

Erie County Taxpayer Newsletter



Volume 1, Issue 9

October 2008

From County Executive Chris Collins



As you are aware, I have recently released my proposed 2009 Erie County

Budget. Each year, the budget book contains a message from the County Executive highlighting the details of the budget proposal.

This month, in lieu of the normal Taxpayer Newsletter, I have provided my budget message for you. I hope you will find the message informative.

Contact the County Executive

Office: 95 Franklin St., 16th
Floor, Buffalo, NY 14202

Phone: (716) 858-8500

E-mail:
public_feedback@erie.gov

October 15, 2008

The Honorable Erie County Legislature
92 Franklin Street
Buffalo, NY 14202

Dear Honorable Members:

Introduction

Enclosed are the Erie County Executive Recommended 2009 Budget and 2009-2012 Four-Year Plan for review and approval by your Honorable Body.

The taxpayers of this county elected me to run Erie County like the \$1.0 billion business it is. Based in solid business principles, my 2009 Recommended Budget, as well as my 2009-2012 Four-Year Plan, are balanced. Moreover, the budget is fiscally sound and responsibly conservative, and does not rely on budgetary tricks to meet objectives.

As we refocus our efforts on economic development and attracting jobs to this region, we need to assure our potential investors that the principal government in this region is fiscally sound and being managed like a business. This budget is realistic, responsible, and respectful of the need to provide vital services, and maintain our infrastructure and quality of life here in Erie County.

I present this budget at a time when our nation's economy is significantly challenged, Wall Street is still reeling from record losses, and New York State is facing budget deficits totaling billions of dollars. This reality is putting tremendous economic pressure on local governments and their taxpayers. Erie County is certainly no exception. Locally, Erie County is dealing with our own financial obstacles. Sales tax growth has slowed as the national economy impacts local pocketbooks. To be prudent, I am taking the historic step of forecasting a 0% growth in sales tax collection for 2009 compared to our estimate of 2008 actual sales tax collection. This responsibly conservative approach will ensure that Erie County will not be negatively impacted in future months if the economy continues to struggle for a prolonged period of time.

Unfortunately, the County's costs are climbing. Cost increases outside of our control have created a \$32 million negative impact on the 2009 Budget. New York State has continued its irresponsible policy of shifting costs to the County for state mandated programs totaling millions of dollars, rather than enacting real reforms and cuts. Furthermore, road repairs, fuel, utility and supply costs have soared while healthcare, workers' compensation and litigation costs continue to rise.

Finally, this Administration is forced to confront the budget mistakes of prior administrations. Most notably, the decision to sell Erie County Medical Center Corporation (ECMCC) to itself has begun to cascade onto the county taxpayer, totaling over \$20 million in ECMCC related debt payments for 2009 alone. Simply stated, previous reliance on one-shot revenues, "smoke-and-mirrors" and short-term political fixes decimated the county reserves and ultimately compromised the long-term interests of the county taxpayer.

The past practice of selling tax liens has ended. This one-shot gimmick did nothing more than fill current operational budget deficits by raiding the reserves of the past.

Tax liens grow at the compounded rate of 18% annually and are ultimately collected when a property is sold or foreclosed. To sell these taxpayer assets at a discount to hide operational deficits is wrong and short-sighted, and we have ended it.

The Road Fund was driven to a \$7 million deficit by hiding general expenses in this separate fund in a futile attempt to improperly inflate our Undesignated General Fund Balance. We have zeroed out this deficit and commit that the Road Fund will never again have a negative year end balance.

As I run county government like a business, I will not sacrifice the long term fiscal stability of Erie County for short-term political gain. Unfortunately, that is a mistake some of my predecessor's have made, and it will not happen under this Administration.

As a result, the average homeowner will see a modest property tax increase of \$18 on their \$100,000 home.

The combination of a national financial crisis, state cost shifting and significant local mismanagement in the past make this average \$18 per household property tax increase a necessity. Despite this modest increase, Erie County still has the lowest property tax rate of any large county in New York State.



A comparison of key figures will also show that Erie County is more efficient, lean, and responsive to the needs of taxpayers.

To date, several counties have already released their budget proposals for 2009. Our modest property tax increase is well below or on par with their suggested increases.

