ERIE COUNTY FISCAL STABILITY AUTHORITY ANALYSIS OF THE ERIE COUNTY 2020-2023 PROPOSED BUDGET BASED FINANCIAL PLAN October 21, 2019

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 proposed 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 20 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.

In its current version of the plan, the county is facing $66,498 in fiscal gaps prior to any adjustments to the county's estimate. This gap is $1.195 million lower than the plan based on the 2019 adopted budget. The 2020 recommended budget property tax levy results in a $10.33 million increase in the county's tax levy, as compared to the 2019 adopted budget – a 3.83% increase. The county has provided evidence that the levy does not exceed the property tax cap and that the tax rate per thousand of valuation decreases by $0.12, from $4.84 to $4.72.

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 1.5% for each of the years 2021 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 $10.33 million in 2020 as compared to the 2019 adopted budget. Then increases by $5.61 million in 2021, $5.72 million in 2022 and $5.83 million in 2023 – a total increase of $27.5 million over the period of the plan.

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

5. The plan narrative lists increase in health insurance rates of 4.66% for 2021, followed by a 4.04% increase for 2022 and 4.02% for 2023. Estimates for employee health insurance have decreased since the submission of the 2019 adopted budget-based version of the financial plan. For 2020 and 2021 the difference is $4.8 million per year, followed by $5.3 million in 2022.

6. 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.

7. 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.

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

9. The plan, as presented, shows no gap for 2020, a surplus of $177,020 for 2020 and shortages of $158,954 for 2022, and $84,564 for 2023.

10. The budget and financial plan, to balance, assume $4.26 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. MAJOR ADJUSTMENTS – 2019 ADOPTED BUDGET AND PLAN TO 2020 PROPOSED BUDGET AND PLAN

Major revenue and spending revisions from the version of the plan compared to the 2019 adopted budget include:

- The Property Tax levy has increased by $15 million for the 2020-2022 period, as compared to the 2019 adopted based plan.

- Full time salaries have increased by $28.2 million for the period 2020-2022.

- Vacancy savings for the period of the plan have decreased by $400,000 for the 2020-2022 period, with the only change being to the 2020 budget year.

- The 2020 proposed county budget has an additional 79 full-time positions in the general fund, as compared to the 2019 adopted budget. Other county funds include an additional 2 full-time positions. The total position increase across funds for 2020 totals 81 full-time jobs.

- Compared to the 2019 Adopted budget submission, current employee medical expenses have decreased by $14.9 million for the 2020 through 2022 period.

- Compared to the 2019 Adopted budget submission, retiree medical expenses have decreased by $11.2 million for the 2020 through 2022 period.

- Compared to the 2019 Adopted budget submission, pension expenses have increased by $7 million for the 2020 through 2022 period.

- Fringe benefit rates over the period of the current plan decrease slightly each year as compared to the 2019 adopted budget-based financial plan:

	2020	2021	2022
2019 Adopted Plan	47.7%	48.1%	48.6%
Current Plan	44.9%	45.6%	46.2%
Decrease	2.8%	2.5%	2.4%

- County stated “gaps” are smaller in the most recent version of the plan as compared to the adopted 2019 plan. In that version, the shortages totaled approximately $1.26 million. The current plan calls for shortages of just over $66,000.

- Neither the 2020 budget nor the 2021-2023 financial plan budget fund balance as a revenue. The 2019 adopted budget version of the financial plan assumed $6 million for the 2020-2022 period - $3 million in 2019, $2 million in 2020 and $1 million in 2021.

- Certain Health and Human services program costs have been assumed to be significantly reduced, over the 2020-2022 period, as compared to forecasts in the 2019 adopted budget-based plan:

- Medicaid Local Share – $11.0 million
- Family Assistance - $16.4 million
- CWS Foster Care - $10.4 million
- Safety Net Assistance - $20.5 million
- Child Care DSS - $1.3 million

4. PLAN ASSESSMENT

The stated gaps in the current financial plan are lower, 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 2019 adopted budget-based version, sales tax revenues have been increased, current employee health insurance estimates have been reduced, and certain health and human services program costs have been reduced. Even with these changes, the 2019 budget and associated 2020-2023 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***
Current Plan Gap	***$0.00***	***($0.18)***	***$ 0.16***
2019 Adopted Plan Gap	***$0.40***	***$0.30***	***$ 0.56***
Difference	***($0.40)***	***($0.48)***	***($0.40)***

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 plan assumes a 2.6% increase in 2020 sales tax revenues over the 2019 adopted budget, and 2.72% over anticipated 2019 receipts. That is followed by a 1.5% annual increase for the period 2021, 2022 and 2023. Given long term averages, these growth percentages do not appear to be unreasonable.

  Sales tax receipts received through the October of 2019 by the ECFSA indicate a 3.96% increase over the previous year. With reported increases, the county would have a budget surplus in the sales tax account of approximately $11.4 million at the end of FY 2019.

- ***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 July of 2019, the county is running a deficit of $1.2 million. At the current rate of usage, the county would incur a $2.27 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 current financial plan calls 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 previous version of the financial plan totaled $15.5 million.

- ***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.

Gap and Gap Closers

On the most recent version of the plan the county is reporting a smaller gap than in the past - $66,000 in the current submission vs. $1.26 million in the 2019 adopted plan.

The current, stated gaps are as follows:

Year		***Gap***
2020	$	0
2021	$	(177,020)
2022	$	158,954
2023	$	84,564
Total	***$***	***66,498***

The county has put forward several potential gap closers including:

- Better than expected sales tax revenue
- Better than expected property tax assessment growth
- Reductions in discretionary spending, including in personal services and through deletions of positions
- Employee retirements due to existing union contract provisions and new contracts
- Property tax revenue
- The use of appropriated fund balance
- Increase to Community College Chargeback revenue

- Participation in the Employer Contribution Stabilization Program
- More favorable (lower) caseload trends in social services programs
- Reinstatement of Gaming Facilities Aid

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. <u>SUMMARY/RECOMMENDATIONS</u>

The ECFSA, in its review of the county's 2020 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. 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 and Retirees

- Compared to the Adopted 2019 Budget submission, employee medical expenses have significantly decreased in this 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. Since 2016, the county has increased its full-time staffing by 245 positions (over 6%). 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.

- ***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 $18 million in appropriations over the 4-year period. The previous version of the financial plan totaled $15.5 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.