ERIE COUNTY FISCAL STABILITY AUTHORITY ANALYSIS OF THE ERIE COUNTY 2024-2027 ADOPTED BUDGET BASED FINANCIAL PLAN December 18, 2023

1. ***INTRODUCTION***

This report details the analysis and comments of the Erie County Fiscal Stability Authority (ECFSA) in its review of Erie County's 2024 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 2024 Erie County budget and financial plan assume pre-pandemic revenue and spending levels. As detailed later in the report, there are increases in anticipated revenues and planned spending. The 2024 budget of $1.941 billion is $163 million greater than the 2023 adopted budget, a 9.14% increase.

In its current version of the plan, the county is anticipating $43,117,855 in fiscal shortfalls prior to any adjustments to the county's estimate. Which matches the county's listed executive recommended shortfalls.

The 2024 adopted budget property tax levy results in a $2.39 million decrease in the county's tax levy, as compared to the 2023 adopted budget – a 0.79% reduction. The property tax rate per thousand of valuation decreases by $0.55 from $3.93 to $3.38.

2. ***MAJOR PLAN ASSUMPTIONS***

Major assumptions in the financial plan include:

1. The 2024 sales tax budget increases 9.56% as compared to the county's 2023 adopted budget and increases by just over 2% over the county's 2023 year- end estimate of $613.2 million, then a 1.5% increase each year starting in 2025.

2. Real Estate Market Value Growth is assumed to increase by 4.97% for 2025, followed by 2% per year for the period 2026-2027.

3. The 2024 county portion of the property tax levy decreases by $2.39 million (0.79%) as compared to the 2023 adopted budget. Then increases by $14.87 million (4.97%) in 2025, $6.28 million (2%) in 2026 and $6.40 million (2%) in 2027 – a total increase of $25.16 million over the period of the plan.

4. In a change from prior years, the county has budgeted the full amount of SUNY Erie related respreads as a revenue in its budget. It has increased the college revenue respread amount by $4.4 million per year through 2027. In previous years, the county in-essence added these municipal property tax respreads to its own property tax levy.

5. The plan narrative lists increase in health insurance growth of 2% for the 2025–2027 financial plan period.

6. Personal services expenses increase for step and longevity increments, as well as contractual cost of living increases. In 2024, as compared to the 2023 adopted budget, personal services costs increase by $21.3 million (7.84%). In subsequent years costs increase by $8.8 million (3.24%) in 2025, $9.1 million (3.33%) in 2026 and $9.3 million (3%) in 2027. The total increase over the 2023 adopted budget is $48.49 million.

7. The 2024 overtime expense increases by $6.9 million (37%) as compared to the 2023 adopted budget. Subsequent years' adjustments are between $255,000 and $260,000 (1%). For 2024, the percentage increase is less than the YTD overtime expense overage of 76% and the 2025-27 increase of 1% annually is less than the approximate 3% overall increase in wages forecasted. These figures suggest there will be programs in-place to reduce overtime increases during the period of the financial plan.

8. The plan, as presented, shows no gap for 2024, a shortfall of $14,393,243 for 2025, a shortfall of $13,119,525 for 2026, and a shortfall of $15,605,087 for 2027, for a total shortfall of $43,117,855.

3. ADJUSTMENTS – 2024 ADOPTED BUDGET AND PLAN TO 2024 PROPOSED BUDGET AND PLAN

Revisions from the current version of the plan compared to the 2024 proposed budget-based plan include:

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- Anticipated personal services expenses for the 4-year period have increased by $43,258 as compared to the 2024 recommended budget-based plan – all of that amount in 2024.

- Fringe benefit costs for the 4-year period have decreased by $5,081,759 as compared to the 2024 recommended budget-based plan – all of that amount in 2024.

- Cultural grants for the 4-year period have increased by $4,571,000 as compared to the 2024 recommended budget -based plan – all of the additional spending occurring in 2024.

- Other contractual spending for the 4-year period has increased by $475,000 as compared to the 2024 recommended budget-based plan – all of the additional spending occurring in 2024.

