

.ECFSA
Finance Committee Meeting
May 15, 2009

Present: Chairman Goodell, Secretary Stanley J. Keysa, Director John Johnson,
Director Kenneth Kruly,

Chair Goodell: “This is a meeting of the ECFSA finance committee. We are here to be entertained by Mr. Gach with a long story of how the County will win its way through the next four years. So I think Mr. Gach if you want to just start off and then we will come back and ask some questions.”

Gregory Gach: “Alright, on May 9th we sent a letter that you received on May 11th giving you a modification of the four year plan that was submitted in October of last year. That I believe this body rejected. We believe the adjustments we made based on the latest financial data we had at the time in the letter makes this a stronger plan and a more reasonable plan and quite frankly takes advantage of over \$70 million of federal stimulus funds that the County will be receiving over 27 months. The major modifications we made are sales tax growth we adjusted in 2009 to drop 3% from our original 0%. I know that I have been in receipt and I believe by the cc’s that you have been in receipt of Comptroller Polancarz letter that pointed out that on May 13th we received the actual numbers for our March sales tax. I will just give you a little history on the BMR process. I was here at the beginning of it in 1985 and I believe every year and every month of the BMR, we do accruals. The sales tax numbers we receive basically two months after the activity. The state sends us cash basically twice a month. Sometimes it is three times a month. When the BMR is released from March this year which was at the end of April. We had two months of actuals January and February actuals are in. We had used as of EFT or what is known as Electronic Funds Transfers from the state and in order to release these reports, I have been requested a number of times by the legislature “where is my report, where is my report?” So we have settled on a timetable that requires the report within in one month of the end of the month. Consequently we do not have one month’s activity actuals and we use an accrual number that is supplied to us by the County Comptroller. What they do is take a look at the actuals year to date and the accruals and based off of what happened the year before adjusted to whatever growth or non growth that is out there. So that is what happened in March and that is what will happen throughout the years with the BMR. In the middle of May we did receive the final reconciliation of March sales tax and as the Comptroller pointed out, it was a horrendous number down by 12%. The way this

works is that every three month; and February actuals were a reconciliation month for the quarter, the State reconciles the numbers. We will not see reconciliation until July and at that point you will have some numbers that make some sense. When we look at those numbers we thought a 3% decline was a reasonable number and as a matter of fact that state economists have come out with an estimations that they are expecting the economy to contract 2.9% in 2009. So that was the basis for the 3% plus the sales tax. Again most economists are forecasting in the last quarter of this year and going forward the economy will get out of the recession. We are already in a recession period that is longer than nay that we have ever experienced since the great depression. That is the purpose of the stimulus money; it is to help governments not have to make massive cut backs based on the fact that the economy has faltered. So we believe that the estimates that we have for sales tax growth are still reasonable and I stand behind those. Real estate market growth, we throttled back the 2010 from a 4% to a 3%. We are still saying 2011 and 2012 would be a 4% growth. Again is it a good number? It's as good a number that you can look at this point. We are not a Las Vegas, we are not a Florida or a California that is seeing 60% drops in property value. It's the old story where property values never grew here by any significant amount so we have had a lesser way to fall. Again that is a number that we can debate for ever and ever. It is a number that we can debate if it is 2%, 3% or 4%. We are standing by this number as fair."

"The next item that is a new item is the Federal Medicaid System (FMAP). It is an item that is being treated as a revenue. The last discussion I had with the State comptroller is that they were going to come out with the announcement saying that we have to call it revenue not a reduction in expense. They thought this was going to be a reduction expense and that is what NYSAC was calling it. I've yet to see anything in writing and I am not sure that the State Comptrollers office has seen anything in writing but the estimates based on what the governors office has told us and I have had numerous discussions with State DOB and NYSNAC is \$42.8 million in 2009 and \$31.25 in 2010. For 2011 and 2012 the program is scheduled to end. I know this has been a criticism of the State budget. I was just reading State Comptroller DiNapoli's criticism of the budget which is based on similar type numbers we are talking about for our budget. Saying that it is a weight in time; hope for the future type budget. Given the way the economy is going, I don't know what else to do. The other thing is the Doom and Gloom budget but luckily Erie County is much better shape. Earlier I was reading that Onondaga County is facing a \$4.1 million deficit, City of Utica based on sales tax is looking at

deficits and Dutchess County has now tapped into their reserves because they are experiencing deficits. We are not.”

