

April 30, 2007

The Honorable  
Erie County Legislature  
92 Franklin Street  
Buffalo, NY 14203

Honorable Members:

Attached is the Budget Monitoring Report with financial results as of March 31 for the first quarter of County operations in fiscal year 2007. Pending the resolution of reimbursement issues with the Erie County Medical Center Corporation, we had a slightly positive variance of over \$2 million.

#### Key Operating Results

The key results of operation were as follows:

- Property taxes revenues were \$501,125 above budget, largely because properties have moved from tax-exempt to taxable status.
- Sales tax revenues were \$222,517 above budget.
- Fee revenue was \$870,885 below budget – over half of which reflects timing issues in the Health Department that should be reconciled as the year progresses.
- State and federal aid was \$8,433,036 below budget – but was largely offset with lower expense for social service programs.
- Salary expense was \$5,429,604 below budget – largely because of job vacancies -- but these savings were in part offset by higher than planned overtime expense of \$1,229,868.
- Other operating expenses were \$4,439,875 below budget.

### Issues with ECMCC

Erie County Medical Center received an Intergovernmental Transfer (IGT) payment of \$17,748,520 on March 28. This amount is determined by the federal government based upon the hospital's service to Medicaid-eligible patients. Under federal rules, half of this amount, or \$8,874,290, is the County's financial responsibility.

Nonetheless, as described in the March 20 letter from the State Department of Health, the Medical Center is able to offset the County's IGT expense by reducing the County's subsidy obligation, or expenses for services rendered by the Medical Center to the County. Thus, we are currently in discussion with the management of the Medical Center regarding how to offset the \$8.8 million IGT payment.

Because of the IGT issue, the technical bottom line for the first quarter was negative by \$6,715,507. However, we expect to arrange successfully for offsetting expense reductions from the Medical Center in the coming weeks. Once this process is complete, the true results for the first quarter will be a positive variance of \$2,158,782.

### Impact of Erie County Fiscal Stability Authority

Some of you have inquired about the impact on the first quarter results of the "hard" control period imposed by the ECFSA. I see no material effect on our financial results from the control period. First, the contract review process has produced no savings for the County. The ECFSA routinely approves contracts because they involve State-mandated or other necessary services. Second, the so-called "soft" hiring freeze – in which the ECFSA approves the filling of empty jobs – is a minor factor in our vacancy savings. The Budget office still determines the pace of the hiring process. In 2006, without the ECFSA, we had vacancy savings of about \$4 million in the first quarter – versus \$5.4 million this year. The higher savings this year were actually the result of increased staff turnover in certain key departments, especially Social Services. In short, the County does not need the ECFSA to help manage vacancy savings.

### Outlook for Remainder of Year

Our first quarter results are encouraging. There is no deficit in the 2007 budget. Nonetheless, as the year progresses, there are several key trends that we will monitor and manage:

- Despite meeting the first quarter target, sales tax revenues are economically sensitive – and we are vulnerable to any slowdown in consumer spending. We will scrutinize closely the monthly trends. Fortunately, we do have the \$3,250,000 reserve against sales tax revenue slippage – which so far is untouched.
- Overtime expense is a continuing management challenge – especially in the Jail and Sheriff's Division. The problem has been compounded this year by the transfer of personnel from the Sheriff to the State Office of Court Administration. This transition has increased overtime costs. We are working with the Sheriff to mitigate this problem.
- We are seeking to address the issue of slippage in fee revenues – and our goal is to get back on budget and recover some of the first quarter shortfall.

Despite these issues, we are confident about maintaining a positive variance in the months ahead – and we have the goal of ending 2007 with a modest surplus. This goal will be assisted by our proposed tax lien program with XSPAND. Besides adding \$26 million to the reserve fund, the 105% advance rate on a 2007 tax lien sale will add over \$4 million of unanticipated revenue to our 2007 operating results.

We are happy to answer questions on the attached BMR – and to appear at the Finance and Management Committee to discuss this data in greater detail.

Sincerely,

James M. Hartman

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

## 2007 First Quarter Budget Monitoring Report Summary by Account Type

Commitment Type	Annual Budget	Period Budget January-March	Actuals January-March	Period Available Budget	% of Period Budget Consumed	Annual Available Budget	% of Annual Budget Consumed
<b>Revenue</b>							
** Property Tax	(187,576,282)	(183,113,600)	(183,614,724)	501,125	100.27%	(3,961,558)	97.89%
** Sales Tax	(624,317,236)	(155,124,197)	(155,346,714)	222,517	100.14%	(468,970,522)	24.88%
** Other Sources *	(49,978,864)	(14,331,435)	(14,426,109) *	94,674	100.66%	(35,552,756)	28.86%
** Fees, Fines or Charges	(33,575,895)	(9,962,012)	(9,091,126)	(870,885)	91.26%	(24,484,769)	27.08%
*** Local Source Revenue	(895,448,277)	(362,531,243)	(362,478,673)	(52,570)	99.99%	(532,969,604)	40.48%
*** Federal Revenue	(136,514,348)	(34,090,087)	(31,708,921)	(2,381,167)	93.02%	(104,805,428)	23.23%
*** State Revenue	(204,227,444)	(49,233,033)	(43,181,164)	(6,051,869)	87.71%	(161,046,280)	21.14%
**** County Revenue	(1,236,190,069)	(445,854,363)	(437,368,758)	(8,485,605)	98.10%	(798,821,312)	35.38%
<b>Expense</b>							
** Salaries	186,858,298	45,300,295	39,870,691	5,429,604	88.01%	146,987,607	21.34%
** Non-Salaries	17,034,622	2,963,042	4,192,911	(1,229,868)	141.51%	12,841,712	24.61%
** Fringe Benefits	84,672,765	21,802,692	21,468,684	334,008	98.47%	63,204,081	25.35%
** Countywide Adjustments	(2,800,000)	(700,000)	-	(700,000)	0.00%	(2,800,000)	0.00%
*** Personnel Related Expense	285,765,685	69,366,029	65,532,286	3,833,743	94.47%	220,233,399	22.93%
** Supplies and Repairs	10,250,617	2,180,833	1,644,856	535,977	75.42%	8,605,761	16.05%
** Other	28,655,984	7,656,598	5,406,715	2,249,883	70.62%	23,249,269	18.87%
** Contractual	411,604,899	120,200,610	119,618,797	581,813	99.52%	291,986,102	29.06%
** Equipment	1,865,077	521,305	237,510	283,795	45.56%	1,627,567	12.73%
** Allocations	29,275,460	3,231,920	2,726,192	505,727	84.35%	26,549,268	9.31%
** Program Specific	420,467,270	104,068,579	110,572,099	(6,503,521)	106.25%	309,895,171	26.30%
** Debt Services	56,713,474	11,874,337	11,591,657	282,680	97.62%	45,121,817	20.44%
*** All Other Operating Expense	958,832,780	249,734,181	251,797,826	(2,063,645)	100.83%	707,034,954	26.26%
**** County Expense	1,244,598,465	319,100,210	317,330,112	1,770,098	99.45%	927,268,353	25.50%
***** Net	8,408,396	(126,754,153)	(120,038,646)	(6,715,507)		128,447,041	

**Expense Adjustment  
Program Specific  
Adjusted Variance**

8,874,290  
2,158,782.4

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

\* \$3 million of unanticipated revenue received from ECMCC has been adjusted out of Other Source revenue to show a more accurate representation of 1st quarter revenue. A resolution is pending in the Erie County Legislature to appropriate said funds for ri