MINUTES
BUFFALO FISCAL STABILITY AUTHORITY
WEDNESDAY, FEBRUARY 11, 2009

The following are minutes of the Buffalo Fiscal Stability Authority (BFSA) meeting held on Wednesday, February 11, 2009, at the Buffalo & Erie County Central Public Library.

Directors Present: Arthur, Brown, Collins, Johnstone, Kolkmeyer, Norwood & Townsend

Directors Absent: Giardino & Mertz

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

Others Present: Paul Braunsdorf, Esq. (BFSA Counsel with Harris Beach)

Opening Remarks

The regular meeting of the Buffalo Fiscal Stability Authority (BFSA) was called to order at 1:10 PM by Chair Paul J. Kolkmeyer. The meeting was convened by a Notice of Meeting sent to the Board of Directors and announced to the public and press.

Chair Kolkmeyer welcomed all in attendance. He summarized the meeting's agenda as follows:

- A one-year collective bargaining agreement between the School District and the Transportation Aids of Buffalo (TAB);
- A presentation by the School District Chief Financial Officer on the fiscal impact on the School District of the proposed cuts in State Aid;
- A quick review of the year-ending numbers for both the City and the School District, as well as a review of the second quarter gap sheets for the City and all of the covered organizations;
- A review of the City's Capital Improvement Plan;
- An update on Police and Fire overtime; and
- Information regarding the creation of an Executive Director Search Committee.

Chair Kolkmeyer asked Secretary Arthur to conduct a roll call. Director Arthur determined that a quorum was present; the meeting commenced.

Approval of Minutes

Chair Kolkmeyer directed the Board to BFSA's December 12, 2008, meeting minutes and asked for a motion to approve.

Motion by Townsend, second by Johnstone. Approval 5-0.
RESOLUTION NO. 09-01

APPROVING MINUTES AND RESOLUTIONS FROM DECEMBER 12, 2008

BE IT RESOLVED that the Buffalo Fiscal Stability Authority approves the minutes of its meeting on December 12, 2008, and ratifies and affirms resolutions numbered 08-51 through 08-53 that were approved December 12, 2008.

This resolution shall take effect immediately.

At 1:10 pm, Mayor Brown and County Executive Collins joined the proceedings.

School District Issues

Collective Bargaining Agreement with Transportation Aids of Buffalo

Chair Kolkmeyer introduced a proposed collective bargaining agreement [CBA] between the Buffalo School District and a bargaining unit of AFSCME Local 264. He asked Executive Director Bertha H. Mitchell to summarize the proposed contract.

Ms. Mitchell provided the following summary:

Introduction

- The agreement between the School District and the Transportation Aides of Buffalo (TAB) replaces the previous agreement that covered period July 1, 2003, to June 30, 2004. The new agreement covers the period July 1, 2004, through June 30, 2009.
- The agreement covers a total of 609 workers. The workers typically work about five hours a day (2 ½ hours in the morning and the same in the afternoon).
- The rank-and-file members of the TAB have approved the agreement as has the Buffalo Board of Education (BOE).
- The contract pays increases for one year; costs have been calculated on a four-year cumulative basis to ensure the costs are covered through the financial plan.

Major Provisions

- Covered employees will receive a 10% raise from January 26th onward. No retroactivity will be paid.
- Employees receive a one time $200 signing bonus for those employed as of January 28th and still employed as of the date the bonus checks are processed.

Concessions

- The union will withdraw from the current "steps litigation" against both the School District and BFSA. The potential savings from this action is estimated at $79,141, which is a one time contingent savings.
- Employees currently do not receive paid health insurance from the School District. However, employees can pay 100 percent of the premium and purchase health insurance through the District.

- Additionally, employees can also opt into the NYS Employees Retirement System (ERS), which requires a vesting period of five years. Thirty TAB employees take advantage of this benefit.

Benefits Unchanged

Employees will continue to have the following benefits:

- Five paid holidays per school year;
- Unlimited paid snow and emergency closing days;
- $38 per four week period for not calling in [steps I & II];
- $44 per four week period for not calling in [steps III - V];
- Five paid sick days for hospitalization with no carry forward [steps II – V];
- Three bereavement days for immediate family members.

Contract Costs

- BFSA's cost calculations were similar to the School District's, averaging $350,000 annually. Over the four year period, the total cost of the contract to taxpayers is projected to be approximately $1.47 million.
- Final total costs over the four-year plan of this group of employees under the proposed labor agreement equal $16,859,733, an increase of approximately $1.47 million over current costs.

Motion to approve by Arthur, second by Brown. Approval 7-0.

