Erie County Fiscal Stability Authority
Minutes of Finance Committee Meeting held November 2, 2007

(Note: the following is a draft copy of minutes of a meeting of the Finance Committee of the Erie County Fiscal Stability Authority ("ECFSA"), which was called for November 2, 2007 in the Auditorium of the Erie County and Buffalo Public Library. These minutes will not become final until approved at a subsequent meeting of the ECFSA Finance Committee, and may be amended before approval)

Present: Chairman Joseph Goodell, Director Robert Glaser, Director John Johnson, Director Kruly

Chair Goodell: "This is a meeting of the ECFSA Finance Committee. We are here to review some of the items that have been questioned regarding the Counties budget and four year plan. Some questions were raised at our last meeting and we decided at that time to have the staff work with the County to try to get a better understanding of some of these issues. So what we are going to do at this point is simply go through with the staff, some of these questions that came up."

"First, we need to approve the minutes of the last meeting. Do I hear a motion to approve the minutes?"

Director Johnson moved, Director Kruly seconded, and the committee members unanimously approved the minutes of the previous meeting.

Chair Goodell: "The next item on the agenda is getting into the budget items. I will start off with some questions for the staff that have to do with revenues. There was an item that caught my eye earlier having to do with the cell tower revenues. This is a revenue that the County anticipates by renting out space on the towers that they already own to cell phone companies."

"In the first year of the plan or the budget in the 2008 budget, what was in there Mr. Vetter for the cell phone revenues?"

Executive Director Vetter: "Chairman Goodell, if I could did we vote on the minutes?"

Chair Goodell: "Yes we did."

Executive Director Vetter: "Okay, let me just go through on the cell tower revenue. We sent on October 26th, a letter to the County Division of Budget and Management, requesting further documentation and/or clarification on a significant number of issues included in the plan either as base line items or as gap closing items. A response came back on the 30th from the County with answers to the questions. The cell tower revenue was one of them."

"First of all let me reiterate that the cell tower revenue starts as a planned revenue in 2009. There is no revenue in the current 2008 proposed budget. In 2009 it starts as a million dollar revenue. In 2010 according to the plan, it is anticipated to generate an additional $1 million so that the budget, theoretically would have a $2 million amount in it for that fiscal year. In 2011 the amount would be $3 million and really the rationale that had been used by the County was that they would have to have 30 cell phone towers in the County to generate that kind of money."

"Then they sent out an RFP to cell phone companies to determine if there was significant interest in using County facilities for this purpose. This board has approved 3 contracts for ECC to have cell towers and those cell towers generate approximately, depending on the company, between $20,000-$25,000 per cell tower per year, and really based upon the information that we received back from the County, it was a reiteration of what was in the plan. Based upon that, it really did not get further reasonable assurance on the reality of these revenues occurring. There is no detailed marketing plan, there are no contracts in place and 30 towers may seem to be an extremely high number for the County to generate from this particular item."

Chair Goodell: "If that were $20,000 for each tower, that would require 50 towers and if you had so may towers out there the revenues per tower would likely drop. So we are all quite concerned about this item in the plan."

Executive Director Vetter: "Mr. Chairman, if I could, we will probably be focusing on the GAP closing summary that the County provided for us. There were 31 questions given to the County. The majority of the dollars associated with those questions are in the GAP closing plan summary. Maybe if I could review the document for a moment or two, the questions that were asked on the particular items in the plan and the response to those questions to either provided greater assurance that these items would occur and would endure those dollar values in the plan or not."

"Let me start in order in terms of the GAP. The County is looking at a Social Service case management system to save dollars that uses technology to create a more stream line system and to reduce case loads that are out there. We had asked for documentation to provide reasonable assurances that the structure is in place for that to occur and how far this initiative has gone beyond what was in last years plan because a version of this was in last years plan as well. What we received back from the County was pretty much a reiteration of what we already had. So I guess at this point I would say that there would not be any greater reasonable assurance that this initiative would occur at that level that we had last year at this time."

