

**ERIE COUNTY FISCAL STABILITY AUTHORITY
ANALYSIS OF THE ERIE COUNTY
2016-2019 APROPOSED BUDGET BASED
FINANCIAL PLAN
November 2, 2015**

1. INTRODUCTION

This report details the analysis and comments of the Erie County Fiscal Stability Authority (ECFSA) in its review of Erie County's 2016 proposed budget and associated financial plan. The ECFSA is charged with reviewing the county's submission in light of opining on reasonableness and do-ability. Under the legislation that created the Authority, within 20 days of receiving the county's submission, the ECFSA is required to determine, in its best judgment, whether the budget and plan are in balance.

In the current version of the plan, the county is facing \$6.8 million in fiscal gaps prior to any adjustments to the county's estimate. This gap is \$3.6 million lower than the plan based on the 2015 adopted budget. The 2016 recommended budget property tax levy results in a \$12.8 million increase in the county's tax levy, as compared to the 2015 adopted budget – a 5.75% increase. Despite this increase, the county has indicated the property tax rate per thousand remains unchanged.

2. MAJOR PLAN ASSUMPTIONS

Major assumptions in the financial plan include:

- Sales tax growth of 1.49% for 2016 over the 2015 year-end forecast, then 2.0% for 2017, 2018 and 2019. The October 2014 Erie County Budget Monitoring Report (BMR) lists a \$6.8 million shortfall in this account. If the trend shown in the September BMR holds for the remainder of the year, the county would incur an \$8.8 million deficit in this account for 2015.
- Real Estate Market Value Growth, impacting the county's property tax levy, is assumed to increase by 5.75% for 2015 and by 2% for 2016, 2017 and 2018.
- The county portion of the property tax levy increased by \$12.82 million in 2016. - then increases by \$4.7 million in 2017, \$4.8 million in 2018 and

\$4.9 million in 2019 – a total increase of \$27.2 million over the period of the plan.

- A 7.2% increase in health insurance rates for 2017, 6.4% for 2018 and 6.5% for 2019.
- The continuation of the library system's current structural relationship with the county – the libraries do not become a separate taxing jurisdiction.
- Personal services expenses increase for step and longevity increments, as well as contractual cost of living increases agreed upon through collective bargaining. However, all of the county's labor contracts expire during the period of the plan, and there is no allowance for contractual increases beyond current contracts.
- Overtime expense remains virtually flat over the entire period of the financial plan.
- Capital borrowing of \$35.09 million for 2016 and between \$30 and \$39 million for 2017, 2018 and 2019.
- The plan, as presented, shows no gap for 2016 and shortages of \$3.68 million for 2017, \$1.86 million for 2018 and \$1.28 million for 2019.

3. MAJOR ADJUSTMENTS – 2015 ADOPTED BUDGET AND PLAN TO 2016 PROPOSED BUDGET AND PLAN

Major revenue and spending revisions from the version of the plan based on the 2015 adopted budget include:

- The Property Tax levy has increased by \$25.59 million for the 2016-2018 period, as compared to the 2015 adopted based plan.
- Full time salaries are virtually unchanged for the period 2016-2018.
- Vacancy savings for the period of the plan have increased by \$1.5 million for the 2016-2018 period. An additional \$2.0 million has been included in the 2019 fiscal year forecast for vacancy savings.
- The 2016 proposed county budget has an additional 31 full-time positions in the general fund, as compared to the 2015 adopted budget. Other county funds include an additional 24 full-time positions. The total position increase across funds for 2016 totals 55 full-time jobs. There are no additions planned past 2016.

- Fringe benefit costs have been increased for the 2016-2018 period by \$21.69 million as compared to the 2015 adopted budget version of the plan. The greatest increase is in retiree health insurance costs.
- Fringe benefit rates over the period of the current plan increase slightly each year from 51.49% in 2016 to 53.26% of salaries in 2019 for current county employees.

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Current Plan	51.49%	52.34%	52.77%
2015 Adopted Plan	<u>51.58%</u>	<u>51.65%</u>	<u>52.88%</u>
Difference	(0.08%)	0.69%	(0.11%)

- County stated “gaps” are smaller in the most recent version of the plan as compared to the adopted 2015 plan. In that version, the shortages totaled approximately \$10.39 million. The current plan calls for shortages of \$6.83 million.
- The 2016 fiscal year assumes the use of \$6,000,000 in fund balance as revenue to balance the budget. Fund balance usage has remained almost constant with the previous version of the plan. 2017 is increased by 1.995 million, with 2018 decreased by 2.005 million.

