ECFSA Finance Committee Meeting
February 5, 2010
Erie County Library Auditorium

Present: Director Daniel Oliverio, Secretary Stan Secretary Keysa, Chairman Kenneth Director Kruly, Executive Director Kenneth Vetter

Chairman Kruly: "I would like to welcome everyone here to the ECFSA's meeting of the finance committee meeting. We have a couple of major items to talk about that concern the county borrowing and the revised four year plan. We will start out with a procedural matter of taking care of the minutes from the last committee meeting. Secretary Keysa?"

Director Keysa: "Thank you Mr. Chairman. You have in front of you a hard copy of the minutes. I would note that due to a technical problem last night, they did not come through to me on the internet so I may need to go back to them and check for spelling and grammar but the jist of the meeting is there. I would recommend that they be approved."

Secretary Keysa moves for approval, Director Oliverio seconds and the committee vote unanimously to approve the minutes.

Chairman Kruly: "The first item that we are dealing with is the County borrowing which was pushed through yesterday. I would like to start with Mr. Vetter giving us a little introduction on that and then we have a few speakers on that item."

Exec. Director Vetter: "Thank you Mr. Chairman, briefly we were at the caucus with Mike Neumeister, who is in the audience for a bout 2.5 hours yesterday and most of that period of time was used to talk about the borrowing that the county is planning on going to market with $173 million issuance, $103 of those dollars to take out the ECFSA BAN, the remaining money for prior years capital projects, some store bonds and about $40 million in capital projects for 2010. As the meeting went for an extended period of time, there was a lot of activity…I will call it. We got to speak at the end of the meeting for about 5 minutes to really address some technical points regarding the borrowing. I had indicated tot eh legislature that in essence we had saved millions of dollars for a county borrowing in the past and I made the standing offer from the authority to do this borrowing or any future borrowings to save millions of dollars. Frankly there was no response whatsoever; there were no questions and there were no responses whatsoever and that part of the meeting simply ended. There did not seem to be any items to discuss savings on the bond. The complete focus was on getting the bond out and discussion on particular projects being in or out. So again, scheduling this meeting maybe very fortuitous that we are meeting here today to talk about this, In your packets there is an analysis that indicates that with a long term borrowing by the authority as opposed to the County that the overall between 2010 – 2023 that there could be an excess of $21 million saved by the County. This savings, in looking at how the County is looking at amortizing its debt appears to be front loaded and at this point I think it would be worthwhile to hear from Mr. Neumeister on that."

Mike Neumeister: "Good afternoon, my name is Michael Neumeister; I am the financial advisor to the ECFSA. Yes, what we did was review with your underwriters, Roosevelt and Cross whether the selling cost if undertaken by the Authority and we ran it with a similar maturity as scheduled by the underwriting responses to the County. As to the duration of the term on the bond issue, Shorter of course is better in a dollar sense to save interest and pay your bonds sooner and the interest rates are structured better in the short term. So again, matching maturity schedules with maturity schedules, interest rate on all in basis undertaken by Roosevelt and Cross on your behalf in this market today, would cost about 3.10% on all of the interest costs as compared to the 4.46%, I think, which was in the proposal for the County's financial advisors."

Director Oliverio: "I have one question. As I read the notes and do the calculation of 2010 – 2013 for four years inclusive. I see a front loading of the debt service. Is that right, as far as the amortization goes?"

Mike Neumeister: "It was again structured in a similar way that the responses were structured from the Counties request. We did construct the amortization schedule to try and map the amortization."

Director Oliverio: So when we compare the two we are comparing apples to apples?

Mike Neumeister: "That is right."

Director Oliverio: "So then a simple subtraction of the yearly debt service is a valid subtraction because we are subtracting using essentially the same schedule?"

Mike Neumeister: "That is correct."'

Director Keysa: "Mr. Neumeister as I look at that also, the first years of those savings, there appears to be $8.8 million."

Mike Neumeister: "Certainly, that is exactly what the numbers add up to. Again, some of the advantages as discussed yesterday at the Legislature meeting is that that we have the opportunity to do Build America Bonds as a result of the high construction and that is a financial advantage both to the Authority if they were doing the financing as well as the County if they were doing the financing. It has become a popular financing item today".

Director Oliverio: "With those particular bonds can you tell me about the advantage?"

Mike Neumeister: 'Again they are essentially on a taxable basis and the appeal to taxable bonds is that there is a tax free interest involved in investing in these bonds. They are usually done on a longer basis: 7-10years but you get a 35% rebate. That is the positive part which brings down your taxable otherwise higher taxable cost to a more of comparable tax exempt cost."

Director Oliverio: "That particular instrument will be available for how long?"

Mike Neumeister: "Right now, the bond expires at the end of this year; 2010. There is talk about extending it but currently it ends this year."

Chairman Kruly: "Thank you Mr. Mike Neumeister. Comptroller Poloncarz?"

Mark Poloncarz: Good afternoon Gentlemen. A number of documents were forwarded to Mr. Vetter a couple of days ago which I believe are the documents referenced by Mr. Neumeister with regard to the potential interest rates for the County and the ECFSA. At the time I had informed Mr. Vetter that those numbers were at the higher end of the proposal. Some of the RFP responses were actually lower; there was one that 3.72% and another that came in at 3.8%. We thought that the likely outliers based on the Counties bond insurance in the past and I would like to go on the record that the Counties bond insurance in the past not only did we have a successful sale and a successful sale with our interest rates, as policy with an America bond sale. Now as of right now we don't even know if we can use those bonds, it really needs to be based on price analysis over five days to determine if there is that much of a savings. As of right now through the general thought, tax exempt bonds be issued for the first few years, if it was beneficial and as of the date of the RFP responses, it appears beneficial to have Build America Bonds. The advantage of the BAB's, as Mr. Neumeister said, is that it is taxable so we have a larger market to go to but the other advantage is that taxable amounts have a higher interest rate overall. There is a 35% interest rate subsidy from the federal government that will be paid directly to the County not to the bondholder. It makes the situation better because these are tax exempt. So, it is our expectation that before we finally go to sell the bonds that price will determine whether we go with BAB's."