Resolution 09-02
APPROVAL OF COLLECTIVE BARGAINING AGREEMENT WITH THE TRANSPORTATION AIDES OF BUFFALO

WHEREAS, Chapter 122 of the Laws of 2003, Section 3858(2)(e), requires that during a control period the Buffalo Fiscal Stability Authority ("BFSA") shall approve or disapprove any collective bargaining agreements binding or purporting to bind the Buffalo Public School District ("District"); and

WHEREAS, the BFSA is required to promptly review a collective bargaining agreement that is submitted to it and shall disapprove any collective bargaining agreement that is not in compliance with the approved financial plan; and

WHEREAS, the District and the Transportation Aides of Buffalo ("TAB") have fully and completely bargained with respect to the terms and conditions of employment of union members; and

WHEREAS, on January 31, 2009, the members of TAB approved an Agreement Amending the Collective Bargaining Agreement between the District and TAB; and

WHEREAS, the District submitted such agreement with supporting materials to the Buffalo Board of Education and obtained its approval on January 28, 2009; and

WHEREAS, the District submitted such agreement with supporting materials to the BFSA for approval under Section 3858(2)(e) of the Act, and has fully and promptly complied with all information requests of the BFSA; and

WHEREAS, the agreement provides for salary increases in the current year that will impact each year of the financial plan; and

WHEREAS, the proposed agreement is in all respects in accordance with the approved financial plan and is in compliance with the draft guidelines established by the BFSA for review and approval of collective bargaining agreements; and

WHEREAS, the agreement provides for the terms and conditions of employment for the period from July 1, 2004 through June 30, 2010 and supersedes any other terms and conditions for that period, including any changes due to contract, Interest Arbitration, judgment or otherwise, now in effect or hereinafter existing; and

WHEREAS, the District will pay for the increased costs of this collective bargaining agreement through the use of preexisting savings in the current budget and four-year financial plan; and

WHEREAS, all TAB litigation against the City and BFSA concerning the steps upon the lifting of the wage freeze will be withdrawn and discontinued; and

NOW, THEREFORE, BE IT RESOLVED, that the BFSA does hereby approve the aforementioned agreement between the District and TAB, which is to be effective for the period from July 1, 2004 through June 30, 2010 conditioned upon the execution by all parties of a Stipulation of Discontinuance.

This Resolution shall take effect immediately.

Fiscal Impact Presentation

Chair Kolkmeyer invited Buffalo School District Chief Financial Officer, Mr. Gary Crosby to provide the Board with an update on the Governor's 2009-10 budget proposal. Utilizing a slide show, Mr. Crosby gave the following presentation.

Proposed Deficit Before State Aid Cut

The initially proposed 2009-10 budget included an increase of $36 million in State aid under the Spitzer administration's four-year Educational Investment Plan. With the increase, the budget deficit is $9 million. The calculation and cost drivers are as follows:

Projected Deficit Before State Aid Cut [2009-10]

STATE AID INCREASE	$36 million
CONTRACT FOR EXCELLENCE	(8 million)
HEALTH INSURANCE COSTS	(12 million)
CHARTER SCHOOL PAYMENTS	(9 million)
CHARTER TRANSITIONAL AID	(3 million)
ONE STEP SALARY INCREASE	(6 million)
BALANCE OF 3 STEP WAGE FREEZE COST	(6 million)
TRANSPORTATION, UTILITIES, ETC.	(1 million)
PROJECTED DEFICIT	($9 million)

Proposed Deficit After State Aid Cut

According to the current Governor's proposed budget, the $36 million increase has been eliminated and an additional one-time reduction of $15 million is included. The resulting budget deficit is estimated at $52 million, calculated as follows:

Proposed Deficit After State Aid Cut

PROJECTED DEFICIT	($9 million)
GOVERNOR'S STATE AID CUT PROPOSAL:	
- ELIMINATE INCREASE	- (36 million)
- "ONE-TIME" REDUCTION	- (15 million)
- REDUCTION OF C4E SET-ASIDE	- 8 million
REVISED PROJECTED DEFICIT	($52 million)

The $52 million revised projected deficit does not include pre-K special education funding, currently provided by the County and the potential reduction in City aid to the School District.

The $2.5 million in special education funding that the County currently provides could become the responsibility of the District in 2009-10. In addition, any funding cuts to the City could be passed to the District on a pro-rata basis. Mr. Crosby informed the Board that his staff is currently working to get an estimate for the impact of this potential issue.

