



County of Erie

MARK C. POLONCARZ
COMPTROLLER

October 12, 2007

Honorable Members
Erie County Legislature
92 Franklin Street, 4th Floor
Buffalo, New York 14202

Dear Honorable Members:

Pursuant to my obligations under Article XXVI, Section 2606 of the Erie County Charter ("Charter"), I am writing to provide your Honorable Body with my office's review of the preliminary expenditures and revenues submitted by the County Executive for the proposed 2008 Erie County Budget.

Article XXVI, Section 2606 states as follows:

On or before the 1st day of October the county executive shall submit to the comptroller all revenue estimates and expenditure estimates for Medicaid, public assistance, and pension contributions and health care insurance costs for county employees to be used in the proposed budget. The comptroller shall review all revenue estimates and expenditure estimates for Medicaid, public assistance and pension contributions and health care insurance costs for county employees to be used in the proposed tentative budget prepared by the county executive and submit to the Legislature in writing by the 15th of October a report indicating whether or not such estimates are suitable estimates for the upcoming fiscal year.

On October 1, 2007, my office received a memorandum from the Director of Budget, Management and Finance providing 2008 proposed revenue estimates. That document, however, did not include 2008 expenditure estimates for Medicaid – MMIS, public assistance, pension obligations to the New York State and Local Employees' Retirement System, and health care insurance for County employees. As these expenditures and/or accounts are substantial, and form the basis for a significant degree of the County's annual spending, my office's review of proposed revenues could not be accomplished without certain expenditure data. Accordingly, I requested and received said expenditure data from the Division of Budget, Management and Finance on October 5, 2007.

Please be advised that this review is not a comprehensive review of the proposed budget, but rather, a limited review of major revenue and expenditure estimates as represented to our office by the Division of Budget, Management and Finance and as required by the Charter. Our office will conduct a formal, detailed review of the proposed 2008 Budget upon its release to our office on or by October 15, 2007.

Revenues

Below are our office's comments regarding major revenue accounts proposed for 2008.

Property Tax Levy

According to the revenue estimates provided to our office, the alleged proposed 2008 Budget will include a County-purposes property tax levy of \$189,665,960 against a 2007 Adopted levy of \$177,859,372, or \$11,806,597 (6.2%) higher than 2007. This assumption is based on projected growth in the levy from properties in towns in Erie County that annually conduct reassessments and which are experiencing population growth. Our office finds no discrepancy in this estimate.

Property Tax – Interest and Penalty

According to the revenue estimates provided to our office, the proposed 2008 Budget will include property tax interest and penalty revenue of \$8,511,266. However, this estimate is based on the County successfully selling during 2007 the County's 2006 and 2007 tax liens to XSPAND, continuing with a new sale in late 2008 of the 2008 tax liens, and successfully working with XSPAND and attaining revenue from the prior year's lien pool. My office questions this estimate.

Based on the Erie County Fiscal Stability Authority's resolution of September 28, 2007, which authorized a lien sale contingent on the occurrence of a number of conditions involving the County's borrowing for capital projects, there is a significant likelihood that a tax lien sale will not occur in 2007 or 2008. Because of this risk, we believe it imprudent to include revenue from such a speculative scenario in the proposed 2008 Budget.

Payment in Lieu of Taxes and Section 520 Exemptions

We agree with the Division of Budget, Management and Finance that these estimates are conservative and well within the County's ability to achieve those results.

Sales and Compensating Use Tax ("Sales Tax")

According to the revenue estimates provided to our office, the proposed 2008 Budget will include County share of sales tax revenue of \$380,130,538 against an Adopted 2007 Budget of \$369,216,365. This represents an increase of \$10,914,173 from budget to budget (but not actual to budget). We find no discrepancy in this estimate *per se*. However, we note that the proposed 2008 Budget includes sales tax remitted to local governments of \$262,661,933 against a 2007

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Adopted remittance of \$255,100,871 (which we note does not include the 2007 sharing of \$12,500,000 from the 1% sales tax with the cities, towns and villages). This is a discrepancy. Budget to budget growth in County share sales tax from 2007 to 2008 is shown as \$10,914,173, while budget to budget growth in shared sales tax is shown as \$7,561,062. The two estimates do not correspond.

