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Straight Talk on Erie County's Budget Crisis

Partnership calls for end of "politics as expected"; acknowledgement that there are no easy answers to county fiscal crisis

(BUFFALO, NY) -- With the release of its position statement on Erie County's fiscal crisis, the Buffalo Niagara Partnership today called on elected officials at state and local levels of government to end "politics as expected" and acknowledge that there are going to be sacrifices shared across the community to close the county's budget deficit.

"Our community needs bi-partisan leadership and action on solving Erie County's fiscal problems," said Andrew J. Rudnick, President and CEO of the Buffalo Niagara Partnership. "There also is shared responsibility between state and local governments for the crisis, and it will take joint action from these same governments to address the problem responsibly."

To that end, the Partnership is calling for the following:

Accurate Information

While increasing, uncontrolled Medicaid expenses may be the principal cause of the county's current fiscal crisis, the Partnership also believes there are responsible and prudent spending reductions locally that are within the county's control to implement.

The Partnership is willing to undertake a private sector effort to verify the scope of the county's budgetary woes, and to recommend responsible actions for savings.

"Blaming Albany is too simple, and isn't going to solve all the county's problems," Rudnick said. "We have to hold county leaders accountable for producing cost savings too."

"And that's especially true for legislators who oppose any tax increases, but then go stand with the special interest groups demanding that funding be restored. Our community cannot afford such political irresponsibility."

Medicaid Reform

The Partnership is making Medicaid reform its number one state priority, and will mobilize its 3000 members to work in a coalition with other business groups and county officials across the state to have the Legislature act responsibly in 2005.

Medicaid is an unfunded state mandate that is bankrupting local governments. Every single dollar of property tax money collected by Erie County is being spent to pay the Medicaid tab.

“We’ve reached the breaking point, and Medicaid costs continue to soar,” said Andrew J. Rudnick, president and CEO of the Partnership. “Our local delegation must go to Albany with Medicaid reform as its top priority.”

Shared Sacrifice

Somewhere between completely dismantling all county services and funding everything there should to be common ground; there needs to be given the time warp between the requirements for a balanced FY05 county budget and implementing operating efficiencies and other policy reforms.

“Life under the so-called red budget is unacceptable because of the impact it would have on quality-of-life in the region, and the negative consequences that would have on our ability to retain and attract investment to the region,” said Rudnick. “An increase in property taxes would have the same negative consequences for growth in the county where already high property taxes are major competitive disadvantage for the region, and have hurt home values.”

The Partnership believes a combination of spending reductions and a temporary increase in revenue, probably from the sales tax to minimize the direct adverse economic impact, may be the only way to address this year’s deficit, as unfavorable an option as it may be. However, this is still only a short-term fix as Medicaid expenditures are still growing too fast.

Pragmatism

Erie County cannot share a sales tax increase. Doing so would not leave enough revenue to close its budget gap, thus requiring additional taxes and/or significant service cuts resulting in “all pain/no gain” to residents and businesses.

“If the tax is shared that means additional taxes and more spending cuts,” said Rudnick. “It is unconscionable to ask this community to swallow anything more than the burden of a sales tax increase.”

To that end, the Partnership believes that any legislation that increases the sales tax should stipulate that all revenue from it must be used to fund the local share of Medicaid.

“That way, if and when Medicaid reform comes, we can repeal the sales tax increase,” Rudnick said. “If we share it, local governments will become addicted to the revenue and this tax will be with us forever.”

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Policy Position on the Erie County FY 2005 Budget

The Buffalo Niagara Partnership recognizes that Erie County is in severe fiscal distress, facing a FY05 budget gap that has been pegged at approximately \$130 million, although it may be measurably more. In addition, it is forecast that the budget deficits for FY06 and FY07 will be even greater.

Uncontrolled Medicaid costs are a major reason for this deficit and real Medicaid reform from the State Legislature is long overdue, reform which will benefit both state and local governments. However, the Partnership believes that Erie County may well have a significant structural deficit beyond that caused by Medicaid.

Yet, even with the seriousness of this fiscal crisis, politics at both the state and local levels seem to be trumping rational conversation and decision-making. Thus, the Partnership urges elected leaders to set aside political gamesmanship and instead focus on a realistic solution to the county's fiscal issues which should include the following:

- A) A private sector-led Erie County Financial Plan Commission
- B) Medicaid reform
- C) Recognition that life under the "Red Budget" is unacceptable and property taxes cannot be increased.
- D) Considering there are only bad options for a balanced FY05 budget, the least onerous would be an "orange" one — a combination of expense reductions and additional revenue that would come from an "unshared" increase in the sales tax.

A Private Sector-Led 'Erie County Financial Plan Commission' Seems Appropriate

While increasing, uncontrolled Medicaid expenses may be the principal cause of the county's current fiscal crisis, the Partnership is concerned that the real basis and full scope of this situation simply is not known. Furthermore, we believe that there are responsible and prudent spending reductions – from efficiencies and consolidations beyond Medicaid – that are within the county's control to implement.

