



# County of Erie

JOEL A. GIAMBRA  
COUNTY EXECUTIVE

## DIVISION OF BUDGET, MANAGEMENT AND FINANCE

JAMES M. HARTMAN  
DIRECTOR

JOSEPH L. MACIEJEWSKI, CCD  
DIRECTOR OF REAL PROPERTY TAX SERVICES

September 6, 2007

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

Dear Honorable Members:

Attached is the Budget Monitoring Report for the period ending July 30, 2007. We have also prepared our forecast of year-end 2007 results. This forecast will serve as the baseline for our fiscal year 2008 budget preparation. In addition to the detailed forecast document, we have attached a one-page summary of the major points relevant to 2007. My comments in this letter will focus on these highlight points.

We forecast an operating surplus of \$4,586,625. This number assumes completion of the tax lien deal proposed to you in my letter of August 30. Without the tax lien deal, we face the possibility of a budget deficit of \$9,120,673. Thus, approval of the tax lien deal is obviously critical to ending 2007 successfully. In this forecast, we have not assumed any recovery of the unplanned expense for Erie County Medical Center. Should our legal efforts to obtain recovery succeed, our bottom line results will improve accordingly and our surplus will be larger than the \$4.6 million. **In fact, without the unexpected payment to ECMC, we would have the prospect for an operating surplus of over \$13 million.**

### MAJOR REVENUE VARIANCES

1. Tax Lien Revenue: Our original 2007 budget assumed revenue of \$12,625,303 from selling liens at 2007 year-end on an estimated uncollected tax pool of \$16,186,287. This assumption was based on the previous residual sales model with an estimated purchase rate of 78%. The current proposal from XSPAND is a bulk sale model with a purchase rate of 105%. Thus, we would have revenue of \$16,995,601 – or \$4,307,298 greater than the original plan.

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As explained in my letter of August 30, we are also proposing to sell the \$10,319,905 that currently remains in the year-end 2006 lien pool. At a rate of 105%, this sale would bring us \$10,835,095 that would be designated to re-build the reserve funds. However, because of the delay in selling the 2006 lien pool, we also have an estimated \$3,000,000 of unplanned revenue that has been collected in 2007 on year-end 2006 unpaid taxes (as of the end of August). This \$3,000,000 combines with the \$4,307,298 described above to give us a total positive revenue variance of \$7,307,298.

What happens if we have no tax lien sale program? In that event, we would continue to collect on the 2006 unpaid taxes through the end of December. The amount would total an estimated \$6.2 million by year-end. Thus, we would be below the original budget assumption for 2007 – the \$12.6 million number – by an amount of \$6.4 million. This shortfall would then put the 2007 budget into the deficit situation shown on the attached summary sheet.

(Note: see the August 30 letter for the complete calculations on the impact of the tax lien program.)

**2. Sales Tax Revenue:** As explained in our June BMR, we discovered an administrative error by the State in the application of the new .75% component of the sales tax. We received a retroactive adjustment of nearly \$6 million to compensate for underpayment in 2006 and the first part of 2007. Also, our sales tax revenue in the month of July was \$664,709 better than budget. Through July 30, we are \$5,303,891 better than budget for the seven-month period.

To forecast the year-end result, we assume that sales tax revenue will be on budget for the months of August through December. Thus, we will achieve the original full-year forecast of \$369,216,365 – and we will maintain the current positive variance of \$5.3 million. (Note: These healthy sales tax results will assist our preparation of the 2008 budget. Also, let me thank Joe Passafiume for finding the problem with our sales tax receipts.)

**3. Fee Revenue:** We expect fee revenue to fall short of budget by \$2,637,139 at year-end (out of a total fee revenue budget of \$33,575,895). The shortfalls are largely concentrated in the Health and Jail Management departments.

**4. Other Revenue:** We anticipate other local revenues to be \$1,048,445 over budget. The major contributors to this positive variance are interest income, video lottery revenue, and refunds of various prior year expenses.

**5. State and Federal Aid:** Related to various social service programs, State aid is expected to be \$4,505,268 less than budget and Federal aid to be \$2,003,374 less than budget. However, these lower aid amounts are offset by lower expense on the program side and, thus, are neutral to the bottom line.

