ERIE COUNTY FISCAL STABILITY AUTHORITY ANALYSIS OF THE ERIE COUNTY 2020-2023 ADOPTED BUDGET BASED FINANCIAL PLAN January 6, 2020

1. INTRODUCTION

This report details the analysis and comments of the Erie County Fiscal Stability Authority (ECFSA) in its review of Erie County's 2020 adopted budget and associated financial plan. The ECFSA is charged with reviewing the county's submission in light of opining on reasonableness and achievability. Under the legislation that created the Authority, within 15 days after receiving the County's submission, the ECFSA is required to determine, in its best judgment, whether the budget and plan are in balance and achievable.

In its current version of the plan, the county is facing $3,072,249 in fiscal gaps prior to any adjustments to the county's estimate. This gap is $1.81 million higher than the plan based on the 2020 recommended budget. The 2020 adopted budget property tax levy results in a $9.67 million increase in the county's tax levy, as compared to the 2019 adopted budget – a 3.58% increase. The county has provided evidence that the levy does not exceed the property tax cap. The tax levy was reduced by $656,488 in the adoption process.

2. MAJOR PLAN ASSUMPTIONS

Major assumptions in the financial plan include:

1. 2020 sales tax growth of 2.6% over the county's 2019 adopted budget (2.72% over expected Y/E 2019 receipts), then 1.75% for 2021 and 2% per year through 2023.

2. Real Estate Market Value Growth has been set at 6.29% by New York State for 2020 and is assumed to increase by 2% per year for the period 2021-2023.

3. The county portion of the property tax levy increases by $9.67 million in 2020 as compared to the 2019 adopted budget. Then increases by $5.59 million in 2021, $5.7 million in 2022 and $5.82 million in 2023 – a total increase of $26.8 million over the period of the plan.

4. The county has not budgeted the full amount of SUNY Erie related chargebacks as a revenue in its budget. It has budgeted $2.7 million, approximately 40% of the anticipated chargeback revenue amount.

5. Comparing the 2019 adopted budget to the 2020 adopted version, the county added 63 positions. Fourteen of which were added in the District Attorney’s Office during the year to meet new NYS speedy trial and discovery mandates.

6. The recommended budget-based plan narrative listed increase in health insurance rates of 4.66% for 2021, followed by a 4.04% increase for 2022 and 4.02% for 2023. A downward adjustment was made in this account during the budget adoption process.

   The current employee medical premium budget was reduced by $3.15 million in the current year adoption process. The total reduction over the 4-year period is $3.36 million as compared to the recommended budget.

7. 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.

8. 2020 overtime expense rises by 4.7% as compared to the 2019 adopted budget. Subsequent years’ increased match the increase in personal services of 2.5% per year.

9. Capital borrowing of $47.3 million for 2020 and between $42 and $44 million for 2021, 2022 and 2023.

10. The plan, as presented, shows no gap for 2020, a gap of $139,108 for 2021 and $852,218 for 2022, and $2,080,923 for 2023 for a total of $3,072,249.

11. The budget and financial plan, to balance, assume $8.52 million of the original $17 million in points/credits against ECMC related IGT and DSH expenses, generated through savings provided by an ECFSA borrowing for ECMC capital projects. Including a new, state-of-the-art emergency room.

3. ***CHANGES FROM THE 2020 PROPOSED BUDGET AND PLAN***

Major revenue and spending revisions from the proposed version of the plan compared to the 2020 proposed budget version include:

- The Property Tax levy has decreased by $2.7 million for the 2020-2023 period, as compared to the 2020 proposed based plan.

- Estimates for sales tax revenues have increased by $11.3 million over the period of the financial plan, as compared to the 2020 recommended submission.

- Full time salaries have decreased by $2.05 million for the period 2020-2023. Primarily due to the deletion of Sheriff SWAT Team proposed staffing in the 2020 in the adopted budget process.

- Compared to the 2020 recommended budget submission, adopted budget-based employee medical expenses have decreased by $3.36 million for the 2020 through 2023 period.

- Total Risk Retention expenses are assumed to decrease by $2 million over the 2020-2023 period.

