Minutes of the Erie County Fiscal Stability Authority

Finance Committee Meeting

October 21, 2016

Present:	Chair Lynn Stievater/James Sampson, Director Barry Weinstein, Director Catherine Creighton, Director Peter Marlette, Director Lynn Stievater, Director Craig Speers, Executive Director Kenneth Vetter
Chair Sampson	“Thank you all for joining us today for this meeting of the Finance Committee. Though I am starting off the meeting, I am turning it over to Director Stievater, who has agreed to become the Finance Committee Chair.”
Chair Stievater	“I’d like to welcome everyone here today to the Finance Committee meeting to review the county’s 2017 proposed budget and the 2017-2020 financial plan. Before we do that, though, I would like to entertain a motion to approve the minutes of our February 11th Finance meeting.”
	Director Speers moves to approve, Director Sampson seconds and the Committee votes unanimously to approve the minutes of the previous Finance Committee meeting
Chair Stievater:	“I would like to ask Mr. Keating and Mr. Callan to make their presentation on the budget and four year plan.”
Mr. Callan	“If you’d like I’ll just do a brief presentation, an overview of major components of the 2017 budget then I’ll stop then go through some of the questions”
	“The county budget for this year highlighted a status quo budget. This budget provides additional funding for capital projects, but is pretty much a steady as you go budget. We are constrained by two items. The first being sales tax that continues to grow, but not robust growth. This budget assumes a 1.25% increase in sales tax against what we project to be 2016 year end receipts. This year, we are projecting coming in $2.5 million under sales tax compared to the adopted budget. The second is property tax. Our property tax cap for next year is 0.68%. Due to robust assessment growth for 2017 we were able to take 13.9 million in growth above and beyond the base cap.”

"General fund growth factor is 1.15% in spending. Against the 2016 adjusted budget the increase is only 0. 69%, approximately the same as the property tax cap rate. In mid-2016, the legislature and County Executive initiated additional funding for a number of initiatives, including things like lead based funding and services to combat the opioid epidemic and added mandated positions in the DA's office and for security and Sheriff's Office."

"On a blended rate medical insurance expense is up 9.4% for next year. There is a 17% increase in prescription costs. Debt service has risen by $5 million, based upon additional capital spending, especially roads and bridges. Daycare for working parents is going up too, keeping that eligibility level at 200% of the federal poverty level. This means more people can work, as opposed to adding to social service income costs."

"On the plus side, there is an additional $469,000 for the libraries, an increase in capital funding for the convention center by $1 million. We are also increasing funding for Primetime and continuing capital funding for the Bethlehem Steel site and more funding for the county's parks system. At this point, I'll stop. By the way, the assessed value per thousand will be reduced from $4.96 per thousand to $4.94 per thousand."

Director Weinstein: "You alluded to an increase in assessments at the county level. That happened at the town as well. Can you differentiate between increases in existing assessments and those from new construction?"

Mr. Callan: "I can't, but I can get that answer for you from our Director of Real property Tax. I can tell you that assessed valuation for next year is expected to increase by between $51.9 and $55 billion."

Director Marlette: "Can you get into the increasing cost of the ECMC related Intergovernmental Transfer. And the needs of ECMC are obviously a concern for all of us. Can you comment on the county's current thinking relative to helping to alleviate that situation."

Director Sampson: "I believe the ECMC situation will take a while to discuss, before we get into that, I'd like to ask a question. Every year you budget for fund balance and every year you come back and say we didn't use the fund balance. Why do we do that, then?"

Mr. Callan: "The concept of fund balance for us is that it's sort of our last gap closer. We start off the year with departmental requests, we look at what our reasonable estimates are for revenue and there's always a gap. They we figure on how to fill that gap. After closing the gap with denials of requests from departments, fund balance can become that last page gap closer. We've been fortunate for a number of years that we've never had to use it. We've had aggressive vacancy control and we've been able to do it despite declines in sales tax increases over the last three years. For this year the figure is projected to be $6 million, and the same for next year."

Director Sampson: "One last question, before we meet again on October 31st, you had a discussion with Brian Lipke about a floor and ceiling to fund balance. What is the floor and ceiling for a county our size?"

Mr. Callan: "The county charter mandates an undesignated, unreserved fund balance of 5%, which translates to about $55 million. At year-end 2015, we had $99.9 million. Well above that target. The GFOA and rating agencies prefer a 10% reserve. We are right now at a little over 8%." Too much fund balance means you are overtaxing. Anywhere between 5-10% is good."