Major Cost Drivers (2009-10)

The major cost drivers are as follows:

HEALTH INSURANCE

- $105M in the General Fund, this is 14% of the operating budget

- Health Insurance costs comprise 14% of the operating budget.
- The District currently pays more for health insurance for retirees than active employees. A breakdown of the $105 million shows $59 million for retirees and $46 million for active employees.
- Costs are increasing at a rate of ≥ 12% annually.
- Employees, with very few exceptions, pay nothing for health insurance. Exempt employees, those that are non-union, voluntarily contribute 20%.
- Retirees average contribution is about 2%. About half pay nothing (earlier retirees); those that pay contribute anywhere from $160 - $1,600 annually.

Health Insurance Cost per Employee/ Retiree

- In FY 2001, the School District employed 4,951 full time employees (FTE).
- While fewer workers remain, in FY 2009 the 3,934 FTEs cost $9,304 each. Comparatively, in FY 2001 the School District accounted for 2,282 retirees. The average cost per retiree was $5,123. The FY 2009 retiree count is 3,295 with an average cost of $15,175.
- The School District's current OPEB (Other Post Employment Benefits) liability is $1.2 billion. This includes the estimated amount for health insurance that will be paid for current retirees and current employees when they retire. Factoring the number of employees who are presently working that could become eligible, i.e. vested, this would add another $0.5 billion, bringing the liability up to $1.7 billion.
- The District would need to set aside $106 million annually to meet the Annual Required Contribution (ARC) is legally required. Under the current pay-as-you-go system, the District contributes $50 million annually. The ARC would add another $56 million to this payment and further deteriorate the budget.

Cost per Student

In 2000, there were over 45,000 students in the District. Today, there are less than 35,000. There has also been a reduction in employees during this period, but what is more important is the increase in retirees. This is a dangerous trend because of losing students and therefore funding, but increasing the costs required to meet pension and health care obligations for retirees.

In FY 2001, the total health insurance cost per student averaged $460 for current employees and $255 per retiree. As costs have risen and enrollment has dropped, the total health insurance cost per student in FY 09 is $1,429 per retiree and $1,046 per employee.

CHARTER SCHOOL PAYMENTS [$81 million]

- Charter School payments comprise 11% of the General Fund budget (per the Governor’s proposal).
- The New York State Education Department [NYSED], recognizing the drain on districts’ budgets, set parameters for addressing the risk to the budgets. It was determined that charter school payments that command 5% of a budget put that budget in danger, and warns of significant concern about charter schools fiscal impact on a district when charter payments exceed 7.5% of a district’s budget.
- Transitional aid which the NYS Division of the Budget provides to address these concerns, is not sufficient to offset the drain on the District’s budget.

BUDGET RISKS –

Health Insurance
The District has been preparing to move back to the higher cost multi-carrier health insurance program. Health insurance costs will increase if unions force the District back to an insured multi-carrier health care program rather than a self-insured multi-carrier program. The budgetary impact is as high as $10 million. This is not included in the projected $52 million deficit.

Labor Contracts
Unsettled union contracts may cost more in the short term than they save initially in order to achieve longer term structural changes and savings. The budgetary impact is unknown.

Charter Payments
Charter payments will be artificially inflated if the legislature fails to adjust the formula to neutralize the impact of SED transferring categorical grants from the Grant Fund to the General Fund. The budgetary impact is $3.4 million.

BUDGET OPPORTUNITIES

Steps Litigation
If BFSA wins the 3 step wage freeze litigation, the budgetary impact is as follows: $12 million in savings in the current year and $25 million of reserves becoming available this year. Next year and beyond the cost avoidance will be $18 million, which will free these funds to be used for other expenses.

Charter Payments
The Charter formula is based on a two year time lag of general fund expenditures multiplied by a state-wide inflation index. Because of this lag, charter school payments could increase next year. The District is working to have the formula calculated on a more time relevant basis, thus reflecting the current governor’s proposed budgetary cuts. This would result in charter funding per student being reduced the same as District funding (3.17%). The budgetary impact would be an $11 million reduction in the cost of charter payments.

CLOSING THE $52 MILLION GAP
Unlike most school districts, the School District doesn't have the ability to raise taxes, At least $15 million of the $33.8 million "rainy-day" reserve will be used to cover the "one-time" deficit reduction assessment in the Governor's proposal. The remaining $37 million gap may need to be closed by closing schools, cuts in academic programs, cuts in non-mandated personnel, increases in class sizes and reduced transportation services.

2009-10 AND BEYOND
The Governor has also proposed no aid increase in FY 2011. More gap closing measures will need to be taken because of increased health insurance costs, increased Charter School payments, salary step increases and pension costs. Reserves will help close the fiscal year gap; structural deficits will remain.

