ERIE COUNTY FISCAL STABILITY AUTHORITY
ANALYSIS OF THE ERIE COUNTY
MARCH 2020 BUDGET MONITORING REPORT
MAY 11, 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 a number of mostly historical risk issues for the County in managing its $1.597 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.

At this point, all regions of New York State (as well as many parts of the country and world) have been placed on "pause" to mitigate transfer of the virus. This necessary "pause" entails a series of social distancing measures that have resulted in significantly reduced economic activity that has economically impacted large and small businesses, healthcare providers, all levels of government and individuals.

Erie County is not immune from the effects of COVID-19, which can be financially devastating. Both the County Executive and County Comptroller have announced potential worst-case deficits in excess of $200 million for fiscal 2020 – the County Executive's estimate is $220 million at this point, with the Comptroller's at $206 million, assuming no additional outside (Federal) intervention.

Erie County has received $160.3 million from the Federal CARES Act that is intended to cover COVID-19 related incremental expenses through the end of 2020. These funds effectively insulate the County from rising health, human, and social services costs due to COVID-19. None of this revenue can be used for the County's current primary financial concern – revenue loss.

The remainder of this report will focus on the following, overarching COVID-19 financial 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

Risk Items

1. ***Sales Tax Revenues*** – The first quarter BMR, despite an initial impact (two payments of the 26 annual receipts) from the COVID-19 period are running $1,138,226 ahead of budget (1.05%). However, the first COVID period payment was 23.16% lower than the corresponding 2019 transfer. The second is lower by 36.48%.

   How long and how deep the reduction in this revenue will occur is an unknown at this point. There are reports that the Niagara Region of NYS, that includes Erie County, will begin to reopen to human and economic activity later in May or early in June, but that is not assured.

   With reopening, there are several prevailing economic theories as to how the economy (that drives sales tax revenues) will recover. The economic curve matches the name. They include:

   - The "V" – the economy will rebound virtually as fast as it contracted.

   - The "U" – the economy will languish at lower levels for a period before rebounding.

   - The "W" – the economy will cyclically rebound and contract for a period.

   - The "L" – the economy will languish at a lower level for an extended period.

   - The "Nike Swoosh" (affectionately named after the Nike logo shape) – assumes the economy will rebound, but not as fast as it contracted.

The current economic situation is so unprecedented, no-one knows for sure what the economic curve will look like. Only time will tell.

The New York State Association of Counties (NYSAC) recently revised its statewide and county by county estimates for sales tax losses. According to NYSAC, Erie County is anticipated to lose between $73.5 and $150.2 million this fiscal year.

2. ***Property Tax Related*** – Through March 31st, property tax related revenues, which include items such as interest and penalties and Payments in Lieu of Taxes (PILOTS), are running $324,847 below expectations. With continued reduced economic activity, the remaining $10.6 million in anticipated revenue (or some significant portion thereof) could be severely impacted.

   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*** – For the 1st quarter, Other Source Revenues which include interest earnings and a series of repayments, budgeted at $11,488,388 for the period are running $434,547 under County expectations. With interest rates and ability to repay the County reduced, the remaining annual budget of $27.7 million could be significantly impacted.

4. ***Fines, Fees or Charges*** – Through March, Fines, Fees or Charges which include Auto Bureau Transactions and Property and other Recording Fees, forecasted at $12,826,167 for the period, are running $643,334 below budget. With County auto bureaus closed and housing showings on pause, the remaining annual budget of $21.9 million could be significantly affected.

5. ***State Revenues*** – State Revenues for the period are running $3,038,137 below budget. However, this shortage is not directly 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.

   However, there has been word from Albany that NYS revenues could be cut by up to 20%, thereby jeopardizing up to $28 million of the $141 million in remaining, budgeted revenue for 2020. Figures published by the New York State Association of Counties (NYSAC) indicate a potential NYS revenue reduction of $42 million, assuming the cut is retroactive to the beginning of 2020. While the County Comptroller pegs the loss at $36.5 million.

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.

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. However, ECMC has only received \$11.5 million in stimulus funds as compared to COVID-19 losses of \$29 million through April 30th. Other hospitals in the region recently received \$65 million in additional stimulus funds. ECMC received no dollars from that pool. As a result, the Hospital is facing serious shortfalls without additional support. 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 approximately \$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, with worst case estimates in the \$200 million range.

The County has been working with the Western New York Congressional leadership 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.

While pursuing this Federal legislation, the County has undertaken a number of initiatives to address its potentially dire financial situation including:

- Initiating a non-essential worker hiring freeze
- Cancelling and/or delaying capital projects
- Designating $24 million from Its 2019 surplus to cover 2020 revenue shortfalls
- Accumulating a $102.9 million fund balance as a “rainy day” fund in the event outside (Federal) intervention does not come to fruition.

Unfortunately, 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.

The ECFSA remains 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.

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.