“On the expense side the major changes were employee health insurance; we kept the 20% increase for 2009 but we trended it off the actuals for 2008. We did get final 2008 numbers and they were much better than what we were looking at back in September of last year and I can tell you that I don’t have later numbers than January and February. Labor management which runs our health insurance program stated that our expense were actually down from January and February of last year. So we built in a 20% increase and passed on the latest numbers I got from John Berger who is a consultant there. He projects 10% into the future of what we have in there. We did not change 2009 or 2010 because we have those rates from the State Comptroller. I revised 2011 and 2012 to a 20% increase in 2011 and a 15% change in 2012. There are numbers all over the place. When the market was down to \$6,000, I think people were talking about 40% but it is now back up over \$8,000. I don’t know what the number is going to be and we won’t know until the State Comptroller comes out with his numbers this year but I feel the 35% increase is a reasonable estimate at this point.”

“Erie Community College charge backs is the one that we originally had in there with 2% growth. Based on actuals from 2008, we revised this to an 8% annual growth. One of the criticisms that a number of people have had including this body have is criticizing the County for not taking into account IGT (intergovernmental transfers). We put in an \$8 million number for each year of the four year plan. We have an agreement with ECMC to take care of the upper payment limit payments which are roughly \$17 million on the County. These are being offset against our subsidy numbers that we have in the budget right now and in the four year plan. The County as I reported in the Budget Monitoring Report was hit with a \$6.6 million ITG payment in I believe was February and March of this year within the \$8 million. I have also had discussions with State DOP and ECMC of an additional \$2.3 million payment that may be in this year as well as next year going forward so we would be looking again at the \$8-9 million range but again we have \$8 million in here for that.”

“The other thing that has come to light since the four year plan was released on Friday, is I believe that this body has been made aware of that there is a possibility of an agreement with one of our labor unions; AFSCME. The executive director has had discussions with our labor relations director as well as our personnel

department about using efficiency grants for some payments to get us up to date. We are also looking at salary increases going out to 2015. It is not factored in. The general fund has roughly \$11.8 million in the 2009 budget for AFSCME employees; 3% is the number we are talking about which is about \$353,000. You take that out of the four year plan and we are looking at \$1.1 million that isn't in the four year plan. As I said before we haven't factored in the plan the cost of increased agreements because the plan is to get off set and efficiencies. I know you already have all of the details. There are a number of give backs and that contract from the union which will hopefully lower our overtime costs. In the future it is going to lower is retiree health costs. It is modeled on the nurse's contract so that new employees hired under AFSME will no longer have the benefit of any retiree health insurance which is the model that we have been putting at the bargaining table with all of our unions. So as I say there is roughly \$1 million if that contract is approved by this body, the legislature and the union ratification vote. Again we are only talking about \$1 million for this union. It is one of our smaller unions. The road fund has roughly \$5 million in there for AFSCME so we will be looking at roughly half of that from there in the road fund. Sewers have roughly half of \$5 million also, so there is half there and in the library roughly \$2 million. In total we are looking at \$24 million in AFSCME budget expenses in the 2009 budget. That is an issue that has come up relatively recently."

"In addition to the four year plan that has been augmented with a number of other items in it, we have an estimated state budget impact that is based on the 2009.2010 budget that was passed by the State. It is roughly \$4 million that is factored into the plan and the accrual that is slightly over \$6 million over four years and that is factored into the plan. I have included a summary of undesignated fund balances in the general road fund. Right now our plan presented here says that we would eliminate the \$4 million negative balance in the road fund. I would also like to point out that the four year plan continues the plan of elimination of borrowing for the CHIPS road work. So that will be transferred over from borrowed funds to taxpayer dollars. That is all factored in here. We also have a section in there that because of the state budget impacts it has driven the 2011 and 2012 numbers to be a gap number. We have a number of options available. I have been calling it that Chinese menu. Maybe that is not the politically correct term to use for it but I like to eat Chinese food so I used that. You have to look at it as, even though I am presenting that the whole gap could be closed by raising taxes by making cuts, by using fund balance, by elimination of revenue sharing programs."

