ERIE COUNTY FISCAL STABILITY AUTHORITY ANALYSIS OF THE ERIE COUNTY 2021-2024 ADOPTED BUDGET BASED FINANCIAL PLAN December 18, 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 2021 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.

The ECFSA's analysis is based upon currently available information. At this point, discussions are being held in Washington that could lead to legislation and funding that could significantly, positively impact Erie County's finances. No additional federal funding, beyond what the county has already received has been factored into the county's financial projections and the ECFSA analysis.

In its current version of the plan, the county is facing $2,353,529 in fiscal gaps prior to any adjustments to the county's estimate. This gap is $130,485 higher than the plan based on the 2021 recommended budget.

The 2021 adopted budget property tax levy results in a $6.31 million increase in the county's tax levy, as compared to the 2020 adopted budget – a 2.26% increase. The tax levy was reduced by $709,992 in the adoption process.

The tax rate per thousand of valuation decreases by $0.29, from $4.71 to $4.42. The adoption process resulted in an additional $.01 reduction as compared to the recommended budget. The county has provided evidence that the levy does not exceed the property tax cap.

2. ***MAJOR PLAN ASSUMPTIONS***

Major assumptions in the financial plan include:

1. No additional Federal COVID-19 related county funding has been budgeted or assumed in the county's projections. There are substantive discussions being held in Washington regarding legislation that could provide significant, potentially necessary funding should the impacts of COVID-19 linger, to Erie County (among other local and state governments and districts). The discussions are positive at this point, but funding is not assured.

2. 2021 sales tax reduction of 6.9% as compared to the county's 2020 adopted budget (1.9% under expected Y/E 2020 receipts of $466.7 million), then 2.5% for 2022 and 2% for 2023 and 2024.

3. Real Estate Market Value Growth has been set at 6.23% by New York State for 2021 and is assumed to increase by 2.5% per year for the period 2022-2024.

4. The county portion of the property tax levy increases by $6.31 million in 2021 as compared to the 2020 adopted budget. Then increases by $5.72 million in 2022, $5.84 million in 2023 and $5.95 million in 2024 – a total increase of $23.82 million over the period of the plan.

5. The county has not budgeted the full amount of ECC related chargebacks as a revenue in its budget. It has reduced the revenue chargeback amount by $4.4 million per year through 2024.

6. The plan narrative lists increase in health insurance rates of 6.10% for 2022, followed by a 4.54% increase for 2023 and 4.54% for 2024. Estimates for current employee and retiree health insurance have decreased since the submission of the 2021 proposed budget-based version of the financial plan. For 2021 the decrease is $2.6 million. For the 2022-2024 period there is a slight increase of between $15,000 and $16,000 per year. The total 4-year change is a decrease of $2.55 million.

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. 2021 overtime expense decreases by 31.6% as compared to the 2020 adopted budget. Subsequent years' increased match the increase in personal services of 2.5% per year.

9. Capital borrowing of $40 million for 2022, $45 million for 2023 and $50 million for 2024.

10. The plan, as presented, shows no gap for 2021, a gap of $2,496,943 for 2022, a shortage of $660,899 for 2023, and a surplus of $803,313 for 2024. The total gap is $2,353,529.

3. CHANGES FROM THE 2021 PROPOSED BUDGET AND PLAN

Major revenue and spending revisions from the proposed version of the plan compared to the 2021 proposed budget version include:

- The Property Tax Levy has decreased by $2.9 million for the 2021-2024 period, as compared to the 2021 proposed budget-based plan.

- Interest and penalties on property taxes have increased by $3.75 million for the 2021-2024 period as compared to the 2021 proposed budget-based plan.

- Compared to the 2021 recommended budget submission, current employee medical expenses have decreased by $574,725 for the 2021 through 2024 period, with $600,000 of that total occurring in the 2021 budget.

- Compared to the 2021 recommended budget submission, retiree medical expenses have decreased by $1,979,183 for the 2021 through 2024 period, $2 million of that total occurring in the 2021 budget.

- Total Risk Retention expenses are assumed to decrease by $2 million over the 2021-2024 period. The entire reduction is taken in the 2021 budget.