- $1 million has been added to the 2020 budget for previously unbudgeted Presidential Election expenses.

- Cultural Agency spending for the 2020-2023 period has increased by $1,069,56, an average of $422,000 per year.

- Road interfund allocations have increased by $2,439.120, over the 4-year period, an average of $609,000 per year.

- Debt service numbers for 2022 and 2023 have increased by $4.5 million and $8.3 million respectively. The changes are due to a combination of capital re-assessment factors including pay-as-you-go capital rates and the correction of a calculation error.

- County stated “gaps” are larger in the most recent version of the plan as compared to the proposed 2019 plan. In that version, the shortages totaled just over $66,000. The adopted budget-based plan calls for shortages totaling $3,072,249.

4. PLAN ASSESSMENT

The stated gaps in the current financial plan are higher, as compared to the previous version that was accepted by the Erie County Fiscal Stability Authority.

In the current version of the plan as compared to the 2020 proposed budget-based version, sales tax revenues have increased, the property tax levy has decreased, current employee health insurance estimates have been reduced, and debt service has increased. Even with these changes, the 2020 budget and associated 2021-2023 financial plan appear to be reasonable and achievable.

The following is a comparison of current and 2019 adopted plan annual gaps (in millions of $'s):

	2020	***2021***	***2022***	***2023***
Current Plan Gap	***$0.00***	***$0.14***	***$ 0.85***	***$2.08***
2020 Proposed Gap	***$0.00***	***($0.18)***	***$ 0.16***	***$0.08***
Difference	***($0.00)***	***($0.32)***	***($0.69)***	***($2.08)***

Baseline Estimates/Associated Risk

- ***Erie County Medical Center Corporation (ECMCC) IGT, DSH and UPL*** –As a result of the 2017 borrowing agreement between ECMC and the County, the County received $17,040,000 in points from the hospital as a portion of the savings related to the ECFSA's borrowing on the hospital's behalf. The county is using the final $8.52 million in accrued credits to reduce its 2020 and 2021 ECMC related liability ($4.26 million a year).

  Given ECMC's contractual relationship with the county, federal changes to the Affordable Care Act and/or Medicaid reimbursements may impact county finances going forward.

- ***Sales Tax Revenues*** – The recommended plan assumed a 2.6% increase in 2020 sales tax revenues over the 2019 adopted budget, and 2.72% over anticipated 2019 receipts. That was followed by a 1.5% annual increase for the period 2021, 2022 and 2023. The adopted budget-based plan assumes higher percentage increases – 1.75% in 2021, and 2% in both 2022 and 2023.

  Given long term averages, these growth percentages do not appear to be unreasonable. Though, the adopted budget increases make this revenue slightly less achievable.

Sales tax receipts received through December of 2019 by the ECFSA indicate a 4.04% increase over the previous year. With reported increases, the county would have a budget surplus in the sales tax account of approximately $11.8 million at the end of FY 2019. That account surplus could be reduced by NYS AIM/Sales Tax legislation directing $2 million in sales tax revenues to 24 affected towns in Erie county.

- ***Overtime*** – Overtime expense rises at a rate of 4.7% in the 2020 recommended budget as compared to the 2019 adopted budget. For the 2021-2023 period, overtime is anticipated to increase at the rate of 2.5% annually.

  Despite previous increases, overtime is still running a deficit in 2019. Through October of 2019, the county is running a deficit of $1.6 million. At the current rate of usage, the county would incur a $2 million 2019 shortfall in this account.

- ***Vacancy Savings*** – The current plan calls for $6 million in savings over 4 years - $1.8 million in 2020 followed by $1.4 million each year. The previous version of the financial plan had $5.6 million in vacancy savings over the 4-year period.

  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.

- ***Labor Agreements*** The county currently has no expired labor agreements. However, all the agreements expire during the period of the financial plan. In the 2019 adopted budget-based version, there were 4 expired contracts.

- ***Risk Retention*** – In 2017, the county incurred $2,8 million in Risk Retention expenses. For 2018, $2.4 million was spent. The recommended budget based financial plan called for just over $4 million in risk retention expenses for 2020, then $6 million for 2021 followed by $4 million per year for 2022-2023, for a total of $18 million. The adopted budget-based version of the financial plan totals just over $16 million, with $1 million reductions in both 2020 and 2023.