4. PLAN ASSESSMENT

The county's current financial plan assumes economic activity will be free of economic impacts related to COVID-19. That is a double-edged sword for Erie County in that the economy is reverting back to pre-pandemic form with more regular cycles, but the hundreds of millions of dollars in federal aid the county has received over the last three years has dried up.

Overall, 2024 spending is up $163 million (9.14%) as compared to the 2023 adopted budget-based version. Sales tax revenues for 2024 are anticipated to be up 9.56% over the 2023 adopted budget and just over 2% over 2023 anticipated receipts. County general fund staffing is up by 61 full-time positions in 2024 as compared to the 2023 adopted budget.

The following is a comparison of current and 2024 proposed plan annual surpluses/(gaps), in millions of $'s:

	2024	***2025***	***2026***	***2027***
Current Plan Gap	***$0.0***	***($14.4)***	***($13.1)***	***($15.6)***
2024 Proposed Plan Gap	***$0.0***	***($14.4)***	***($13.1)***	***($15.6)***
Difference	***$0.0***	***$0.0***	***$0.0***	***$0.0***

As with the ECFSA accepted 2024 recommended budget and financial plan, the 2024 adopted budget and associated financial plan appear to be reasonable and achievable. However, there are significant risks Erie, among other counties face due to conditions at the federal and state level, as well as regular economic ebbs and flows.

The county's 2024 adopted budget-based financial plan as compared to the 2023 adopted plan, includes increased labor, Medical Center and health and human services program costs, as well as a more normal sales tax revenue increases, consistent with the current economy and inflation level.

At this point, the greatest financial risk for Erie County and other municipalities come from state and federal governments. As of the writing of this report, the federal government is looking at a "hold the line" budget, with the potential of program reductions in the future. New York State announced a spending freeze which will certainly impact local governments within its borders.

Unlike most local government entities, Erie and other counties in New York State spend a larger portion of their budget on health and human services programs that are contingent upon state and federal oversite, direction and revenues that are not in the county's control.

Baseline Estimates/Associated Risk/Benefit

- ***Outside Economic Impacts*** –The Congressional Budget Office (CBO) expects economic growth to slow to a 0.4% annual rate for the remainder of 2023 (thereby potentially impacting 4th quarter sales tax collections not already received by the county), with an increase in real GDP expected to increase by 1.5% in 2024 and 2.4% by 2025. The CBO expects real consumer spending to weaken in late 2024 as rising interest rates, tighter lending standards and rising unemployment and diminished accumulated savings causes consumers to pull back on purchases. Real consumer spending is anticipated to increase by 1.1% in 2024 and 2.0% in 2025.

- ***Federal and State Impacts*** –The Post-COVID, both the federal and state governments are looking to reduce (or at least stem the increase in) spending. The federal government is discussing reducing support for health and human services programs that are a large part of all county spending in New York State. The state has announced a spending freeze to address its own impending future fiscal shortfalls.

- ***Erie County Medical Center Corporation (ECMCC) IGT, DSH and UPL*** In the current version of the financial plan, the county's expectations of ECMC related expenses increases, as compared to the 2023 adopted budget submission. Over 4 years, the expected liability goes up $69.3 million (31%). In 2024 alone, the expected ECMC related liability increases by $8.8 million (14%).

- ***Sales Tax Revenues*** – There is a 2024 sales tax increase of 9.56% as compared to the county's 2023 adopted budget and just over 2% over 2023 anticipated receipts, then a 2% increase each year, starting in 2025.

  Sales tax receipts received through December of 2023 by the ECFSA indicate a 2.4% increase compared to the previous year. According to the September Budget Monitoring Report, the county is anticipating the current fiscal year to end with sales taxes coming in at $613.15 million.

  2023 Sales Tax Reauthorization – In the beginning of the 3rd quarter of 2023, the county reauthorized its 1.75% sales tax for another 3 years.