Therefore, the Partnership is willing to undertake an effort – an "Erie County Financial Plan Commission"-like initiative – to verify the scope of the county's budgetary woes and to recommend responsible county actions that will produce savings. More than a decade ago, the Partnership undertook similar work for the City of Buffalo and, subsequently, for the Buffalo Public Schools. These efforts produced tens of millions of dollars in recommended cost reductions. It should also be noted that the Partnership has made numerous recommendations to realign the operations and management of Erie County and its various towns and villages starting in 2000 and extending to the present.

Medicaid Reform is a Must

While ascertaining and addressing the magnitude of the county's overall fiscal distress is necessary, there is no doubt that a major part of it is the spiraling cost of the state's Medicaid program – an unfunded state mandate that is bankrupting local governments. Every single dollar of property tax money collected by Erie County is being spent to pay the Medicaid tab. Most other counties in New York are in a similar position.

Therefore, it is critical to our region for the State Legislature to finally relieve local governments of the Medicaid burden. Such relief must not be merely transferring this runaway obligation to the state, but rather a reduction in overall Medicaid costs, for which a range of reasonable options already have been proposed. Anything short of that is just a band-aid to a problem that continues to get worse. Thus, the Partnership is making Medicaid reform its number one state priority, and will attempt to mobilize its 3000 members to work in a coalition with other business groups and county officials across the state to have the Legislature act responsibly in 2005.

Unfortunately there has been very little indication from state elected officials that there is a need to reform Medicaid. Therefore, given Erie County's current crisis, it has no choice but to turn to other options for achieving an FY05 balanced budget.

Life Under the Red Budget is Unacceptable

In light of the above, County Executive Joel Giambra has been faced with what can only be characterized as bad/difficult options: raising taxes or gutting the services provided to residents and businesses in Erie County. The County Executive proposed the two options in the form of the "red" and "green" budgets.

The Red Budget

- Massive cuts in county programs and services to generate sufficient expense savings.
- Has a very real and immediate negative impact on the quality of life in this community.
- Some support it as a means to force reforms in Medicaid – a classic game of "chicken" with the State Legislature.

The Green Budget

- Closes the gap by increasing revenue through "temporary" increases in the sales tax.
- But we are already taxed too high and Upstate economic conditions are such that increased costs (i.e. from having to pay higher taxes) put current businesses in jeopardy and make it even more difficult to attract new economic investment to the region. Moreover, unacceptably high property taxes have hurt the value of homes throughout Upstate New York.
- Given past history, there is understandable pessimism about any "temporary" tax, especially one tied to Medicaid reform.

In debating "red" versus "green", there are important facts that must be considered:

- 1) The options to close the \$130 million gap are limited:
 - a) Increase the sales tax by one percent, which yields \$120 million annually if it is not shared with other entities; \$40 million if it is shared.
 - b) Increase county property taxes, which would have to double to generate enough to close the gap.

- c) Spending cuts, which would require the elimination of all non-mandated spending (libraries, road patrols, etc.) to produce \$130 million for gap closing savings from the total of only \$250 million of annual county expense under local control.
 - d) Increases in various county fees.
- 2) This is not a one year problem. The FY05 county gap is forecast to grow to \$149 million in FY06 and to \$192 million in FY07 (these numbers could be even larger).

While there is temptation to support the red budget as means of underscoring the direct impact that runaway Medicaid spending is having on county governments, the wholesale dismantling of Erie County services will have negative consequences on our ability to retain and attract investment to the region. Moreover, already high property taxes are another competitive disadvantage for the region, so turning to that as the revenue source also is ill-advised.

Nonetheless, the county does need a responsible budget plan until the State Legislature addresses Medicaid reform, and the Partnership believes it should come from a combination of some of the spending cuts contained in the red budget coupled with some increase in revenue. As part of that, it appears a temporary increase in the sales tax is the most preferred (least unpreferred) option.

Any additional sales tax revenue cannot be shared

If a temporary increase in the sales tax is the chosen short-term option, the Partnership is opposed to Erie County sharing it with any other local governments. Such sharing would not leave Erie County with enough revenue to close its budget gap, thus requiring additional taxes and/or significant service cuts resulting in “all pain/no gain” to residents and businesses. It is unconscionable to ask this community to swallow anything more than the burden of a sales tax increase.

Moreover, the Partnership believes that any legislation that increases the sales tax should stipulate that all revenue from it must be used to fund the local share of Medicaid. This is the model that was followed in state legislation for Allegany and Niagara counties’ approved sales tax increases. Not only does this alleviate the concerns raised above, but it also ensures that government will not become “addicted” to the additional revenue. Hence, if and when Medicaid reform comes, Erie County will be able to immediately rescind the sales tax increase without any impact to other budget areas.