"Is the goal of the County to pay off debt as soon as possible? This is a 13 year plan based on the 13 year borrowing we did with you. If you notice there is a line by line analysis of the 2010 borrowing that was approved by the Legislature are only five years. They are very small; they are not long term projects that are going to be out there for 30-40 years. That is the situation effective".

"With regard to the 2010 capital program, it was discussed at the legislature yesterday minus two projects. One is a smaller project that for $133,000 because it hasn't received SECUR approval yet and then the Legislature would like to take out $3 million for the demolition of West Eagle and the beginning of the first phase of construction. That will be sent over to the Legislature, sent to committee and it will be discussed there to determine if it is good policy to use the borrowing money for something that may not go forward. So it my plan to go forward with the transaction of $173 million for payment of the BAN that was issued by the ECFSA last year, it also includes projects that previously received approval from the Legislature but have not yet been financed yet. Prior years, as well as the $3-4 million in bonds. We chose CitiGroup to be the senior managing underwriter. We have a five year co management group that we have worked with in the past to complete the transaction to benefit Erie County through the sale of bonds. We are moving forward with a very tight time schedule to meet the requirements of the ECFSA financing agreement that was entered into last year. You maturity, I may note, is May 19th. The financing agreement states that we have to provide you the proceeds pay off for the transaction at your maturity date as a result of your transaction that closed on March 4th so that you received your funds by March 18th. Mr. Vetter did speak about that briefly yesterday. So as a result, we have a shorter timeline then we normally would have in signing this bond deal with everyone in agreement that it can be reached. Now that the Legislature has passed the 2010 bond resolution, that will be included in the transaction so we will only have to do one transaction in 2010. There will be no need for two transactions. It is a large transaction because it not only includes 2010; it also contains 2007/2008/2009 as well as the Sewer and Fire borrowings. So it is four years. It is a pretty comprehensive transaction. I know there was discussion with regards to the savings that the ECFSA could provide. As of yesterday, I would like to state for the record, Mr. Vetter stated that he did not have the analysis for the Legislature and could not at that point provide that information for the meeting. I understand that at the market you could probably get a little lesser rate. I know the County Executive specifically said that the ECFSA will not issue long term debt. It is time to move on, it is time to convert to long terms debt. We are experiencing the lowest interest rates on record."

Director Oliverio: "Thank you for coming over Mr. Poloncarz, is there any doubt whatsoever that this Board can borrow, long term and cheaper for the County of Erie?

Mark Poloncarz: Well that has always been the case. As long as your credit rating is slightly higher then the Counties, then you can always borrow cheaper. I have never denied that. My question has always been as to what the numbers are because they are always different."

Director Oliverio: "According to Mr. Vetter's analysis and I don't know if you have seen this or not? Based upon what you said and what our Capital Market Advisors have stated, the savings over the total term would be around $20 million and we would have an approximate $9 million during the four years of the plan that we are looking at. To me that is significant money. Did you before you decided to do this long term borrowing have any discussion with Mr. Vetter or with the Board's Capital Market Advisors to determine what the differences might be to the County"

Mark Poloncarz: "We looked at it internally. I did not have a conversation with Mr. Neumeister based on the past relationship with members of the ECFSA and Mr. Vetter."

Director Oliverio: "I guess that day that we talked. The day before you submitted the resolution, you were aware at that time that the ECFSA could borrow, long term more cheaply as well."

Mark Poloncarz: "If the County doesn't ask you, then there is nothing we can do."

Director Oliverio: "I understand that but all that I am asking is that at the time that we talked you were aware that the ECFSA could borrow cheaper?"

Mark Poloncarz: "I understand what you are saying."

Director Oliverio: "So the answer is yes?"

Mark Poloncarz; "In general I would say yes but I have not seen the analysis that was prepared by Mr. Neumeister and Mr. Vetter because it was not presented to the Legislature or myself."

Director Oliverio: "I don't want to engage in a semantics argument but it seems to me, that yes I am going to lead you like a lawyer but the County Executive and the Comptrollers office know damn well that this Board can borrow more cheaply, long term then the County even when the interests rates are at their lowest. I agree with you 100 %; we are not going to see those interest rates for very long. I agree and anything that we can turn into long term favorable long term borrowing, we should but I don't think there is a doubt from anyone and this is an issue that this Board has been confronting in the past that this board can borrow more cheaply then the County can. According to Mr. Vetter's analysis and Capital Market Advisors, we are talking a significant amount of money. Is there any economic justification Mr. Poloncarz that you can tell me why and I am looking for an economic justification, why this Board should not borrow instead of the County?"

Mark Poloncarz: "Well I cannot comment on the analysis from Mr. Neumeister because I haven't seen it. I can state, for the record and you were not involved in these conversations before hand but most of the discussions going on for a while and there was analysis done by the ECFSA stating that you could do long term borrowing and would not have to exist for the life of the bonds. That has been disproven by the State. If you do long term borrowing, you have to exist…and Mr. Vetter you are shaking your head but you are wrong."

Director Keysa: "The borrowing you are talking about here extends to 2023, long before the sunset date of this Board."

Mark Poloncarz: "Yes but as long as a long term bond is out and we all agree that this Board should not be existing until 2023. If this Board still exists in 2039 none of us have done our jobs. If anyone should have a control board right now it is New York State not Erie County Government."

Director Oliverio: "Mr. Poloncarz, if I could. I don't want to debate if this Board should be here or not be here. That is something for the Governor to decide. We are here and I told the County Executive that the other day when he gave me a similar speech. We are here the Governor says we should be here and it seems to me that if we have borrowing capacity that will allow you as the Comptroller and the County Executive to save the taxpayers of this County $21 million over the life of this note and especially $9 million over the next four years. For the life of me I cannot see any economic justification for not doing this and frankly if the County Executive says he has a philosophical problem with it, I have a philosophical problem with the County Executive, elected by the people, who have an obligation to represent the people that borders on my fiduciary obligation, squandering $21 million. That is a lot of parks, it's a lot of Sherriff's, and it's a lot of recreational facilities for our families and children. It is a lot of money. We talk about the philosophy of a control board but as I understand it NYC still has one that has been there since David Dinkins turned the city upside down. I think if you take a look at it, Mayor Bloomberg, who knows a little bit about finance, borrows money through that Board to this very day. So I may understand your philosophical difference but I also understand that $21 million is real money and I haven't heard a valid explanation yet as to why we should turn our nose up at the kind of money."

