ERIE COUNTY FISCAL STABILITY AUTHORITY ANALYSIS OF THE ERIE COUNTY NOVEMBER 2020 BUDGET MONITORING REPORT January 11, 2021

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 $1.44 billion annual budget.

The year 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. Virtually all business sectors have reopened under New York State guidelines. However, most are operating at less than full capacity due to virus related health concerns.

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.

That proposal assumed a revenue gap of $137.8 million. Subsequent events have reduced (improved) that shortfall to $74.3 million, thereby allowing the County to eliminate the use of $25.15 million in fund balance as a revenue to balance current year financials.

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 (mostly 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
8. Overtime

Detailed Risk Items

1. ***Sales Tax Revenues*** – In its June remediation plan, the County lowered its 2020 original sales tax forecast by $111.7 million. Subsequent receipts/forecasts have reduced that amount to $85.3 million. November actuals are running $11,761,679 (2.9%) ahead of the adjusted budget.

   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 stabilized, though still below last-year's receipts.

   The most recent transfer (the second one in January) is 5.91% ($1,105,853) below the corresponding 2019 amount. Year-to-date cash receipts are running 2.65% ($11,481,086) behind last year at this time.

   With sales tax receipts recovering more quickly than originally anticipated, the County's revised shortfall estimates appear achievable at this point. 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 November, the County experienced a shortfall of $144,972 in this account.

   Fortunately, for the County, the COVID-19 economic impact occurred 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 $7.1 million from its original budget. Through November, this revenue source, which include interest earnings and a series of repayments, budgeted at $29,333,337 for the period are running $9,618,483 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, COVID-19 administrative repayments surplus of $3,691,746,surpluses in foster care and safety net repayments totaling $1,489,713 and Hotel Occupancy Taxes totaling $1,001,609 . The borrowing premium will be amortized next year, causing an issue (that has been addressed) in the County's 2021 budget.

4. ***Fines, Fees or Charges*** – The County's expectations for fines, fees or charges have been reduced by $5.1 million from its original budget. Through November, Fines, Fees or Charges which include Auto Bureau Transactions and Property and other Recording Fees, forecasted at $28,271,736 for the period, are running $169,373 above budget. With County auto bureaus reopened and housing transactions improving, revenues are trending upward in this account.

5. ***State Revenues*** – The County's expectations for state revenues have been reduced by $18 million from its original budget. State Revenues for the period are running $14,117,364 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 that started September 1, 2020. Most recent, Spring-2021, enrollment figures are running 28% below last year at this time.

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.

8. ***Overtime*** – In its General Fund, the County is running a significant surplus in this account - $2,760,179, spending only 79.13% of the allocated budget through November. Some of that account surplus is due to lower census at the Holding Center and Corrections Facility, currently at 25% and 50% of capacity respectively and significant amounts of overtime expense that have been transferred to the County's COVID-19 fund to gain reimbursement under Erie's $160.3 million Federal allocation.

Year-end Forecast

In its October BMR (last month's) submission, the county included a 2020 year-end forecast. The county listed $599,797 as a projected (after adjustments) year-end positive balance. Major assumptions include:

Sales tax coming at $476.7 million – this figure appears reasonable based upon 2020 trends. Through the first two January receipts, the county's current year sales tax receipts are running at 97.35% of 2019 actuals, which would bring year-end sales tax receipts of $467.8 million. From that figure, $3.1 million in sales tax/AIM returns to NYS must be subtracted, thereby netting the County $464.7 million.

Salaries coming in at $388,228 above budget for the year. This estimate appears reasonable based upon the current $14.44 million surplus in the salary account through November of this year.

Contractual expenses coming in at a negative $54.7 million. Through November, there is a $5 million deficit.

Allocations will end the year with a $29.5 million surplus. Through November, there is a $349,469 surplus.

Program specific expenses will end the year $5.5 million negative balance. Through November, there is a $11.28 million surplus.

Summary/Conclusion

Like many government entities, Erie County has been facing serious fiscal issues related to COVID-19. With the receipt of $160.3 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.

Given the results of the 2020 presidential election and senate runoff, there is renewed interest in providing state and local governments with federal funding to help weather the pandemic storm. A recent, almost $1 trillion proposal excluding state and local government funding, has been approved by congress and signed by the president. There appears to be an appetite in Washington for additional stimulus funding including state and local government support and additional individual payments.

Should this legislation be enacted, Erie County, New York State and other state and local governments will have a paradigm shift in their current and near-term future finances and will have critical decisions on how to best use this potential revenue. Even without this funding, Erie County's finances are currently stable and manageable.