ERIE COUNTY FISCAL STABILITY AUTHORITY ANALYSIS OF THE ERIE COUNTY 2017-2020 ADOPTED BUDGET BASED FINANCIAL PLAN MAY 3, 2017

1. INTRODUCTION

This report details the analysis and comments of the Erie County Fiscal Stability Authority (ECFSA) in its review of Erie County's 2017 adopted 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 15 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 its current version of the plan, the County is facing $6.3 million in fiscal gaps prior to any adjustments to the County's estimate. This gap is $2.5 million lower than the plan based on the 2016 adopted budget. The 2017 recommended budget property tax levy results in a $13.9 million increase in the County's tax levy, as compared to the 2016 adopted budget – a 5.93% increase. The tax rate per thousand of valuation decreases by $0.02.

MAJOR PLAN ASSUMPTIONS

Major assumptions include:

- Sales tax growth of 1.25% County's for 2017 over the County's 2016 year-end forecast, then 1.75% for 2018, and 2.0% for 2019 and 2020.

- Real Estate Market Value Growth, impacting the County's property tax levy, is assumed to increase by 5.93% for 2017 and by 2.85% for 2018, 2019 and 2020.

- The County portion of the property tax levy increased by $13.89 million in 2017. Then increases by $7.06 million in 2018, $6.35 million in 2019 and $7.27 million in 2020 – a total increase of $35.71 million over the period of the plan.

- A 9.0% increase for 2017, followed by a 6.9% increase in health insurance rates for 2018, 6.6% for 2019 and 6.7% for 2020.

- Personal services expenses increase for step and longevity increments, as well as current contractual cost of living increases agreed upon through collective bargaining. For the labor agreements that expire during the period of the plan there is no allowance for potential negotiated wage increases.

- Overtime expense remains virtually flat over the entire period of the financial plan. Rising only at the rate of anticipated salary increases (1.5%) for 2018-2020. The increase for 2017 is only .073%, just under half of the anticipated rate of general salary increase.

- Capital borrowing of $37.96 million for 2017 and between $35 and $39 million for 2018, 2019 and 2020.

- Prior to including the anticipated ECMC liability, the County lists no gaps in its plan; showing a surplus of just over $19 million for the 2017-2020 period. Including the anticipated ECMC liability, the County lists a $23.5 million shortfall. The 2016 Adopted Budget based plan listed an $8.8 million accumulated shortfall.

- Full time salaries are reduced by $4.5 million for the period 2017-2019 as compared to the 2016 adopted budget based plan.

- The 2017 proposed County budget has an additional 31 full-time positions in the general fund, as compared to the 2016 adopted budget. Other County funds include an additional 5 full-time positions. The total position increase across funds for 2016 totals 36 full-time jobs. Additional funds were added to the Board of Elections for full-time and RPT staff. There are no additions planned past 2017.

- Fringe benefit costs have been increased for the 2017-2019 period by $2.9 million as compared to the 2016 adopted budget version of the plan. The greatest increase is in medical insurance costs.

- Fringe benefit rates over the period of the current plan increase slightly each year from 53.12% in 2017 to 54.42% of salaries in 2019 for current County employees.

	2017	**2018**	**2019**
2016 Adopted Plan	52.78%	52.71%	53.19%
Current Plan	53.12%	53.87%	54.42%
Increase	**0.56%**	**1.16%**	**1.23%**

- The 2017 fiscal year assumes the use of $6,000,000 in fund balance as revenue to balance the budget. The 2016 adopted version of the plan assumed no fund balance would be required to balance past 2017. The current version of the plan assumes $6 million per year for the 2018-2020 period.

MAJOR CHANGES FROM THE 2017 PROPOSED BUDGET BASED PLAN

- The Property tax levy has increased by almost $5.4 million. It appears that the assumed annual increase in property values has risen from 2.5% per year to 2.85%, starting in 2018.

- The use of fund balance has increased from $3 million per year to $6 million per year – a total rise of $9 million over the period of the financial plan.

- Medicaid expenses are assumed to go down by $15.8 million over the period of the financial plan.

- The County is recognizing $60.3 million in anticipated ECMC related IGT expenses over the period of the financial plan, with $18 million of that being incurred in 2017, the current budget year.

