ERIE COUNTY FISCAL STABILITY AUTHORITY
ANALYSIS OF THE ERIE COUNTY
MAY 2020 BUDGET MONITORING REPORT
JULY 2, 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 $1.84 billion annual budget.

2020, thus far, 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. Since Mid-March, the State has been put on "pause" to mitigate the spread of the pandemic. At this point, the Western New York Region of NYS, which includes Erie County, is in phase-4 of the State's reopening plan and is anticipating what might be considered phase 4+, which includes some additional businesses/activities in the near future.

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.

The chart on the following page details those budget balancing amendments:

Revenues				
		Prior to Remediation	*After Remediation*	*Difference*
Property Tax		(279,863,754)	(279,863,754)	-
Property Tax Related		(16,264,806)	(11,264,806)	(5,000,000)
Sales Tax		(491,338,760)	(379,638,760)	(111,700,000)
Sales Tax Local Govts.		(337,955,669)	(261,125,483)	(76,830,186)
Other Sources		(39,237,913)	(31,414,849)	(7,823,064)
Fees, Fines or Charges		(34,105,887)	(29,205,887)	(4,900,000)
Appropriated Fund Balance		(3,000,000)	(25,150,000)	22,150,000
Local Source Revenue		(1,201,766,789)	(1,017,663,539)	(184,103,250)
Federal Revenue		(172,944,969)	(171,184,435)	(1,760,534)
State Revenue		(184,440,894)	(163,901,485)	(20,539,409)
Interfund Revenue		(1,603,412)	(3,920,843)	2,317,431
County Revenue		(1,560,756,064)	(1,356,670,302)	(204,085,762)

Expenses				
		Prior to Remediation	*After Remediation*	*Difference*
Salaries		228,652,126	216,089,587	12,562,539
NonSalaries		28,497,230	24,429,511	4,067,719
Countywide Adjustments		(1,800,000)	(14,002,870)	12,202,870
Personnel Related Expenses		255,349,356	226,516,228	28,833,128
Fringe Benefits		136,192,942	96,393,540	39,799,402
Countywide Fringe Adjustment		-	-	-
Total Fringe Benefits		136,192,942	96,393,540	39,799,402
Supplies and Repairs		10,585,884	9,992,025	593,859
Other		28,013,575	26,160,455	1,853,120
Contractual		541,501,373	456,228,019	85,273,354
Equipment		5,007,557	3,636,129	1,371,428
Allocations		77,792,625	73,829,803	3,962,822
Program Specific		509,694,490	472,652,347	37,042,143
Debt Service		62,988,328	60,631,822	2,356,506
All Other Operating Expense		1,235,583,832	1,103,130,600	132,453,232
County Expense		1,627,126,130	1,426,040,368	201,085,762
Net		66,370,066	69,370,066	(3,000,000)

Summary Risk Items

The remainder of this report will focus on the following, 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 May actuals match, exactly, with a zero-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, the sales tax trend has generally been upward.

   The two most recent (June) sales tax transfers, taken together (since one of them includes quarterly adjustments that makes it difficult to separate the two) show a net increase in sales tax of $1.3 million over 2019 for the same period. Prior to COVID-19, sales tax receipts were averaging 7% over last year's transfers. Post-COVID-19, receipts are down 7.3% as compared with last year, for the same period.

   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 unprecedented, 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 May, the County experienced a shortfall of $285,257 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 not included in this revenue category.

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 May, this revenue source, which include interest earnings and a series of repayments, budgeted at $16,498,878 for the period are running $650,777 over County expectations.

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 May, Fines, Fees or Charges which include Auto Bureau Transactions and Property and other Recording Fees, forecasted at $16,058,593 for the period, are running $528,184 below budget. With County auto bureaus closed until recently and housing showings recently restarting, 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 $5,393,452 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 (Spring) semester. It is unknown at this point how the COVID-19 pandemic will impact its finances. However, it is anticipated that, in the short term, Full-Time-Equivalents (FTE's) and related tuition-based revenues will drop.

   There has been word from Albany that community colleges throughout New York State could face significant state revenue reductions. This development not only creates potential fiscal difficulties for SUNY Erie, but for the County, as well. Erie County is the local sponsor for the College and, based upon established formulas, may have to cover potential SUNY Erie losses.

   The College's 2020-21 proposed budget was due to be presented to the County in May. SUNY Erie, thus far, has received two extensions on its proposed budget submission date and has not yet submitted budget forecasts.

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.

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.