

**ERIE COUNTY FISCAL STABILITY AUTHORITY
ANALYSIS OF THE ERIE COUNTY
MARCH 2016 BUDGET MONITORING REPORT
May 10, 2016**

Overview

Starting in May of each year, Erie County publishes its Budget Monitoring Report (BMR). The document delineates county revenues and spending vs its budget spread, generally on a monthly basis. The ECFSA uses the BMR and associated comparisons to review the county's financial condition and report on potential fiscal bright spots and issues that may require attention/action for the current fiscal year.

In its analysis, the ECFSA will report on major 2016 items from the county's over \$1.4 billion budget that can have a material impact in the county's finances, such as:

- **Sales Tax Revenues** – At just over \$444 million, sales tax revenues are the largest single source of income for the county, encompassing approximately 30% of the operating budget. There are twenty six individual sales tax transfers each year, that are processed analyzed separate of this report, by the ECFSA
- **Appropriated Fund Balance** - For 2016 the county has appropriated \$6,000,000 from its accumulated fund balance to be used as revenue to offset anticipated county spending.
- **Salaries** – The county has budgeted over \$207 million in salaries for 2016, including a \$2,000,000 reduction for the value of positions kept vacant during the year. The corresponding vacancy figure for 2015 was also \$2,000,000.
- **Fringe Benefits** – The county has budgeted over \$128 million in fringe benefits for 2016.
- **Overtime** – The county has budgeted \$13.95 million for overtime expense in 2016. Overtime spending has been problematic for the county for a number of years. The 2015 overtime budget was \$13.92 million
- **Contractual Services** – The county has budgeted over \$479 million for contractual services in 2016, up from \$474 million in 2015. The largest

portion of this spending is for just over \$339 million in sales tax transfers to local governments. This expense category includes some of the transfers to the Erie County Medical Center Corporation (ECMCC).

- **Program Specific** - The county has budgeted \$486 million in program expenses for 2016, down from \$498 million in 2015. The largest item in this category is over \$206 million for Medicaid Local Share payments, down from \$210 million in 2015. This expense group also includes \$16.2 million in Disproportionate Share (DSH) payments for ECMCC.

Specific Items

1. **Sales Tax Revenues** – At this point, county expectations of sales tax revenues are not being met. The county budgeted \$101.78 million in revenues for the first quarter of 2016 and received \$101.59 million in sales tax revenues. The \$183,000 negative variance represents 0.18% of the first quarter budget. However, ECFSA analyses of payments received through May of 2016 indicates county sales tax receipts for the current year are running only 0.2% above 2015 actuals. For the county to meet its sales tax budget, that rate of increase has to be 1.53%. At the current rate of increase, the county would incur a \$5.8 million deficit in this account.
2. **Appropriated fund Balance** – Through the first quarter of 2016, the county has not used any of the appropriated \$6 million fund balance as a revenue to balance its finances. However, legislation has been put forward that would use \$1.5 million of that account for security for the Rath Building. The Legislature has not yet approved use of those reserved funds.
3. **Salaries** - Salary expenses for the first quarter are running \$2.6 million below budget. The county has done a good job in keeping a significant number of full-time positions vacant, while not negatively impacting overtime expense (more on this in the “overtime” section of the report). However, recent vacancy reports have shown numbers of vacancies are down. In 2015, the county maintained vacancy levels of 190 to 230 positions for most of the year. For 2016, the levels have consistently been in the 150 to 160 range. Consequent net savings (after allowing for lost reimbursements) are in the \$3.5-\$4 million range. Still greater than the county’s budgeted \$2 million turnover budget, but less of a margin than the county has had in the past.
4. **Fringe Benefits** - The county is showing a \$3.22 million positive variance, which is about 10.41% of the period budget. What this positive variance is

attributed to at this point is unclear. The county does not sufficiently break out individual components to allow a reasonable analysis of this set of accounts.

5. **Overtime** – For the first quarter of 2016, the county is running a surplus of \$162,000 in this account, representing a positive variance of 4.79 % of budget. At the same time last year, the county was running a \$295,000 surplus in this account which translates to a 9.08% variance.

However, a part of that budget surplus is due to a more generous overtime budget spread for the first quarter of 2016. In the first quarter of 2015, the county budgeted 22.4% of the annual forecast. For 2016, the first quarter spread was 24.3%, almost 2 percentage points higher. Using the 2015 spread, would result in a \$268,000 deficit in this account, about 8% of budget.

6. **Contractual Services** – For the first quarter of 2016, the county is running a positive variance of \$1.7 million in this account, representing 1.39% of budget. Last year at this time, the figures were slightly worse – \$746,617 positive variance, equating to 0.61% of budget. There appear to be no major issues with this account for the first quarter of 2016.
7. **Program Specific** – For the first 3 months of 2016, the county is running a deficit of \$5.4 million in this account. For the same period last year, the county had a deficit of \$8.8 million. For the quarter, the county has recorded a \$25 million expense against an annual budget of \$16.2 million for ECMCC related Disproportionate Share (DSH) spending – an \$8.8 million deficit.

The administration attempted to designate \$5 million for this 2016 item from 2015 surplus funds in an amendment to the county's budget balancing amendments. The proposal was rejected by the legislature. The county has indicated negotiations are ongoing with ECMCC regarding DSH and IGT related expenses. This item bears watching.

Summary

In the first quarter of 2016, there are a number of concerns for the county:

- Sales tax revenues are not growing at a rate that meets the year-to-date and full-year budget. This has been a recurring issue for the county.
- In the first quarter of the year, the county is attempting to access \$1.5 of the \$6 million budgeted fund balance for Rath Building security measures. Thus far, the resolution authorizing this proposed spending has not made it through the legislative approval process.

- Overtime, is once again problematic for the county and bears watching.
- ECMCC related expenses are problematic for the county. There is currently an \$8.8 million shortfall in the IGT account that the county is attempting to address through a combination of negotiations and accessing previous year surplus funds.
- Vacancy control numbers, are down, as compared to 2015, leaving the county with less of a cushion in the event of a series of negative variances during the year. However, the net vacancy savings exceeds the budget for those savings.

At this point, the 2016 budget appears balanced, but there are a number of items that bear watching to provide reasonable assurance that the county's budget will remain in balance.