This action is not taken lightly. I firmly believe that maintaining lower taxes is the best approach to supporting economic opportunity and growth. Our ultimate success will occur only when we return to an era of growth, as we cannot shrink to success. The simple and painful reality is that given the fiscal challenges we face, this rate increase would be significantly larger if it were not for the cost saving

initiatives and programs my administration has aggressively pursued from day one, along with substantial cuts in jobs and programs reflected in this budget.

Important Changes

You will notice several changes in the format of my first budget. All of these changes were made with one goal in mind: transforming the Erie County Budget from an historical accounting document into a performance management tool engineered to drive savings and efficiencies, in accordance with Six Sigma and performance based budgeting.



As we delved into the details of past budgets, we have clarified many confusing aspects of previous budget presentations. Practices such as counting debt service on general obligation debt twice; including debt service on the Sewer Authority in the general budget despite its own independent revenue stream; counting county share of road repairs twice; utilities being used by other municipalities included in the Erie County budget; and the pass-through of sales tax shared with other municipalities and the Niagara Frontier Transportation Authority (NFTA) being counted in our budget, have been corrected.

Furthermore, we have incorporated the fringe benefit cost into each department's budget, to accurately reflect personnel salary and benefit costs to county taxpayers. In past budgets the total fringe benefit costs were aggregated as one number which prevented any meaningful analysis.

All of these past issues prevented thoughtful budget analysis, greatly overstated the magnitude of our true revenue and expenses, and thus improperly understated our Undesignated General Fund Balance as a percentage of the budget.

This budget focuses on what I describe as the **Erie County Operations Budget**. This budget includes all revenue and expenses of our General Fund plus the county portion of the Library Fund. It excludes the large amount of sales tax pass-through to other municipalities and the NFTA since

Erie County plays no role in collecting or spending these taxes. We identify them as a footnote to our budget, in accordance with the State Comptroller's opinion, but do not include them in any of our operational calculations. We have ended the double counting in the Utilities Fund, Road Fund, and Debt Service Fund including sewer authority debt service. The details of these funds are shown in Book A, but are not part of our Operations Budget.

To put this in perspective, our true Erie County Operations Budget totals \$1,026,963,686 instead of a distorted and misleading amount of \$1,483,960,754. This significant change allows us to do meaningful analysis and puts all the numbers in the proper perspective.

Lean Six Sigma

Lean Six Sigma is my administration's key reform and efficiency initiative. In addition to driving efficiency and reducing waste, Lean Six Sigma is empowering county employees to suggest changes to their work process. As a result, Erie County is realizing significant cost savings and improving the quality of services provided to the public.

The first wave of Lean Six Sigma projects is generating a total annual taxpayer savings of nearly \$2 million, far surpassing our initial expectations. These nine projects represent a cross section of county departments and functions, and were driven internally by county employees who successfully completed Six Sigma Green Belt training. A detailed breakdown of these projects is presented later in the summary section of this book.

The Erie County Fiscal Stability Authority has acknowledged the success of our Lean Six Sigma program and agreed to fully fund this initiative through 2009. Our staff is currently drafting a program deployment plan for 2009 with estimated savings double those of 2008.

Real Estate & Asset Management

The Real Estate and Asset Management Department is charged with using county owned and leased facilities in the most efficient manner possible. This Administration's Space Utilization initiative is

funded with efficiency grant dollars from the Erie County Fiscal Stability Authority.

During 2008, this department has re-engineered approximately 47,000 square feet of office space in the Rath Building. The department has also re-negotiated



leases to save the county approximately \$80,000 annually and plans to terminate five unnecessary leases over the next five years, saving approximately \$2.6 million. Finally, the department has introduced space usage standards and procedures to eliminate future waste, as well as drafting standard contracts to be used by all county departments whether the county is a lessor or lessee.

Employee Reduction

We propose the elimination of nearly 200 positions. The bulk of these positions will be eliminated as of January 1, 2009, with a smaller percentage being eliminated in July of 2009. This action includes full time, regular part time (RPT), and seasonal employees. We are eliminating positions at every level - from seasonal laborers to deputy commissioners and managerial confidential employees - to right-size county government.

Past administrations have resisted eliminating vacancies to inflate the 'turnover account.' This practice was commonly used to help plug budget deficits at year's end. My administration has ended this practice.