Director Speers: "I noticed in the highway department and parks department you've allocated capital funds for new heavy-duty equipment. I think that's something that's always needed in a county the size of Erie, especially with the snow and ice we have. In this area we are at the mercy of mother-nature. It's good to see that investment has been made in heavy equipment. I'd recommend a heavy duty highway blower for the highway department. They are very good for the NYSDOT and are available from federal surplus. It's something to consider over a long period of time.

Mr. Callan: "We do have a couple of those blowers deployed in the southern tier. I want to thank ECFSA for 2009 and 2012 allocations for dump trucks and plows." IGT issue has been around for a long time. Collins agreement of hospital subsidy of $16.2 million or IGT payments whichever is greater. Under the affordable care act IGT expenses to the hospital, DSH, as you had significant expansion in Medicaid and develop more health insurance, the pool of indigent care would go down significantly. In that case IGT payments would go down. Hospitals lobbied congress to delay the reduction in IGT payments to public hospitals. In 2012, we knew we would have ECMC obligations that we could not pay and we worked with the legislature and ECMC to implement a credits system to repay $28 million in credits over 14 years. We thought the credits would last 4 years, lasted only 3 years. We approached ECMC last fall about developing a new credits mechanism."

"They were desirous of not creating any financial problems for the county. The Freed Maxick projections showed a shortfall of $20-24 million per year between 2016 and 2020 for the IGT expense. The proposed new credit we've reached with ECMC two and a half months ago was the hospital is very desirous of doing a $120 million capital program. They want a new emergency department and all sorts of other improvements including new energy and HVAC systems. We've proposed a process. ECMC does not have an underlying credit rating. The marketplace for ECMC is that there is not a lot of desire on Wall Street to purchase public hospital debt. They are not a good bet. If ECMC were to get a credit rating, it would be 6 or 7 steps below the county's. The idea is that there would be significant interest savings if the county were to issue bonds as opposed to the hospital issuing. Over a 30 year borrowing, there would be no financial liability for the county. The county would pay the bondholders and ECMC would pay the county almost immediately. We get the benefit of a credits mechanism, over the next 4 years. This is a win for both institutions. Once we developed the oral agreement, we involved the Comptroller's office and others."

Mr. Keating: "The basic concept is that through the credits system ECMC would be giving the county money to help with IGT through an arms-length transaction to stay afloat. I think it's a great deal for the county and it helps the hospital to get capital work done."

Mr. Callan: "What is the plan B? We simply don't make the IGT payments, which significantly impacts the ECMC financial situation. We don't want to do that. The hospital has been doing well the last 5 years. Both parties are desirous of working out this mutually agreeable solution. We are hopeful we can work this out."

Director Weinstein: "Do you have projections on interest savings?"

Mr. Callan: "Those projections are being worked out by the county's financial advisors, as well as ECMC's FA. ECMC is in the process of getting a credit rating so we can determine what that delta is. There have been guesses by financial advisors, but until ECMC gets a rating. We don't know for sure."

Director Weinstein: "What are the guesses?"

Mr. Keating: "They vary so much, so I can't even guess at a reasonable number.

Mr. Callan: "It won't even generate a $100 million credit. After 4 years we come back and see where we are and re-work credits.

Director Weinstein: "Since you won't give me an answer, is 3 to 5% reasonable on a hundred million borrowing? Saving $3 to $5 million a year."

Mr. Callan: "I can't answer without talking to financial advisors. I can't give you a number until the FA gives us a number. I don't want to hazard a guess in a public forum."

Director Sampson: "I don't think anyone wants to see the county go into a deficit situation that would result in the Authority going hard. It's not good for the community, it's not good for the county and not good for the taxpayers. Which means, if we don't solve this issue, we are going to be faced with those kinds of issues. I don't think there is anyone who could argue with keeping the facilities at ECMC current and at best practice and the kind of facilities that we want to serve this community through their emergency room and trauma center and the asset that facility brings for the community. There are probably very few people in Erie County who have not been touched by that facility or know someone who has not been touched by that facility. We want to be part of that solution, if there is some way to do that. Could we save even more money if we did the borrowing?"