4. PLAN ASSESSMENT

With the allocation of \$6.0 million in fund balance, the county’s 2016 adopted budget is balanced. The plan lists a cumulative shortage over the 2016-2019 plan period of \$6.8 million. The current plan “gap” is a decrease of \$3.6 million over the financial plan submitted in December of 2014.

The following is a comparison of current and 2015 adopted plan annual gaps (in millions of \$’s):

	<u>2016</u>	<u>2017</u>	<u>2018</u>
<i>Current Plan Gap</i>	<i>\$0.0</i>	<i>\$3.7</i>	<i>\$ 1.8</i>
<i>2015 Adopted Plan Gap</i>	<i>\$4.5</i>	<i>\$1.8</i>	<i>\$ 4.1</i>
<i>Difference</i>	<i>(\$4.5)</i>	<i>\$1.9</i>	<i>(\$ 2.3)</i>

Baseline Estimates/Associated Risk

There are a number of risk items included in the baseline of the plan that are cause for concern:

1. **Sales Tax Revenues** – The plan assumes a 1.49% increase in 2016 sales tax revenues over 2015 ECFSA forecasted amounts. That is followed by 2.0% increases for each year from 2017-2019. Given long term averages this increase in sales tax revenues from year to year, this growth rate does not appear to be unreasonable.

The county has over-budgeted sales tax revenues for the last three years and as of the most recent Budget Monitoring Report, is showing a budget deficit of \$5.67 million in this account. County officials have stated they expect an \$8-10 million deficit in this account at year-end. The ECFSA concurs with this assessment.

The county has taken the ECFSA's advice from previously issued Authority reviews and made their sales tax forecasts more conservative. Current estimates not only appear to be reasonable, but also, very achievable.

2. **Overtime** – the current financial plan calls for overtime expenses to remain relatively flat, despite a current budget deficit (and previous deficits) in this account and general wage increases as mandated by collective bargaining agreements

As stated in a previous section of this report, overtime figures have been improving, but not enough, at this point, to justify county estimates in overtime spending. Assuming current 2015 figures carry forward (with salary inflation adjustments); the county's overtime expense would be exceeded by over \$3.5 million through 2019.

3. **Vacancy Savings** – In the 2015 adopted financial plan, the county assumed \$6.5 million in vacancy savings for the entire 4-year period. The current plan calls for \$8 million in savings over 4 years - \$2 million in each of the 4 years. While annual and aggregate figures are very achievable, based upon the county's program of holding positions vacant, the increase in budgeted vacancy savings is a concern, in that it lessens the arsenal the county has to call upon in the event of a shortfall elsewhere in the budget.

4. Labor Agreements – All of the county’s labor contracts expire during the period of this financial plan:

Union	Expiration Date
CSEA	12/31/16
AFSCME	12/31/15
NYSNA	12/31/17
CSEA Corrections	12/31/16
Teamsters	12/31/16
PBA	12/31/16
Librarian	12/31/17
*Faculty Federation	12/31/09
ECC Administrators	08/31/11

Potential negotiated COLA is not included in the financial plan for any of these unions.

*A ratification vote is scheduled for November 4, 2015 for a tentative agreement that is projected to create a \$1.9 million deficit for ECC’s 2015-16 budget. If approved the new deal would cost the college \$3 million over the next five years.

5. **Pension Expenses** – In comparing the current financial plan to the last submission, pension expenses have gone down by almost \$7.5 million for the concurrent years of the forecast Analytical review of the plan indicates these reductions appear reasonable, yet hold little leeway for a surplus in this account.
6. **Workers Compensation** – As compared to the previous version of the financial plan, Workers Compensation expenses are anticipated to increase from approximately \$5 million annually, to approximately \$6 million annually. In the previous version of the plan, the county had assumed an additional \$1 million in annual savings that did not materialize. The county had indicated that this drop in anticipated expense would be a result of a combination of items: lump sum reductions of ECMCC related legacy costs and a change in NYS Workers Compensation Board assessment methodology.
7. **Employee Medical**– Compared to the December 2014 submission, employee medical expenses have increased by \$4.75 million for 2016, through 2018 period. The county has indicated that the lower costs are the result of the CSEA contract and trends received from their healthcare organization – Labor Management Healthcare Fund.