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6. Health Department Audit: We received a letter on August 20 from the State Department of Health regarding their audit of family planning contracts in Erie County back to 1996. The State is seeking recovery of \$3,781,657 of past State aid because of disputed expense items. We intend to appeal the audit findings. In the meantime, however, we are designating \$1,302,652 to be set aside in the event that we are compelled to make some repayment to the State. Should our appeal not succeed, we would probably have up to three years to repay the State.

**MAJOR EXPENSE VARIANCES**

1. Personal Service Expenses: As noted in previous BMR reports, we are running well below budget on total personnel expense because of both an unplanned high level of staff turnover and because of a deliberate strategy to manage the pace of filling job vacancies. These vacancy savings are offset in part by higher overtime costs – but we expect net personnel costs to be under budget by \$5,071,107 at year-end.

2. Contingency Fund: As you will recall, we set up a contingency fund of \$3,250,000 at the beginning of 2007 to safeguard against shortfall in sales tax revenue. Because we now expect to exceed the sales tax revenue targets, this \$3,250,000 can go to the bottom line.

3. Medicaid Expense: We normally make our weekly payment for Medicaid expense on Tuesdays. As it happens, January 1 of 2008 is a Tuesday. Because of the holiday, the State will take its weekly payment on Monday, December 31 of 2007. Thus, we have a choice of whether to book the weekly payment of \$3,143,294 as a 2007 expense or as a 2008 expense. In order to relieve pressure on the 2008 budget, we now plan to book this amount in 2007. This decision subtracts from the 2007 bottom line.

4. Foster Care Expenses: Total expenses for foster care programs are now estimated to be \$7,642,121 higher than budget (out of a total of \$62,023,460). The reasons for this higher expense include: 1) an increased number of children in care, 2) State mandated increases in the service rate for program providers, and 3) our own budgeting mistakes in calculating program costs. The County share of these higher than budget costs is about \$3.6 million.

5. Other Social Service Programs: Exclusive of the foster care programs, expenses for all other social programs will be an estimated \$9,100,195 lower than budget. The variances here occur largely in family assistance and child welfare programs.

6. Other Departmental Expenses: All other departmental expenses are expected to be under budget by \$2,936,946. The two major contributors to this positive variance are lower than budget general liability expenses and supply expenses.

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7. ECMC Payments: As discussed previously, we were hit in March with an unplanned expense for Erie County Medical Center of \$8,874,290. This expense occurred because of a Federal program which periodically pays the hospital for care given in prior years for uninsured patients. The hospital received \$17,748,570 – and the County was charged for half that amount. Our position is that this payment was unexpected at the time the Consent Decree was formulated with the hospital in January 2006. Thus, we believe the 2007 operating subsidy of \$8,400,000 agreed to under the Consent Decree should be reimbursed to the County. This position has been presented to Judge Makowski and we are currently awaiting court action.

The forecast in the attached documents makes no assumption that we will have a favorable legal decision by year-end. Thus, our forecasts absorbs the entire \$8,874,290 expense. Recovery of all or part of this expense would improve the bottom line forecast substantially. Without this unexpected payment to ECMC, we would have prospect for a 2007 operating surplus of over \$13 million.

#### **ROLE OF THE ERIE COUNTY FISCAL STABILITY AUTHORITY**

On January 11, 2007, the Erie County Fiscal Stability Authority declared itself a “hard control board” based upon the finding that our 2007 budget was out of balance by the amount of \$15,521,307. This conclusion about the 2007 budget obviously was not correct. The problem with the ECFSA findings were their focus strictly upon the risks to the budget. The control board totally ignored the potential for positive variances in a budget of over \$1 billion.

As I have stated previously, the “soft hiring freeze” imposed by the ECFSA is largely irrelevant to our 2007 budget outcome. The control board basically has approved filling all of the job vacancies presented to them. Admittedly, their approval process does incur savings by adding time to the hiring process. However, without the ECFSA, the County would still be able to manage vacancy savings through our own control over the pace of the hiring process.

The most important decision now facing the ECFSA is approval of the tax lien deal. We see no reason for that approval to be denied. The tax lien program makes fiscal sense and we have addressed any issues regarding the integrity of selecting XSPAND as our continued partner for this program. Should the ECFSA again deny approval of the XSPAND contract, that decision would be a self-fulfilling act that creates the deficit predicted in their January 11 resolution.