- .The County has quantified gap closers including:

Increases in Turnover Savings	$5,000,000
Known Reductions In Medicaid	$2,235.641
Prior year IGT Reconciliation	$7,731,925
Medicaid Reconciliation	$6,905,144
Discretionary Program Cuts	$11,536,721

2. PLAN ASSESSMENT

The 2017 Adopted Budget based financial plan is a reasonable assessment of the County's forecasted finances through 2020. There are still potential risks involved, however, County forecasts put forward a reasonable path to navigate them successfully. Below are a number of items that bear close attention:

1. ***Erie County Medical Center Corporation (ECMCC) IGT, DSH and UPL*** - The County has recognized $60.3 million in ECMC related IGT liabilities over the period of the financial plan. This figure appears reasonable and does reconcile to ECMC expectations for this revenue source. The County, without using any of the anticipated ECMC borrowing credits, has put forward a plan to close the gap for 2017 and to significantly reduce its anticipated gaps for 2018 through 2020. The possibility of using borrowing credits is still listed as another potential gap closer.

2. ***Sales Tax Revenues*** – The plan assumes a 1.25% increase in 2017 sales tax revenues over 2016 county forecasted amounts. That is followed by a 1.75% increase for 2018 and 2% annual increases for 2019 and 2020. Given long term averages these growth percentages do not appear to be unreasonable.

   The county has over-budgeted sales tax revenues for the last five years. Preliminary 2016 year-end financial numbers indicate a $5.6 million shortfall in this account for the fiscal year. Current year sales tax receipts received by the ECFSA, indicate a 3.11% increase over the previous year.

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

   Overtime expenses have increased slightly over the previous two fiscal years. From $15.29 million in 2014 to $15.34 million in 2015. FY 2016 is on-track for $15.5 million in overtime spending. Given recent spending trends and assuming a 1.5% general salary increase for the 2017-2020 period for the financial plan, overtime expenses for the period would run a deficit of $6.7 million for the four years total.

4. ***Vacancy Savings*** – The current plan calls for $4.4 million in savings over 4 years - $1.1 million per year. In the Gap Closer section of the submission, the County lists an additional $5 million in savings for the period. The highest annual aggregate number is $2.6 million. 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.

5. ***Labor Agreements*** – In the Labor Relations Department Top Priorities for 2017 is to negotiate successor labor agreements with CSEA, CSEA Corrections Officers, Teamsters and PBA and to finalize outstanding issues related to negotiations with AFSCME. Potential negotiated cost of living

increases are not included in the financial plan for any of these unions. The ECFSA has not been kept abreast of these negotiations so that it can opine on the financial ramifications.

6. ***Pension Expenses*** – In comparing the current financial plan to the 2016 Adopted Budget based submission, pension expenses have gone down by almost $822,000 for the concurrent years of the forecast. Analytical review of the plan indicates these reductions appear reasonable given the new hires joining the County at Tier 6, yet hold little leeway for a surplus in this account.

7. ***Workers Compensation*** – As compared to the 2016 Adopted Budget based version of the financial plan, Workers Compensation expenses are anticipated to decrease from approximately $1.9 million over the 2017-2019 concurrent period of the plan. The County attributes this to solid case management and the effects of prior year lump sum settlements that reduce out-year costs.

8. ***Employee Medical***– Compared to the 2016 Adopted Budget submission, employee medical expenses have increased by $5.7 million for 2017 through 2019. The County had previously indicated that health care costs would be ameliorated as a result of negotiated contract provisions. This benefit realized from these contract provisions did not outweigh unrelated cost growth in 2016 which increased the base cost for 2017-forward.

9. ***Retiree Medical*** – As compared to the 2016 Adopted Budget version of the financial plan, the County has decreased its estimates for retiree medical expenses by $905,000 for the concurrent period of the plan.

10. ***Risk Retention*** – In 2015, the County incurred $3.6 million in Risk Retention expenses. Comparable 2014 and 2013 County actuals are $1.9 million and $2.2 million respectively. The 2017 departmental request is $4 million. The County has not furnished detailed schedules to support this appropriation. However, given the most recent complete year's spending, augmented by the departmental request, the current appropriation appears to be on the lower end of the range to cover expenses going forward.