8. **Retiree Medical** – As compared to the 2014 adopted budget version of the financial plan, the county has increased its estimates for retiree medical expenses by \$21.5 million for the concurrent period of the plan. The county has attributed this increase to additional retirements in response to the CSEA contract ratified in 2014 and provisions of the Affordable Care Act.
9. **Erie County Medical Center Corporation (ECMCC)** – according to county and ECMCC records, the county has used up all of its \$28 million in credits, under the latest version of the lease Purchase and Operating Agreement between the two entities.

Under the current agreement with the Medical Center, the county is required to repay those credits back at a rate of \$2 million per year.

Usage of ECMC credits	
2012	1,160,683.31
2013	5,203,169.00
2014	14,378,458.50
2015	7,257,689.19
Total	(28,000,000.00)

10. **Fund Balance** - The 2016 fiscal year assumes the use of \$6.0 million in fund balance as revenue to balance the budget. The current plan includes \$6.0 million in fund balance usage for 2017 – for a total anticipated fund balance usage of \$12.0 million.

Gap and Gap Closers

On the most recent version of the plan the county is reporting a smaller gap than in the past - \$6.8 million in the current submission vs. \$10.3 million in the 2015 adopted plan.

The current, stated gaps are as follows:

<u>Year</u>	<u>Gap</u>
2017	\$ 3,683,881
2018	\$ 1,868,005
<u>2019</u>	<u>\$ 1,285,353</u>
Total	\$ 6,837,239

The county has put forward a number of potential gap closers including:

- Better than expected sales tax revenue
- Better than expected property assessment revenue
- Reductions in discretionary spending, including in personal services and deletions of positions
- Expedited retirements of employees due to union contract provisions
- Property tax revenue
- The use of appropriated fund balance
- Participation in the Employer Contribution Stabilization Program
- More favorable caseload trends in social services accounts
- Revenue from initiatives such as the State's medical marijuana dispensary program

Potential gap closers are not quantified at this point. Amounts and usage are contingent upon the order of magnitude of fiscal issues the county may face.

5. SUMMARY/RECOMMENDATIONS

The ECFSA's review of the county's 2016 budget and financial plan indicates that the 2016 budget appears to be in balance. For the out years of the plan, forecasts, taken as a whole, are reasonable, but problematic in a number of areas that could invoke out-year gap closers.

In addition to the \$6.8 million in listed gaps, there are a number of risk items that, if not addressed sooner rather than later, could exacerbate future shortfalls and stall the county's fiscal recovery. There appear to be some expense items that appear to be underestimated and a significant revenue item, sales tax, that bears a high degree of variability and risk.

The ECFSA in this report cites a number of specific issues the county faces and needs to appropriately address, including:

Sales Tax Revenues

- Sales tax is the largest single revenue source for Erie County, encompassing almost 26% of revenues in 2016. Since 2009, when sales tax revenues decreased as compared to the prior year, the county has benefitted from regular increases in this revenue source. Outside of regularly reauthorizing the legislation to maintain this revenue, there is little the county can do to impact its growth. According the most recent BMR the county has a \$5.67 million budget deficit in this account. Assuming sales tax revenues maintain their current trajectory in 2015, the county would suffer an \$8.6 million deficit in this account.

- **Recommendation** - Given the volatility of this revenue source, and prior overestimations, the ECFSA urges the county to closely monitor receipts and make strategic decisions to maintain a balanced budget in the event that this major item does not meet expectations.

Overtime

- A number of staffing additions between 2012 and 2014 were intended to assist with compliance issues and significantly reduce overtime expense. Thus far, previous personnel additions in the county's largest overtime cost centers have reduced overtime expenses somewhat, but not to the degree that has been budgeted. After budget surpluses earlier in the year, this account is now showing a deficit for 2015.
- **Recommendation** - The ECFSA urges the county to continue to closely monitor overtime to provide reasonable assurance that overtime will be reduced to expected levels of approximately \$14 million per year, while not compromising compliance. If anticipated material overtime reductions do not emerge in a reasonable period of time the county is urged to take appropriate actions, which may include overtime appropriations that more closely match actual expenses.