- Cultural/Community spending for the 2021-2024 period has increased by $5,005,613. Of that amount, $3,483,000 is in the 2021 budget.

- County stated "gaps" are slightly larger ($130,485) in the most recent version of the plan as compared to the proposed 2021 plan. In that version, the shortages totaled $2,223,044. The adopted budget-based plan calls for shortages totaling $2,353,529.

4. PLAN ASSESSMENT

In the current version of the plan as compared to the 2021 proposed budget-based version, property tax revenues have decreased, certain property tax related revenues have increased, current and retired employee health insurance estimates have been reduced, the risk retention budget has been reduced and cultural/community spending has been increased.

The stated gaps in the current financial plan are marginally higher, as compared to the previous version of the financial plan accepted by the Erie County Fiscal Stability Authority. As with the accepted 2021 proposed budget and financial plan, the 2021 adopted budget-based and associated financial plan appear to be reasonable and achievable.

The county's ongoing and, current year, in particular fiscal management, has been exemplary, among local governments, in navigating the financial issues related to the COVID-19 pandemic. The county has adjusted its budget and staffing levels in a way to still provide mandated and desired services while not using if-come revenues.

Assuming negotiations in Washington result in unanticipated county revenues, the ECFSA assumes the county will have a plan to appropriately program the funding, particularly if pandemic effects linger or worsen. On the flip side, if additional revenues do not materialize and pandemic health and economic conditions worsen, the ECFSA assumes the county will take appropriate, potentially difficult steps.

The following is a comparison of current and 2020 adopted plan annual gaps (in millions of $'s):

	2021	***2022***	***2023***	***2024***
2021 Adopted Plan Gap	***$0.00***	***($2.50)***	***($0.66)***	***$0.80***
2021 Proposed Plan Gap	***$0.00***	***($2.47)***	***($0.62)***	***$0.86***
Difference	***$0.00***	***($0.03)***	***($0.04)***	***($0.06)***

Baseline Estimates/Associated Risk/Benefit

- ***Additional Federal COVID-19 Related Revenue*** – In 2020 the county received $160 million in CARES Act revenue for current year pandemic expenses. In 2021 the county has assumed only additional FEMA revenue based upon an emergency declaration related to the pandemic. The county has not assumed any revenue related to current Washington discussions that could provide additional, direct COVID-19 assistance to states, local governments and districts dealing with the direct impacts of the pandemic.

- ***More Severe COVID-19 Impacts*** – Medical professionals have warned of a second, third or fourth wave COVID-19 flare-up that could significantly impact health and the economy. At this point, due to state restrictions and county efforts, COVID-19 spread appears to be relatively contained. However, until a vaccine is readily available and distributed, there is a potential for greater harm.

- ***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.

  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*** – There is a 2021 sales tax reduction of 6.9% as compared to the county's 2020 adopted budget (1.9% under expected Y/E 2020 receipts of $466.7 million), then a 2.5% increase for 2022 and 2% increase for 2023 and 2024.

  Sales tax receipts received through the middle of December of 2020 by the ECFSA indicate a $16.9 million (4.27%) decrease compared to the previous year. The county is anticipating the current fiscal year to end with sales taxes coming in $60.7 million over its revised budget of $405.9 million.

- ***Overtime*** – Overtime expense is reduced by $6.04 million (31.61%) in the 2021 adopted budget as compared to the 2020 adopted budget. For the 2022-24 period, overtime is anticipated to increase at the rate of 2.5% annually, which matches the county's personal services growth percentage.

  Through October, the county has spent $7.5 million in its operating funds on overtime and $3.74 million in its COVID-19 fund. Assuming a 12-month straight line for non-COVID overtime, the county would end up spending $11.19 million, thereby ending 2020 with a $3.77 million surplus in this account. Assuming straight line spending over 9 months, the county's COVID-19 overtime spending could total $6.83 million for the year. The total for all funds could reach $18.02 million.

- ***Vacancy Savings*** – The current plan calls for $9,027,601 in savings over 4 years - $3,072,601 in 2021 followed by $1,800,000 for each of the out-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 (as compared to 2020) is a concern (especially with the recent reduction in budgeted positions), 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 itself currently has no expired labor agreements at this point, though there are three among the college and library. All the county agreements expire during the period of the financial plan.