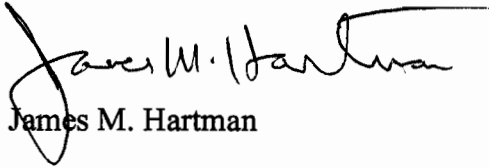
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**SUMMARY**

Despite some unexpected problems, especially with regards to the ECMC payment, we have managed the 2007 budget to ensure the attainment of a modest surplus. Approval of the tax lien deal is the key decision that remains to determine our year-end operating result.

Please forward any questions regarding this analysis, and we are happy to answer questions at a meeting of the Finance and Management Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. Hartman". The signature is fluid and cursive, with a large initial "J" and "H".

James M. Hartman

cc. County Executive Giambra  
Elected Officials and Department Heads  
Erie County Fiscal Stability Authority

**2007 Year End Summary Projections  
Impact of Tax Lien Sale**

	<b>Without Tax Lien Deal Surplus/(Deficit)</b>	<b>With Tax Lien Deal Surplus/(Deficit)</b>
<b>Revenue</b>		
<b>Tax Lien Related</b>	<b>(6,400,000)</b>	<b>7,307,298</b>
Property Tax Related Items	680,772	680,772
Sales Tax	5,300,000	5,300,000
Fees	(2,637,139)	(2,637,139)
Other Rev	1,048,445	1,048,445
State Aid	(4,505,268)	(4,505,268)
Health State Aid (audit)	(1,302,652)	(1,302,652)
Federal Aid	(2,003,374)	(2,003,374)
<b>Total Revenue</b>	<b>(9,819,216)</b>	<b>3,888,082</b>
<b>Expense</b>		
Personnel Services related	5,071,107	5,071,107
Contingency	3,250,000	3,250,000
MMIS (53)	(3,143,294)	(3,143,294)
Foster Care Program	(7,642,121)	(7,642,121)
Other DSS Programs	9,100,195	9,100,195
IGT	(8,874,290)	(8,874,290)
All Other Department Expense	2,936,946	2,936,946
<b>Total Expense</b>	<b>698,543</b>	<b>698,543</b>
<b>Surplus/(Deficit)</b>	<b>(9,120,673)</b>	<b>4,586,625</b>

**Note: These numbers exclude the \$10.8 million of potential revenue from the sale of the remaining 2006 tax lien pool which will be designated to rebuild fund balance reserves.**

