ERIE COUNTY FISCAL STABILITY AUTHORITY
ANALYSIS OF THE ERIE COUNTY
2022-2025 PROPOSED BUDGET BASED
FINANCIAL PLAN
October 18, 2021

1. INTRODUCTION

This report details the analysis and comments of the Erie County Fiscal Stability Authority (ECFSA) in its review of Erie County's 2022 proposed budget and associated financial plan. The ECFSA is charged with reviewing the county's submission in light of opining on reasonableness and achievability. Under the legislation that created the Authority, within 20 days after receiving the county's submission, the ECFSA is required to determine, in its best judgment, whether the budget and plan are in balance.

The 2022 Erie County budget and financial plan appear to assume pre-pandemic revenue and spending levels. As detailed later in the report, there are major increases in anticipated revenues and planned spending. The 2022 budget of $1.668 billion is $196.2 million greater than the 2021 adopted budget, a 13% increase.

In its current version of the plan, the county is anticipating $22,775,461 in fiscal surpluses prior to any adjustments to the county's estimate. The previous plan showed a total deficit of $2,353,529. The net improvement to the county's financial position is $25,128.190.

The 2022 recommended budget property tax levy results in a $8.83 million increase in the county's tax levy, as compared to the 2021 adopted budget – a 3.09% increase. The county has provided evidence that the levy does not exceed the property tax cap and that the tax rate per thousand of valuation decreases by $0.09, from $4.42 to $4.33.

2. MAJOR PLAN ASSUMPTIONS

Major assumptions in the financial plan include:

1. The 2022 sales tax budget increases 20% as compared to the county's 2021 adopted budget, then 1% per year for 2023, 2024 and 2025. The 2022 sales tax estimate is predicated on a 2021 base of $544 million, plus a 1% inflation rate.

2. Real Estate Market Value Growth has been set at 5.07% by New York State for 2022 and is assumed to increase by 2% per year for the period 2023-25.

3. The county portion of the property tax levy increases by $8.83 million (3.09%) in 2022 as compared to the 2021 adopted budget. Then increases by $5.9 million (2%) in 2023, $6.02 million (2%) in 2024 and $6.14 million (2%) in 2025 – a total increase of $26.89 million over the period of the plan.

4. The county has not budgeted the full amount of ECC related chargebacks as a revenue in its budget. It has reduced the revenue chargeback amount by $4.4 million per year through 2025.

5. The plan narrative lists increase in health insurance rates of 6.42% for 2023, followed by a 5.86% for 2024 and a 5.11% an increase for 2025.

6. Personal services expenses increase for step and longevity increments, as well as contractual cost of living increases.

7. The 2022 overtime expense increases by 35.27% as compared to the 2021 adopted budget. Subsequent years' adjustments match the increase in personal services of 5% in 2023, and 3% per year in 2024 and 2025.

8. Capital borrowing of $40 million per year for the 2022-2025 period.

9. The plan, as presented, shows no gap for 2022, a surplus of $3,294,574 for 2023, a surplus of $7,447,769 for 2024, and a surplus of $12,033,118 for 2025.

3. MAJOR ADJUSTMENTS – 2021 ADOPTED BUDGET AND PLAN TO 2022 PROPOSED BUDGET AND PLAN

Major revenue and spending revisions from the version of the plan compared to the 2021 adopted budget include:

- The Property Tax levy has increased by $9.5 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- Anticipated sales tax revenues have increased by $228.8 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- Anticipated sales tax revenues to local governments have increased by $158 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- All Other Source revenues have decreased by $29.7 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- Full time salaries have increased by $34.1 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- Anticipated overtime expenses have increased by $14.2 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- Rental costs have increased by $6.3 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- All Other Contractual Expenses have increased by $33.9 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- Road Fund Transfers have increased by $13.3 million for the 2022-2024 period, as compared to the 2021 adopted based plan.

- The 2022 proposed county budget has increased full-time positions as compared to the 2021 adopted budget and 2021 ARP RENEW budget. As compared to the 2021 adopted budget, there are 181 more positions (a 4.6% increase). As compared to the 2021 ARP RENEW budget, there are 50 more positions (a 1.2% increase).

- Current employee fringe benefit rates over the period of the current plan overall decrease slightly as compared to the 2021 adopted budget-based financial plan:

	2022	2023	2024
2021 Adopted Plan	45.99%	46.32%	46.65%
Current Plan	46.15%	45.32%	45.82%
Change	0.16%	(1.00%)	(0.83%)

- The sum total of Erie County Medical Center (ECMC) related funding over 4 years increases significantly from the 2021 Adopted Plan to the 2022 Recommended plan, an increase of $39.2 million (22.8%).

