BOARD MEETING MINUTES
BUFFALO FISCAL STABILITY AUTHORITY
February 8, 2008

The following are the minutes from the Buffalo Fiscal Stability Authority's Board meeting held on February 8, 2008, at the Market Arcade Building, 1st Floor Conference room.

Directors Present: Arthur, Brown (designee – Penksa), Collins (designee –Schmidt), Giardino, Johnstone & Kolkmeyer

Pursuant to section §3853 of the BFSA Act, Mayor Brown designated City of Buffalo Commissioner of Administration, Finance, Policy and Urban Affairs, Ms. Janet Penksa to vote on his behalf. Additionally, County Executive Collins designated Mr. John G. Schmidt, Jr., Esq., of Phillips Lytle, LLP to vote on his behalf.

Directors Absent with Notice: Mertz, Norwood & Townsend

Staff Present: Kelly, Link, Miller, Mitchell, Mobley and Stefko

Opening Remarks

Chair Kolkmeyer called the meeting to order at 11:08 a.m and pointed out the emergency exits for attendees. He asked Secretary Arthur to call roll. Director Arthur confirmed that a quorum was present.

Chair Kolkmeyer stated that the meeting had been scheduled to address a single issue, namely to amend Resolution 08-08, "Approving Financing of Phase IIIB of Buffalo Schools Reconstruction Program." He asked Acting Executive Director Joseph Stefko to summarize the new resolution.

Dr. Stefko stated that the emergency meeting had been scheduled due to changes in the capital markets resulting from the recent sub-prime mortgage crisis. The maximum aggregate principal amount of the bonds that were previously approved by the Board for the Joint Schools Construction Board (JSCB) on January 28, 2008, provided a maximum issuance of $170 million dollars. JSCB currently needs to issue approximately $173.5 million aggregate principal of bonds, or potentially higher, depending on the volatility of the market in the weeks following. The resolution before the Board acknowledges the need to amend the previously approved resolution and allow for a maximum issuance of $180 million.

At 11:08 a.m. Treasurer Giardino entered the proceedings.

Dr. Stefko invited Buffalo Public School Chief Financial Officer, Gary Crosby to further elaborate on the issue.

Mr. Crosby addressed the Board and provided further detail regarding the need for an increase in the forthcoming issuance costs. He stated that the focus should be on whether or not the District can afford the local share of the JSCB project, which is the total cost after the State subsidy. He provided a presentation to the Board and made the following points:

STATE AID

- State Aid is approximately 95% of the total project cost (95% of the Maximum Cost Allowance (MCA) and of the net interest cost provided that it is less than or equal to the rate that would be incurred if the MBBA were to issue instead.
- Estimated Project Cost is $185 million, however State Aid is based on an MCA of $176 million.
- The local share on the MCA is therefore $9 million and will be funded by interest earnings

from deposits of Bond proceeds

- The State's formula for determining MCA is fundamentally flawed as it is benchmarked against the percentage increase in cost of labor rates. Since Hurricane Katrina, construction material costs have increased at an accelerated rate when compared to labor costs.
- The differential between the estimated total project cost and the MCA leaves a shortfall of $13 million. It will be funded with "Excel Aid" [Expanding Our Children's Education & Learning], funds received in prior years but not yet expended.
- The net interest costs are "State Aidable" as long as they meet the criteria set forth by MBBA and confirmed by both the MBBA and the City Comptroller.

BOND PROCEEDS

- The Bond Proceeds need to be sufficient to cover the MCA, capitalized interest and the Debt Service Reserve Fund (DSRF) and issuance expenses.
- State Aid will not be received until 18 months after the "deal is done." The cash flow shortfall is addressed through Bond Proceeds.
- Bond holders require DSRF to insure the last payment of the bonds. It will earn $6 million in interest while held in reserve.
- Bond yields are only estimated; the actual rates will not be known until they are priced.