**2007 July Budget Monitoring Report  
with Year End Projections**

Commitment Type	Annual Budget	Period Budget January-July	Actuals January-July	Period Available Budget	% of Period Budget Consumed	Year End 2007 Projections	Projected Year End Variance	Projected % of Annual Budget Consumed	Comments/Key Items
<b>Revenue</b>									
400000 Real Property Taxes	(177,859,372)	(177,859,372)	(177,859,372)	0	100.00%	(177,859,372)	0	100.00%	
Tax Lien Related Revenue						(7,307,298)	7,307,298		2007 year end projections assumes the completion of the 2007 tax lien sale.
All Other Property Tax Related Accounts	(9,875,340)	(7,918,948)	(8,285,309)	366,361	104.63%	(10,556,112)	680,772	83.90%	Payments in lieu of taxes exceeds budget.
** Property Tax	(187,734,712)	(185,778,320)	(186,144,681)	366,361	100.20%	(195,722,782)	7,988,070	104.25%	
402000 Sales Tax EC Purp	(139,218,155)	(78,842,104)	(80,759,612)	1,917,508	102.43%	(141,135,663)	1,917,508	101.38%	
402100 1% Sales Tax-EC Purp	(131,427,548)	(74,279,822)	(76,236,915)	1,957,093	102.63%	(133,380,749)	1,953,201	101.49%	Sales tax is expected to exceed budget by 1.4% for the year. This includes NYS adjustments for prior period revenue.
402120 .25% Sales Tax	(32,856,887)	(18,676,918)	(19,153,351)	476,433	102.55%	(33,333,320)	476,433	101.45%	
402130 .5% Sales Tax	(65,713,775)	(37,353,844)	(38,306,702)	952,858	102.55%	(66,666,633)	952,858	101.45%	
402140 Sales Tax to Loc Gov	(255,100,871)	(147,985,530)	(147,985,530)	0	100.00%	(255,100,871)	0	100.00%	
** Sales Tax	(624,317,236)	(357,138,218)	(362,442,109)	5,303,891	101.49%	(629,617,236)	5,300,000	100.85%	
** Other Sources	(53,483,864)	(33,224,631)	(35,181,710)	1,957,079	105.89%	(54,532,309)	1,048,445	101.96%	
** Fees, Fines or Charges	(33,575,895)	(20,387,004)	(19,037,026)	(1,349,978)	93.38%	(30,938,756)	(2,637,139)	92.15%	Lower than anticipated fee collections mainly in the Health Department and Jail Management, are offset by higher than anticipated other source revenue and expense holds.
*** Local Source Revenue	(899,111,707)	(596,528,174)	(602,805,526)	6,277,353	101.05%	(910,811,083)	11,699,376	101.30%	
*** Federal Revenue	(140,609,063)	(81,650,656)	(81,290,629)	(360,026)	99.56%	(138,605,689)	(2,003,374)	98.58%	Formula driven Federal aid is offset by lower expense.
405540 SA-Art VI-P H Work	(1,668,078)	(973,046)	(993,044)	19,999	102.06%	(365,426)	(1,302,652)	21.91%	Health Dept. State aid includes a negative adjustment based on State audits.
All Other State Aid	(194,194,613)	(111,927,122)	(107,009,447)	(4,917,675)	95.61%	(189,689,345)	(4,505,268)	97.68%	Formula driven State aid is offset by lower expense.
*** State Revenue	(195,862,691)	(112,900,167)	(108,002,491)	(4,897,676)	95.66%	(190,054,771)	(5,807,920)	97.03%	
450000 Interfund Rev Non-Sub	0	0	0	0	0	0	0	0	
*** Interfund Revenue	0	0	0	0	0	0	0	0	
**** County Revenue	(1,235,583,461)	(791,078,997)	(792,098,647)	1,017,450	100.13%	(1,239,471,543)	3,888,082	100.31%	Total revenue will exceed budget.
<b>Expense</b>									
500000 Full Time - Salaries	173,690,318	99,841,515	91,003,041	8,838,474	91.15%	162,913,115	10,777,203	93.80%	
500010 Part Time - Wages	3,543,691	1,921,574	1,532,958	388,616	79.78%	2,961,338	582,353	83.57%	
500020 Regular PT - Wages	2,535,617	1,416,301	1,269,312	146,989	89.62%	2,341,033	194,584	92.33%	
500030 Seasonal Emp. Wages	877,806	400,833	329,039	71,794	82.09%	818,130	59,676	93.20%	
** Salaries	180,647,432	103,580,223	94,134,350	9,445,873	90.88%	169,033,616	11,613,816	93.57%	
501000 Overtime	12,962,394	7,325,948	9,147,817	(1,821,869)	124.87%	16,470,426	(3,508,032)	127.06%	Overtime spending is offset by vacancy savings.
All Other Non-Salary Items	5,011,350	2,661,956	2,655,049	6,907	99.74%	5,246,027	(234,677)	104.68%	
** Non-Salaries	17,973,744	9,987,904	11,802,866	(1,814,962)	118.17%	21,716,453	(3,742,709)	120.82%	
** Fringe Benefits	82,857,562	48,696,231	49,529,646	(833,416)	101.71%	82,857,562	0	100.00%	
504990 Reductions Per Srv	(2,800,000)	(1,633,333)	0	(1,633,333)	0.00%	(2,800,000)	0.00%	0.00%	
** Countywide Adjustments	(2,800,000)	(1,633,333)	0	(1,633,333)	0.00%	(2,800,000)	0.00%	0.00%	
*** Personnel Related Expense	278,678,738	160,631,025	155,466,863	5,164,162	96.79%	273,607,631	5,071,107	98.18%	Overall personnel related savings has been achieved through the County vacancy control program.
** Supplies and Repairs	10,469,458	5,343,120	4,348,017	995,103	81.38%	9,937,586	531,872	94.92%	
598900 County Contingency	3,250,000	1,354,163	0	1,354,163	0.00%	0	3,250,000	0.00%	Contingency originally set aside to compensate for a possible decrease in sales tax collections will not be required.