“It could be a combination of all. I would also like to point out that the four year plan, above the line which I know can be the bone of contention includes roughly \$10 million of cuts and salaries. I likened it to 150 jobs, if everything was 100% County share. I have gone through a couple of drills and if we are looking at normal cuts, we are probably looking at 200 plus to achieve that number based on reimbursement. The absolute worse case if you want to go into maximums case would be if we cut everything in DISS which is impossible to do but they are roughly 20 – 25% county share so it would be more inclined at 150 by four or five which would be in the \$600+. I don’t see us doing that because the way the welfare cases are going and actually the welfare cases are going better. We are subject to a number of court orders to maintain a level of service, so making the cuts in just DISS is impossible. This was pointed out in your original review of the four year plan. So I would like to say that, we realize that we are not looking to cut 600 people out of the expense but what we are looking to do, as you have two former budget directs sitting here on stage with me, it’s the usual suspects. I have used the terms in front of you and in front of the Legislature, as well as the County Executive. Reductions in parks, library sites, DMV offices, the road patrol officers, ADA’s, cuts in my office, in the County Executive’s office; there are cuts everywhere quite frankly. In some cases if the numbers get bad enough we will be looking at simply getting out of some of the businesses that are non mandated and 100% county share. Those are the places that we can cut and get the most bang for the buck. We are prisoners of the State budget, 80% plus out of the budget is State mandated, thus 80% we work under rules that we try to make it as economical as possible but our hands are tied. Medicaid is one that they take the money out of our bank accounts every week; we can’t control it”.

“The other things that are in there are numbers for Six Sigma savings. We did not have that in there before but we didn’t have gaps. That is an option. Six Sigma is resulting in savings. It is a slow process and it is budding up against issues such as mandates; things we have to do things for but we are seeing savings coming from six sigma, whether they will be big enough to offset everything. I don’t think so but our hope is that we will attain those type of numbers but I am not counting on it and that is not what we have here in the plan. The plan is that we are showing gaps in 2011 and 2012 and it the result of a reduction in sales tax and the loss of the federal stimulus money but they are reasonable numbers. They are not huge, outrageous numbers at this point. I will admit that if somebody wants to do the math, it has appeared to

be the implication of the May 13th letter that if you take sales tax down by 12.3% or whatever it is, we are talking about \$40 million. I don't think anybody here thinks that sales tax is going to drop 12%. It was like when we put together the original budget numbers. We thought a 0% growth rate based on what we saw in August and September was reasonable. We thought we looked at the reconciled numbers for the last 8 sales tax quarters and it was a 2.45% decrease so we went with 3%. This number came out of the blue. Quite frankly I said a lot of things that I can't say here when I saw that number and I believe the timing was three minutes after I got the e-mail with the number and I was presented with this 5 paragraph letter in front of me. I said some other words that I can't repeat here but the numbers are the numbers and I can't argue with the actuals but I am hoping that it gets better. The state is talking 2.9%, just about every economist is saying that the economy will be coming back at the end of this year and into the next going forward and quite frankly if it doesn't, as the County Executive likes to say "everything craters" and I don't know if we will be stuck with a mess that will make the 83'-84' fiscal look bad, the 04-05 look easier. If we are looking at 14-15% drop in the economy I would imagine that it will result in higher welfare cases. Right now we are not seeing an increase in welfare cases. In March we saw a decrease in Social Service cases; that is what I am trying to convey, when we looked at the numbers and created this ad released this on May 9th, reasonable assumptions were put into it. I'm hoping the 12.5% is an anomaly and can't believe the economy is dropping that fast because if it is the President has a lot worse issues than I do, you do and the same thing with Governor Patterson."

"What you have in the four year plan is a reasonable number and can I go to the extreme of saying that the worst that is going to happen? Yes. Could I have gone the other way, be polymerized and say that everything is going to be great. I didn't and the County Executive didn't."

"I am here to answer any questions that you may have on this and I welcome your questions."

Director Kruly:

"In the cover letter you refer to the cash flow statement that the comptrollers office included in there first quarter report. I haven't seen that and you have prepared those in the past. Is there anything we should be concerned about?"

"Part two of that question is when are we looking at doing a RAN and how much will that be for?"

Gregory Gach: “Again, I assumed since he managed to cc you on the May 13th letter, I had assumed that the first quarter financials had come to you. Did they?”

Executive Director Vetter: “Yes.”