Reserves (Fund Balance)

LEGALLY MANDATED SERVICES	$21million
3 STEP WAGE FREEZE LITIGATION	25 million
OPEB LIABILITY, OTHER	18 million
JSCB MCA GAP/ OTHER CAPITAL	6 million
STATE AID AUDIT CONTINGENCY	15 million
"RAINY DAY" RESERVE	34 million
TOTAL (AS OF 06/30/2008)	$119 million

PREDICTABILITY OF REVENUES/ VOLATILITY OF EXPENDITURES
The District has no taxing authority and receives funds from the State (85%), the City of Buffalo (10%) and Erie County sales tax (5%).

The District is faced with litigation and the potential for additional litigation with significant financial implications.

FUND BALANCE GUIDELINES
GFOA recommends a minimum unreserved fund balance in the General Fund of no less than 5-15% of general fund operating revenues (the District is at 13.7%).

It recommends no less than one to two months of regular general fund operation expenditures (the District has 1.6 months).

Best Case/ Worst Case 2009-10

	Best	Worst
Current Projected Deficit	($52 million)	($52 million)
Use reserves	$15 million	$15 million
Cap charter payment	11 million	
Adjust charter formula for categorical grants		(3 million)
Cut in City Aid		?
Reduce the cut in State aid	?	
Pro forma Deficit	($26 million)	($40 million)

CONCLUSION
The District is prepared to cut spending but not at the expense of academic achievement. Even the "Best Case" scenario will be devastating to the District.

Director Townsend asked how a labor contract settlement with the teachers would affect the "Best Case/ Worse Case" scenarios. She asked how a potential 1% increase in salaries would affect the District. Mr. Crosby replied that a 1% increase in salaries would account for about a $3 million increase. She asked whether or not healthcare costs are negotiable, unlike pension costs which are not. Mr. Crosby replied that it is negotiable prospectively for future retirees, whereas healthcare is a contractual obligation for current retirees.

Director Arthur asked whether there are current discussions between the District and the Buffalo Teachers Federation (BTF) regarding the single-carrier health insurance issue. Mr. Crosby replied that "encouraging discussions" are taking place. The District ***may*** be able to continue offering the single-carrier insurance until a new CBA has been agreed upon with the BTF. Currently, the District budgets a $4 million increase to move back to a multi-carrier system. Remaining at single-carrier also avoids up to a $10 million annual increase.

Director Norwood stated that part of the way that the District is handling current year State Aid reductions is through increases in transportation aid. However, part of the proposed gap closing measures would be a decrease in transportation services. How does this fit together? Mr. Crosby explained that transportation reimbursement aid is tied directly to transportation cost. The reason the cost and aid has been increased, despite a shrinking school district, is because the District is providing more transportation for Charter and Parochial schools.

Mayor Brown asked whether or not the additional transportation provided was mandated. Mr. Crosby explained that it is required. Mayor Brown noted that the City has the ability to reduce aid to the District as the State reduces its aid to the City. He asked what amount could be reduced. Mr. Crosby explained that the City could reduce its aid to the District at the same percentage that the State reduces its aid.

2008 Year End Summary

Chair Kolkmeyer asked BFSA Senior Analyst, Mr. Bryce Link to address the Board and summarized the School District's 2008 year end summary.

Mr. Link addressed the Board and gave a presentation which provided the following information:

School District General Fund: Budget vs. Actual Revenue (Fiscal Year 2008)

- There was an increase of $2.6 million revenues over budgeted revenues. The largest component was the $1.4 million increase due to higher sales tax receipts.
- State sources were up an additional $0.9 million over budgeted, due to unexpected aid.
- The only true reduction was a $0.5 million reduction in Federal Medicaid reimbursement.

Budgetary Comparison Schedule for the General Fund Expenditures

- The budget variance is about $46.9 million. The largest area of savings is the $21.2 million reduction in employee benefits. This is attributed to single-carrier health insurance as well as lower than expected fringe benefits.
- The Instruction line was down $17.4 million due largely because of lower than anticipated costs (vacancies and lower than average salaries).
- General Support was $3.7 million better than expected, as well as pupil transportation which was $1.1 million better.

Fund Balance: (2007-2008) Year to Year Growth

- Reserved side had a slight $0.5 million reduction.
- The District has $33.8 million in Undesignated, Unreserved funds.

Revenues & Expenditures

- Revenues increased by $98.4 million due largely in part to $95.1 million in State sources.
- Expenditures grew $84.3 million largely due to increased Instruction cost.

2nd Quarter GAP Update

Following Mr. Link's year-end summary presentation, he gave a presentation summarizing the School District's 2nd Quarter Report. He provided the following information:

- Currently the school district is projecting a $7.7M year end surplus.

- Additional revenues equal $200K, and the remaining $7.5M is attributed to lower than budgeted costs. Fringe benefits are currently projected to be under budget by $3.2M; compensation costs are under budget by $1.75M due to staff vacancies. There are currently 159 vacancies in the GF.
- Lower charter school payments due to lower than projected enrollment is expected to save $1.5M.