Chair Goodell: "We studied that twice as I recall, when they were asking for efficiency grants funds."

Executive Director Vetter: "Yes Mr. Chairman and the County was directed, because of the high cost of implementation, to go back and see if other municipalities in New York State would be willing to join in. My understanding is that they made contact with Monroe County right next door to us. They do have the same technology; the SAP system. At this point there did not seem to be a readiness and willingness for direct collaboration on this kind of project to create a bigger pool so that Erie County would not be risking its own principal 100%."

"If you would like, I could continue. There are just a few major items. The County has a risk management initiative that the board has reviewed. The finance committee decided that $25,000 be provided to the County to initiate a study. This was to look at risk management initiatives; a structure to look at how risk management can be used to make improvements in Erie County. Again without speaking on behalf of the board, the comments that I recall on this were that the board and the finance committee didn't have a degree of belief that there was a degree of promise. At this point, if we are looking at potential dollar saving in the very near terms, that is in 2009, that the study had not been commissioned yet that a full fledged plan is not in place so that there may be some savings from this but at this point there is not 100% assurance that these savings would occur in the very near future."

"Cell tower revenues, we have spoken about, this is next on the list."

"Sheriff's road patrol is something that we had asked questions on because this has been in the financial plans since the beginning; since the control board was created. It was on our agenda since September of that year and has not been implemented as of yet. On this one, the County would charge municipalities for road patrol on those services. There have been attempts in the past to do so but the question that we had asked was if there was any evidence of any municipality that has joined on and agreed to pay for that service?" The response was, in essence, that there was no municipality that has, outside of the one municipality that the County has documented before that pays for this. So for this generalized service there is no documentation of any municipality saying that they agree at this point to pay for this service."

"Two other items Mr. Chairman. In the collective bargaining concessions, it is assumed in the plan that there would be raises for County employees going forward but that those raises would be compensated by collective bargaining concessions by the County employees. The question that we had asked was whether there are ongoing negotiations or what the status is of those negotiations; that they are providing reasonable assurances and understanding from the response from the County that they are not ongoing negotiations. At this point it is more of a policy statement than anything. The language that was termed suggested that the next Administration, given any kind of raise analysis, provide assurance that those raises are covered by concessions but at this point in my report to the board and you have a copy of the letter that came back. There are no agreements to any kind of concession with the labor agreements."

"Mr. Chairman, the last significant item there is on the GAP closing summary it is really with regard to reducing medical center capital expenditures and associated debt service. The documentation that was received was a memorandum from the County Attorney regarding the situation with ECMC and a relief that the County is seeking through State Supreme Court Justice Makowski with regard to this. That is the only document/verification from the County that this $18 million item in fiscal year 2011 would no longer be a liability of the County."

Chair Goodell: "Is that in addition to $15 million item that was a subject of failed negotiations between the County and ECMC?"

Executive Director Vetter: "My understanding is that this is the associated debt service. So yes, it is because the County is assuming that there is no pork or negotiated relief. My understanding is that the County is anticipating bonding those items including the $15 million so this would be the debt service related to those items."

"That is for the major items and that is what cam back from the County. This is really paraphrasing. The packet that was distributed the same evening that we received it back from the

County and I think I accurately paraphrases what came back on these major items in the packet. Again for your consideration that there may not be tremendous reasonable assurances that these items would actually occur at the levels indicated in the plan."

Chair Goodell: "Director Kruly do you have a question on any part of this?"

Director Kruly: "Mr. Chairman, I think Mr. Vetter has outlined things pretty well."

Director Johnson: "My only question is why we were unable to reduce some numbers on the cell tower rental for 2008?"

Executive Director Vetter: "Director Johnson, that is not a question that we have asked but I believe this is either a subset or a different metrication of the marketing-based revenue program where the County was looking at selling signage on County buildings and that is just what the County and that morphed into getting cell tower revenue as well and then getting cell tower revenues period because even if you look in the budget; last year in the marketing based revenue within the Division of Budget were budgeted as actuals of $150,000, this year there is no revenue line there whatsoever."