Gregory Gach: “Okay, they did. Well as I recall there is a page in there with the cash flow and as I recall it the cash flow had showed a \$65 Million RAN in November of this year. So that will be \$10 million less. That will also assume that we close on the BAN, \$103 million, I believe it is closing on the 19th or 20th of this month. We will get that cash in and that will replenish roughly, depending on which piece of paper I look at, \$23-29 million in capital advances that are already happening and that was factored into the cash flow. I have had discussions with the comptroller. If it was needed to do any kinds of advances because we had an opportunity to borrow up to \$135 million but we decided not to because we felt that \$103 million was enough but there may be some projects that the opportunity may be there to do even though we don’t have the cash, we could ask the Comptroller to consider doing advances but we are talking about minimal dollar amounts there. So there should not be any negative impact of cash advances we have had over the last two years but I will refer to the Comptroller on that and I’m not sure if he is here or not.”

Director Kruly: “What about vacancies? How many vacancies are there now?”

Gregory Gach: “The last time I looked at vacancies which is just before we finalized the BMR. I believe we were running somewhere in the order of 200 plus to 300 depending on looking at full time and rpt’s.”

Director Kruly: “Is that heavily concentrated in Social services?”

Gregory Gach: “Social service, if you recall we eliminated rough 100 vacancies out of the 200 that they had last year. So they started the year at roughly 100. That is constantly turning over. I will be honest with you, as we reported in the BMR, we eliminated or stopped the hard job freeze. A few hours after I found out about the 12% decrease and I haven’t had a chance to discuss this with the County Executive but I have had instructed all of my budget examiners that on any F-7’s which is filling a job, to just say no. So we are back to looking at every job and the easy answer for yes is if it is 25% or less county share which are basically all the DISS jobs. I cannot freeze jobs for the independently elected officials. I will be

asking the County Executive to reach out to them to be a little more discrete in asking for the filing of their jobs. The Sheriffs department has a number of vacancies which you will see I just reviewed the budget balancing act for 2008 and for the third consecutive year the Sheriff's overtime overages were balanced by vacancies and we still have vacancies beyond that to meet the original budget so I did not factor into the four year plan any additional vacancies but that is part of my managerial tool box. That is to make sure that god for bid we have a 12% sales tax drop, I will have to ring every dollar I can out of vacancies and those will be county share dollars."

Director Kruly: "This gets us to the question of the 50/50/50 layoffs that you are talking about in 2012. 200 vacancies isn't a lot necessarily and a lot of them are in social service where there is a heavy reimbursement. The dollar amount you have here I understand is a net dollar amount. Are there savings in those years?"

Gregory Gach: "The latest exercise I did, I only needed roughly \$150,000 county share for DISS which if you say is 20% we are only talking \$750,000. The rest of the \$10 million, it is ugly, am not making any friends with that list. Basically I am looking at passing parks. Outside of that, the plan was a 10% reduction at the library which for them would be branches and people. I made cuts in the ADA's, Highway, Sheriff's Patrol, cuts in Health Department; cuts everywhere. Quite frankly a lot of my cuts, were the result of spirited discussion, where a lot of Deputy Commissioners. What we are going to be doing is asking our department heads to do more and elimination of deputy commissioners. I looked at a lot of elimination of middle management types. I don't want to cut the worker bees so much because I think they are the ones that are doing the work but we will be setting an example like Cutting people and asking department heads to do more but there will be cuts for the elected officials, there will be cuts at the legislatures. I took some advice from this body and I'm sure the Legislatures will not like this but may have to cut district offices. If worse comes to worse, those types of things will have to disappear. Our main goal is to maintain services where we can at what the taxpayers can pay for. I don't want to raise taxes and this plan does not call for raising taxes. I don't want to raid fund balance but quite frankly, fund balances, as you will see, are building up to 5% plus, are there for rainy days. Quite frankly a 12.5% drop in sales tax is a monsoon; it is not a rainy day. Like I said earlier, we will be making cuts. Mr. Kruly, Mr. Vetter, you were budget directors and you know the budget as well as I do. If I go and try to make those cuts in DSS, all I am doing is opening the door for federal lawsuits

against me for not providing services that the State requires that I maintain. So I didn't cut Commissioners Weiner's that much but I am looking at departments where we need to make cuts. The County Clerk, unfortunately, will have to have some cuts. The DMV in Cheektowaga is a luxury when it comes to the discussion, are we going to raise taxes or are we going to make cuts. We are going to make cuts. I have been criticized in the past because we cut the things that people like. The problem is, and everyone is well aware of, is when you have a \$1.5 billion budget and 85% is mandated that you really can't do much. You have to cut the nice things in the County. I don't want to cut them but they are going to have to happen."

