ERIE COUNTY FISCAL STABILITY AUTHORITY

STATEMENT ON AUTHORITY BONDING
FOR
ERIE COUNTY

November 26, 2007

INTRODUCTION/HISTORY

The issue of ECFSA borrowings has been on the table for an extended period of time.

- In NOVEMBER 2006, there were a number of conversations between the Chair of the ECFSA and Chair of the Legislature regarding ECFSA borrowing to realize savings for County taxpayers.

- In JANUARY 2007 the ECFSA obtained preliminary bond ratings from Moody's and Fitch of Aa2 and AA, respectively.

- In MARCH 2007 the ECFSA unanimously adopted a resolution urging the County Executive, the County Comptroller, and the County Legislature to seek opportunities for the County to refinance pre-existing debt and to issue new debt through the ECFSA, upon considering the fiscal benefits that will result.

- In MAY of 2007 the ECFSA made a three-hour presentation to the Legislature's Finance & Management Committee on ECFSA bonding and a proposed refinancing of 10 previously issued county bonds, which was estimated to save over $4 million in debt service costs without extending the term of the bonds.

- In MAY of 2007 there were further ECFSA discussions with the Chair of the Legislature, Finance & Management Committee Chair and County Comptroller on RAN and long-term borrowing.

- In JUNE of 2007, the ECFSA approved the County's RAN borrowing because, contrary to the ECFSA's advice, the County refused to authorize the ECFSA to undertake the RAN borrowing, which would have reduced the cost of the borrowing by over $100,000. In reluctantly approving the County's RAN borrowing, the ECFSA reiterated its previous recommendations and advice that the County refinance pre-existing debt and issue new debt through the ECFSA given the cost savings that it will achieve for County taxpayers. We note that there was no issue on that borrowing about the longevity of the control board.

- In AUGUST of 2007, the ECFSA recognized the imminent need for the County's capital borrowing even though the County had not yet requested approval to issue bonds or authorized the ECFSA to issue bonds to meet the County's capital borrowing needs. In an effort to avoid any adverse consequences from the County's delay in addressing its borrowing needs, the ECFSA acted proactively by giving preliminary approval for an ECFSA borrowing on behalf of the County and again unanimously adopting a resolution urging the County Executive, the County Comptroller, and the

County Legislature to seek opportunities to fund the County's capital expenditures with proceeds of bonds issued by the ECFSA, upon considering the fiscal benefits that will result.

- In October of 2007, County Executive Giambra requested County Legislature approval of an ECFSA general obligation borrowing on behalf of the County in order to enable the ECFSA to realize savings for County taxpayers.

- At the end of October, 10 months into the 2007 fiscal year, the County Comptroller finally proposed bonding for the 2007 capital budget.

- In a follow-up to the County Executive's request, ECFSA Vice Chair Bob Glaser and the Executive Director attended a Finance & Management Committee meeting to discuss capital borrowing and proposed tax lien sale.

THE FACTS

The ECFSA's bond rating is seven steps above that of Erie County's - the control board's rating being AA, while the County's is BBB-.

Rating Agency	ECFSA	Erie County
Moody's	Aa2	Baa3
Fitch	AA	BBB-
S&P	-	BBB

This bond ratings difference shows up in savings in two ways:

First, the ECFSA's cost for bond insurance is lower. The ECFSA has gotten quotes of 18 basis points for this issuance. According to documentation submitted by the County Comptroller to the NYS Comptroller, previous County general obligation borrowings have had the following bond insurance costs:

a. December 2005 – 69 basis points
b. December 2006 – 80 basis points

Second, the ECFSA's underlying interest rate is lower. An analysis of ECFSA vs. Erie County borrowing prepared by the New York State Division of the Budget (DOB) and their independent financial advisor, Public Resources Advisory Group (PRAG), assumes a difference of 2 basis points in the Net Interest Cost (NIC) between the ECFSA and Erie County.

That same analysis prepared by DOB and PRAG then estimates that an ECFSA general obligation borrowing on behalf of the County would generate an overall savings of between $400,000 and $556,000 over the life of the borrowing, no matter the difference between individual component costs of the borrowing. ECFSA's analysis indicates a somewhat higher amount of savings.

In addition to the savings on an ECFSA general obligation borrowing, the ECFSA has previously discussed the ability to realize savings for County taxpayers on each issuance of County short-term debt (RANs, etc.) and on refinancing of previously issued long-term County borrowings.

A total of $4.7 million in savings for Erie County could be achieved, including:

$556,000 in General Obligation Borrowing, the matter presently on the table
$100,000 in a Revenue Anticipation Note
$ 4 million in Refinancing of Existing County Debt

ADDITIONAL ITEMS

A number of qualitative claims have been cited as possible impediments to ECFSA borrowing. These claims do not detract from the savings an ECFSA borrowing would generate as estimated by DOB and their consultant, nor do they prove true based on research performed by ECFSA Directors, consultants and staff.

It has been claimed that an ECFSA borrowing would inhibit the County's future access to credit markets and worsen County credit ratings.

The fact is that credit market access and credit ratings are based upon the financial health of an entity. For example, the Buffalo Fiscal Stability Authority has issued $157 million in bonds and $234 million in Bond Anticipation Notes (BANs) on behalf of the City of Buffalo since 2004. Despite being out of the credit market, Moody's upgraded the City of Buffalo's credit rating from Baa3 to Baa2 in 2007. Also, the Nassau Interim Finance Authority has issued $2.5 billion in bonds and $900 million in BANs since 2000. In 2006, Nassau County, with an improved bond rating as the result of its improved financial condition, issued $150 million in Tax Anticipation Notes (TANs). Our goal is to see improvements in the County's bond rating.

It has been claimed that an ECFSA staff would have to be maintained for the life of an ECFSA borrowing and an ECFSA borrowing would extend the life of the ECFSA.

The fact is that the Erie County Fiscal Stability Authority Act does not contain any legal impediments to another entity such as the County Comptroller or a State agency administering ECFSA debt.

SUMMARY

There have been a number of significant meetings and conversations going back and forth between the ECFSA and County officials on an ECFSA borrowing as far back as November 2006. We have provided evidence previously, and again today that an ECFSA borrowing on behalf of the County will result in significant savings to Erie County taxpayers.

The great thing about these savings is that they would be achieved without a single lay-off or single program cut. We ask that this Legislature approve ECFSA borrowing to save dollars for the taxpayers.