ERIE COUNTY FISCAL STABILITY AUTHORITY
ANALYSIS OF THE ERIE COUNTY
2023-2026 ADOPTED BUDGET BASED
FINANCIAL PLAN
December 16, 2022

1. *INTRODUCTION*

This report details the analysis and comments of the Erie County Fiscal Stability Authority (ECFSA) in its review of Erie County's 2023 adopted budget and associated financial plan. The ECFSA is charged with reviewing the county's submission in light of opining on reasonableness and achievability. Under the legislation that created the Authority, within 15 days after receiving the county's submission, the ECFSA is required to determine, in its best judgment, whether the budget and plan are in balance.

The 2023 Erie County budget and financial plan assume pre-pandemic revenue and spending levels. As detailed later in the report, there are increases in anticipated revenues and planned spending. The 2023 adopted budget of $1.779 billion is $112 million greater than the 2022 adopted budget, a 6.7% increase.

In its current version of the plan, the county is anticipating $2,525,097 in fiscal shortfalls prior to any adjustments to the county's estimate. The 2023 recommended budget-based plan showed a total shortfall of $4,480,047. The net change to the county's financial position is a positive $1,954,950.

The 2023 adopted budget property tax levy results in a $7.9 million increase in the county's tax levy, as compared to the 2022 adopted budget – a 2.69% increase. The property tax rate per thousand of valuation decreases by $0.40 from $4.32 to $3.92.

2. *MAJOR PLAN ASSUMPTIONS*

Major assumptions in the financial plan include:

1. The 2023 adopted sales tax budget increases 6% as compared to the county's 2022 adopted budget and is 3% under the county's most recent 2022 year-end estimate of $600.8 million, then a 2% increase for 2024, and 1.5% for 2025 and 1% for 2026.

2. Real Estate Market Value Growth is assumed to increase by 2% per year for the period 2024-2026.

3. The county portion of the property tax levy increases by $7.9 million (2.69%) in 2023 as compared to the 2022 adopted budget. Then increases by $6 million (2%) in 2024, $6.14 million (2%) in 2025 and $6.27 million (2%) in 2026 – a total increase of $26.31 million over the period of the plan.

4. The county has not budgeted the full amount of SUNY Erie related chargebacks as a revenue in its budget. It has reduced the revenue chargeback amount by $4.4 million per year through 2026.

5. The plan narrative lists increases in health insurance rates of 5.14% for 2024, followed by 4.16% for 2025 and a 4.18% increase for 2026.

6. Personal services expenses increase for step and longevity increments, as well as contractual cost of living increases. In 2023, as compared to the 2022 adopted budget, personal services costs increase by $34.6 million (14.6%). In subsequent years, as compared to the 2023 adopted budget, costs increase by $9.35 million (3.44%) in 2024, $8.43 million (3%) in 2025 and $8.68 million (3%) in 2026. The total increase over the 2022 adopted budget is $61.06 million.

7. The 2023 adopted overtime expense increases by $921,101 (5.19%) as compared to the 2022 adopted budget. Subsequent years' adjustments are less than $200,000 (1%). That percentage is less than the % increase assumed for personal services over the same period. This suggests successful programs to reduce overtime expenses, relative to comparable salaries.

8. The plan, as presented, shows no gap for 2023, a shortfall of $472,924 for 2024, a shortfall of $807,313 for 2025, and a shortfall of $1,244,860 for 2026, for a total shortfall of $2,525,097.

3. MAJOR ADJUSTMENTS – 2023 ADOPTED BUDGET AND PLAN TO 2023 PROPOSED BUDGET AND PLAN

Major revenue and spending revisions from the 2023 proposed budget-based version of the plan compared to the 2023 adopted budget include:

- Anticipated sales tax revenues for the 4-year period have increased by $14.74 million, as compared to the 2023 recommended based plan - $5.83 million for 2024, $5.92 million for 2025 and $2.99 million for 2026. In the proposed version of the plan, for the 2024-26 period, increases in respective years were – 1%, 1.5%and 1.5%. The adopted based plan calls for increases of 2%, 1.5% and 1% respectively.

- Full time salaries have increased by $5.24 million for the 2023-2026 period, as compared to the 2023 proposed based plan - $365,816 in 2023, $1.58 million in 2024, $1.62 million in 2025 and $1.67 million in 2026. This additional appropriation is due to the approved plan to bring administrative and Sheriff staff to labor union pay scales, in lieu of previously used Management Confidential employee classification overtime.