Expired/Expiring Labor Agreements

- The county has not budgeted for any potential expired/expiring labor agreements. All agreements will be expired during the plan period.
- **Recommendation** – the ECFSA urges the county to prepare for potential negotiations with an eye toward further benefit and/or work rule changes that will foster a stable county labor force, while not overburdening county taxpayers.

Vacancy Control

- Increasing use of vacancy savings to help balance the budget and plan reduces the order of magnitude of turnover/vacancy savings as a potential gap closer.
- **Recommendation** - the ECFSA urges the county to maintain its vacancy control program, while keeping budgeted vacancy savings at minimal levels. In 2015 the county has maintained a program in which between 5-7% of its full time general fund positions remain vacant. Continuation of

that program with like vacancy percentages is necessary to balance the plan through 2019.

Erie County Medical Center Corporation

- The county and the medical center have agreed to a credit system and year-to-year deferral of Upper Payment Limit (UPL) and Disproportionate Share (DSH) payments to be made from the county to the public hospital. The county and the hospital are working on extending the current credits agreement.
- ***Recommendation*** - The ECSFA recommends that the county continues to budget for the appropriate annual payments and continues positive negotiations with ECMCC to extend the current agreement.

Pension

- County pension rates and associated expenses are going down, with rates and costs lower in the current version of the plan as compared to the previous plan.
- ***Recommendation*** – The ECFSA recommends that the county closely monitor this account and maintain vacancy and other related savings that will mitigate its exposure in this account, given the reductions in the plan expenditures.

Workers Compensation

- There are significant increases in anticipated Workers Compensation expenses as compared to the previous version of the financial plan. The county has indicated, in the past, that there are initiatives that are assumed to reduce this expense line, however, this appropriation has been increased.
- ***Recommendation*** – The ECFSA recommends that the county closely monitor initiatives to reduce this expense line that may not have come to anticipated fruition, to determine whether the undertaken initiatives are having or will have the originally intended expense reduction impact.

Employee Medical

- Compared to the December 2014 submission, employee medical expenses have increased in this version of the financial plan. The county has indicated that the higher costs are the result of trends received from its healthcare subsidiary – Labor Management Healthcare Fund. These additions appear reasonable. However, labor contract provisions were supposed to reduce these costs, not increase them.
- ***Recommendation*** - The ECFSA urges the county to closely monitor the implementation of contract provisions and other initiatives to provide reasonable assurance that the order of magnitude of anticipated savings materializes.

Retiree Medical

- The county has increased its Retiree Medical expense estimates, as compared to the previous version of its financial plan, attributing the order of magnitude of the increase to additional retirements and provisions of the Affordable Care Act.
- ***Recommendation*** - The ECFSA urges the county to closely monitor this item for increases or decreases in expense due to unanticipated levels of retirement, changes related to federal legislation and trends gleaned by its health insurance subsidiary, Labor Management Healthcare.

Staffing

- For the 2016 proposed budget, the county is assuming the addition of 55 positions across all funds, as compared to the 2015 adopted budget. The county is not planning further additions or deletions past 2016.
- ***Recommendation*** - The ECFSA urges the county to continue to use technology and management initiatives to “do more with less” and to maintain the management discipline of looking for and implementing efficiencies within functions and departments to further streamline county government.

Fund Balance

- In the most recent version of the plan, the county is increasing its use of budgeted fund balance earlier in the plan and trading that with less usage in a later period. If not replenished, the potential use of \$12 million lowers the county's reserves and indicates an imbalance between recurring revenues and expenses.
- **Recommendation** - the ECFSA looks to the county to closely monitor expenses and revenues and to review service models to determine the best and most cost-effective ways of providing both mandated and non-mandated services to those impacted by Erie County Government, while maintaining the county's reserves and to tap fund balance as a last resort.

In closing, we want to reiterate that there are still difficult choices to be made and the collaborative effort of county policymakers is necessary to keep Erie County on the right path. We call upon the county's elected officials to continue to work cooperatively and intelligently to make decisions and implement initiatives that will cement Erie County's long-term financial health.