**2007 July Budget Monitoring Report  
with Year End Projections**

Commitment Type	Annual Budget	Period Budget January-July	Actuals January-July	Period Available Budget	% of Period Budget Consumed	Year End 2007 Projections	Projected Year End Variance	Projected % of Annual Budget Consumed	Comments/Key Items
All Other Accounts	29,772,731	13,494,963	11,389,958	2,105,005	84.40%	28,084,911	1,687,820	94.33%	
** Other	33,022,731	14,849,126	11,389,958	3,459,168	76.70%	28,084,911	4,937,820	85.05%	
** Contractual	412,968,357	242,821,291	241,361,192	1,460,099	99.40%	412,546,653	421,703	99.90%	
** Equipment	2,291,767	1,307,797	439,298	868,498	33.59%	2,210,892	80,875	96.47%	
* Interfund Expense	25,441,750	17,137,181	16,934,715	202,466	98.82%	25,287,551	154,199	99.39%	
* Interdepartmental Billings	3,906,813	2,273,141	2,736,102	(462,961)	120.37%	3,846,335	60,478	98.45%	
** Allocations	29,348,563	19,410,322	19,670,817	(260,495)	101.34%	29,133,886	214,677	99.27%	
525000 MMIS-Medicaid Loc Sh	185,962,536	109,372,258	109,704,353	(332,095)	100.30%	189,105,830	(3,143,294)	101.69%	MMIS payments are higher than anticipated due to the possibility of a 53rd payment in 2007.
525030 MA - Gross Loc Pymts	7,828,822	4,566,813	3,648,104	918,709	79.88%	7,259,467	569,355	92.73%	
525040 Family Assistance-FA	39,242,291	22,891,336	20,396,295	2,495,041	89.10%	34,927,178	4,315,113	89.00%	
525050 CWS - Foster Care	54,381,339	31,722,448	35,437,885	(3,715,437)	111.71%	62,023,460	(7,642,121)	114.05%	Increase expense is offset by additional \$4M in revenue. Added cost is based on an increased number of children in care and mandatory provider rate increases.
525060 Safety Net Assist	38,108,588	22,230,010	21,930,969	299,041	98.65%	38,387,636	(279,048)	100.73%	
525070 Emer Assist To Adlts	667,190	389,194	301,631	87,563	77.50%	640,000	27,190	95.92%	
525080 Ed Handicapped Child	551,820	321,895	366,665	(44,770)	113.91%	573,200	(21,380)	103.87%	
525090 Child Care - DSS	33,774,538	19,701,814	16,930,531	2,771,282	85.93%	29,285,574	4,488,964	86.71%	
525100 Housekeeping - DSS	86,486	50,450	0	50,450	0.00%	86,486	0	100.00%	
525110 Home Divd Meals-DSS	66,650	38,879	22,476	16,403	57.61%	66,650	0	100.00%	
525120 Adult Special Needs	2,310	1,348	433	915	32.10%	2,310	0	100.00%	
525130 State Training Schls	2,107,261	1,229,236	1,092,679	136,556	88.89%	2,107,261	0	100.00%	
525140 HEAP Program Costs	0	0	(91)	91		0	0		
525150 DSH Expense	0	0	8,874,290	(8,874,290)		8,874,290	(8,874,290)		
528000 Svcs To Hndcd Chldm	57,677,439	30,845,173	30,808,157	37,016	99.88%	57,677,439	0	100.00%	
530020 Independent Living	10,000	5,833	0	5,833	0.00%	10,000	0	100.00%	
** Program Specific	420,467,270	243,366,686	249,514,378	(6,147,692)	102.53%	431,026,781	(10,559,511)	102.51%	
** Debt Services	56,713,474	29,907,161	29,907,162	(1)	100.00%	56,713,474	0	100.00%	
*** All Other Operating Expense	965,281,619	557,005,504	556,630,823	374,680	99.93%	969,654,183	(4,372,564)	100.45%	
**** County Expense	1,243,960,357	717,636,528	712,097,686	5,538,843	99.23%	1,243,261,814	698,543	99.94%	
**** Net	8,376,896	(73,442,468)	(80,000,961)	6,556,293		3,790,271	4,586,625		