- ***Risk Retention*** – In 2017, the county incurred $2,8 million in Risk Retention expenses. For 2018, $2.4 million was spent. The 2019 expenditure was $2.7 million. The current financial plan calls for $3.02 million in risk retention expenses for 2021, then $3 million per year for 2022-24, for a total of $12.02 million. The previous version of the financial plan totaled $14.02 million.

- ***Erie Community College*** – Erie County is the sponsor of Erie Community College (ECC). As such, the county provides funding to the College each year. The county is budgeting $18,084,317 in College support for each year of the budget and financial plan. That number is consistent ECC expectations in its budget and financial plan.

  As in 2020, the county has reduced chargebacks to property owners in municipalities that have Erie County students attending other community colleges. The figure is $4.4 million for each of the budget and financial plan years. This reduction increases the county's tax levy by $4.4 million per year.

Gap and Gap Closers

On the most recent version of the plan the county is reporting a slightly larger gap than in the past - $2.35 million in the current submission vs. $2.22 million in the 2021 proposed budget-based plan.

The current, stated gaps are as follows:

Year	***Gap***
2021	$ 0
2022	$ (2,496,943)
2023	$ (660,899)
2024	$ 804,313

Total ***$ (2,353,529)***

The county has put forward several potential gap closers including:

- Better than expected sales tax revenue
- Federal stimulus funding
- Reduction in State Aid cutback levels
- Better than expected property tax assessment growth
- Reductions in discretionary spending, including in personal services and through deletions of positions
- 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. SUMMARY/RECOMMENDATIONS

The ECFSA, in its review of the county's 2021 adopted budget and associated financial plan, finds the submission in balance and the county's financial projections, as-a-whole, to be reasonable and achievable.

Erie County has been proactive in dealing with the potentially devastating health and financial impacts of the COVID-19 pandemic. However, the county's work is not done. In the very near future, the county could benefit from potential Federal legislation bringing additional unbudgeted revenue or, on the flip side, have to deal with potentially worsening health and economic impacts of the pandemic.

The overarching recommendation from the ECFSA to the county is to prepare for both the best and worst of the pandemic.

- *The county should have a plan to deal with any potential additional Federal revenue to cover lingering or worsening COVID impacts with a thoughtful, measured, long-term view.*

- *The county should prepare for the possibility of future COVID-19 flare-ups that could significantly impact health and financial wellbeing, without additional Federal support*.

Specific Recommendations:

Erie County Medical Center Corporation

- Given the health care environment in Washington and the challenges ECMC faces as a public hospital (particularly those related to COVID-19 at this time) and 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.

Sales Tax Revenues

- Sales tax is the largest single revenue source for Erie County, encompassing 31% of general fund revenues in 2021. In previous years, the ECFSA has commented on the volatility of this revenue based on periodic economic cycles. Those concerns are magnified with the economic uncertainty accompanying the COVID-19 pandemic. In 2021, sales tax revenues are anticipated to decrease as compared to prior year actuals. This has been the first decrease since an over 3% decline in 2009.

- ***Recommendation*** - Given the volatility of this revenue source (especially with COVID-19 economic impacts), the ECFSA urges the county to closely monitor receipts and make strategic decisions to maintain balanced budgets and maintain sufficient financial reserves in the event that this major item does not meet expectations.

Property Tax Revenues

- For 2021, the county has doubled its allowance for uncollectable property taxes based upon the potential for property owner financial hardship related to COVID-19. Subsequent years assume a return to higher, historic rates of collection. Given the potential for an extended COVID-19 impact, there could be reductions beyond the 2021 fiscal year.

- ***Recommendation*** - Given the potential for longer term increases in uncollectable property taxes due to COVID-19 economic impacts, the ECFSA urges the county to closely monitor receipts and make strategic decisions to maintain balanced budgets and maintain sufficient financial reserves in the event that this major item does not meet expectations.