The elimination of nearly 200 positions is on top of the Administration's earlier policy to maximize the use of RPT employees. These employees work as many as 39 hours a week, but receive half of the regular employee time-off benefit package. By filling county vacancies with RPT employees when possible, Erie County is saving nearly \$800,000 annually.

Reduction of Cell Phones and Electronic Devices

We undertook a comprehensive review of all county cell phones and electronic devices, asking employees to justify their use. In the end, we eliminated more than 250 phones, pagers and other electronic



devices, representing a reduction of over 35 percent. These cuts impacted all employees from rank and file to commissioners and department heads. I have personally declined the use of a county cell phone. As a result, we are saving more than \$140,000 annually.

County Vehicles and Mileage Reimbursement

Leadership by example is a cornerstone of this administration. As you know, I have declined the use of a taxpayer-funded take-home vehicle. Moreover, I have eliminated the use of take-home vehicles for many of my commissioners and my entire senior staff. For those Executive Branch staff whose use of a take-home vehicle is essential, we have posted the details of this use on www.erie.gov, as part of our continuing effort to make county government more transparent.

It is only fair and proper that we respect taxpayers. We will not provide perks to county employees that are not available to hard working taxpayers in Erie County. I also reduced mileage reimbursement rates for non-union county employees.



Other Reductions

This budget contains a certain amount of pain for all constituencies in Erie County. We were faced with difficult choices as we dealt with \$32 million in cost increases outside of our control. In fairness to taxpayers, we looked at every program for potential cuts, eliminated pork spending that played to the special interests, and will be asking all agencies to do more with less in these difficult economic times.

One of our most difficult cuts eliminated the extra \$1.6 million in funding the Legislature included in the 2008 Adopted Budget for the Buffalo and Erie County Public Library. This funding was above and beyond the \$22.2 million in library budget funding that is included in the property tax levy. We noted that the library fund has an undesignated fund balance of \$2.6 million as of December 31, 2007 and the library's leadership has the ability to dip into that fund as we face this difficult time. It should also be noted that

other libraries around the country depend on governmental support for less than 50% of their budget. Looking forward, we are asking the Buffalo and Erie County Public Library to follow this example and increase the amount of revenue it receives from non-governmental sources.

We also implemented reasonable cuts in subsidies to cultural agencies in the County. The "Big 5" agencies (Albright-Knox Art Gallery, Buffalo Museum of Science, The Buffalo Zoo, The Buffalo & Erie County Historical Society and The Buffalo Philharmonic Orchestra) received an average funding reduction of 6.1%. The reduction in Erie County Cultural Resource Advisory Board (ECCRAB) funding includes the elimination of funding for Studio Arena Theatre, which has ceased operations. These overall reductions are appropriate in these difficult economic times.

Finally, we eliminated all support for non-mandated, pork spending that played to special interests without an overall benefit for Erie County taxpayers.

Termination of City/County Parks Agreement

In June 2008, we notified the City of Buffalo that Erie County was terminating the City/County Parks Agreement effective June 13, 2009. As the County Comptroller noted in his August 2006 audit of the agreement, this has been a significant cost to Erie County taxpayers from the day it was signed. The stated purpose of the Agreement was to regionalize the parks in a revenue neutral manner - this did not happen. In these difficult financial times for Erie County, it is time to return the City Parks to the City of Buffalo.

Issues surrounding Olmsted Parks still need to be resolved. It is our collective goal to preserve the Olmsted Conservancy and to negotiate and sign a long-term agreement between Erie County, the City of Buffalo, and the Olmsted Conservancy. The historic Olmsted Parks need to be preserved and restored in accordance with the Conservancy's long-term strategic plan.



Erie County Medical Center Corporation (ECMCC)

There are many complicated issues surrounding the Erie County Medical Center. This short-sighted transaction improperly used deficit financing to fill a budget gap by “pretending” to sell ECMC to a Public Benefit Corporation. However, this was never a real sale and resulted in Erie County taxpayers being saddled with future debt payments and unlimited future subsidies to ECMCC. Worse yet, county buildings were improperly transferred to ECMCC resulting in rent payments from Erie County to ECMCC on buildings that the county built, occupies and maintains. In 2009, Erie County is financially responsible for over \$7 million in debt service on ECMCC debt related to this pretend sale and Erie County will remain responsible for the next 20 plus years.