  Over the 4-year period of the financial plan (2024-2027) the value of this critical revenue totals $1.6 billion. During the existence of its 1.75% sales tax, the county has never failed to reauthorize this revenue source.

- ***Property Values Impacting Property Tax Receipts*** – Over the last few years, the Erie County housing market has been robust, thereby allowing the county to reduce the property tax rate per thousand, while maintaining sufficient property tax revenues to cover rising costs. Unlike other parts of the country, local housing prices are still rising, though at a slower rate than in the recent past.

- ***Labor Agreements*** - The county has negotiated labor agreements with unions that represent a significant number of county employees, through most or all of the period of the financial plan. Those negotiated and their year-end date – Teamsters Sworn and Civilian (2026), AFSCME (2026), CSEA (2027),CSEA Corrections Officers (2026), and PBA (2026). Thereby adding a degree of certainty to staffing costs in what has been an inflationary environment.

  Those expiring earlier in the financial period (or already expired) include - Teamsters Captains & Lieutenants (2023), NYSNA (2023), Library Clerical and Maintenance (2022), Librarians (2024) and SUNY Erie Faculty, and Administrators (2020). The expired/expiring agreements add a degree of uncertainty to the county's labor costs over the period of the financial plan.

- ***Overtime*** – the overtime budget increases by $6.9 million in 2024, as compared to the 2023 adopted budget, after that, forecasted overtime expenses remain virtually flat for the 2025-2027 period. Given the increase in salaries over that period, the relative reduction in overtime expense suggests programs to reduce this expense item taking hold, primarily in Jail Management and Road Patrol.

  In the county's most recent 2023 Budget Monitoring Report, current year overtime expenses are running $10.5 million (76%) in-excess-of the 2023 year-to-date budget. Straight line projections peg a year-end overtime account deficit of $14.3 million.

- ***Vacancy Savings*** – The current plan calls for $8 million in savings over 4 years, an increase of $200,000 over the 2023 adopted plan.

- ***Risk Retention*** – The current version of the financial plan calls for $20 million is risk retention spending, an increase of $3 million over the 2023 adopted budget-based plan.

- ***SUNY Erie*** – Erie County is the sponsor of SUNY Erie College. As such, the county provides funding to the College each year. The county is budgeting $19,804,317 in support for each year of the budget and financial plan.

  Recent reductions in staffing levels have given the college breathing room in considering its long-term strategy. As the local sponsor, there could be pressure on the county to provide additional funding to SUNY Erie in its transition to a more sustainable business model.

Gap and Gap Closers

In the most recent version of the plan the county is anticipating $43,117,855 in gaps over the covered period..

The current, stated gaps are as follows:

Year	***Gap***
2024	$ 0
2025	$ 14,393,243
2026	$ 13,119,525
2026	$ 15,605,087
Total	***$ 43,117,855***

The county has put forward several potential gap closers including:

- Better than expected sales tax revenue
- Close-out of unexpended Cultural Capital Funding
- Federal application of Sec 203 of the Consolidated Appropriations Act which would significantly reduce DSH payments in 2024
- Better than expected prior year DSH reconciliation adjustments
- Timing delays with dates of DSH and UPL payments
- Better than expected eFMAP benefit with DSH and UPL payments
- Extension of State reimbursement toward Assigned Counsel costs
- Better than expected property tax assessment growth
- Increase in interest earnings revenue

- Receipt of Excise tax revenue from Adult-Use Cannabis sales
- Additional close-out of dormant capital projects
- Reductions in discretionary spending, including in personal services and through deletion of positions
- Better than expected Property tax collections
- Use of appropriated fund balance
- More favorable (lower) caseload trends in social services programs
- Continuation 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 2024 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.

However, like other local government entities, Erie County is facing potential issues derived from federal and state government, as well as potential adverse economic conditions over time.

The overarching recommendation from the ECFSA to the county is to remain vigilant in budgeting/preparing for federal and state funding reductions and potential cyclic economic troughs.