Chair Kolkmeyer also informed the Board that the mid-year financial results for the Joint Schools Construction Board (JSCB) was included under tab #2 and asked if there were any questions regarding the material. Hearing none, Chair Kolkmeyer moved forward with the meeting's agenda.

<u>City of Buffalo</u>
Capital Improvement Plan

Chair Kolkmeyer introduced the City's Capital Improvement Plan and indicated that it was being presented for the Board's vote and approval. He stated that the plan included $18.5 million for the City's and $5.1 million for the School District's capital needs. He also informed the Board that later this Spring, the Board will be requested to approve the funding. He asked Mrs. Mitchell to provide the Board with an overview.

Mrs. Mitchell stated that the City had submitted its new Capital Improvement Program (CIP) budget and five-year plan. These are components of an annual planning process for capital expenditures covering both the City and School District, leading to the annual capital borrowing.

The CIP is a five-year plan for addressing the City's anticipated needs for physical infrastructure. The State's local finance law permits these capital expenditures to be financed over a period of time (hence, the borrowing) based on what is known as a "period of probable usefulness" (PPU), also established in State law.

The CIP establishes the current year capital budget (i.e. the items for which the City intends to issue capital bonds in the current year), as well as a schedule of capital investments the City anticipates making in the next four years. It is based on recommendations from the Citizens Planning Commission (CPC) and approval from the Common Council.

BFSA typically acts on the City's capital budget and CIP in the December - February timeframe. Once the capital budget is approved, the process moves to the bonding phase. Generally, the capital bond sale is completed in the spring, again subject to BFSA approval.

The 2008 capital budget contains $23.6 million in total capital spending, of which $18.5 million is for the City and $5.1 million is for the School District.

The break-down has 52% of the capital improvements going to Public Works, of which the largest individual expenditures are park improvements for $2.9 million and improvements to the MLK Wading Pool will cost $2 million. Sixteen percent will go to Police and Fire, including $1.9 million for fire apparatus and $1.8 million for a Police and Fire Radio system; 10% for economic development, mainly demolitions, and 22% for school purposes. The school projects are concentrated in General School reconstruction ($2 million), and chimney reconstruction ($1.5 million) and oil tank and mechanical/electrical improvements

The proposed level of capital borrowing for 2008 is below the level that has been borrowed in each of the past several years.

On the School side, none of the $9 million borrowed last year for School District projects has been spent to date. The District informs that the $4.1 million borrowed last year for computers and technology will be disbursed in the next few months as computer installations in seven of the nine schools in Phase III of JSCB will be completed by August. The remaining two schools will not be completed until 2010. The use of $1.9 million in borrowings for "disability access improvements" has been delayed due to changes in the scope of the project and is awaiting SED approval to begin the work this year.

On the City side, bonding for demolitions: The City has included $2.3 million in this year's capital budget (and approximately $7 million in the 2010-2013 CIP) for demolitions. In previous years, BFSA has advised the City to work towards minimizing bonding out general operating expenses such as tree trimming and demolitions.

The City has made progress over the past several years. It no longer bonds out tree trimming and it has reduced its borrowing for demolitions, finding other resources for this purpose.

Ms. Mitchell pointed out that the current CIP includes $107,000 for the Broadway Market while there is $1 million in authorized and unissued funding for the same project since the year 2000. We expect that rather than authorizing new monies for this project, the current work will be funded from the already authorized $1 million or that the $1 million authorization will be rescinded and a new funding resolution will be put in place.

Motion by Brown, second by Arthur.

Reflecting on the unused School District funds from the prior year Director Townsend noted that the timing of borrowing to fund projects is very important. She wanted verification that the timing of borrowing was appropriate and that more interest was not being paid than need be.

Chair Kolkmeyer asked Mr. Crosby to address the issue for the Board.

Mr. Crosby stated that the borrowing takes place in the spring. The timing has been a little off in the past due to a variety of reasons. Corrective actions have been put in place, such as new management tools, which help to make construction more timely. Further, the District now has "seed money" so that construction can occur prior to the receipt of bond proceeds, enabling the work to be completed more expeditiously.

Director Arthur asked whether or not there was a six month arbitrage to start construction after a borrowing. Mr. Crosby asked Investment & Debt Management Officer, Mr. Rick Calipari to address the question on the behalf of the District.

Mr. Calipari stated that the arbitrage regulations require an 18 month spend down of bond proceeds. The 6 month spend down was extended to 18 month some years ago.

Director Townsend noted that given the uncertain economic environment, coupled with accounting standards, it is a difficult time to borrow for projects. Pay-as-you-go spending is prudent, when possible.