I remain confident we can remove Erie County from the hospital business sometime in the near future. As part of the Berger Commission hospital consolidation legislation, ECMCC is now a partner of the *Western New York Healthcare System* hospital network (‘Newco’) that includes Kaleida and ECMCC. The stated intention is to affect a full asset merger of Kaleida and ECMCC, which can only happen if Erie County is removed from the hospital business.

In the short term, my administration has entered into a legally binding agreement with ECMCC that states that Erie County does not have to pay a court ordered \$23 million in capital to ECMCC, until (1) such time as ECMCC has a Certificate of Need from the New York State Department of Health to spend the money and; (2) ECMCC has exhausted previous capital funds provided by Erie County. It is my opinion that Erie County will be out of the hospital business long before that day ever arrives. I have not, therefore, included any portion of that \$23 million in our 2009-2012 Four-Year Plan.

To expedite this process, I recently formed an eight member panel of influential community leaders and representatives of Kaleida, ECMCC, and Newco to make rec-

ommendations on removing Erie County from the hospital business. A road map to success generated by this panel will remove the unknown future obligations of Erie County relative to ECMCC and play a key role in the full asset merger of Kaleida and ECMCC.

Tax Liens

As stated earlier in this letter, this administration will not sell Erie County tax liens at a discount to improperly fill budget gaps. These tax liens belong to the taxpayers of Erie County and are the same as accounts receivable in the business world. In addition, they grow at an 18% interest rate compounded annually.

It is unfortunate that governmental accounting standards do not allow Erie County to record these tax liens on our balance sheet and include them in our Undesignated General Fund Balance. These accounting standards pretend that tax liens do not exist and tempt governmental entities to improperly sell them at a discount to fill budget gaps and turn them into cash to include in the fund balance.

I know the tax liens are real and have recorded them in a Restated Undesignated General Fund Balance report to give them visibility as we analyze our financial condition.

Community College and Board of Elections Respreads

There are two other accounts receivable that belong to the Erie County taxpayer, but do not appear on our balance sheet.

The first account consists of funds owed to Erie County by cities, towns and villages located in Erie County where their residents attended community colleges other than Erie Community College. The second account is for Board of Elections expenses.

The money owed to Erie County is always two years in arrears, but is guaranteed to be repaid as part of the town and city tax collection process. The expenses and revenue for these accounts appear in the



Erie County budget, but do not include the two year amounts in arrears. Again, accounting standards pretend that this money is not owed to Erie County and is not included on our balance sheet or in our fund balance.

Since we know the money is owed and is guaranteed to be repaid, it has been recorded in the Restated Undesignated General Fund Balance report to give them visibility as we analyze our true financial condition.

Union Contracts

All but one of our union contracts have expired. We are in negotiations on new contracts. I have insisted that Erie County deal with unaffordable benefits including health insurance for current and future employees, health insurance for retirees, and paid time off. I am optimistic we can negotiate contracts that are fair to hard working county employees, fair to taxpayers, and fair to future generations.

GASB 45 Unfunded Retiree Health Insurance Deficit

Erie County’s unfunded retiree health insurance deficit is a staggering \$750,000,000 as of January 1, 2006. This is commonly referred to as our GASB 45 liability.



We currently record retiree health insurance costs on a “pay as you go” basis when the bills arrive for current retirees. Yet, we have refused to recognize any future liabilities. Despite the reality of this crushing, long-term financial obligation on future generations, similar to the unfunded Social Security and Medicare liabilities at the federal level, prior administrations have simply refused to address this overwhelming cost.

It is a travesty that our generation has allowed this unfunded burden to go unchecked. It is a priority of this Administration to deal with this massive liability through meaningful negotiations on new union contracts.

Restated Undesignated General Fund Balance

As stated earlier, we will report a Restated Undesignated General Fund Balance that fairly reflects the reserves of Erie County, both on and off the balance sheet. We will subtract the deficit in the Road Fund and will add the accounts receivable linked to Tax Liens, Community College Respreads, and Board of Elections Respreads. This restated balance will then be compared to our Operations Budget which excludes items that do not belong in an operational budget.