- The 2021 adopted budget-based budget and plan estimated total cost of $6.56 million over the 2022-2024 period for Revenue Anticipation Notes (cash flow borrowing). The current version assumes the county's cash position will require no cash flow borrowings over the 4-year period.

- The 2021 adopted budget-based plan used $10 million fund balance as a revenue, with no fund balance allocated in the out-years. The 2022 recommended budget version of the financial plan assumes no fund balance as a revenue usage.

- The 2021 adopted budget-based budget and plan estimated $2.35 million in financial gaps over the 4-year period. The current financial plan estimates cumulative surpluses of $22.78 million.

- Certain Health and Human services program costs have been assumed to be reduced, over the 2022-2024 period, as compared to forecasts in the 2021 adopted budget-based plan:

    - Family Assistance - $639,738
    - CWS Foster Care - $3,286,282
    - Safety Net Assistance - $5,198,164
    - Child Care DSS - $6,366.768

- Some Health and Human services program costs have been assumed to increase, over the 2022-2024 period, as compared to forecasts in the 2021 adopted budget based financial plan:

    - Medicaid Local Share – $6,692,773
    - Children with Special Needs - $10,557,768
    - State Training School – 10,128,976

4. PLAN ASSESSMENT

The county's current financial plan, as in contrast to the previously submitted 2021 adopted budget-based submission, assumes economic activity will be free of the worst economic impacts related to COVID-19. Erie County, much like other state and local governments, has benefitted significantly from the infusion of Federal COVID dollars.

Overall, 2022 spending is up $196.2 million (13%) an as compared to the 2021 adopted budget-based version. Sales tax revenues for 2022 are anticipated to be up 20% over the 2021 adopted budget.

County staffing is up by 181 full time positions in 2022 as compared to the 2021 adopted budget.

Between last year's adopted budget and this year's recommended, the fiscal gaps have turned to surpluses. A 2021 shortfall of $2.35 million has turned to a $22.77 million surplus, a $25 million swing.

The following is a comparison of current and 2021 adopted plan annual surpluses/(gaps),in millions of $'s:

	2022	***2023***	***2024***
Current Plan Gap	***$0.00***	***$3.29***	***$7.45***
2020 Adopted Plan Gap	***($2.50)***	***($0.66)***	***$0.80***
Difference	***$ 2.50***	***$3.95***	***$6.65***

As with the ECFSA accepted 2021 adopted budget and financial plan, the 2022 recommended budget and associated financial plan appear to be reasonable and achievable. However, the infusion of federal dollars into the general economy, for individuals and governments, is bound to lessen over time and continued economic growth will be more dependent upon regular economic activity.

Based upon this reduced U.S. government support, there is a potential for a downturn in recent sales tax trends and an upturn in the need for county health and human services programs.

The county's ongoing fiscal management has been exemplary, among local governments in navigating the financial issues related to the COVID-19 pandemic. Through what appears to be the worst of the pandemic, the county has adjusted its budget and staffing levels in a way to still provide mandated and desired services while not using if-come revenues.

The economy, as an exogenous variable, is probably the biggest risk the county faces in meeting the projections in its financial plan.

Baseline Estimates/Associated Risk/Benefit

- ***Rebound Economic Impacts*** – The county's financial submission appears to assume pre-pandemic economic levels. Its hiring levels, revenues and expenditures indicate the worst COVID fiscal impacts are over. However, there is a potential that, with future reduction of federal government support, the US, state and local economy could be significantly, negatively impacted.

- ***Erie County Medical Center Corporation (ECMCC) IGT, DSH and UPL*** -In the current version of the financial plan, the county's expectations of ECMC related expenses increased significantly, as compared to the 2021 adopted budget submission. Over 4 years, the expected liability went up $39.2 million (23%). In 2022 alone, the expected ECMC related liability increased by $17.4 million.

- ***Sales Tax Revenues*** – There is a 2022 sales tax increase of 20% as compared to the county's 2021 adopted budget then a 1% increase for each of the financial plan out-years.

  Sales tax receipts received through the October of 2021 by the ECFSA indicate a 20% decrease compared to the previous year. The county is anticipating the current fiscal year to end with sales taxes coming in at $544 million.

- ***Overtime*** –The total financial plan overtime expense is increased by $22.86 million (38%) in the 2022 recommended budget-based plan as compared to the 2021 adopted budget-based plan. Overtime is anticipated to increase by 5% in 2023, and 3% per year in 2024 and 2025, matching the county's overall personal services growth percentage.