Mark Poloncarz: "And the cost to the taxpayers of NYC, is at least as $4.5 million on an annual basis. I'm not sure the taxpayers of NYC really think that is value."

Director Oliverio: "I'm sure Mr. Bloomberg has taken that amount into consideration."

Mark Poloncarz: 'The best interest of the taxpayers is to move forward and have counties being governed by elected officials and if we do a bad job then they have the opportunity to throw us out."

Director Oliverio: "Mr. Poloncarz, this doesn't keep you from governing. It allows you to borrow money cheaply. It means you are doing a good job. It means you are doing better. You will be saving the taxpayers $9 million over 4 years."

Mark Poloncarz: "In 2006 the ECFSA allowed us to borrow at rates that are higher then this."

Director Oliverio: "Well this is 2010; you got a new member on the Board. There are a couple of people who aren't here and maybe I am a simpleton but when we are looking at structural deficits and gap closers which Mr. Gach will speak about soon, we are trying to cobble together money to make up these deficits. It is clear that there is no political will to take the high road on this. You are speaking first and then we will have Mr. Gach. I think it is ironic because we are talking about $9 million over four year which is the plan term and what Mr. Gach is going to talk about is structural deficits. Something the young kids and my associates say at the firm is "I don't get it, I just don't get" and to me to equate this to philosophical political muscle as opposed to doing what is right for the taxpayers. Mr. Collins when he runs his business would finance through his next door neighbor if he could save $9 million in four years or $22 million in 13. He is a good business man. So what am I left to assume? That this is pure politics. That is what got us here in the first place. Then I am supposed to sit here and wonder if I want to remain in advisor or revert to a control period when I see this thing. More then anything I am really disappointed. I'm disappointed by this because it shows a lack of leadership from the people that are supposed to lead this County."

Mark Poloncarz: "I'd like to go on the record of saying that I cannot comment on the numbers that have been provided by Mr. Neumeister because I have not had an opportunity to look at them."

Director Oliverio: "I will give you mine."

Mark Poloncarz: "Sure. I think the interest rate to the County is higher then this transaction."

Director Oliverio: "…and I noted that."

Mark Poloncarz: “We compared apples to apple and apples to pears by doing two transactions on the same day for the control board to do the borrowing but that is not the only thought that is involved in this transaction. Don’t roll your eyes at me Mr. Oliverio.”

Director Oliverio: “I’m not rolling my eyes.’

Mark Poloncarz: “You sat there and asked me not to opine on the specifics with regard to philosophical issues and then you just sat there and gave me a 10 minute lecture.”

Director Oliverio: “No it wasn’t a philosophical issue, I was talking about dollars, Mr. Poloncarz. I was talking about hard dollars.”

Mark Poloncarz: “I think Mr. Vetter once said, wanting it doesn’t make it so.”

“Alright, If I go to Wall Street, they have no understanding why the full board does the borrowing when they truly have worked very hard and can get really good rates. When I go before the rating agencies I have to explain our philosophical differences of opinion and everything behind it. The rating agencies doesn’t understand what the problem is because the County can go out and borrow at a decent rate. Why would we want to perpetuate a state authority? All of us agree that there are too many state authorities and the last thing we need to do is perpetuate one beyond any time needed. I don’t plan on being comptroller in 13 years and I don’t think you plan on being with the ECFSA in 13 years or even wonder if you will be on the ECFSA in 10-13 years from now. If the Authority does the borrowing, it has to stay in existence for the life of the bonds. The reason the short term notes were allowed by the County is for that reason, they were short term notes. While the authority can roll over BAN’s in perpetuity, according to local finance law, Erie County cannot. We can roll it over for a five year period then we have to convert them to bonds. So within a five year period we would have had to convert those to bonds anyway. Why wait five years when you know we will probably have much higher interest rates and the interest rates are as low as they have ever been. Why wait five years to roll them over into bonds and then pay a higher interest rate while in the interim paying nothing but interest on $103 million form last year, $38 million this year plus the additional amounts from sewer. We are throwing away money because we all we are doing is spending the hard earned tax dollars of Erie County citizens on debt service. I understand your argument but there are legitimate reasons why the County could take this and make a long term borrowing that we would have had to do anyway ensuring that we are paying of the debt, principal and interest in a short time span and doing what is in the best interest of this community. We need to start working on behalf of the folks of Erie County. Literally, my office has spent the last 3-4 days revising and preparing the preliminary official statement which has been sent out to all the underwriters. As soon as I get through here today, I am going to go back and work on more of this stuff. In the end we have to move forward. The County Executive said he was not going to allow the control board to do a long term borrowing. I agree with that decision. Mr. Vetter was present at the meeting at the Legislature yesterday nod there were no offers from the republicans or the democrats."

Director Oliverio: "Mr. Poloncarz, thank you and I appreciate your point as well. Two additional points to make before we let other people talk here. My analysis of the hard dollars, I think out ways any analysis that goes on in my head about the County going on its own and the ECFSA existing. We are at such a critical place. Just look at the 2010 -2013 plan and I know you have. We are at such a critical place financially and I have difficulty parting with even one dollar over what amounts to no one wants the ECFSA to exist for another 13 years and you are right, non of us will be here at that time. As to the issue about the ECFSA existing for the length of the borrowing and I confess I don't know the legal issues about that but I will take your word for it. Do you really think that if the County of Erie is in great financial shape in lets say six years, your term is up in four years because you just got reelected, let's just say in 6 years the County is in great shape, it's solvent, great surplus, rainy day account is good, jobs are going well, union contracts are solid and everyone is happy all the parks are open the baseball park are lined and the grass cut. Do you really think that if the ECFSA exists at time is going to be anything more then a really advisory board once a quarter and you on your way, call us if you need us? Do you really think that a reasonable control board and I think this a reasonable group of people, is going interfere or make it difficult for a County Executive, and I say County Executive because your job is a little bit easier, Do you really think a group of 7 citizens is going to upset the apple card if things are going very very well and everything is fine? It will be truly advisory and it will be advisory. IF you are able and County Executive Collins are able to turn this around and do some of the things that Bloomberg has done in New York City to improve the fiscal situation their. Whether this Board is here or not will not make one bit of difference when it comes to doing your job. I think it is about time that you and the County Executive understand that and just draw an arbitrary line in the sand and say I'm against the ECFSA because I had problems with Anthony Baynes, a few years ago or with some of the other chairmen but money here overwhelms in my view any philosophical discussion about this Board being in existence in 13 years. That is the point I am trying to make. This is real money Mr. Poloncarz, its real money that we need. I could ask you to rethink and you probably won't but this is real dough and you live in Erie County too. We all do. So that is my point of view and I apologize for making it passionately but that is my view and I believe in it."