Chair Goodell: "How much revenue is included in the both budget and 4 year plan that is under the assumption that housing values will rise and therefore property taxes will rise?"

Executive Director Vetter: "The documentation provided by the County indicates and they are assuming in 2009 – 2011 that assessed property values will increase by 4% per year and that the property tax levy increase accordingly so on 4% on an annual basis."

Chair Goodell: "How much does that total?"

Executive Director Vetter: "If you are looking at specific years it is between $7-8 million a year."

Chair Goodell: "So it is about $30 million in a four year period?"

Executive Director Vetter: "Actually, if you look at the table in here, it indicates that…if you wait just a second I can give you an exact figure…"

Director Kruly: "Mr. Chairman it should be noted in the document that has been provided and that we are talking about is that there is a pretty big increase in property tax levy. In 2005 the levy for the general fund was under $136 million; the projection here is $213 million for

2011; that is almost an $80 million increase in the levy over a 6 year period."

Chair Goodell: "That means that tax payers are paying in 2011 almost double what they are paying in 2005. All of us have to stop and think what have we done for that additional money? What is new, different better in the County?"

Director Kruly: "Mr. Chairman another point on that, to the history of the ten years of the full valuation that has been provided to us, does show a few years where there was negligible growth. There was one year where those assessments decreased and that has happened in the past from time to time. So, as they say in the commercial, "Past performance is no indication of future results." There is no certainty here."

Executive Director Vetter: "Mr. Chairman, if I could add, in looking at the average for full value increase and assessment from 1998 through 2007 was under 2.4% per year. I know in last year, when we met on November 3; one day later than today a year ago, we had information from the NYS Comptrollers Office listing an average five year increase for Erie County at approximately 2.5%. So that may be one of the issues in the sensitivity analysis that should be marked at this point."

Chair Goodell: "So that would say something like over a third of their projected revenue tax increases are pretty iffy."

Executive Director Vetter: "I think if you are looking at conservative budgeting and financial analysis there have been a number of revaluations recently that catch a number of properties that have been undervalued and properties that may not be completely in the system but at some point that begins evening out and that increase turns more to new bills so that the percentage that may have been there in the last year or so, it may not be reasonable to exclude those in the future."

Director Glaser: "Mr. Vetter, has there been any analysis on the potential, what we have all read about this summer, the credit crunch, the housing industry and the concern that appraisals have been somewhat inflated for the financial sector so that they could keep the housing market afloat and obviously in the summer the housing market has come down substantially. Is there any analysis that has been done on what effect that might have as a national trend but it will still have some impact on WNY? It usually does have an effect on WNY."

Executive Director Vetter: "Yes Mr. Glaser and I think it is like the stock market. It's like WNY with a beta of one in the market means that it goes up and down in the market; housing values in WNY haven't increased in the way they do in other parts of the Country. They remain relatively flat compared to other parts of the Country. My understanding of nationwide forecasts is that there is not a significant increase and in many areas it is anticipated that there is a decrease in property value but I think the decrease for this particular area may be more of a remote possibility because when housing values go up, we don't go up that much. It makes sense that, when housing values go down, we won't go down that much."

Chair Goodell: "It has been my observation that in this four-year plan we've got something, whatever it is $35-40 million worth of property tax increases, and there was only one program new effort on cost reduction. This is something that we have seen, well, ever since I've been on this board, where the focus of the County is on revenues and it almost totally neglects costs. We have tried to, in fact that statute was written included some funding from the State with about $18 million to help bridge the County for significant ideas for cost reduction and primarily in the area of reengineering. We have only spent about of $1 million and here we see that there is only one idea of significant cost reduction and a whole bunch of ideas for taking money out of the local population. I don't know. I am very concerned about this trend."