Bond Rating

Lost in the chaos of the 2004-2005 budget crisis is the fact that Erie County has always had an investment grade bond rating. We have never lost our ability to borrow on Wall Street, which is unique among municipalities in New York State overseen by control boards. As our financial position has strengthened since the meltdown of 2004 and 2005, our bond rating has been upgraded to the top tier of ratings.

In the near future all municipalities will be rated on a new Corporate Global Scale. This will be done so that investors can compare municipal debt to corporate debt. It is widely recognized that many municipalities, such as Erie County, will see a significant upgrade in their bond rating. This recognizes the fact that municipalities do not default on debt and as taxing entities always have the ability to raise revenue to service municipal debt. This is good news for Erie County taxpayers.

Essential Albany Reform

We all know that much of our budget is dedicated to providing services in accordance with unfunded or partially funded mandates from Albany. Medicaid is our largest single expense. New York's mandated Medicaid program provides benefits not available anywhere else in the nation and is crippling New York taxpayers with a burden not seen anywhere else in the country. Real, meaningful Medicaid reform is desperately needed to reduce this burden on taxpayers.

To address the Medicaid problem, as well as other unfunded New York State man-

dates, I have joined with the county executives in Monroe County and Onondaga County to form an Upstate Unfunded Mandate Relief Commission. This 10 member commission has been directed to prepare a full report on the costs of these unfunded mandates and to make recommendations by year end that we plan to deliver to Albany as New York State starts budget deliberations for the 2009 – 2010 fiscal year.



We all need to demand that Albany enact real reform and stop cost shifting to county taxpayers.

Four-Year Operating Plan

We have developed a Four-Year Operating Plan to encompass fiscal years 2009 through 2012. This plan calls for property tax revenue to grow only through 4% estimated market value growth (the past 5 years of market value growth has been 5.2%) and for sales tax revenues to increase by 3% each year in line with inflation. We expect to trim over \$3.3 million in the 2010 budget through the success of our cost cutting and efficiency programs, resulting in a net yearly decrease of at least 50 full time positions starting in 2010. As a result, our Four-Year Operating Plan achieves budget surpluses in 2010, 2011 and 2012 using reasonable assumptions. We expect the Erie County Fiscal Stability Authority (ECFSA) to approve and endorse our 2009 Budget and 2009-2012 Four-Year Plan.

Six-Year Capital Plan

As County Executive, I am committed to improving the county's infrastructure as our community prepares for growth. Unfortunately, the condition of our roads, bridges, and other vital infrastructure has been allowed to deteriorate over the last several years. As a result, I am proposing a large and aggressive six year capital plan, including \$50 million of county funding for new capital projects in 2009, 2010, 2011 and 2012. In addition, \$36 million in state and federal matching funds are also provided in 2009.

Our proposed 2009 Capital Budget includes critical road and bridge repair and

reconstruction projects. With over 1,000 miles of county roads, maintaining this infrastructure will remain a challenge. Sadly, however, we have all witnessed the unacceptable and dangerous condition of many of our roads and bridges - especially in our rural towns. This proposal also includes needed repairs and upgrades to the Erie County Holding Center and Jail; improvements to our parklands; investments in our Fire Training Complex and emergency communications; and upgrades to our computer systems including appropriate disaster recovery expenditures. We will also continue to honor our responsibilities to Erie Community College, Ralph Wilson Stadium, Botanical Gardens and the Convention Center.

Conclusion

In closing, I strongly urge this body to look at this budget through the lens of the county taxpayer. As partners in reform, we have an opportunity to do something historic for our community, and fundamentally change the way government operates in Erie County. We must continue restoring fiscal stability, right sizing county government, and ultimately rebuilding our economy. Your body is a critical component of these efforts and I hope you will work with me to accomplish these goals.



My Administration looks forward to working with you on the adoption of the 2009 Budget and 2009-2012 Four-Year Plan. I know that you also recognize the challenges we face and the need for fiscally sound and responsible leadership. We are prepared to provide any requested information, respond to inquiries, and explain the details of the Recommended 2009 Executive Budget and 2009-2012 Four-Year Plan.

Thank you for your consideration.

Sincerely,

CHRIS COLLINS
Erie County Executive