Approval 7-0.

RESOLUTION NO. 09-03

APPROVAL OF CITY OF BUFFALO 2009 CAPITAL IMPROVEMENT BUDGET

WHEREAS, Chapter 122 of the Laws of 2003 as amended by Chapter 86 of the Laws of 2004 authorizes the Buffalo Fiscal Stability Authority ("BFSA") to approve the City of Buffalo's four-year financial plan that encompasses the City of Buffalo, the Buffalo Public Schools and other covered organizations, and may include a capital budget, and

WHEREAS, the Charter of the City of Buffalo requires the Mayor to prepare and submit a capital budget and four year recommended capital improvement program after receiving a recommendation from the Citizens Planning Council ("CPC"), and

WHEREAS, after receiving CPC's recommendation, the Mayor submitted a capital budget to the Common Council for its consideration and approval, and

WHEREAS, the Mayor has submitted the capital budget to BFSA for its consideration, and

WHEREAS, the City of Buffalo will submit for approval the proposed terms of the bond issuance to finance the capital improvement program and include in its budget and four year financial plan the necessary resources to make the debt service payments required by this capital budget, and

WHEREAS, in approving last year's capital budget, BFSA noted the following caveat: "That the City of Buffalo continue to reduce its use of capital borrowing for short-term operating expenses that are not supported by a long-term physical asset with the goal of eliminating the practice," and

WHEREAS, in approving last year's capital budget, BFSA also noted the following caveat: "That the City of Buffalo continue to rescind authorized but unissued debt whenever possible," and

NOW THEREFORE BE IT RESOLVED, that the Buffalo Fiscal Stability Authority does hereby approve the City of Buffalo 2009-2013 Capital Improvement Program Budget as submitted by the Mayor on February 3, 2009, and

BE IT FURTHER RESOLVED, that BFSA does hereby reaffirm the caveats it included in its approval of last year's capital budget, "That the City of Buffalo continue to reduce its use of capital borrowing for short-term operating expenses that are not supported by a long-term physical asset with the goal of eliminating the practice," and "That the City of Buffalo continue to rescind authorized but unissued debt whenever possible."

This resolution shall take effect immediately.

2008 Year-End Summary

Chair Kolkmeyer asked Principal Analyst Mike Kelly to summarize the City's 2008 year-end summary.

Mr. Kelly stated that the City had released its year-end financial statements last month. The audit looks at the state of finances in two ways – the short term and the long term. The current presentation will primarily focus on the short term.

The short-term is known as the "fund basis," and explores how the City did relative to budget last year, where they were up or down in revenues and expenses, and what happened to the fund balance. It is really a one-year snapshot – revenues as they are received, and expenses as they are made. It is essentially a point-in-time analysis of one year's worth of the inflows and outflows of cash.

The long-term is known as the "full accrual basis." Here, the audit accounts for all of the assets and liabilities including those beyond those in just one year.

It is important to note that the original budget document and the CAFR present financials somewhat differently. The CAFR breaks out "transfers" into and out of the budget and that's why you see a $5.80 million number in a separate line on the slide. The "transfers in" include budgeted revenues from the Water Board, Parking Fund and Solid Waste Fund.

The "transfers out" line ($27.23M or $27.57M) is entirely the Capital Debt Service Fund and does not include the transfer ($70.32 million) to the School District, which is captured separately in the "expenditures" line in the CAFR.

The final budget figure, the $443.25 million is found in the third column on the slide and is larger than the original budget ($418.28 million) for several reasons. The primary contributors to the increase were ($13.92 m) prior-year encumbrances and 2007-08 fiscal year budget modifications (such as the 3.4% increase for police salaries totaling $2.33 m, the Buffalo Firefighters 5.5% arbitration award totaling $3.64 m and $425,000 for economic development projects.).

Additionally reserves were drawn down for the hiring of additional police officers (totaling $1.18 m) and the Hickory Woods Settlement (totaling $7.2 m). It is against this final budget figure ($443.25 million) that the City's operational performance is determined.

City's *actual* revenues and expenditures for 2007-08

Variances between budget and actual results typically reflect conservative revenue forecasting (and we can see an example of this with the real property tax line on the slide, which were budgeted at $140.30 million, while $143.04 was actually collected and in addition better receipts from sales taxes, as well as a $5.0 million unbudgeted State "spin up" funding).

On the expenditure side, fire overtime was significantly over budget and fringe benefits ended up some $5 m over budget. However, overall total expenditures came in below budget.

City's Fund Balance Performance (June 30, 2008)

The City's total fund balance of $133.29 million at the end of 2007-08 is a result of its having added $15.93 million in 2007-08 to its total fund balance of $117.35 million at the conclusion of fiscal year 2006-07.