## 2007 July Budget Monitoring Report Summary by Account Type

Commitment Type	Annual Budget	Period Budget January-July	Actuals January-July	Period Available Budget	% of Period Budget Consumed	Annual Available Budget	% of Annual Budget Consumed
<b>Revenue</b>							
** Property Tax	(187,734,712)	(185,778,320)	(186,144,681)	366,361	100.20%	(1,590,031)	99.15%
** Sales Tax	(624,317,236)	(357,138,218)	(362,442,109)	5,303,891	101.49%	(261,875,127)	58.05%
** Other Sources	(53,483,864)	(33,224,631)	(35,181,710)	1,957,079	105.89%	(18,302,155)	65.78%
** Fees, Fines or Charges	(33,575,895)	(20,387,004)	(19,037,026)	(1,349,978)	93.38%	(14,538,869)	56.70%
*** Local Source Revenue	(899,111,707)	(596,528,174)	(602,805,526)	6,277,353	101.05%	(296,306,181)	67.04%
*** Federal Revenue	(140,609,063)	(81,650,656)	(81,290,629)	(360,026)	99.56%	(59,318,434)	57.81%
*** State Revenue	(195,862,691)	(112,900,167)	(108,002,491)	(4,897,676)	95.68%	(87,860,200)	55.14%
**** County Revenue	(1,235,583,461)	(791,078,997)	(792,098,647)	1,019,650	100.13%	(443,484,815)	64.11%
<b>Expense</b>							
** Salaries	180,647,432	103,580,223	94,134,350	9,445,873	90.88%	86,513,082	52.11%
** Non-Salaries	17,973,744	9,987,904	11,802,866	(1,814,962)	118.17%	6,170,878	65.67%
** Fringe Benefits	82,857,562	48,696,231	49,529,646	(833,416)	101.71%	33,327,916	59.78%
** Countywide Adjustments	(2,800,000)	(1,633,333)	-	(1,633,333)	0.00%	(2,800,000)	0.00%
*** Personnel Related Expense	278,678,738	160,631,025	155,466,863	5,164,162	96.79%	123,211,875	55.79%
** Supplies and Repairs	10,469,458	5,343,120	4,348,017	995,103	81.38%	6,121,441	41.53%
County Contingency (Sales Tax Offset)*	3,250,000	1,354,163		1,354,163	0.00%	3,250,000	0.00%
** Other	29,772,731	13,494,963	11,389,958	2,105,005	84.40%	18,382,772	38.26%
** Contractual	412,968,357	242,821,291	241,361,192	1,460,099	99.40%	171,607,164	58.45%
** Equipment	2,291,767	1,307,797	439,298	868,498	33.59%	1,852,468	19.17%
** Allocations	29,348,563	19,410,322	19,670,817	(260,495)	101.34%	9,677,746	67.02%
** Program Specific	420,467,270	243,366,686	249,514,378	(6,147,692)	102.53%	170,952,892	59.34%
** Debt Services	56,713,474	29,907,161	29,907,162	(1)	100.00%	26,806,312	52.73%
*** All Other Operating Expense	965,281,619	557,005,504	556,630,823	374,680	99.93%	408,650,795	57.67%
**** County Expense	1,243,960,357	717,636,528	712,097,685	5,538,843	99.23%	531,862,671	57.24%
***** Net	8,376,896	(73,442,468)	(80,000,962)	6,558,493	108.93%	88,377,856	

### County Contingency (Sales Tax Offset)\*

Sales Tax for July is higher than anticipated by \$5,303,891 due to 2006 and 2007 prior period adjustments. This negated a negative shortfall reported at the end of April. Total year end sales tax collections are expected to exceed budget.

### Expense Adjustment

Program Specific	8,874,290
Adjusted Variance	15,432,782

\$8.8 million of DSH (IGT) expense is adjusted out of the calculation. Expense will be reimbursed by ECMCC.

### Note on the BMR:

The positive variance indicated should not be interpreted as an estimate of year end surplus. The positive variance is an indication that actuals are staying within budget. The BMR helps the Budget Office identify, understand and resolve financial issue