- Anticipated overtime expenses have decreased by $1.62 million over the 2023-2026 period, as compared to the 2023 recommended based plan – an average of just over $400,000 per year.

- Fringe benefits for the 2023-2026 period are down just over $4.1 million, with a $5.5 million reduction in 2023, followed by increases of $119,000, 631,000 and 660,000 in 2024, 2025 and 2026 respectively.

- Spending on cultural organizations is up $4.88 million in 2023. Subsequent years do not change.

- All Other Allocation spending increases by $6.33 million over the 4-year period, as compared to the 2023 proposed version - $327,600 in 2023, $3 million in 2024, $2 million in 2025 and $1 million in 2026. This additional spending is related to pay-as-you-go capital projects, in lieu of bonding for them.

4. PLAN ASSESSMENT

The county's current financial plan, as with the previously submitted 2023 recommended budget-based submission, assumes economic activity will be free of economic impacts related to COVID-19.

The following is a comparison of current and 2023 proposed plan annual surpluses/(gaps), in millions of $'s:

	2023	***2024***	***2025***	***2026***
Current Plan Gap	***($0.00)***	***($0.47)***	***($0.81)***	***($1.24)***
2023 Prop. Plan Gap	***$0.00***	***($1.40)***	***($2.26)***	***($0.82)***
Difference	***$0.00***	***$0.93***	***$1.45***	***($0.42)***

As with the ECFSA accepted 2023 recommended budget and financial plan, the 2023 adopted budget and associated financial plan appear to be reasonable and achievable. However, with federal pandemic subsidies that have been propping up states and local governments at an end, and Fed efforts to slow inflation by restricting the economy, an economic downturn has begun and is likely to continue for an extended period.

Therefore, there is a potential for a downturn in recent sales tax trends and an increase in the need for county health and human services programs, in addition to increased costs for labor, goods and services that has been brought about by overheated inflation.

The county's 2023 adopted budget based financial plan lists increases in labor and program costs, as well as a slowing in sales tax revenues, consistent with a sluggish economy and still rising prices/costs.

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

Baseline Estimates/Associated Risk/Benefit

- ***Outside Economic Impacts*** –As indicated previously, economists forecast a slowing economy based upon the federal government's monetary policy. To exacerbate matters, with federal pandemic subsidies to state and local governments at an end, Erie County, like other local governments, will experience the full impact of providing necessary and desired services in a higher-cost/higher-service-need environment, in a potentially contracting economy with fewer resources to draw upon.

- ***Erie County Medical Center Corporation (ECMCC) IGT, DSH and UPL*** In the current version of the financial plan, the county's expectations of ECMC related expenses increases, as compared to the 2022 adopted budget submission. Over 4 years, the expected liability goes up \$12.4 million (5.89%). In 2023 alone, the expected ECMC related liability increased by \$9.1 million.

- ***Sales Tax Revenues*** – There is a 2023 sales tax increase of 6% as compared to the county's 2022 adopted budget and 3% less than 2022 anticipated receipts, then a 2% increase for 2024, followed by a 1.5% increase for 2025 and 1% for 2026.

  Sales tax receipts received through the first part of December of 2022 by the ECFSA indicate a 7.17% increase compared to the previous year. The county is anticipating the current fiscal year to end with sales taxes coming in at \$600.8 million.

  Sales Tax Reauthorization – The county is scheduled to reauthorize its 1.75% sales tax by late 2023. The county legislature is required to have a super majority (8) of its (11) members vote to reauthorize its largest single revenue source.

The cumulative value of this revenue over the 2024-2026 period is just under $1.12 billion. During the existence of its 1.75% sales tax, the county has never failed to reauthorize this revenue source. The ECFSA's evaluation of the reasonableness of the county's financial forecasts is predicated on county leadership continuing its responsible action.

- ***Property Values Impacting Property Tax Receipts*** – Over the last few years, the Erie County housing market has been robust, thereby allowing the county to reduce the property tax rate per thousand, while maintaining sufficient property tax revenues to cover rising costs. Analysts are predicting, at best, a slowdown in property values - Zillow is forecasting a nationwide 1.4% annual increase, Moody's Analytics is predicting no increase and Goldman Sachs is looking at a 5-10% decline.

- ***Labor Agreements*** - The county has negotiated labor agreements with unions that represent an overwhelming majority of county employees, through the period of the financial plan - AFSCME, CSEA and CSEA Corrections Officers. Thereby adding a degree of certainty to staffing costs in an inflationary environment.

