ERIE COUNTY FISCAL STABILITY AUTHORITY ANALYSIS OF THE ERIE COUNTY JUNE 2020 BUDGET MONITORING REPORT AUGUST 5, 2020

Overview

In the first week of May, Erie County published its first 2020 Budget Monitoring Report (BMR) covering the financial period of January 1st, through March 31st. In a normal fiscal cycle, the ECFSA would publish a standardized report highlighting several mostly historical risk issues for the County in managing its $1.42 billion annual budget.

2020, is in no way a "normal" year, with the far-reaching health, social, economic, and financial impacts of the COVID-19 pandemic – the worst such occurrence since the 1918 Spanish Flu. The Western Region of New York State is in the final phase of reopening its businesses. However, there are still some sales tax generating businesses that have not yet been approved to operate, such as gyms and health clubs. Others are running at significantly less than full capacity and may do so for an extended period.

In June, the County Executive proposed, and the Legislature approved a financial remediation plan that addresses significant anticipated COVID-19 shortfalls in the current fiscal year.

The net effect of the changes to the County's budget reduced anticipated revenues by $204 million, while reducing the County's spending by $201 million to balance the County budget in light of COVID-19 related financial realities. With the receipt of $160.3 million in federal COVID related revenues to cover pandemic costs, the County's financial risk is on the revenue side of the ledger. At this point, none of the federal money can be used to fill-in revenue shortfalls. Given this situation, this ECFSA report will focus on County at-risk revenues.

Summary Risk Items

Overarching COVID-19 financial (revenue) risk items for the County:

1. Sales Tax Revenues
2. Property Tax Related
3. Other Source Revenues
4. Fines, Fees or Charges
5. State Revenues
6. Potential SUNY Erie Losses
7. Potential Erie County Medical Center (ECMC) Losses

Detailed Risk Items

1. ***Sales Tax Revenues*** – The County has lowered its original sales tax forecast for 2020 by $111.7 million. Its current year-to-date budget and June actuals match, with a one-dollar variance. However, there is some cause for optimism going forward. After hitting a 36% decrease in sales tax revenues at the beginning of the pandemic (as compared to previous year receipts), the sales tax trend has been positive. Though still below last-year's receipts.

   The most recent transfer (the first one of August) is 10% ($3.2 million) below the corresponding 2019 amount. Year-to-date receipts are running 8.97% ($19.7 million) behind last year at this time. After the anomaly of a 25% increased payment in early June, subsequent receipts have continued a slow, upward trend. The last three payments have been - 19% below last year, then 15.71% below, followed by the current payment of 10% below.

   Sales tax receipts are recovering more quickly than originally anticipated. It appears, at this point, that the County's shortfall estimates may be a bit conservative. However, the current economic situation that drives sales tax receipts is so unpredictable, no-one knows for sure what the economic curve will look like. We will continue to monitor this material revenue source.

2. ***Property Tax Related*** – The County's expectations for property tax related revenues have been reduced by $5 million from its original budget. At the end of June, the County experienced a shortfall of $117,699 in this account.

Fortunately, for the County, the COVID-19 "pause" was initiated subsequent to the receipt of the overwhelming majority of regularly levied property taxes.

3. ***Other Source Revenues*** – The County's expectations for other source related revenues have been reduced by $7.8 million from its original budget. Through June, this revenue source, which include interest earnings and a series of repayments, budgeted at $20,072,436 for the period are running $4,440,379 over County expectations due primarily to a cash flow borrowing sold at a $2,997,500 premium, that is recorded as a revenue in the County financials. That premium will be amortized next year, causing an issue in the County's 2021 budget.

4. ***Fines, Fees or Charges*** – The County's expectations for fines, fees or charges have been reduced by $4.9 million from its original budget. Through June, Fines, Fees or Charges which include Auto Bureau Transactions and Property and other Recording Fees, forecasted at $18,315,013 for the period, are running $920,578 below budget. With County auto bureaus closed for an extended period of time and housing showings restarted, revenues should begin to trend upward in this account.

5. ***State Revenues*** – The County's expectations for state revenues have been reduced by $20.5 million from its original budget. State Revenues for the period are running $7,347,255 below budget. However, this shortage is not wholly attributable to COVID-19 at this point. The overwhelming majority of NYS revenues is tied to federally mandated or other program matches in Health, Human and Social Services provided by the County.

6. ***SUNY Erie*** – The College is maintaining classes in a virtual environment for the current (Summer) semester. In its most recent 2020-2021 budget projections, the College anticipates a 20% reduction in New York State revenues and a drop of 11% in enrollment for the fiscal year starting September 1, 2020.

7. ***Erie County Medical Center*** (ECMC) – The 2004 Sale Purchase and Operating Agreement (SPOA) established the Medical Center as a Public Benefit Corporation. Prior to that, ECMC was a department of the County, with Erie County directly responsible for its finances, including potential losses.

   Despite its Public Benefit status, ECMC is not completely financially on its own. Erie County still retains some financial responsibility for the Hospital. It was anticipated that ECMC (along with other public hospitals) would do well in the different versions of the Federal stimulus packages. While ECMC has received some Federal stimulus funding, the Hospital has had to lay-off staff and reduce other spending. Given the organizational and financial relationship between the Hospital and the County, those potential shortfalls could impact the County's bottom line.

Summary/Conclusion

Like many government entities, Erie County is facing serious fiscal issues related to COVID-19. With the receipt of $160 million from the Federal government for COVID related expenses, the County is insulated from incremental pandemic costs through the end of 2020. However, the overwhelming majority of financial issues the County faces come from potential revenue shortfalls, not incremental expenses.

Erie County has been working with the National Association of Counties to gain additional Federal funding to cover or at least mitigate extensive revenue shortfalls. Further stimulus aide for state and local governments is an unknown at this point. However, several financial analysts have forecasted an additional stimulus package by the Fall of this year and there are currently competing stimulus packages being negotiated in Washington.

Erie County is in the same fiscal boat as virtually all other governments in New York State, but, given its fiscal prudence leading up to the pandemic is in better shape than most to weather the storm. County government leaders have taken the proactive step of adopting a remediation plan to balance its budget, which the ECFSA supports as a fiscally responsible action.

The ECFSA remains hopeful of, and supportive of the County's efforts for additional Federal funding, and a possible change to current Federal funding that would allow for covering revenue shortfalls in addition to COVID-19 related expenses and reduce or eliminate the need for potentially painful expense reductions.

We will continue to monitor events and provide assistance to the County in extricating itself from the current, difficult fiscal situation. As fiscal impacts crystalize, we look forward to budget and financial plan revisions that include available resources and strategies to close short- and long-term fiscal gaps.