- ***SUNY Erie*** – Erie County is the sponsor of SUNY Erie (formerly ECC). As such, the county provides operating and capital funding to the College each year. The county has budgeted $17,724,317 in operating funding for the college in 2020 (up from $16,754,317 in the 2019 adopted budget), then increases its operational support to $18,084,317 for each year beyond the 2020 budget.

In its financial plan, SUNY Erie has increased its anticipation of support from the county by 1% per year, for each year of its financial plan and listed $13.5 million as its annual capital request. The county's contribution remains flat and the overwhelming majority of College's capital wish-list is unfunded.

In addition, as in 2019, the county has reduced chargebacks to property owners in municipalities that have Erie County students attending other community colleges. The 2020 figure is $4.4 million. This reduction increases its own tax levy by $4.4 million.

- ***Health and Human Services Programs*** – The County has reduced its allocations for certain health and human services programs as compared to previous versions (prior to the 2020 budget-based submissions) of the financial plan. One program, Medicaid, is prone to increases in 2020 and beyond based upon a $6 billion New York State deficit that is primarily driven by increasing Medicaid costs.

  With expenses increasing beyond original State budgeted amounts, there is a potential for Erie and other counties to start seeing a reversal to the decrease in the county share of this program.

Gap and Gap Closers

On the most recent version of the plan the county is reporting a larger gap than in the past - $3.07 million in the current submission vs. $66,000 million in the 2019 adopted plan.

The current, stated gaps are as follows:

Year	***Gap***
2020	$ 0
2021	$ 139,108
2022	$ 852,218
2023	$ 2,080,923
Total	***$ 3,072,249***

The county has put forward several potential gap closers including:

- Better than expected property tax assessment growth
- Better than expected sales tax revenue relating in part to new taxability of certain internet-based sales
- Reductions of discretionary spending
- Additional revenue from expanded foreclosure auctions
- More aggressive vacancy control measures
- Re-instatement of Gaming Facilities Aid
- The use of appropriated fund balance
- Reduction in intergovernmental Transfer costs
- Usage of Unassigned Fund Balance

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, in its review of the county's 2020 adopted budget and associated financial plan, finds the budget in balance and the county's financial projections, as-a-whole, to be reasonable and achievable.

Erie County is benefitting from a robust local and national economy, generating additional sales tax revenues and fewer county residents who require assistance through several health and social services programs. However, local and national economies are cyclical, and conditions could change dramatically over the period of the four-year plan. In addition, a looming $6 billion New York State budget deficit could have a more immediate impact on Erie and other counties across the state.

The county must position itself to continue to provide necessary and desired services without overburdening its taxpayers despite inevitable economic cycles.

Given the size and complexity of the county's operations and budget, and the potential for further State mandated programs, there are issues the ECFSA would like to comment on that could be problematic for the county going forward:

Erie County Medical Center Corporation

- Given the health care environment in Washington and the challenges ECMC faces as a public hospital, serving the poor and indigent of the county, finances are stable at this point, but ECMC does not have the taxing power afforded to Erie County to alleviate any future fiscal issues. With the contractual ties between the county and the Hospital, Medical Center finances and their potential impact on the county are a concern for the ECFSA.

Recommendation – Given the contractual relationship between the county and ECMC, and uncertain environment for public hospitals***,*** the ECFSA recommends continuation of the partnership between the two entities that led to the hospital improving its strategic position and saving significant dollars on borrowing through the Authority.

Sales Tax Revenues

- Sales tax is the largest single revenue source for Erie County, encompassing almost 32% of general fund revenues in 2020. 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. However, sales tax receipts are tied closely to economic trends.

- ***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

- For several years, the county has consistently exceeded its overtime allocation. Despite a significant increase in overtime appropriations in 2018 that have carried forward through the 2020-2023 financial plan, overtime expenses have continued to exceed budget.