  In the county's most recent 2021 Budget Monitoring Report, current year overtime expenses are running 9.24% above budget, even after increasing its 2021 overtime budget from $13.2 million to $15.2 million.

- ***Vacancy Savings*** – The current plan calls for $5.6 million in savings over 4 years, $1.4 million per year. The previous version of the financial plan had just over $9 million in vacancy savings over the 4-year period.

- ***Risk Retention*** – The current version of the financial plan calls for $20 million is risk retention spending, $5 million per year for four years. The previous version of the financial plan totaled just over $12 million, for four years, an average of $3 million per year.

- ***Erie Community College*** – Erie County is the sponsor of Erie Community College (ECC). As such, the county provides funding to the College each year. The county is budgeting $19,804,317 in College support for each year of the budget and financial plan-a $1.7 million annual increase per year, as compared to the 2021 adopted budget-based version of the financial plan. $0.7 million of this increase is due to the 2022 conversion of funding to the College from capital-based to operating-based support.

  As in 2020 and 2021 the county has reduced chargebacks to property owners in municipalities that have Erie County students attending other community colleges. The figure is $4.4 million for each of the budget and financial plan years. This reduction increases the county's tax levy by $4.4 million per year.

Gap and Gap Closers

On the most recent version of the plan the county is reporting a series of surpluses totaling $22,775,362. The previous version listed total shortfalls of $2,353,529, a $25,128,190 swing.

The current, stated (gaps)/surpluses are as follows:

Year	***Gap***
2022	$ 0
2023	$ 3,294,574
2024	$ 7,447,769
2025	$12,033,118
Total	***$22,775,461***

The county has put forward several potential gap closers including:

- Better than expected sales tax revenue
- Additional Federal stimulus funding
- Better than expected property tax assessment growth
- Reductions in discretionary spending, including in personal services and through deletion of positions
- Property tax revenue
- Use of appropriated fund balance
- Increase to Community College Chargeback revenue
- More favorable (lower) caseload trends in social services programs
- Reinstatement of Gaming Facilities Aid

Potential gap closers are not quantified at this point. Amounts and usage are contingent upon the order of magnitude of fiscal issues the county may face.

5. SUMMARY/RECOMMENDATIONS

The ECFSA, in its review of the county's 2022 budget and associated financial plan, finds the budget in balance and the county's financial projections, as-a-whole, to be reasonable and achievable. Erie County has been proactive in dealing with the potentially devastating financial impacts of the COVID-19 pandemic.

However, the county has benefitted directly from two pieces of federal legislation – the CARES Act and the American Rescue Plan (ARP), providing over $318 million to Erie County over three fiscal years. The county benefitted in an ancillary way from provisions assisting individuals, businesses and New York State government through the same federal legislation.

At some point, additional federal money will be reduced or dry up and potential negative economic impacts that have been reduced or staved off, could take hold.

The overarching recommendation from the ECFSA to the county is to remain vigilant in budgeting/preparing for potential economic troughs that could occur when reductions in federal economy-boosting funding/support is no longer available at significant levels.

<u>Specific Recommendations:</u>

Overall Spending/Positions

- Erie County has added back budgeted spending and positions virtually to pre-pandemic levels. The 2022 recommended budgeted spending has increased by $12.4 million over the 2021 adopted budget. For the period 2022-2024, full time personnel spending is up $34.1 million (5%) over the comparable period from the 2021 adopted budget submission. 2022 full-time budgeted positions have increased by 181 as compared to the 2021 adopted budget, and 50 as compared to the 2021 ARP RENEW budget.

- ***Recommendation* –** That Erie County regularly review its operations and services to provide reasonable assurance it is supplying necessary and desired services within the constraints of reasonably available resources and appropriate staffing.

Erie County Medical Center Corporation

- Erie County Medical Center Corporation (ECMCC) ***-*** In the current version of the financial plan, the county's expectations of ECMC related expenses increased significantly, as compared to the 2021 adopted budget submission. Over 4 years, the expected liability goes up $39.2 million (23%). In 2022 alone, the expected ECMC related liability increased by $17.4 million.

- ***Recommendation*** – Given the contractual relationship between the county and ECMC, the uncertain environment for public hospitals and the recent increase in the county's ECMC related liability***,*** the ECFSA recommends continuation of the partnership between the two entities and a close watch on legislation/policy changes that could impact the county's hospital related spending.

