which may occur as early as 2011, the county could have a funding problem in this area."

   - In addition, the county is to provide $11.5 million in construction funding for a new Erie County Home facility in the City of Buffalo (which, according to the county comptroller, does not currently appear in the county's capital debt schedules).

   - The Erie County Comptroller has also reported that the master agreement calls for the county to pay ECMCC annual rent, which has totaled in excess of $1 million a year in the past. He further states that no allowance is made for this rental expense in 2011 The administration has indicated that there are ECMCC interfund billings, at a much lower rate, that are included in the budget..

   - According to the Erie County Comptroller, the county is required, under this agreement, to pay certain retiree health expenses, including for 2010, totaling $2.3 million. He further states that this liability is not accounted for in the 2011-2014 financial plan. The administration indicates that the retiree health liability has been settled through this most recent agreement.

6. ***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. 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 potential salary increases.

7. ***New York State*** – New York State government is facing a short-term deficit of $8.5 billion, with 2012 shortfalls totaling $ 8.2 billion, according to the Center on Budget and Policy Priorities. There is no concrete way to determine how those shortfalls will impact Erie County, but there is likelihood that financial issues at the State level will have an effect on the County.

8. ***Regular Part Time (RPT) Employees*** **–** the County's largest labor union, CSEA, has filed a legal challenge to the designation/use of RPT employees – PERB has ruled in favor of CSEA on this issue – the county is appealing the decision. For the plan period, 2011-2014, the county has included $43 million in RPT wages. A final ruling that is not in the county's favor could result in an additional liability that could be 2.5% of RPT salaries (the difference between a 40 and a 39 hour work week), and related benefits. For the period of the plan, that liability could be in the $1 million range, assuming no retroactive adjustment.

9. ***Social Services Programs*** – between the submission of last year's and the current plan, the county appears to have revised its forecasts downward for a number of programs, including: CSW Foster Care, Safety Net Assistance, Child Care DSS, Children with Special Needs and State Training School. All, except one, appear to be showing trends that reasonably explain the adjustment from the previous to the current plan. Safety Net assistance, however, given recent trends appears problematic.

    - Safety Net Assistance – The cumulative difference between the previous plan, 2010-2013, and the current version for this item for the years 2012-2014 is approximately $400,000 (not a significant amount, given the level of expense), with an increase of $2.7 million in 2012, and decreases in 2013 and 2014 of $280,000 and $2 million, respectively. The county's proposed budget for 2011 is approximately $3 million higher than the estimate for 2011 in the previous plan. Since submission of the previous plan, average monthly caseloads have increased from 6,682 to 7,740. The August 2010 BMR shows a significant negative variance for this account. Based upon this worsening upward caseload trend, the previous estimate, an increase of $3 million, of higher costs for 2013 and 2014 appears reasonable at this time.`

Gap Closers

The county does list a number of initiatives to close the anticipated gaps, but does not designate items by specific year or stated gap. The county was asked to provide information detailing gap closers, with ties to specific years of the plan.

The county responded:

“The FYP, while not specifying gap closers has the option of utilizing gap closers such as: Fund Balance, Property Tax Increase, Sales Tax Growth, Elimination of Jobs and lean Six Sigma Savings. At this time it is impossible to break down how much of each will be sued. Each budget year will stand on its own as 2011 did which started with a $30 million gap and was balanced with job cuts and other cost saving programs. Suffice to say the Administration in the 2012 and future budget processes will first look to eliminating jobs/programs, Six Sigma Initiatives, estimate the latest sales tax trend, look at fees and adjust to assure that the fee covers our costs, before looking at fund balance usage or property tax rate increases in order to assure a balanced budget that gives the tax payers of Erie County the services they want at a tax rate they can afford…”

SUMMARY

The ECFSA’s review of the current budget and financial plan has indicated a number of material issues still to be addressed by the county in its financial forecast. Assumptions on two of the largest county revenue sources – sales and property taxes – appear optimistic, given recent trends and the continuing sluggish economy. Overtime expense continues to be an issue, as it has for a number of years. These, and other listed items, have the potential of increasing the anticipated financial gaps from $55 million to in excess of $100 million over the four year plan.

Gap closers, though listed in the county’s plan, for two main reasons, are still an ECFSA concern. Many of the gap closers listed in previous plans and endorsed by the ECFSA have been implemented in the county’s 2011 budget and associated financial plan – the savings have been already accounted for, leaving lesser alternatives or a lower order of magnitude for the future. For instance, how many more jobs can be cut before the county is unable to perform necessary or mandated functions?

Lack of detail and priority in the gap closers is problematic. Erie County government is a billion dollar organization providing services to its almost one million residents and taxpayers. Making wholesale changes to its structure and staffing is not a quick or easy task. Having more detail to plans to deal with stated and potential additional gaps would give more reasonable assurance that necessary services would be provided without overburdening county residents and taxpayers.