- ***Recommendation*** - The ECFSA urges the county to continue to closely monitor overtime to provide reasonable assurance that overtime will not exceed the increased budget, while not compromising compliance.

Labor Agreements

- With all the County's labor union contracts expiring by the end of the 2020-2023 financial plan period, 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

- The increased 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 2019 the county has maintained a program in which between 5-8% of its full-time general fund positions remain vacant. Continuation of that program with like vacancy percentages is necessary to balance the plan through 2023.

Pension

- As a result of increased staffing and higher pension rates, the county's pension expense is increasing.

- ***Recommendation*** – The ECFSA recommends that the county closely monitor this account and maintain vacancy and other related savings that will mitigate its increase.

Medical Expenses – Current Employees

- Compared to the Recommended 2020 Budget submission, employee medical expenses have significantly decreased in the latest version of the financial plan despite increases in anticipated rates going forward.

- ***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 2020 proposed budget, the county is assuming the addition of 81 positions across all funds, as compared to the 2019 adopted budget. In the adoption process, 3 full time positions were added and 18 deleted changing the total to 66 new full-time positions. Since 2016, the county has increased its full-time staffing by 230 positions. This increased staffing adds to the county's ongoing spending base, not only in salaries, but fringe benefits, as well.

- ***Recommendation –*** The ECFSA urges the county to carefully review any staff additions prior to adding these potentially fixed costs to its budget and financial plan. The ECFSA recommends the county to continue to use technology and management initiatives to “do more with less” (despite recent, costly state mandates) 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 no longer budgeting fund balance as a revenue to stabilize its budget.

- ***Recommendation*** – the ECFSA recommends the County continue this practice for future financial plan submissions.

Health and Human Services Programs

- For the 2020 proposed budget, the county is assuming significant reductions in several Health and Human Service programs including Medicaid, Family Assistance, CWS Foster Care, Safety Net Assistance, and Child Care DSS as compared to the 2019 adopted budget based financial plan. Given the looming New York State $6 billion deficit, primarily driven by higher than anticipated Medicaid spending, the risk of those costs trickling down to counties is increased.

- ***Recommendation –*** the ECFSA recommends the county closely monitor these programs to determine the reasonableness of projections provided and that the county prepare contingency plans to make up potential shortfalls in these account, should anticipated trends not materialize.

SUNY Erie Chargebacks

- For the 2020 proposed budget, the county is not charging back $4.4 million to municipalities for residents who are attending community colleges that are outside of Erie County. This reduces revenues by $4.4 million.

- ***Recommendation –*** The ECFSA recommends the county look at this practice in-light-of the ramifications it has on this revenue stream and the issue of chargebacks as-a-whole, moving forward.

SUNY Erie Sponsor Contribution

- Much of what SUNY Erie included in its financial plan is in the 2020-2023 Erie County submission, highlighted by an increase of $610,000 in 2020 and increases of $970,000 beginning in 2021 and carried through 2023, as compared to the 2019 adopted version of the financial plan. However, College’s $13.5 million capital request goes largely unmet.

- ***Recommendation*** – The ECFSA recommends that county and SUNY Erie officials reconcile their expectations of county contributions to the college going forward.

Risk Retention

- The current financial plan calls for $16 million in appropriations over the 4-year period. The previous version of the financial plan totaled $18 million.

- ***Recommendation –*** The ECFSA recommends the county maintain this increased level of funding that easily meets actual expenditures.

Debt Service

- In its current version of the financial plan, the county is not budgeting the approximate $2 million per year it has in the past for a Revenue Anticipation Note (cash-flow borrowing). In 2018, the County borrowed $80 million. For 2019, the County Comptroller has authorization to borrow up to $50 million. The County has indicated that if a cash-flow borrowing is necessary, a budget amendment or use of prior year surplus funds could be used for this item.

- ***Recommendation –*** The ECFSA recommends the county look to more conservatively budget for this item in the event that this type of short-term note is required to maintain County operations.

In closing, we want to reiterate given the extent of the county's services and the size of its related budget, continued due diligence is required to maintain the public services residents of Erie County need and desire and fiscal responsibility to maintain a balanced budget with a reasonable cost to its residents and taxpayers.