Specific Recommendations:

Overall Spending/Positions

- Erie County has added back budgeted spending and positions to pre-pandemic levels. The 2024 adopted budgeted spending for personal services has increased by $21.3 million (7.84%) over the 2023 adopted budget. FY 2024 full-time budgeted positions have increased by 61
- as compared to the 2023 general fund adopted budget.

- ***Recommendation –*** That Erie County regularly review its operations and services to provide reasonable assurance it is supplying necessary and desired services within the constraints of reasonably available resources and appropriate staffing.

Erie County Medical Center Corporation

- Erie County Medical Center Corporation (ECMCC) ***-*** In the current version of the financial plan, the county's expectations of ECMC related expenses increased, as compared to the 2024 adopted budget submission. Over 4 years, the expected liability goes up $69.3 million (31%). In 2024 alone, the expected ECMC related liability increases by $8.8 million (14%).

- ***Recommendation*** – Given the contractual relationship between the county and ECMC, the uncertain environment for public hospitals and the recent increase in the county's ECMC related liability***,*** the ECFSA recommends continuation of the partnership between the two entities and a close watch on legislation/policy changes that could impact the county's hospital related spending.

Sales Tax Revenues

- Sales tax is the largest single revenue source for Erie County, encompassing 33% of general fund revenues in 2024. 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 current economic slowdown.

- ***Recommendation*** - Given the volatility of this revenue source 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 Values Impacting Property Tax Receipts

- Over a number of years, the county has been able to reduce the property tax rate per thousand of assessed value, while maintaining the levy to amounts that meet spending needs in providing desired and necessary services to county residents because of steadily increasing property values. National housing market analysts predict a slowing of value increases based upon high interest rates and higher standards for mortgage qualification.

- ***Recommendation*** – The ECFSA recommends the county take this potential slowing in values into account in establishing future budgets to provide reasonable assurance the county has the resources to provide intended services, while not overburdening those who contribute to the cost of them.

Labor Agreements

- The overwhelming majority of county labor agreements have been negotiated near or to the end of the current financial plan, thereby giving the county a high degree of certainty in establishing its staffing costs over the next four years. However, there are some that are ending (or have already ended), which create uncertainty (risk) in potential future labor costs.

- ***Recommendation*** – The ECFSA recommends the county continue to negotiate in good faith with the labor unions having contracts that expire over the period of the four-year plan to provide staffing and wage certainty in an inflationary environment that does not overburden county residents.

Overtime

- The 2024 adopted budget increases the overtime budget by $6.9 million, as compared to the 2023 adopted budget. Through September of 2023, overtime expenses are running 76% over budget.

- ***Recommendation*** - The ECFSA urges the county to continue to closely monitor and analyze the cost/efficacy of new positions to reduce overtime, and to make staffing and/or operations adjustments, where indicated/necessary.

Vacancy Control

- The county continues the use of vacancy savings to help balance the budget. Budgeting for vacancies 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 2023 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 2027.

Staffing

- In the 2024 adopted budget, the county is assuming an increase of 61 full-time positions in the general fund, as compared to the 2023 adopted budget.

- ***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” 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 not using fund balance as a revenue to balance revenues and expenses in any year of the financial plan.

- ***Recommendation*** – The ECFSA recommends the county maintain its current stance of balancing revenues and expenses without the use of fund balance to fill the gap.

Health and Human Services Programs

- For the 2024 adopted budget, the county is assuming increases in several Health and Human Service programs including Medicaid, CWS Foster Care, Child Care DSS, and Children with Special Needs, as compared to the 2023 adopted budget based financial plan. With a potential slowing economy, there may be an increased need for county administered support programs.

- ***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.

SUNY Erie College Sponsor Contribution/Strategic Participation

- The ECFSA has 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. SUNY Erie is in the early stages of reinventing itself and still faces educational, operational, and financial challenges.

- ***Recommendation*** – As the college’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 to reinvent SUNY Erie.

In closing, we want to reiterate that the county has exhibited fiscal responsibility during and post-pandemic. While challenges remain, we are confident in county leadership to continue to provide necessary and desired services to the county's residents without overburdening those who pay for those services.