Director Keysa:	"I'm just curious, have you met with any of the rating agencies in the last month, month and a half?"
Mark Poloncarz:	"Not in the last month in a half. We have a meeting scheduled with all three of the on February 17, 2010. "
Director Keysa:	"I assume that you have met with some of the potential underwriters. Have you met with them or just talked with them on the phone?"
Mark Poloncarz:	"Just talked with them on the phone. If they had question we advised them to contact our fiscal advisor, Steve Cantor of First Southwest on the RFP process. So there could be no questions on tampering on our end. If they had questions, solely on financing from our end. Most of the discussions were with Mr. Cantor before I began talking with them."
Director Keysa:	"What would the dollar amount be for the 13 year bonds in savings that you would you would agree to have this Board to continue? Right now you are suggesting that $21 million is not enough savings for you."
Mark Poloncarz:	"Well I don't think it is $21 million because I think the interest rates compounds higher. They have got 4.65% but I think it's fair to say that the transaction will be around 4%. If that is the case then there is the potential for savings but $21 million, probably not. If you go with the higher end numbers that I gave to Mr. Vetter at 4.4%. I'm not sure exactly how you quantified that but I do agree there would be savings."
Director Keysa:	"It is not enough savings to make it worthwhile and provide that tax relief to the citizens of Erie County. Whether it be $21 million, $18 million or $16 million, we are showing $21 million and you may say it may be lower, at what point do you feel that the savings is adequate for you to agree to a long term borrowing by this Board?"
Mark Poloncarz:	"As I have stated it is not just an issue solely on the dollars, it an issue on the existence of the ECFSA. Even if it is in advisory status, like the NYS Fiscal Authority. It has been in existence for many years and they have a $4 million budget."
Director Oliverio:	"Well ours is $400,000."
Mark Poloncarz:	'I will note for the record that the number is lower then happens to be in the past. One of the first things the ECFSA did was authorize a study that cost the taxpayers almost $2 million which was a rehash of a partnership report. So all throughout the life of the EECFSA, there have been a lot of fingers pointing to the County and there have also been fingers pointing back. I think we can both say there are savings on both sides that we

probably should have handled better but here we are today. We have an opportunity to go to market. If we role this over in a BAN year after year, Eventually the County is going to have to engage in long term debt and then we will be paying much more regardless of who does the borrowing."

Director Oliverio: "Mr. Poloncarz, I have no disagreement of the analysis about the BAN. I think that you are right and I agree with you. I think the time is right and the only thing I disagree with you with along with Director Keysa and Director Kruly and the only reason why you don't want to do is because we might be in existence in 20 years. I just don't think that is a reason at all."

Director Keysa: "I would just like to add that none of us makes a cent from this. I am going to be going to be gone because my term is up at the end of the year because my term is up. I know there are a number of others who are almost up as well. So it is no long term benefit other then the fact that we are tax payers in Erie County and we want to see taxes in Erie County come down and we want to see the fiscal status in Erie County stabilized and right now we are looking at major deficits in 2011 – 2013; $177 million potentially. Here we are looking at $8.825 million according to my calculations we are just throwing away."

Mark Poloncarz: "I understand your point if I may note for the record. This is not my decision whether or not the County is in debt. We have had this discussion numerous times with the County Executive and the Legislature. There are a lot issues on the table. I know there are a lot of problems with the four year plan because I reported on the four year plan. I also remember the control board in 2007 saying we were I a deficit in January and we ended the year with a sizable surplus."

Chairman Kruly: "The surplus was paid for by the federal taxpayers who bailed the County out. There was a structural deficit."

Mark Poloncarz: "I'm talking about 2007 and you are referencing the FMAP money." .

Chairman Kruly: "You have a structural unbalanced budget this year. I find it kind of incredible how hypocritical you and the County Executive are about dictating costs of the control board being around when every day the County Executive allows the Legislature to run district offices cost $7-800,000 a year. You sign the checks for those rents. I would be very happy to match up the value of this Board at half the cost of what district offices are. I think they should use there district office or get offices at the County Executive's building."

Mark Poloncarz: “Can I say something on this issue? Number one it is not my decision whether or not the Legislature has District offices. Number two when you were Budget Director under Dennis Gorki, did you cut the district offices out of the budget?”

Chairman Kruly: “Yes, I did and I regret that”

Mark Poloncarz: “And then did you move to approve the hiring of the (can’t make out the recording).”

Chairman Kruly: “But frankly Mr. Poloncarz, you were not in the County at that time, the County was doing quite well financially at that time compared to what has been the case over the past ten years”

Mark Poloncarz: “Well you had higher taxes and an over inflated surplus but it is good to have a surplus, I will agree.”

Chairman Kruly: “Okay, Mr. Poloncarz, you’ve had your say. I have a couple of points to make. You used to believe that the County ought to go on a debt diet. Tell me why, now that we have a bond issuance that is potential $173 million, big enough to choke a horse, why don’t you believe in the debt diet anymore?”

Chairman Kruly: “No you don’t.”