Director Kruly: "Let's take a look at some of the gap closing because there are certain jobs that I would interpret as being one of the options for gap closing. I am a little confused about the one increasing property tax. It looks like potentially, if it was all property tax it would be a 3% or more increase in 2011, and another 7 – 9% in 2012, that is in the document that Mr. Collins presented to us but had a press conference 2-3 weeks ago and totally ruled out a property tax increase. Could you please explain to me how this could be listed as an option if the County Executives says he will not do that?"

Gregory Gach: "Those are all the options that we have. Is that an option that he will exercise, no."

Director Kruly: "He has said that, a couple of times."

Gregory Gach: "I know he said that and again that is an option that is out there and is always out there. We have cuts, revenue increases, fund balance, usage and then it comes down to do we want a library system, do we want parks, road patrol those are the types of discussions that may be done."

Director Kruly: "Aside from the jobs cuts that could potentially come from the 50/50/50, the only other thing that may be specific to cuts is a 10% cut in the library appropriation. Do you look at that as shutting down branches at the library. I would assume that is what you are looking for there?"

Gregory Gach: "I would assume but it is up for the library board to decide what they want to do there and how they are going to do it but quite frankly with a 10% cut, I don't know how they would maintain as many branches as they have now. That is going to be there call whether they do it through closing branches, changing hours,

reducing services; that is there call. Again, as I said when we are cutting \$10 million out in county work force if you will, I don't see a problem with asking the library to cut 10% also."

Director Kruly: "One other question Mr. Chairman and this is directed at Mr. Vetter, at the last meeting we had a six sigma person here who we asked to either provide us with information or to meet with you to explain how the savings they say are being achieved with six sigma and relate to the budget. Have you had any feedback on that yet?"

Executive Director Vetter: "Outside of the documentation that you have received I have received nothing else. I think that is one of the significant questions. I know before we met we had talked about a series of questions that are standard procedures that we should go through some questions and answers here. Then if there are other issues that need to be addressed that we forward some form of documentation to the county with a time period for response. I think the consensus that I have gotten from people is that they are looking for more details on Six Sigma, looking for the basis of saving, particularly looking for what the actuals. They have been there in the past, what the program is and what the actuals are going to change going forward. To date we have not received that and I would assume upon detailed request that we would get that in the very near future."

Director Johnson: "Mr. Gach, I noticed in your budget that you take the federal medicaid assistance program as a revenue. You are taking your cues from NYSAC, is it appropriate for you to gather information from other organizations such as the National Associations of Counties that may have more information then NYSAC as to how to properly treat this; it is a big big hit for the next two years in the budget."

Gregory Gach: "Well with NYSAC has been doing and I participated in three different conference calls that they put together with the State DOB. We exchanged a number of faxes, memo's, etc as well as the final report that came out of the Governor's office that is how we came up with these numbers. NYSAC also gave me a contact person in the State Comptrollers office who is coming up with the accounting treatment of this, as I said. Up until that discussion with the State Comptrollers office, the feeling between DOB and NYSAC and what quite frankly makes sense, was to treat it as a reduction in expense because Medicaid, for decades, has been treated by the County on a net basis. So treating this as a revenue even though in the weekly shares that we receive from the State,

they are reducing the amount that they are taking from us. So this flies in the face of it. I don't like it and don't agree with it but that is what the State Comptroller's office said they were going to rule on and I have yet to see anything in writing. In discussions with the County Comptrollers staff, they got the same information so they are booking that as a revenue."

Director Johnson: "On your borrowing. Is it in this four year plan based upon the priority of the projects that you are aware of for the next couple of years or throughout the next four?"

Gregory Gach: "There are no new programs in this four year plan."

Director Johnson: "No additions like roads, bridges, etc."