Gap and Gap Closers

The 2017 Adopted Budget based financial plan, prior to ECMC IGT liability recognition assumes $19 million surplus. Accounting for the IGT brings that surplus to an aggregate shortfall of $23.2.

Annual Gaps:

Year	*Base Surplus*	*Revised Gap*
2017	$ 0	($18,085,357)
2018	$ 5,690,023	($15,742,678)
2019	$ 5,865,605	($16,142,007)
2020	$ 7,486,364	($10,402,431)
Total	***$19, 041,981***	***($23,245,134)***

The County has quantified gap closers including:

- Increases in Turnover Savings $5,000,000
- Known Reductions In Medicaid $2,235.641
- Prior year IGT Reconciliation $7,731,925
- Medicaid Reconciliation $6,905,144
- Discretionary Program Cuts $11,536,721

The County has put forward a number of non-quantified gap closers including:

- Increase sales tax revenue
- Fringe benefit savings
- Usage of potential ECMC credits
- Lower than projected DSS caseloads
- Additional property assessment growth
- Appropriation of additional fund balance
- Participation in the Employer Contribution Stabilization Program

3. SUMMARY/RECOMMENDATIONS

In the October 31st, 2016 report issued by the ECFSA on the County's budget and financial plan, ECMC IGT related expenses were the overriding concern. At this point, the County has quantified that liability going forward and has put forward alternatives to address the potential, resulting shortfalls. Some of the answers relate to internal credits the County has available to it, others, including increased turnover savings, use of borrowing-generated credits and discretionary program cuts require management action and cooperation among County officials. The ECFSA urges County leaders to work together to forge a resolution that allows the County to provide necessary and desired services to its residents, while balancing its budgets and not overburdening its taxpayers.

The ECFSA, in this report cites specific issues the County faces and needs to appropriately address, including:

Erie County Medical Center Corporation

- The County has included $60.3 million in its financial plan for ECMC IGT related expenses, and a series of gap closers to address this liability.

- ***Recommendation*** – The ECFSA urges County officials to work cooperatively in a fiscally responsible way to address the gap associated with the anticipated ECMC IGT payments, while being mindful of the ramifications of any gap closing measure that could negatively impact the Medical Center.

Sales Tax Revenues

- Sales tax is the largest single revenue source for Erie County, encompassing 30% of general fund revenues in 2017. 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. The County has over-budgeted sales tax revenues for the last five years, with 2016 receipts coming in at $5.6 million under budget.

- ***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

- The County has consistently exceeded its overtime allocation. In 2014 and 2015 respectively, the County spent $15.29 million and $15.34 million. For 2016, the County is on track to spend $15.5 million by year-end against a budget of $13.9 million. That shortfall is anticipated to continue, exacerbated by annual salary level increases, resulting in a $6.7 million shortfall over the period of the plan.

- ***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

- Despite the Department of Labor Relations goals of settling significant contracts in 2017, the County has not specifically budgeted funds for any potential net settlement costs.

- ***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

- In the most recent version of the financial plan, the County has increased its usage of vacancy savings by $5 million. The 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 2016 the County 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 2020.

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 expected decreases 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.

- ***Recommendation*** – The ECFSA recommends that the County closely monitor initiatives to reduce this expense line to determine whether the undertaken initiatives are having or will have the originally intended expense reduction impact.

Medical Expenses

- Compared to the Adopted 2016 Budget 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 and its consultant. According to the County, there is a blended increased cost of 9%. However, LMHF published rates for 2017 show an increase of 15%.

- ***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 mitigates general health care cost increases.

Staffing

- For the 2017 proposed budget, the County is assuming the addition of 34 positions across all funds, as compared to the 2016 adopted budget. The County is not planning further additions or deletions past 2017.

- ***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 extending its use of budgeted fund balance. If not replenished, the potential use of $24 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 the County has reasonably quantified its fiscal gaps and now must implement initiatives/solutions that l require positive action by County leaders. The ECFSA urges County officials to work jointly toward addressing the matters at hand to provide reasonable assurance that the County’s fiscal health will continue to improve.