Mark Poloncarz: “$173 million? This is questionable because $173 million, if that was for one years capital projects, it would be astronomical and highly critical, I agree. The legislature yesterday just passed a bond resolution for 2010 that allows a borrowing of $37.86 million. When you include sewer bonds it comes to about $2.5 million. At the same time the Legislature has retired $48 million in debt. It has taken a long time but Erie County has gotten to point where Erie County is retiring debt and more debt then we are actually taking on, on an annual basis.”

Chairman Kruly: “The debt service is going to sky rocket after the sale.’

Mark Poloncarz: “If this $173 million transaction was just 2010, even 2009 it would be astronomical, I agree with you but it’s not it is 2008 – 2010 and sewer districts. When you write it down, now we are talking about less then $50 million over four years.”

Chairman Kruly: “Oh boy!”

Mark Poloncarz: ‘Oh boy?”

Chairman Kruly: “We were talking about $20 – 30 million that was suppose to be the target about 2-3 years ago but now the horse is out of the barn and we are back to wild borrowing to take care of projects that who knows what they are even valued at. I heard from some county legislatures who complained about the rush that was given to them and they weren’t even briefed in advance about the whole thing and were told that they had to vote on it yesterday.”

Mark Poloncarz: “Well they were told. If they didn’t pass it yesterday it would not be included in this transaction. It would have to bypassed at a later time and this would cause a cash advance problem. I think that you would agree with all of the transactions occurring in one year it doesn’t make sense to do that. I told them that if they didn’t pass it, I’m going to earmark it anyway passed on $132 million versus $173 million.”

Chairman Kruly: “I find it incredible that the officials in the County are comfortable walking away from $21 Million and I think that regardless of what this board is doing going forward we are going to have to tell people about this regularly that you cost them a lot of money because you are more interested in having relationships with Wall Street or having certain projects taken care of instead of taking care of the taxpayers. I think we are done Mr. Poloncarz. Mr. Gach?”

Director Oliverio: "Mr. Gach, how have you been?"

Gregory Gach: “I am good and I appreciate being invited here.”

Chairman Kruly: “What I would like to do is give you the opportunity to talk a little bit about this bond issue and then we are going to segway into the four year plan. I don’t have any particular questions other then that which we have already discussed. Does anyone else?”

Director Oliverio: “I will ask one and it is the same one that I asked the Comptroller. Everyone knows it is cheaper for the Board to borrow. There is $21 million out there for 13 years or the length of the borrowing. There is $9 million frontloaded over the 4 year plan and I know the County Executive has his philosophical view about this Board but Mr. Gach am I missing something on this savings? Are we correct on our numbers? Is this what we are seeing here?”

Gregory Gach: “Mr. Vetter can confirm last Friday when I delivered the 4 Year plan; we had conversations asking “Can I see what the Authority would cost us on a bond issue of this size?” Not to make excuses but I got it 5 minutes before this meeting started. I guessed it would be about $15- 20 million based on the original numbers that I got from the Comptroller office. I am not happy with the numbers that we received with the Comptroller’s office and First Southwest those are the market conditions and as you stated up here maybe those are inflated numbers? Maybe they can do 4% but I don't know."

"After yesterday's meeting with the Legislature, the only issue that was discussed was not the borrowing but the 2010 bond resolution that they had already seen a number of times and quite frankly the discussion had gotten a little out of hand but they eventually approved something which is good. The reason we want this done is that when we go out to do the borrowing and I think everybody is in agreement to do one borrowing then to do two."

Director Oliverio: "I don't think there is a dispute there."

Gregory Gach: "When I left caucus, I had a meeting with the County Executive to go over the bond resolutions and at that point and I will just back up a little bit. Two weeks ago, when I was here I presented a 4 year plan that stated that we could save $6 million plus if we simply rolled over the BAN. Thos numbers came from another discussion I had with Mr. Vetter and the Comptroller. Those conversations amounted to, if we just rolled over the BAN, we will be talking about a number that I have in the four year plan that is $6 million reduction"

"When I look at Mr. Poloncarz's numbers, I save about $2-3 million. If we look at your numbers, and I am not doubting Mr. Neumeister. I have known him for many years and his firm does great work. I'm sure these numbers are right when you work on the math but again that is the Comptroller's as the stated maybe it is a different number on this side. I did have a conversation with the County Executive this afternoon and gave part of what this conversation was with you yesterday. He is still opposed to having the ECFSA issue long term bonds on behalf of Erie County."

Director Oliverio: " I appreciate that."

Gregory Gach: "On behalf of the County Executive, there are points that are in favor of long term borrowing and quite frankly just doing a BAN because we save. The point is we should take advantage of rates in the market place and the fact that some point in the future we have to do a bond."

Director Keysa: "Yes and there are low rates for not only the County but for the ECFSA."

Gregory Gach: "Yes and you do have a better rating then the County. Our past meetings with the rating agencies have awarded us an upgrade despite the fact that we have been in arbitrary shape. We have had years and years of services and I will concede to Chairman Kruly here, "was it because of FMAP money?" Yes it is FMAP money. It is like sales tax money. It is there, just allow us to make changes as it comes and that is what I think, when it comes to this plan those are the types of changes we are planning to do."

Director Oliverio: "When I talked to the County Executive yesterday, we talked about the BAN. He raised it and he said the savings is not $6 million, it is $2.2 million. He said if your Board says it is $6 million, you are dead wrong. Well I said ask Mr. Vetter where the number came from because I was curious and wondered if we had miscalculated but then learned that the number comes from you."

Gregory Gach: " I heard."

Director Oliverio: "You will see the County Executive before I will, do me a favor tell him that it was his number."

Gregory Gach: "I'm not sure what happened in that conversation."

Director Oliverio: "He said he kept doing the math and it came to $2.25 million not $6 million and that we are all wrong. When I asked, Mr. Vetter said it was Mr. Gach's number. So tell him it's his own number."

Gregory Gach: "I discussed this with him and he must have forgotten the true amount."