Overtime

- The county has reduced its budget for overtime significantly over the period of the 4-year plan. In the years prior to 2021, the county consistently exceeded its overtime allocation. Year-to-date and forecasted general fund overtime for 2021 are expected to come in under budget, particularly within the Jail Management Division, due to an approximate 50% reduction in the incarcerated population at the Corrections Facility and 75% at the Holding Center reduction over the last 3 years.

  However, the county spent an additional $3.7 million in COVID-19 funding through August of this year on overtime. The budget and financial plan assume that COVID related overtime will no longer be necessary in 2021 and beyond and that reduced Jail Management census will remain at reduced levels.

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

Labor Agreements

- With all the county's labor union contracts expiring by the end of the 2021-24 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. Especially with the reduction in (mostly vacant) positions in 2021.

- ***Recommendation*** - the ECFSA urges the county to maintain its vacancy control program, while keeping budgeted vacancy savings at minimal levels. In 2021 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 2024.

Medical Expenses – Current Employees and Retirees

- Compared to the adopted 2020 budget submission, employee and retiree medical expenses have significantly decreased in the 2021 proposed budget and financial plan despite increases in anticipated rates going forward. Additional decreases have occurred in the 2021 budget adoption process.

- The current employee medical expense reductions are primarily due to fewer staff being on the county payroll. Both current and retired employee medical expenses appear to have been impacted by the overall trend of individuals making fewer healthcare visits and incurring lower medical costs during the pandemic.

- ***Recommendation*** – With the eventual lifting of the pandemic, staffing levels may begin to increase again and healthcare patterns may revert to normal, thereby increasing these expense items. The county must be mindful of these potential risks and take appropriate budgetary actions should expense increases occur.

Staffing

- In the 2021 adopted budget, the county is assuming a reduction of 128 full-time positions across all funds, as compared to the 2020 adopted budget and a reduction of 78 positions as compared to the COVID adjusted-remediation budget. Prior to this year, since 2016, the county had increased its full-time staffing by 245 positions (over 6%). Upon the reduction of COVID-19 health and financial impacts over time, the county may look to increase staffing in the future.

- ***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 budgeting $10 million in fund balance as a revenue to stabilize its budget, after not tapping fund balance in the 2020 adopted based plan

- ***Recommendation*** – the ECFSA recommends the county works to replenish its fund balance and revert to the prior year practice of not budgeting fund balance as a revenue.

Health and Human Services Programs

- For the 2021 adopted 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 and Children with Special Needs as compared to the 2020 adopted budget-based financial plan.

  The largest reduction, $25.5 million in 2021, Medicaid, (that continues, in-part through 2024) is the result of previously withheld enhanced funding and a trend analysis on current and future costs. The remainder of the programs are based upon usage/caseload and cost per case trends, prior to and during COVID-19. The reductions may be appropriate, but the trend line once the COVID pandemic is alleviated is uncertain at this point.

- ***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 accounts, should anticipated trends/revenues not materialize.

Erie Community College Chargebacks

- For the 2021 adopted budget and financial plan through 2024, 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 county property tax revenues by $4.4 million per year.

- ***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.

Erie Community College Sponsor Contribution/Strategic Participation

- Based upon its unsustainable business and educational model, the ECFSA recently recommended that a serious conversation be had among college, county, community, and educational stakeholders on how the college can best reconfigure to best meet its charge moving forward.

- ***Recommendation*** – As ECC's sponsor, county participation and funding are critical to this endeavor in reinventing the college. We urge the county to be an active participant in this initiative.

Risk Retention

- The current financial plan calls for $12.02 million in appropriations over the 2021-2024 period. Expenses for the last 4 fiscal years are averaging just under $3 million per year, but potential COVID-19 related risks may increase the need for funding this account beyond recent averages. The previous version of the financial plan totaled $14.02 million.

- ***Recommendation* –** Given risks of future potential COVID-19 litigation, the ECFSA recommends closely monitoring and potentially adjusting Risk Retention appropriations going forward.

In closing, we want to reiterate that the county, leading up to and during pandemic, has performed admirably in protecting the health of its residents and on the related financial and economic issues. The county is positioned to rebound once the pandemic is alleviated. Over the period of the current 4-year plan, the ECFSA is looking to the county to continue its responsible financial stewardship.