The $15.93 million is a combination of the City adding two items: $7.59 million from its actual operations (if there are questions see Table 4, the difference between revenues of $447.82 million and expenses of $440.23 million), and $8.36 million reserved for future encumbrances (to fund obligations incurred in 2007-08 but not yet paid out).

Historical overview of the City's overall fund balance and the unreserved, undesignated portion of the City's fund balance

The City's short-term finances continue to improve. The financial statements show that the City finished last fiscal year with positive operations or with revenues exceeding expenditures. And as noted, the City's total fund balance now stands at $133.29 million. And as a result, the City continued a trend we've been seeing since BFSA's first year.
The amount of unreserved, undesignated fund balance is now nearly $59 million in the City, down from last year's high of $76 million, but one has to consider that the City established a "rainy day fund" with $30.2 million which together with this year's surplus accounts for the drop off for fiscal year 2007-08.

The virtual nonexistence of fund balance, particularly "unreserved, undesignated," in the City just a few years ago has, fortunately, been addressed to a large degree.

Trend Analysis

Some caveats with which to look at these trends. First, this is not a forward-looking indicator. It simply adds the budgetary performance from last year to those of previous years to get this fund balance. It does not take into account debt obligations that have already been incurred (think: things like capital borrowings), or other obligations or promises that have already been made (think: labor contracts, retiree benefits, and so on) since this time.
The short-term prognosis has improved, and there are a variety of reasons. The major ones, of course, are conservative budgeting on the City's part, good cost controls (esp. in staffing and vacancies), the now-lifted wage freeze was a big help, and the obvious large growth in the State's contribution to operations.

2006-07 audited actuals to 2007-08 audited actuals

Revenues grew $32.6 million, or nearly 8 percent between the two fiscal years. State aid increased $26.1 million or over 17 percent and was largely attributed to AIM increases, while real property tax revenues grew by nearly $2.6 million (1.8 percent) with higher assessments accounting for the majority of the increased collections from this revenue category.

On the expenditure side, spending increased by nearly $45 million or 12.2 percent, with fringe benefits (up $10.3 million, 11.4 percent), police (up $4.3 million, 6.3 percent), fire (up $5.6 million, 11.2 percent) and all other spending (up $22.6 million, 16.3 percent) increasing during this period.

Expenditures continue to grow faster than revenues on a year-to-year basis. In tough financial times, for many municipalities, structural imbalances such as this tend to widen or grow. Over time and looking into the future, these long term imbalances between revenues and expenditures spell trouble for governments faced with the challenge of limited sources of new or increased revenues.

Conclusion

The release of the audit confirms that the short-term progress continues in the City (and School District). At the same time, it serves as a harbinger of the long-term risks facing the City (both entities). The newer accounting requirements will only increase the importance of recognizing and addressing those long-term liabilities, especially as they relate to retiree benefits and other post-employment obligations that BFSA has and continues to talk about. Finally, the plan to address them is necessarily one part funding, and one part negotiation, since the contractual decisions made today impact that long-term liability.

2nd Quarter Report

Chair Kolkmeyer asked Mr. Kelly to summarize the City's 2nd Quarter Gap report. He provided the following information.

Revised Budgeted Revenues & Expenditures

The projected revenues total $441.36 and projected expenditures total $438.85. Overall, after the second quarter, the City is projecting a positive surplus of $2.51 million.

Net Impact On Revenues After The Second Quarter

Overall, revenues are trending over budget by $3.23 million. Two notable categories are property taxes that are projecting over budget by nearly $2.4 million, and fines, which are currently projecting under budget by nearly $1.3 million. It is worth noting that the City believes that revenues from fines will correct themselves going forward.

Expenditures

In looking at departmental spending alone, which does not include general charges, it is worth pointing out that departmental spending is over budget by $3.8 million with police and fire personal services spending (OT) accounting for the majority of the overages. In looking at personnel totals, vacancies total 211 and nearly approach 10 percent of the City's workforce.

The net impact of expenditures totals a positive $.77 million. Fringe benefit costs are at about $98.8 million, fully $3.0 million under budget at this time, while utilities are trending under budget by $1.5 million. However, the cold months of January and February are not reflected in these utility costs and this positive variance may not materialize by the end of the third quarter.

Risks

Departmental spending is currently over budget by $3.8 million and if cost trends continue this number could inflate significantly. With unknown variables, like the future of overtime, the currently projected surplus of $2.5 million could easily disappear.

Sales taxes since December 31st have weakened and may trend downward for the remainder of the fiscal year. Additionally, the unknown future state aid increases have left uncertainty in the City's largest revenue category.