Director Oliverio: "On the philosophical reasons for borrowing; are your philosophical reasons because I don't here an answer to the question that no lawyer would ever ask but I will ask in this context but I will. Why not? If you can save the money, so what if we are in existence in 20 years. You know as the Comptroller said, the NYC Board is in existence because there are 30 year notes issued by them. When those notes were issued however many years ago certainly someone knew that by doing that that they would still be in existence and they did it. I don't see any NYC Board getting in the way of Mayor Bloomberg. Maybe some day we will have a real answer as to why this Board is a pariah on the borrowing side. The philosophical reasons simply aren't enough for me and I will tell you, it makes your job a little bit more easy because you have a little more cash to spread around. There is savings out there."

Gregory Gach: "Anything that saves me money saves me money and I will agree to that. Our thought is that we will never let the Authority issue a long term bond."

Chairman Kruly: "Why don't we segway into the four year plan. Just to economize on time, could we focus on changes that were made between October and the plan now and some discussion about what the thought process is there."

Gregory Gach: “Well the changes that we made were sent to you all and that includes the adopted budget and the plan that was released in October with the recommended budget. We are looking to make some minor changes. So I will talk with you about those changes. What I have changed in 2011 – 2013 is what I detailed in a letter that last time that I was here on January 15^{th}. “

“I will briefly go over that.”

“We start by shifting nearly $5 million of incorporated, in most instances off line because there were some changes by the Legislature in excepting some of the $8.156 million in revenue in cuts that came from this authority. So that is incorporated above the line in some cases and other cases as gap closers below. “

“We made an adjustment in sales tax from 3.61 to 5%. A week from yesterday we will have our final sales tax number and will know what the final 2009 sales tax number is. I was very happy when we saw the first check that came in and was very unhappy when 5 hours later they sent us a reduction. However we will know in about a week what sales taxes so what I did was adjusted 2011-2013 to take into account a 3.58% drop instead of a 5% drop.”

“I have incorporated in the plan the $6.4 million savings for the bonds that were originally in the plan. As I stated I am perplexed on why the County Executive said what he said. I spoke with him about it and am assuming it is a misinterpretation. It is $6.4 million that is the difference between the numbers I have here for interest on the bond versus if we simply rolled over the BAN. Since then the Comptroller has come out with his financial plan. In looking at those numbers the $6.4 million in savings is different. In his plan I am looking at $2-3 million versus what I have because they are using a little bit more conservative numbers in there for interest rate: it was in the 5% area as the Comptroller stated they use 4.67%. I did not make any changes in 2012 and 2013 because I assumed the at some point we would do a bond. I would say that is as much as we did in terms of adjusted bond interest.”

“The other part had to do with adjusting for the ECMC debt. The original plan had something like $10 million We had $13.78 million of debt. So our debt service reserve fund resolution to the Legislature will include the entire amount that will be paid that is outstanding for ECMC as well as adjusted down $3.25 million of paying of the retirement plan of multiyear retirement plans that stretch back to the 90’s and in fact on February 1m 2010 we did make that payment. I’m not sure how that is calculated on the book, we will have to check with the Comptrollers office but no matter what year the State has that money in the bank. So that will get you to a bottom line number that show about $300,000 for gap in 2011. The options to close the gap are increasing fees, it is on our radar screen but I can't come up with the number right now but we are going to do something on that. The Governor in our budget that came out original proposed a cap on the EI program and the preschool program. WE estimated at this point based on the Governors proposal $1.9 million. We are in the process of closing up the book for the children with special needs program and it appears that we are going to be receiving County share savings in an excess of $2 million in 2009. What that will do, and again this plan above the line I based on that budget number going forward at 7.5% growth. So what I'm saying is that once we have all the final numbers in from 2009 and we can start redoing all these numbers. One of the big numbers is going to be the fleet that has cost us less."

"The next two items have to deal with going back to the $8 million list that was sent by the Legislature of changes that you were recommending and in discussions with the County Executive, we are open to look at those and implement those. So that is the next two items."

"The last item which is something new and has been an on going discussion with several Legislator's of establishing a property tax stabilization fund and this would be funded out of surplus funds from 2009. Subsequent to this on Monday, the President will release his budget. His budget includes, I can't exactly recall how many billions of dollars to continue FMAP and his budget includes is to continue fund FMAP for 6 months through 2011. I know it is a structurally unbalanced item but I am not quite sure. At what point do you say this is a one timer when it is going to happen thee years in a row. So they are talking about extending FMAP through June of 2011. Senator Schumer has personally called the County Executive to advice him that this was going to be in the budget and the twist is what happened with the first 2 years of FMAP money, the money will be coming directly from the federal government to Erie County rather then going through the State where we often get a lesser amount. Senator Schumer's office is talking an excess of $20 million in FMAP for 2011 for Erie County. So rather then the avoid the arguments and discussion that we would have about the wisdom of establishing a property tax stabilization fund balance, if you look at that $16 million, I could simply change it to $20 million in FMAP money and call them gap closers that quite frankly the FMAP money alone closes the gaps. Quite frankly, I'm not entirely comfortable with some of these adjustments particularly the turn over adjustment. The authority suggests we increase turnover by $3 million and the Legislature did in fact increase that. Our plan is that one way or another we are eliminating positions. The Chief of Staff, the Deputy County Executive and I have started a series of weekly meetings where we are bringing department heads and going through every single line and every single budget with an eye for eliminating positions and saving money. So what you have is the 2011 projection which is balanced. The numbers are constantly moving around; sales tax numbers will be comings, departments extended their accruals, social services will be sending their major accruals a week from now and I have to sort it all for 2009 and determine how much we can fund the debt service reserves. WE have already factor in the Road fund. Good news on the road fund, we had in the 2009 budget $4 million to zero out the deficit for the road fund. Right now the road fund in 2009, with the surplus which would mean I do not have to put in the dollars. We are still bouncing it around and there are still some transactions to be looked at but it could be anywhere from $1 – 1.5 million now which would then translate to an increase in general funds. I know there has been some concern with how we will make turnover and quite frankly, that number is a very very very hard goal to meet. In years past we have met it. If you look at the numbers and at county share, we have come darn close to achieving it. What happened at the end of 2009 is that it became more and more apparent that we were going to have a healthy surplus. We took off a couple of restrictions and allowed the parks to hire a few people. Once the budget got passed in December, I put an end to that. We are back to only allowing Social Service to fill temp positions. Basically almost all clerical positions are on hold unless there is dire need of it, so we are back to working the numbers in order to meet that goal. Quite frankly I would like to reduce that number and replace it with eliminating positions and if everything works out you will not see a $6 million turn over number in the 2011 budget. It will be smaller but what you're also not going to see is the personnel services number for 2011 are 197 turnovers. That is what we are planning on doing that is what you have in front of you."