PAR VALUE

- Par Value is set currently at $173 million. Approval of $180 million today will give the District "wiggle-room" in case the market continues to move unfavorably against the borrowing.
- If reinvestment rates on the $29 million go down resulting in lower interest earnings, the par value of the bonds must increase to achieve the required proceeds.

Chair Kolkmeyer asked for a motion to formally introduce the resolution. Motion by Johnstone, second by Giardino.

Director Arthur asked how the $10 million increase was determined and whether the increase will be adequate. CFO Crosby responded that the District, after consultation with Citigroup, the Bond underwriter, determined that a Par Value of $181 million will be sufficient. The Board of Education had approved a borrowing even higher that the amount proposed by BFSA; never-the less, this amount should be adequate.

Director Giardino asked for further clarification on the local share of the costs, principally the shortfall between the estimated project cost and the MCA amount. CFO Crosby stated that a one-time use of Excel funds which are still available will make up the differential.

Chair Kolkmeyer asked how much of the Excel funds have already been spent. CFO Crosby stated that of the $33 million in Excel funds, none has been spent and all are available for the Phase III reconstruction.

Director Giardino asked how the energy savings component had been determined. CFO Crosby stated that the savings are determined through an internal audit. The energy savings are based on upgrades and then benchmarked against actual usage. The interest earnings are the primary source of the local share funding.

Director Johnstone questioned whether even more money could be available through energy upgrades. CFO Crosby stated that potentially the actual cost avoidance could increase if they are more energy efficient than anticipated. This variance is not expected to be significant. The main funding source is the interest earnings.

Chair Kolkmeyer questioned why the “rounding up” of estimated project costs is now more liberal than the previous estimation. Dr. Stefko interjected that the number had been determined initially by BFSA staff from documentation received earlier from the underwriter. The new amount acknowledges the need for greater “wiggle room” given the more volatile state of capital markets.

Commissioner Penksa stated that the highest risk seems to be with the MBBA rates. She questioned why MBBA was not being used. CFO Crosby stated that MBBA is involved and will need to certify the deal. The interest rates used outside of MBBA are actually more favorable.

Chair Kolkmeyer closed discussion on the topic and called for a vote. The motion and second were already entered; the resolution was approved 6-0.

RESOLUTION NO. 08- 10

AMENDING RESOLUTION NO. 08-08 OF THE BUFFALO FISCAL STABILITY AUTHORITY

WHEREAS, on January 28, 2008, the Buffalo Fiscal Stability Authority (the “Authority”) approved the issuance by the Erie County Industrial Development Agency (“ECIDA”) of its School Facilities Revenue Bonds, (City School District of the City of Buffalo Project), Series 2008A (the “Series 2008A Bonds”) in an aggregate principal amount not to exceed $170 million; and

WHEREAS, the proceeds from the sale of the Series 2008 Bonds are to be used by the Buffalo City School District (“the District”), in cooperation with the City of Buffalo and the Joint Schools Construction Board, to finance Phase IIIB of the comprehensive program to redevelop the educational facilities of the District; and

WHEREAS, since the Authority’s approval on January 28, 2008, market conditions and volatility have caused the projected aggregate principal amount of Series 2008 Bonds to be issued by the ECIDA to exceed $170 million;

NOW, THEREFORE, it is:

RESOLVED, that the Authority’s Resolution No. 08-08 is hereby amended to increase the maximum aggregate principal amount of Series 2008A Bonds approved by the Board for issuance by the ECIDA from $170 million to $180 million, subject to all of the findings, conditions, parameters and requirements contained in Resolution No. 08-08.

RESOLVED, that except for the increase in the aggregate principal amount of Series 2008 Bonds approved in Resolution No. 08-08, all of the authorizations contained in Resolution No. 08-08 are hereby confirmed.

This Resolution shall take effect immediately.

Adjournment

Chair Kolkmeyer called for a motion to adjourn which was seconded unanimously. The meeting adjourned at 11:38 a.m.