Gregory Gach: "As far as the capital programs, what is built into this is selling a bond in 2010 to retire the BAN that is being issued later this month as well as to finance the balance of the 2009, 2008, 2007 programs as well as the 2010 budget; our capital budget which we are assuming throughout this is a \$50 million in capital programs in 2010, 2011 and 2012. The exact projects, I can't tell you. I am having our first capital committee meeting the day after Memorial Day to sit through \$200 million plus in capital project requests and whittle that down to \$50 million. The four year plan assumes a \$50 million new capital program each year and selling bonds each year."

Director Johnson: "Are both of the intergovernmental transfers for ECMC and ECC, are there any discussions going on right now that might change those figures?"

Gregory Gach: "Yes, there are discussion that are going on between the County Attorney as well as the counsel for ECMC and we are under Judge Mackowski order that requires the County and the hospital to begin negotiations and those negotiations to come up with a formal and final agreement. Those negotiations are going on, I would say almost daily."

Director Johnson: "Are there any indicators when those will be in place?"

Gregory Gach: "I would really have to defer to the county attorney. I don't know what the client attorney privileges are or anything else. The hope is that the county gets out of the hospital business; that is the hope that has not been factored in."

Director Johnson: “You talk about the reduction in this budget and some indicators that may have brought about reductions in overtime. There is a lot going on in the Sheriff’s office, a lot going on in the juvenile justice system, where you are pretty much regulated by State government. The State commission on corrections and everything like that. Any discussion about how the state can be more responsible for helping the detainees or the youth who are in custody at the State level versus at the county level?”

Gregory Gach: “Unfortunately the state in this last budget has determined and I can’t really answer about youth but the prisoner population, they were giving us \$40 a day for State ready detainees, then it went down to \$37.50 and is now down to \$0.00. What they are saying is that if a prisoner is in our custody for I believe seven days it goes to \$100 a day and puts the onus on them to get them out quickly. :so it actually going the other way. Luckily in the 2009 budget, we didn’t budget much as far as revenue from that so the negative impact is not that great. We did just have a discussion a few days ago with the probation folks that the end of the Rockefeller Drug Laws may have an impact on us with putting more people into the County system versus the State system. That is all conjecture at this point and is really a thinking that these people are still going to be doing what they are doing it is just not going to be criminal and will wind up in another part of our county government.”

Director Johnson: “Another question. One of my colleges mentioned a the last meeting that Al Hammonds had talked about Six Sigma and some of the projects that we have, we calculated out what the savings would be from Six Sigma bring to the administration that could have a positive impact on the budget for the two years versus cuts, cuts, cuts.”

Gregory Gach: “The latest budget monitoring report we released had a couple of pages in there that detailed the result of Green Belt Wave 1.0. As well as Green Belt Wave 2.0. The estimated savings in 2008-09 for wave one is the savings going forward with Wave 2. Those numbers are the ones I believe you saw and then requested to get the actual budget line estimates. I have had discussions on that with Mr. Carey and he has been working with my staff to identify a lot of lines. So that is in there as one of the options to fill gaps. It is a number that basically says if we have to do 100% this is how much we would need out of six sigma savings; again it will be some from here, some from there, some from everywhere.”

Executive Director Vetter: “Quick technical question, on the library cuts, there is about \$2 million there. My question is how do those savings get

back to the general fund because there is no subsidy to the library?"

Gregory Gach: "I cut the levy that goes to them."

Executive Director Vetter "So how does that save the County general fund money? Isn't that the designated property tax levy?"

Gregory Gach: "Right and I cut that levy and basically it goes over to the County levy."

Executive Director Vetter: "Oh so you increased the county property tax levy and then decreased the libraries."

Gregory Gach: "Yes so there is no decrease in the levy going forward, all that happens is that it is a revenue. It is a revenue switch between the two lines."

Executive Director Vetter: "Okay I was just looking for the mechanism."

Gregory Gach: "I mean it is quite possible that we would use it to cut but right now as you see the numbers before you, I don't have that luxury."

Gregory Goodell: "Mr. Gach, as we have done before, Mr. Vetter will pull together these questions and get a letter to you today and we will look for a response from you by Tuesday."

Gregory Gach: "Okay so I will have this today and you need response on Tuesday. I am open to any other questions if you want to pick up the phone."

Director Johnson moved to adjourn, Director Kruly seconded and the Board voted unanimously to adjourn.

Respectfully submitted:

Stanley J. Keysa
Secretary