  Those expiring prior to the end of the financial period include -Teamsters Captains and Lieutenants, Teamsters Sworn and Civilian, NYSNA, Library Clerical and Maintenance and SUNY Erie Faculty, and Administrators. The expiring agreements add a degree of uncertainty to the county's labor costs over the period of the financial plan.

- ***Overtime*** – After increasing by $921,101 in 2023, as compared to the 2022 adopted budget, forecasted overtime expenses remain virtually flat for the 2024-2026 period, with a 1% annual increase. Given the higher percentage increase in salaries over that period, the relative reduction in overtime expense suggests programs to reduce this expense item taking hold, primarily in Jail Management and Road Patrol.

  The 2023 budget Includes 57 new positions in the Sheriff's office – 26 of them in Jail Management and 31 in the Sheriff Division (which includes Road Patrol) to stem overtime expenses.

  In the county's most recent 2022 Budget Monitoring Report, current year overtime expenses are running $6.1 million (41.45%) in excess of the 2022 year-to-date budget.

- ***Vacancy Savings*** – The current plan calls for $7.8 million in savings over 4 years, an increase of $2.2 million over the 2022 adopted plan. The previous version of the financial plan had $5.6 million in vacancy savings over the 4-year period.

- ***Risk Retention*** – The current version of the financial plan calls for $17 million in risk retention spending, a decrease of $3 million over the 2022 adopted plan.

- ***SUNY Erie*** – Erie County is the sponsor of SUNY Erie College. As such, the county provides funding to the College each year. The county is budgeting $19,804,317 in support for each year of the budget and financial plan. Even with this level of support, the College is still facing what a prior college president indicated is an unsustainable business model, in a difficult time for community colleges in New York State and throughout the U.S. As the local sponsor, there could be pressure on the county to provide additional funding to SUNY Erie in its transition to a more sustainable business model.

  As in 2021 and 2022 the county has reduced chargebacks to property owners in municipalities that have Erie County students attending other community colleges. The figure is $4.4 million for each of the budget and financial plan years. This reduction increases the county's tax levy by $4.4 million per year.

Gap and Gap Closers

In the most recent version of the plan the county is anticipating $2,525,097 in gaps over the 2024-2026 period. The previous version listed total gaps of $4,480,047, a 1,954,950 positive swing.

The current, stated gaps are as follows:

Year	***Gap***
2023	$ 0
2024	$ 472,924
2025	$ 807,313
2026	$ 1,244,860
Total	***$ 2,525,097***

The county has put forward several potential gap closers including:

- Better than expected sales tax revenue
- Better than expected property tax assessment growth
- Reductions in discretionary spending, including in personal services and through deletion of positions
- Property tax revenue

- NYS payment of withheld eFMAP Aid relating to earned but not received ACA benefits
- NYS reduction of Medicaid weekly share payments due to earned but not received COVID eFMAP benefit
- Use of appropriated fund balance
- Increase to Community College Chargeback revenue
- More favorable (lower) caseload trends in social services programs
- Continuation of Gaming Facilities Aid

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

5. SUMMARY/RECOMMENDATIONS

The ECFSA, in its review of the county's 2023 adopted budget and associated financial plan, finds the budget in balance and the county's financial projections, as-a-whole, to be reasonable and achievable.

However, like other local government entities, Erie County is facing a Fed induced contracting economy, impacting revenues (particularly consumer related), health and human services usage, and increased costs for goods and services in an inflationary environment.

The overarching recommendation from the ECFSA to the county is to remain vigilant in budgeting/preparing for economic troughs that have already begun and are expected to continue for an extended period.

Specific Recommendations:

Overall Spending/Positions

- Erie County has added back budgeted spending and positions to pre-pandemic levels. The 2023 adopted budgeted spending has increased by $112 million (6.7%) over the 2022 adopted budget. For the period 2023-2025, full time personnel spending is up $73 million (9.5%) over the comparable period from the 2022 adopted budget submission. The 2023 full-time budgeted positions have increased by 105 as compared to the 2022 general fund adopted budget.

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

Erie County Medical Center Corporation

- Erie County Medical Center Corporation (ECMCC) **-** In the current version of the financial plan, the county's expectations of ECMC related expenses increased, as compared to the 2022 adopted budget submission. Over 4 years, the expected liability goes up $12.4 million (5.89%). In 2022 alone, the expected ECMC related liability increased by $9.1 million.

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

Sales Tax Revenues

- Sales tax is the largest single revenue source for Erie County, encompassing 33% of general fund revenues in 2023. In previous years, the ECFSA has commented on the volatility of this revenue based on periodic economic cycles. Those concerns are magnified with the economic uncertainty accompanying the current economic slowdown.