Director Kruly: "Mr. Chairman, in that regard, the '08 budget is adding 75 more jobs and really there is a lot more that that because they have transferred about 140 jobs to the State Office of Court Administration during the summer. If you net those out the increase is even bigger. If you look at the vacancies that exist right now there are many jobs that have been vacant for more than a year that are still in the budget and I would hope that the County Legislators, when they get into their amendment process, do something about these things because there are opportunities there."

Chair Goodell: "That would certainly be the case. Can you give us an idea in general what areas these vacancies exist in or where the proposed increases are?"

Director Kruly: "Out of the 75 net in the jobs there are 52 new jobs in the Social Services department; there 157 vacant jobs in the Social Services department right now. So it seems to me that, in terms of reengineering and without getting into the merits of the 52 jobs they are proposing, if there is any merit to them, there should be some changes in the Social Services Department so that the positions that are vacant are eliminated and others are created. There are 15 jobs in Social Services that have been vacant for over a year. So I think it is very interesting that they are adding on and not going back and looking at what is already there."

Director Johnson: "I agree with Director Kruly."

Chair Goodell: "That is again, disappointing. The new guy that comes in has a very big mess to wrestle with come January 1st. Okay, do you have any other ideas or items to comment on in terms of those questions; four or five of the big ones?"

Executive Director Vetter: "Yes Mr. Chairman, in addition to those items, we have asked questions because the County no longer produces a matrix, with regard to a number of items that were in the matrix of significant dollar values. The response was that either those items are considered no longer viable or have become part of the base line. So there may be other issues up or down that we may need to look at."

Chair Goodell: "Would you explain what the matrix is; that may help?"

Executive Director Vetter: "Yes, since day one of the first financial plan, the County has produced, except this time, a document indicating and I think it had initially 161 initiatives that listed a brief description of the initiatives and its anticipated financial impact, the initial revenue or savings, expenses for each year of the plan and the total for the plan and gave a little update on where the initiative was; any potential obstacles and any potential successes. The County is no longer producing that, so we had asked questions on the major items of the matrix to determine whether those initiatives where still viable and were somewhere in the base of the plan. There are other items also that we had asked questions regarding that had some concerned that either are or are not in the base line analysis. One of them is something that is in the budget monitoring report as a potential significant issue or the County in the intergovernmental transfer, the IGT payment from the medical center. It has been placed as a potential subtraction year end, a potential subtraction in year end balances for the County, assuming that they may have to pay that to the medical center. For 2008, the Medical Center received approximately $18 million in IGT. Erie County generally budgets there portion of that; a 50% portion of that at a zero basis and they record the Medicaid expense at about $8.9 million. They record a revenue back from the medical center of about $9 million so the net impact is zero. Erie County did not do that this year and in place of that potential liability is looking for relief and did not do that in any out year of the plan. So those are significant dollars that appear to be a risk at this point."

"Two other issues. One has been an issue for an extended period that, on CHIP's borrowing, the County has borrowed money for State highway projects and also gotten state reimbursement for the same projects. In this plan, fortunately, the County has reduced the amount that is outstanding from $4.8 to $3.6 million dollars but there is still a $3.6 million problem out there for 2008."

"The last item is with regard to one of the County's additional funds, not the general fund itself, but with regard to the road fund. At year end 2006, for the road fund, even though $10 million was being transferred out of the road fund into the general fund, the fund had a deficit of $6.9 million. Actually that fund has had a deficit every year since 2000 and really there results of that operation and that transfer, they tend to show a better result in the general fund than should be there. If there is a consistent deficit in the fund that may be a way of moving those negative dollars out of the general fund into another fund which inflates the general fund."

Chair Goodell: "My recollection is that we discussed this budget with the County financial people a year ago and that they intended to chip away at this fund. Is that a correct recollection?"

Executive Director Vetter: "The deficit is about $1 million less in 2006 than it was in 2005 but in a response that we received to the 31 questions there is no documentation and no indication of monies being transferred back to this fund. The indication in the response is that the County will watch spending within this fund but there is no allocation to replenish the fund itself."