We believe (but can not confirm) that this may reflect the Administration's assumption that the special one-time revenue sharing from the 1% sales tax in 2007 will continue in 2008, predicated on a request by the Erie County Executive to your Honorable Body to adopt home rule requests to the State Legislature to reauthorize the 1% sales tax beyond February 29, 2008 contingent on revenue sharing. This additional revenue sharing is problematic for the County, as I noted in my office's September 4, 2007 report "Comptroller's Review of Revenues Derived from Erie County's Sales Tax and the Sharing Thereof with Other Entities." I cannot stress enough the negative financial consequences to the County from the continuation of this special revenue sharing.

Estimating of sales tax revenue is at best an inexact art. Final 2007 sales tax receipts will not be received from the New York State Department of Taxation and Finance until February 2008. It appears that the proposed 2008 Budget will include a reduction of \$2,657,303 for prior period adjustments. The County currently has sales tax receipts data for the first seven months of 2007 which reflects a healthy increase in sales tax receipts in 2007 against 2006. However, the Charter-mandated change in release date of the County budget to October 15 from November 10 has resulted in the County Executive's budget being released prior to the quarterly reconciliation of sales tax released by the State Department of Taxation and Finance by the end of October. This reconciliation presents a clearer picture of sales tax rather than the cash received each month. When that is received from the State later this month we will advise the Legislature.

Interest Earnings

According to the revenue estimates provided to our office, the proposed 2008 Budget includes interest earnings income of \$5,434,000 against an Adopted 2007 Budget of \$4,971,000. This account is primarily controlled by this office, through our daily cash management strategies and investment of County funds in various interest-bearing accounts. While the County's receipt of interest income in 2006 was very robust, and projections for 2007 suggested strong growth in this revenue account, the trend for 2007 has been less positive. The County's failure to attain revenue in April/May 2007 from the sale of tax liens and invest those proceeds, along with the Federal Reserve's reduction in the prime rate of 0.5% and uncertainty in the markets this year have all negatively impacted our interest earnings. When the proposed 2008 Budget in its entirety is released, our office will be able to finalize a 2008 cash flow projection and will be in a better position to comment on this account.

All Other Revenues

According to the revenue estimates provided to our office, the proposed 2008 Budget will include other source revenue of \$46,018,758 against 2007 Budgeted revenue of \$44,260,006 and

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2007 projected revenues of \$49,129,596. The Division of Budget, Management and Finance notes that they have based this estimate in part on their belief the County will not receive an Erie County Medical Center Corporation ("ECMCC") subsidy rebate. Without supporting details it is difficult to express an opinion on these revenues and we will reserve judgment on this revenue area until after the release of the proposed 2008 Budget.

The Board of Election revenue corresponds to the County's records. Fee revenue is in line with 2007 projections which are lower than budget.

State and Federal Revenues

According to the revenue estimates provided to our office, the proposed 2008 Budget will include state aid revenue of \$197,989,090 against Adopted 2007 revenue of \$201,988,195. The Administration estimates actual 2007 state aid will be \$190,054,771. The projected 2007 year end results to the 2008 estimate reflects a reduction of state aid. The proposed 2008 Budget includes federal aid revenue of \$142,234,476 against Adopted 2007 revenue of \$138,116,063. These estimates are in-line with expense projections received on major programs.

Expenditures

Below are our office's comments regarding major expenditure accounts proposed for 2008.

Medicaid-MMIS

According to the expenditure estimates provided to our office, the proposed 2008 Budget will include a local share expense of \$191,222,362 for the County's share of the costs of Medicaid. This contrasts with the Adopted 2007 Budget appropriation of \$185,962,536. Based on our review of the State's Medicaid cap formula for counties, we find no discrepancy with this estimate.