Director Keysa: "One of the questions I have is on the sales tax and it appears that at least funding levels are above 70% as much for December as was the case last year. You are talking $21 million versus $30 million."

Gregory Gach: "That is $30 million out of two checks, so we are waiting for another check."

Director Keysa: "I still would question what the total is for the year."

Gregory Gach: "We will know a week from yesterday."

Director Keysa: "Okay, so we will know next week. Okay, that is before our regular board meeting."

Gregory Gach: "Quite frankly, you Mr. Vetter gets the number before us."

Director Keysa: "In terms of debt diet and we talked earlier at some point of trying to target $20 million and we're significantly more then that?"

Gregory Gach: “Our original focus was to go back to the way it was in the 80’s & 90’s. (Recording is fussy).”

Director Keysa: “So you are comfortable to leave the…”

Gregory Gach: “I am comfortable with it. As a control point and we talked about this in caucus yesterday. If you simply look at the 2010 program versus then we are paying off more then we are putting on the books. Half of those numbers, I would imagine if you look at 2007-2010 and looked at that $170 million that would be paid off. “

Director Keysa: “That aside, you are also going to see a huge jump in the debt service.”

Gregory Gach: “That is in here and there is no question about it. The County has been taking advantage of the road block or whatever you would like to call it this or who bonds what and when, taxpayers have been saving money. Issuing bonds and the BAN last year saved money. The problem is exactly what the Comptroller pointed out, we need to bond. We have to bond and everybody know that when you do a bond, where we could do a BAN at 5%, whether it is the Authority at 3.6% or the Comptroller at 4.6% it is going to cost more money and that is the way it goes.”

Director Keysa: “Which number have you plugged in going forward as a rate?”

Gregory Gach: “It the plan is released here, I have the BAN for 2011. In 2012-2113 I have it at 5% for a bond issuance which I think everyone can agree is pretty high. Even going in Comptroller’s 4.6% it can still save $2-3 millions of dollars instead of $6 million.”

Chairman Kruly: “Just a couple of questions or comments about the revised plan. I guess the sales tax will be whatever it is; whether it is fall out and if better then that is certainly good news.”

“As far as the items that were recommended by the Authority to the Legislature that they used in the budget. I have a problem with including that above the line. I could see putting it below the line. When we recommended it, they spent it and I have no faith that they won’t spend it again. So I think it is potentially a gap closer; there is the turnover number that vigorous, that could fall down to the lower end of the paper but the Legislature operates in funny ways so I am not sure that I would include that.”

Gregory Gach: “What I will say is that when you get in tot nitty-gritty and I am more then happy to sit down with Mr. Vetter, going forward with 2011-2013 when I incorporated your million dollar cuts in fringe benefits, $3 million in turnover, what I also did was to start and eliminate the additional positions that the Legislature put in. I eliminated the additions spending for the library, I eliminated the additional spending for ECC and eliminated I think about all the adds that they put in. So what you are seeing is would be a net effect of what your recommendations."

Chairman Kruly: "What I am suggesting that they will find other ways to transfer that money."

Gregory Gach: "I can't tell you what the Legislature is going to do but I can tell you what out plan is and what type of budget we are going to put in front of the Legislature and as I said you may not see $6 million but you will see a smaller number for payroll. That is what we are going to do. We are talking about cuts. Right now all lot of those cuts, I know there have been articles about us not doing clinics the way some people thought we were going to run the clinics. That is a policy decision that has been made that the clinics aren't necessary, we are ending services and advising people where they can go for services. At some point this year we are going to run out of money to run that clinic and have advised people to find a new doctor because the County is closing down the clinic. Our plan is for a lot of those positions to go into vacant positions. We are having difficulty filling nursing positions at the Holding Center and the Correction facility and we have been offering transfers for the nurses in the clinics. So there will be positions that are eliminated."

Chairman Kruly: "I expect the Legislature to find other ways to spend it. One other thing. You mentioned the President's budget and the potential for additional Medicaid, two issues with that. Number one they seem to be a little more concerned these days in Washington on spending then they were last year so I wouldn't take it as a slam dunk. Number two, I spent a lot of time looking at the federal budget and you should note that the federal budget Start on October 1st. In the last 6 years the federal budget started 104 days late in the fiscal year which means the average final date of which the final action taken was January 12th. You need to submit a budget on October 15th. The odds are very very good that you will not know anything definitive about the President's budget by October 15th. Would you include that money in the 2011 budget or would you be concerned that it would be a risky thing to do?"

Gregory Gach: "I hope at that point the federal budget is in. Would I feel comfortable putting in $4 million knowing that it may or may not appear? No. I wouldn't put together a budget that has a potential $20 million hole. What I am saying right now, it that when we get down to the 2009 final numbers is to fund a property tax stabilization fund. Will it meet the amount? I don't know until we see the final numbers."

Chairman Kruly: "Is there such a thing as a property tax stabilization fund? Is there something on paper that creates that fund?"

Gregory Gach: "As a matter of municipal law you are allow to establish a number of reserves."

Chairman Kruly: "Does one exist now."

Gregory Gach: "Right now, it will be in existence if we can find the numbers for 2009, I don't know if it will be by February. I have a meeting scheduled for February 25th with Mr. Vetter. There was discussion to move that meeting to next week. That would be too soon, so I should have a resolution establishing this in March."

Chairman Kruly: "This one is just another name for the fund balance."

Gregory Gach: "GASB 54 allows 5 types of fund balances; right now we are working under a different pronouncement. I think there are three different types of fund balances; it is either reserve, unreserved or destination. The reserve for the property tax stabilization fund is something that we can do and there are different numbers and Legislatures have asked for it."