Director Johnson: "Mr. Chairman, I want to go back to a couple of items here in the plan that I thought had a lot of promise when we first looked at it. The Sheriff's Road Patrol; this is a very important public safety operation that, when the control board considered it sometime ago, thought that it could bring some revenue, but there is no explanation here why they did not move forward. Have we, the control board, had any dialogue with the Sheriff's Department on this?"

Executive Director Vetter: "The conversations that we have had are with the Administration and not with the Sheriff and this is an initiative that the Administration has taken the lead on in the past. Actually, last year 2006, I believe July of last year, sent our letters to municipalities indicating their potential liability for receiving road patrol service and that the Sheriff has not taken the lead on this particular item."

Director Johnson: "The next item Mr. Chairman was the integrated case management. Again, the control board and I hoped that this would be a piece that could generate some savings for us because, primarily in New York State, the Department of Social Services is looking for those kind of innovative ideas. I know the taxpayers are interested in having those ideas help to save them money but still nothing has moved forward on this piece as well with no explanation. Have we received anything?"

Executive Director Vetter: "Mr. Johnson I think what we receive back among the 31 questions was really a recalculation of what could be saved and in reading through really does not appear to provide reasonable assurance that the program is moving forward. I think in the meetings that we have had; committee meeting and full board meetings, that members have indicated that there is some merit to this program but if I can recall the comments and can paraphrase accurately that any kind of issue with this would be in the structure of how to actually get this done and accrue the savings that are anticipated."

Director Glaser: "Mr. Vetter I have a question. As you looked at the out-years or even this current year; 2008, the County is facing probably close to a billion dollar obligation for future benefits for employees and retirees for what we call GASB 45 liabilities. It will be the first time that that it has to be recognized. Is there any indication in the four-year plan that that is being recognized or worked on?"

Executive Director Vetter: "At this point, in the notes of the 2006 County financial statements, it indicates a total GASB 45 liability. GASB 45 is really the recognition of retiree health insurance and the County dental insurance benefits as well. The total amount is just over $980 million which is 90% of their budget right now. At this point what is being budgeted is the current liability for the County. That is a huge item that is out there and it is not only for Erie County but for all municipalities going forward."

Director Glaser: "But no one is addressing it, just recognizing the total liability? Is there any funding provided for that obligation?"

Executive Director Vetter: "The only funding that is budgeted, at this point, is really funding a current portion of that liability. I know that there are seminars and I have been to some at the State Comptrollers office, there are municipalities anticipating funding greater portions of that because there is no municipality that has to fund all of that at once. That would be impossible. In essence, there are municipalities that are looking at funding a greater portion of that possibly to assist in their bond rating because if they have additional funds to fund this liability it may show the rating agencies that they're financial health is good enough where they can start a kind of rainy day fund on the side to lessen the unfunded liability."

Director Glaser: "So, over the next four years, looking out in the four-year horizon, there is no or minimum funding towards that obligation?"

Executive Director Vetter: "Right. It is really us the current potion, whatever the payments that need to be made for the current year."

Chair Goodell: "We have heard reports on the space study that the County has been doing and there are some pretty encouraging ideas there. Are any of those savings reflected in this budget?"

Executive Director Vetter: "At this point that was one of the 31 questions. The indication back was that the study will not be complete until December. So at this point there are none and I think the issue that was raised when Commissioner Loffredo was here regarding asbestos abatement that it appears to be in his mind even before the study comes our a much more significant issue than originally anticipated that may significantly reduce the savings that the County would anticipate for this."

Chair Goodell: "Are there any other questions? I think that we have worked you over enough. We have the information that we need as individuals to contribute to the Board meeting in about 15 minutes. Is there is a motion to adjourn?"

Director Johnson made a motion to adjourn, Director Kruly seconded and the committee voted unanimously to adjourn.

Respectfully submitted,

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Stanley J. Keysa
Secretary