Health Insurance –County Active and Retired Employees

According to the expenditure estimates provided to our office, the proposed 2008 Budget will include \$33,806,376 for the County's costs of health insurance for active County employees (not including the costs of the Health Insurance Waiver program for County employees with other health insurance). This contrasts with the Adopted 2007 Budget appropriation of \$29,533,274. The proposed 2008 Health Insurance Waiver cost is \$450,000 against an Adopted 2007 Budget appropriation of \$465,000. Based on discussions with the Division of Budget, Management and Finance and review of the County's advisor's recommendations on health insurance we find these estimates to be reasonable and find no discrepancies.

According to the expenditure estimates provided to our office, the proposed 2008 Budget will include \$15,772,504 for the County's costs of health insurance for retired County employees. This contrasts with the Adopted 2007 Budget appropriation of \$11,072,834. The 2008 estimate includes the County's estimated costs of paying for health insurance of retired employees of Erie County Medical Center Corporation (\$4,654,132), as required under the

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County's 2006 Consent Decree with the hospital. Based on the growing costs of health care for senior citizens, including significant increases in the cost of prescription drugs, and discussions with the Division of Budget, Management and Finance and review of the County's advisor's recommendations on this expense, we believe these estimates to be reasonable.

Pension Obligations

According to the expenditure estimates provided to our office, the proposed 2008 Budget will include \$18,440,000 for the County's required contribution to the New York State and Local Employees' Retirement System ("System") for active County employees. This contrasts with the Adopted 2007 Budget appropriation of \$20,796,101. Based on certain market conditions which have led to higher than expected earnings in the System's accounts, and based on representations from the Office of the New York State Comptroller lowering local governments' projected payments into the system, we believe this estimate to be reasonable.

Certain Major Public Assistance Programs

The Division of Budget, Management and Finance provided our office with their proposed 2008 Budget estimates for three (3) public assistance accounts: MA-Gross Local Payments, Family Assistance, and Safety Net Assistance. No estimates were provided to our office for two (2) other major accounts in the Department of Social Services: CWS-Foster Care (Adopted 2007 Budget appropriation of \$54,381,339) and Child Care-DSS (Adopted 2007 Budget appropriation of \$33,774,538). These estimates are in line with the revenue estimates provided.

According to the expenditure estimates provided to our office, the proposed 2008 Budget will include \$7,259,467 for MA-Gross Local Payments against a 2007 Adopted Budget appropriation of \$7,828,822. We find no discrepancy with this estimate.

According to the expenditure estimates provided to our office, the proposed 2008 Budget will include \$34,460,834 for Family Assistance against a 2007 Adopted Budget appropriation of \$39,242,291. This is in line with the County's 2007 estimate of \$34,927,178 and reflects the declining cost of this program. We find no discrepancy with this estimate.

According to the expenditure estimates provided to our office, the proposed 2008 Budget will include \$39,051,277 for Safety Net Assistance against a 2007 Adopted Budget appropriation of \$38,108,588. We find no discrepancy with this estimate.

Conclusion

As previously noted, following the County Executive's issuance of the proposed 2008 Budget, my office will conduct a thorough analysis of the proposed budget and provide said comprehensive review to your Honorable Body. It would be my office's goal to get that report to you within three (3) weeks of the budget's issuance.

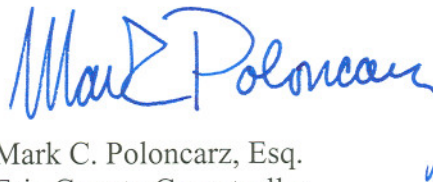
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In the meantime, if you have any questions or comments on any matter contained herein please feel free to contact my office at your earliest convenience.

Sincerely yours,



Mark C. Poloncarz, Esq.
Erie County Comptroller

MCP/sa

cc: County Executive Joel A. Giambra
Director of Budget, Management and Finance James M. Hartman
Erie County Fiscal Stability Authority