"There's the reality that they want to do 30 year bonds, and our life is 23 years. I hope not to be here in 23 years. The most we can do the borrowing for 23 years. We can run numbers using our credit rating and the county's credit rating. We also have $45 million worth of bonds that are eligible for refinancing, beginning next year. I'm unclear as to whether we can use the savings on that to help fund the credit. We may refinance, independent of what happens with ECMC because we've been doing that. We just did it earlier this year. There are a lot of moving pieces here and if we don't resolve this, we're going to have a much different discussion later this year or the beginning of next year. We don't want the county in a deficit, we don't want to go hard and we do want ECMC to upgrade its facilities. That's my position."

Mr. Callan: "I share your sentiment. Under the 2004 SPOA and the 2009 Collins agreement, the county will have to pay no matter what. The gap between ECMC revenues and expenditures is an obligation of the county, under agreements previous administrations agreed to. ECMC is working hard with us to resolve this issue because they don't want the ECFSA to enter a control period. We think everyone working together can resolve this credit issue. If the county legislature does not agree to it, under the plan B, ECMC would probably sue us. A wholesale rejection of this concept seems odd."

Director Speers: “As far as the IGT payments are concerned, let’s take a theoretical, if the economy lapses into a decline, and because of that decline, more people are unable to afford ACA coverages, and become indigent. Would that have the potential to increase the IGT payments from the county to ECMC?”

Mr. Callan: “When ECMC provided us with the Freed Maxick numbers, we were floored. People who have ACA coverage, even a bronze plan, are not counted in indigent care calculations. In theory, yes, if the economy had a downturn, you run that risk. Conversely, many of those people might be eligible for Medicaid.

Director Speers: “Quite frankly, this is a very reasonable agreement. It provides some type of stability over a 4 year period, so you don’t have the possibility of a rapidly escalating payment from the county to ECMC. I think it’s a very reasonable plan.

Director Weinstein: “Why would it be more advantageous for the county to float these bonds, rather than the control board?”

Mr. Callan: “One of the factors is that ECMC needs and only wants to have 30 year bonds sold. Statutorily, ECFSA expires in 23 years, before those bonds would come due.

Chair Stievater: “Do you have any projection on the timeline to get us projections on the interest savings?”

Mr. Callan: “It is subject to when ECMC gets its credit rating. We have a conference call this afternoon with ECMC. I don’t know when they are going to have their S&P rating. Maybe by the next meeting 10 days from now.

Director Speers: I have a few questions for the Library people. I understand you’ve already received my questions from Ken, so I’d appreciate if you could just go through them.

Ms. Jakubowski: “I’m Mary Jean Jakubowski, Library Director. Regarding the question on the library collections, are they being reduced, if so, why. The collections throughout the 37 libraries is just over 3.2 million items. It’s a hard question to answer in a level of specificity. It is somewhat fluid. We are purchasing more downloadable items. Potentially, the physical items are being reduced, but the total collection is increasing. Collections have increased by over 29,000 items since this time last year. Since 2010 the increase is just over 102,000. Regarding destination of surplus material – we have a reading process. We purchase materials that are popular, I like to use the example of John Grisham. He is a very popular author and they have a lifetime of a year to year and half. We are governed by NYS Education law. We are required to put them up for sale in our service area. We run regular book sales and a large annual book sale. We discard damaged or stained materials for recycling. Do we donate to other libraries? We move them between the 37 libraries and we provide materials to school districts and other organizations, as well. After going through Erie County, if there is anything left, we can provide them outside the county. We do partner and collaborate with our colleagues throughout New York State."

"With regard to the card catalogues, a public access catalogue came in 20 years ago. We have training programs for people to use out online catalogues. With regard to protecting the identity of boor borrowers, we take this extremely seriously. We are governed by NYS law on practice and rules. We have put stopgaps in place to protect those records. We have had no problems with borrowed information whatsoever. We do work with law enforcement, under a subpoena. Regarding how computer users protected, when an individual logs in, they can log in using their library card or a guest pass. It does not connect back to their library records. Upon logout, that history is expunged. There is no browser record."

Chair Stievater: "Now that the presentations have ended, we need some time to review the information presented. Also I would ask Mr. Callan and Mr. Keating to provide any updated information requested at this meeting and to be present for the full Board meeting on October 31st. "

"If no further business I'll accept a motion to adjourn."

Director Speers moves to adjourn, Director Marlette seconds and the committee votes unanimously to adjourn.

Respectfully submitted,

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James Sampson
Chairman
May 3, 2017