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

Sales Tax Reauthorization

- Authorization for the county's 1.75% sales tax ends in 2023. The county must petition New York State to continue to collect this revenue for 3 years beyond the late 4th quarter of 2023.The value of this revenue over the 2024-2026 period is almost $1.12 billion. The ECFSA's opinion that the county's finances are in balance is predicated on county leadership completing this reauthorization process.

- ***Recommendation*** – Since the imposition of the 1.75% sales tax, the county has never failed to reauthorize it. The ECFSA recommends and assumes county leadership will continue its responsible fiscal management by reauthorizing the sales tax within the prescribed timeframe.

Property Values Impacting Property Tax Receipts

- Over a period of years, the county has been able to reduce the property tax rate per thousand of assessed value, while still increasing the levy to amounts that meet spending needs in providing desired and necessary services to county residents because of steadily (and sometimes steeply) increasing property values. National housing market analysts predict a slowing (at best) of values based upon a sluggish economy and rising/risen interest rates.

- ***Recommendation*** – The ECFSA recommends the county take this potential slowing in values into account in establishing future budgets to provide reasonable assurance the county has the resources to provide intended services, while not overburdening those who contribute to the cost of them.

Labor Agreements

- The overwhelming majority of county labor agreements have been negotiated through the end of the current financial plan, thereby giving the county a high degree of certainty in establishing its staffing costs over the next four years. However, there are some that are ending (or have already ended), which create uncertainty (risk) in potential future labor costs.

- ***Recommendation*** – The ECFSA recommends the county continue to negotiate in good faith with the labor unions having contracts that expire over the period of the four-year plan to provide staffing and wage certainty in an inflationary environment that does not overburden county residents.

Overtime

- The 2023 adopted budget increases the overtime budget by $921,101, as compared to the 2022 adopted budget. Through October of 2022, overtime expenses are running 41% over budget. The county has created 57 new positions since the adoption of the 2022 budget to help mitigate overtime expense in the Sheriff's Office.

- ***Recommendation*** - The ECFSA urges the county to continue to closely monitor and analyze the cost/efficacy of new positions to reduce overtime, and to make staffing and/or operations adjustments, where indicated/necessary.

Vacancy Control

- The county continues the use of vacancy savings to help balance the budget. Budgeting for vacancies reduces the order of magnitude of turnover/vacancy savings as a potential gap closer.

- ***Recommendation*** - The ECFSA urges the county to maintain its vacancy control program, while keeping budgeted vacancy savings at minimal levels. In 2022 the county has maintained a program in which between 5-8% of its full-time general fund positions remain vacant. Continuation of that program with like vacancy percentages is necessary to balance the plan through 2026.

Staffing

- In the 2023 adopted budget, the county is assuming an increase of 105 full-time positions in the general fund, as compared to the 2022 adopted budget.

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

Fund Balance

- In the most recent version of the plan, the county is not using fund balance as a revenue to balance revenues and expenses in any year of the financial plan.

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

Health and Human Services Programs

- For the 2023 adopted budget, the county is assuming increases in several Health and Human Service programs including Family Assistance, CWS Foster Care, Safety Net Assistance, and children with Special Needs, along with reductions in MMIS (Medicaid) and Child Care DSS as compared to the 2022 adopted budget based financial plan. With an anticipated sluggish economy, there most certainly be an increased need for county administered support programs.

- ***Recommendation –*** The ECFSA recommends the county closely monitor these programs to determine the reasonableness of projections provided and that the county prepare contingency plans to make up potential shortfalls in these accounts.

SUNY Erie College Chargebacks

- For the 2023 adopted budget and financial plan through 2026, the county is not charging back $4.4 million to municipalities for residents who are attending community colleges that are outside of Erie County. This reduces county property tax revenues by $4.4 million per year.

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

SUNY Erie Community College Sponsor Contribution/Strategic Participation

- Based upon its unsustainable business and educational model, the ECFSA has recommended over several years that a serious conversation be had among college, county, community, and educational stakeholders on how the college can best reconfigure to best meet its charge moving forward. SUNY Erie is in the early stages of reinventing itself and still faces educational, operational, and financial challenges.

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

In closing, we want to reiterate that the county has exhibited fiscal responsibility during and post-pandemic. While challenges remain, we are confident in county leadership to continue to provide necessary and desired services to the county's residents without overburdening those who pay for those services.