Chairman Kruly: "I don't see any problem with doing it. I think it is just basically a fund balance segmented into another name."

Director Keysa: "So you segmenting the portion designated by the charter? The 5%?"

Gregory Gach: "At this point it depends on what the final number is."

Director Keysa: "Are you planning to?"

Gregory Gach: "We are planning on looking at the number. We are committed to doing the debt service reserve, the road fund and establishing some kind of property tax stabilization fund."

Director Keysa: "Again, that would presumably be an amount in access of the charter.

Gregory Gach: The Charter sets the goal at 5%."

Director Keysa: "There is a difference of opinion as to what that base is."

Gregory Gach: "Not only do we have a difference of opinion on what the basis will also be a difference in opinion on how the money gets into that account. I'm sure that will be the next item of discussion because once we are done presenting our legislative reserve request to the Legislature, I'm sure someone will ask."

Kenneth Vetter: "Again, yeah Mr. Chairman, I think for expediency sake, there are a number of questions and issues the people have had. It has been our practice in the past to hand over a set of questions and get a response back. Those will be submitted at the end of business Tuesday."

Director Oliverio: "Mr. Gach, I told the County Executive yesterday that there should be some questions coming if you would like to share with him?"

Chairman Kruly: "Thank you Greg."

Director Oliverio: "I just want to reiterate for the record, I disappointed and somewhat appalled that the County would turn its back on $22 million for some philosophical difference about the existence of this Board. This is real money and $9 million over the course of the four year plan is certainly real money with structural deficits that need to be faced."

Director Keysa: "I have to share in the comments that you made before. I am disappointed in the significant savings here just being ignored for political reasons. There is not other justification. Secondly, I would like to say this Board is here to look at and advise really three different operations. The County Executive initiates the budget, secondly the Legislature adopts it and makes some changes and thirdly the Comptroller is involved in terms of the borrowing and in all cases I am disappointed in this issue. We suggested changes to close gaps that were adopted by the Legislature who immediately took that money and used it for some other spending. So we still are not seeing the kinds of activities that frankly justify our going away. If anything it is a situation where regrettably, we need to be going back to looking at a more active role in supervising what has taken place."

Chairman Kruly: "I would just like to offer a few comments. We have been reviewing this now since October. We have asked a lot of questions, some of which have been answered and some of which weren't. WE had some very serious questions about ECMC, the Holding Center and the impact of the cost there are going to effect things. I have never seen an answer to that. I propose that the County begin cutting in 2010 to make a down payment on the out year deficits. The executive didn't respond to that. In working on a plan, I am personally looking for reality. I though t maybe we had finally gotten some in May and a more accurate reading. In October the problems were defined I think. There is $172 million gap which I think has come down somewhat. The problem with the plan in October is that there were very few solutions suggest for doing anything about it. Now unfortunately we have regressed, the Executive is up to doing some things that he was doing previously, some of the stuff on the top of plan in terms of what goes in to the gaps we could argue about it may not be $101 million it may be $120 million. It is a big number whatever it is and frankly will get bigger in the years that we are not dealing with. I think we have regressed because gap closers have not been identified in any type of sufficiency in terms of things I am looking for. There are things missing from the gap closers; no six sigma, no space planning, etc. I think those things have not panned out and will be reflected in any future consideration for the ECFSA's efficiency grants. I see no real restructuring; I know Mr. Gach says they are meeting weekly and they will work on that but two years under this Administration there are no significant changes. Instead what we are seeing are one shot revenues like the use of the fund balance or as it is used properly, the property tax stabilization fund. That is a use of money that does not get replicated in future years and puts a lull in the fund balance which makes it hard to borrow; there are fee increases in the plan for gap closers. I see no political will on the part of the Legislature to do anything like that. You have invited Chairwoman Miller Williams twice no to give us her perspective and not only ahs she not attended she has not responded to our request. I see know will on the Legislatures part to think about raising fees. The cuts that were made to recommendation were fine but they did spend the money after they made those cuts. Hopefully something will come from the Governors plan with eh early intervention program for the kids but what I am hearing from everyone in Albany is that the Governors budget is probably DOA and the State Legislature will have it's own ideas since that particular budget will shift to the benefit of the County and away from school districts. I don't think that has ever happened in the history of NYS and I can't imagine it happening this year. I don't see the Legislature taking money away from the school districts. I see no significant gap closers at all for 2012-2013 and years after that it will get worse. In reality we don't really have a plan here. We have something that will be helpful in 2011. If the FMAP comes in from the federal government that will be great but it just pushes everything back 6 months. I thnk we need to get to the same thing we have been talking about for 5 years here in restructuring and reengineering things. The debt is going to go up. Once this bond goes through the debt service is going to be very high. I think we are going back to the Giambra days on that stuff. I don't think there is a will to do anything here. I think there is some game playing going on with the plan and I am very concerned that nothing good is going to come of that. So, the result of all of that in my mind is that we need to take a position on this. It is therefore my recommendation to this committee that we resolve two things. Number one that we reject the four year plan that the County Executive submitted on January 29th and that we reimpose the control period on the County so that we get a better handle on what is going on. I think this is unfortunate that we have to make those steps. Director Keysa seconds."

Director Oliverio: "One comment on what Mr. Kruly just stated here and I unfortunately have to agree with you with respect to your resolution. It is disappointing to me that we have to reach this point. There is one thing I would like to do is clarify that resolution especially with regard to the rejection of the four year plan and allow Mr. Gach at the close of business on Tuesday to have some responses for us and that is something we can reconsider at our meeting next Friday. I think we need to reconsider Mr. Gach's responses. We have given the questions to him in good faith and he should have an opportunity to review them. So I would like to resolve subject to receiving responses from Mr., Gach at the close of business to determine and analyze the changes. Otherwise I am in favor."

Chairman Kruly makes a motion to approve the resolution as amended, Director Keysa seconds and the committee votes unanimously to approve the resolution.

Chairman Kruly makes a motion to adjourn, Director Oliverio seconds and the committee vote unanimously to adjourn.

Respectfully Submitted,

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Stanley J. Keysa, Secretary
June 23, 2010