County of Erie
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COUNTY EXECUTIVE

DIVISION OF BUDGET, MANAGEMENT AND FINANCE

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December 21, 2007

Mr. Anthony Baynes, Chairman
Erie County Fiscal Stability Authority
295 Main Street
Buffalo, NY 14203

Dear Mr. Baynes:

Attached please find the revised version of the four-year plan for fiscal years 2008-2011 based upon the 2008 budget as adopted by the County Legislature on December 4. This revision reflects relatively moderate adjustments by the Legislature to the Executive Recommended Budget as submitted on October 15.

The ECFSA rejected the original 2008 financial plan in your Resolution No. 07-102, dated November 2, 2007. Let me address the issues raised in your November 2 resolution and accompanying staff report.

2008 Budget

The ECFSA found "structural imbalance" of $22,231,766 in the 2008 budget, based upon the following items:

- **Tax Lien Revenue (deficiency of $2,857,566)** : The Legislature adopted the budget assuming that the tax lien program as contained in the Executive Recommended budget will be executed by the new County Executive. If not, as explained in the text of the accompanying plan, we now expect sales tax revenue in 2008 to be high enough to offset the deficiency you identified in tax lien revenue.

- **ECMCC Intergovernmental Transfer (expense of $8,874,200):** The amount and timing of payments by the County to ECMC under this federal program are impossible to predict. We do not know how you could assume a definite expense to the County in 2008 of $8,874,200. More important, you are certainly aware of the developments in the Kaleida/ECMCC merger and the intention of the new board leadership to free the County of further financial obligations.

- **CHIPS Borrowing (expense of $3,600,000):** This item has been previously discussed. The County's past practice was to use borrowed funds to provide the "up front" money to conduct the road repairs that earn State reimbursement. The four-year plan calls for a phased transfer of this "up front" funding to current revenue – and the 2008 budget provides $2,200,000 of current revenue for this purpose. However, the remaining $3,600,000 borrowed piece for 2008 does not create a deficit in the General Fund operating budget. Our external auditors have never found the use of borrowed monies for CHIPS funding to be a deficit item.

- **Replenish Road Fund (expense of $6,900,000):** The Road Fund did have a technical deficit of $6.9 million at year-end 2006. We expect this amount to be reduced to $3.4 million at year-end 2007 – and to be gradually eliminated over the next several years. There is no accounting or financial requirement to eliminate immediately the negative balance in the Road Fund. The more important objective is to have positive balance in the General Fund and to build total fund reserves.

Summary: We do not concur with the EFSCA finding that the 2008 operating budget has "structural imbalance" of $22,231,766.

<u>2009-11 Fiscal Years</u>

With regards to the October 15 plan, the ECFSA did not accept certain baseline assumptions and gap-closing strategies as presented. Let me provide specific comment on these items:

- **Assessment Growth**: The County has experienced 6% real property assessment growth annually in fiscal years 2006, 2007, and 2008. The plan conservatively assumes 4% annual growth in 2009 through 2011. However, the ECFSA says the growth rate will only be 2.5% based upon a 10-year average. We do not agree. Unlike the rest of the nation, our property values in Erie County are stable and growing. Unlike past years, towns are now doing more regular reassessment. As explained in our letter of October 30 to the ECFSA, two-thirds of the parcels in the county are scheduled for reassessment in 2009 and 2010. We believe the 4% growth assumption is entirely reasonable.

- **ECMC Intergovernmental Transfer**: The ECFSA asserts that we should expect IGT payments over $9 million annually in every future year. Our comment on this issue is the same as for 2008. There is no precise method to predict this number. Moreover, the intent of the Kaleida/ECMC merger to is to dissolve the public benefit corporation that would entitle ECMC to take part in IGT payments.

- **ECMC Debt Service:** Although built into the baseline assumption, the gap-closing section of the four-year plan explains the County's strategy to avoid further capital borrowing on behalf of the hospital. The County has entered into an agreement with ECMC which delays the $15 million capital payment previously due to the hospital under the terms of the Consent Decree. At the current time, under the Berger Commission process, the hospital cannot get State approval for new construction projects. Moreover, as stated above, the new leadership of the Kaleida/ECMC board is committed to freeing the County from further financial obligations. Thus, we think it incorrect for the ECFSA to reject this gap-closing initiative.

- **Collective Bargaining Savings:** The four-year plan assumes that cost-of-living increases will be offset with concessions on health care contributions and work rules changes. The November 2 ECFSA resolution rejects this assumption. However, the accompanying report says the ECFSA could use Efficiency Grant monies "…to make significant dollars available to assist in up-front costs associated with county labor negotiations." We find the ECFSA position on this issue to be confusing and contradictory. If Efficiency Grant monies are to be available, they would help close the out-year gaps.

- **Efficiency Initiatives:** The plan contains four major gap-closing strategies based upon efficiency savings: 1) alternatives to incarceration, 2) information technology reform, 3) improved risk management, and 4) integrated case management for social services. These ideas have all been presented to the ECFSA as part of the Efficiency Grant process. Nonetheless, the November 2 resolution rejects or discounts these initiatives as "speculative." We do not agree with this conclusion. The four initiatives can produce savings if aggressively pursued and supported with Efficiency Grant funding.

- **Sheriff's Road Patrol:** Because of the opposition of the new County Executive, the attached plan eliminates the proposal to charge municipalities for the cost of Sheriff's Road Patrol.

Summary: The four-year plan makes reasonable assumptions about the County's future obligations to ECMC, real estate assessment growth, and efficiency savings. The plan should be approved by the ECFSA.

Sincerely,

James M. Hartman

James M. Hartman

cc. County Executive Giambra
County Executive-Elect Collins
Comptroller Poloncarz
Erie County Legislature