Sales Tax Revenues

- Sales tax is the largest single revenue source for Erie County, encompassing 33% of general fund revenues in 2022. In previous years, the ECFSA has commented on the volatility of this revenue based on periodic economic cycles. Those concerns are magnified with the economic uncertainty accompanying remnants of the COVID-19 pandemic.

- ***Recommendation*** - Given the volatility of this revenue source (especially with COVID-19 economic impacts), the ECFSA urges the county to closely monitor receipts and make strategic decisions to maintain balanced budgets and maintain sufficient financial reserves in the event that this major item does not meet expectations.

Overtime

- The 2022 executive recommended based plan increases the overtime budget by $4.7 million per year, as compared to the 2021 adopted submission, which should be sufficient to meet actual spending, given current trends. There does not appear to be any significant savings from overtime management initiatives.

- ***Recommendation*** - The ECFSA urges the county to continue to closely monitor overtime to provide reasonable assurance that overtime will not exceed budget and that overtime management initiatives continue.

New Buffalo Bills Stadium

- It is still very early in the process of negotiations with the Buffalo Bills and New York State on the proposed $1.4 billion stadium. However, it is reasonable to expect that the county will incur some liability with respect to the new facility. The level and type of support is unknown at this point.

- ***Recommendation*** – the county will continue to negotiate in good faith with the Buffalo Bills and New York State to retain the state's only professional football team., while not overburdening county taxpayers in the process.

Vacancy Control

- The county continues (though reduced) use of vacancy savings to help balance the budget and plan reduces the order of magnitude of turnover/vacancy savings as a potential gap closer.

- ***Recommendation*** - the ECFSA urges the county to maintain its vacancy control program, while keeping budgeted vacancy savings at minimal levels. In 2021 the county has maintained a program in which between 5-8% of its full-time general fund positions remain vacant. Continuation of that program with like vacancy percentages is necessary to balance the plan through 2025.

Staffing

- In the 2021 proposed budget, the county is assuming an increase of 181 full-time positions across all funds, as compared to the 2021 adopted budget and an increase of 50 positions as compared to the ARP RENEW budget.

- ***Recommendation –*** The ECFSA urges the county to carefully review any staff additions prior to adding these potentially fixed costs to its budget and financial plan. The ECFSA recommends the county to continue to use technology and management initiatives to "do more with less" and to maintain the management discipline of looking for and implementing efficiencies within functions and departments to further streamline county government.

Fund Balance

- In the most recent version of the plan, the county is no longer using fund balance as a revenue to balance revenues and expenses in any year of the financial plan.

- ***Recommendation*** – The ECFSA recommends the county maintain its current stance of balancing revenues and expenses without the use of fund balance to fill the gap.

Health and Human Services Programs

- For the 2022 proposed budget, the county is assuming reductions in several Health and Human Service programs including Family Assistance, CWS Foster Care, Safety Net Assistance, and Child Care DSS as compared to the 2021 adopted budget based financial plan.

- ***Recommendation –*** the ECFSA recommends the county closely monitor these programs to determine the reasonableness of projections provided and that the county prepare contingency plans to make up potential shortfalls in these accounts, should anticipated trends/revenues not materialize as federal pandemic support wanes over time.

Erie Community College Chargebacks

- For the 2022 proposed budget and financial plan through 2025, the county is not charging back $4.4 million to municipalities for residents who are attending community colleges that are outside of Erie County. This reduces county property tax revenues by $4.4 million per year.

- ***Recommendation –*** The ECFSA recommends the county look at this practice in-light-of the ramifications it has on this revenue stream and the issue of chargebacks as-a-whole, moving forward.

Erie Community College Sponsor Contribution/Strategic Participation

- Based upon its unsustainable business and educational model, the ECFSA recently recommended that a serious conversation be had among college, county, community, and educational stakeholders on how the college can best reconfigure to best meet its charge moving forward.

- ***Recommendation*** – As ECC's sponsor, county participation and funding are critical to this endeavor in reinventing the college. We urge the county to be an active participant in this initiative.

Risk Retention

- The county has increased its risk management appropriations by $2 million per year for the period of the financial plan. Historical annual spending has been in the $2.5 million to $3 million range.

- ***Recommendation –*** Given risks of future potential COVID-19 litigation, the ECFSA recommends the higher level of Risk Retention appropriations going forward.

In closing, we want to reiterate that the county has performed admirably in addressing fiscal issues related to the pandemic. The county has positioned to rebound in a post-pandemic environment. Over the period of the current 4-year plan, the ECFSA is looking to the county to continue its responsible financial stewardship.