Second Quarter Reports for BURA

At the end of the second quarter, BURA revenues and expenditures equal 53.4% of budget and typically adjust throughout the year based on timing issues related to the grant process.

Operating expenses, things like salaries and fringes are trending below budget and equal 44.1% of expected levels.

Three additional items worth mentioning include:

- BURA's prior yr. deficit totals about $250,000 and BURA continues to pay down this deficit as funding frees up to do so (typically through unused contracts).
- BURA's OPEB liability is estimated at approximately $39 million and some debate remains as to whether the City is ultimately responsible for these costs, but it appears likely that the City will likely bear responsibility
- And lastly, the City is currently working on its Annual Action Plan which will have to come before the BFSA board for approval at a future meeting (09-10 FY).

Second Quarter Reports for BMHA

BFSA notes that the accounting transition to Asset Based Management continues. BMHA AMP revenue is on target after the first quarter at 49.8% of budgeted amounts and totals $10.1 m, while AMP expenditures total 43.1% or nearly $13.2 m, resulting in positive cash flows of $164,528 after debt service.

Central Office revenue totals 47.5% or $2.9 m after the 2nd quarter, while expenditures total 44.4% or $2.7 m, resulting in positive cash flows of nearly $220,000.

Director Norwood requested further information as to the relationship between the AMP budget and the Central Office. Mr. Kelly suggested the Central Office could be looked at as another AMP. Ms Mitchell explained that the Central Office receives revenues, not just from AMP fees, but also from Section 8 activities as well as from capital budget operations. For that reason, HUD requires that the Central Office be kept as a separate entity and not consolidated into the AMP statements.

Additionally, tenants have begun moving into the completed phase I redevelopment of the A.D. Price housing complex, which is an impressive new 55 unit complex. Phase II pre-development work has begun.

Lastly, BFSA continues to wait for the audited financial statements from BMHA's FYE June 30, 2008. The delays are due to HUD changing the reporting requirements and BFSA expects the year ending numbers in the near future.

Police Overtime Update

Chair Kolkmeyer asked Mr. Link to provide the Board with an update on the Police and Fire departments overtime.

Mr. Link utilized a slide presentation and provided the following information.

Introduction

As of the end of the second quarter, 12-31-09, Police OT was at $4.8M. With 13 pay periods to go, doubling OT expenditures to date to come out with the new year ending projection of $9.6M; which is $2.5M over the adopted budget.

Prior Year Actuals vs. Current Year

We can see how OT expenditures in the current year compare to last year through 13 pay periods—an increase of $500K. The largest areas of expenditures are in Patrol $2.5M and Detective division $1.6M, for a total of $4.1M. The remaining units make up the additional $700K in OT costs. The current projection has OT coming in over budget by $2.5M; and compared to last year it is an increase of approximately $1M.

Prior Years Actuals vs. Current Year Actuals and Projections

OT Hours Worked

The amount of OT hours worked this year is higher than any other year that we have data for; they are currently on track to break 212,000 hours-which would be an increase of 12K hours compared to last year.

Actual OT Hours worked (by quarter)

In two of the years there has been a decrease between the first and second quarter, but that is not the case in the current FY. Historically OT has decreased in the third quarter and then will increase again in the fourth quarter—these fluctuations in OT can be largely attributed to an uptick in crime as the weather improves and officers trying to schedule vacation time prior to the end of the FY.

Sworn & Civilian Employees (by quarter)
There has been a decrease of 6 sworn personal since the first quarter presentation.

Director Townsend asked how the overtime amount compares to the number of employees, on average. Mr. Link stated that Police overtime was $4.8 million at the end of the FY. Divided by the 936 full-time employees (FTEs) the amount is $5,130 per person on average. $2.5 million in overtime has been paid to the 555 police officers, averaging $4,500 per person. $1.6 million has been paid to 114 Detectives, averaging $14,035 per person.

Director Norwood asked to have the number of overtime hours provided.

Fire Overtime Update

At the end of the second quarter, the fire department had disbursed $5.8M in OT pay through the first 13 pay periods. If one was to double that, they would finish the year at $11.6M; which is $3.8M over what they had budgeted for the CFY.

Prior Year Actuals vs. 2009 Adopted and Year-End Budget

Current year expenditures compared to last year through the first 13 pay periods has increased by $700K. Current year projections have OT finishing $1.5M higher than last year's actuals of $10.1M. Firefighter services makes up $5.3M, and all other units make up the remaining $500K. The following slide shows actual monthly disbursements as well as the current year projections.

Total OT Hours Worked by Pay Period

To date, they are currently 9,000 hours higher than they were last year and are on track to finish the year close to 270,000 hours worked.

OT Decrease between 1st & 2nd Quarter
In the current year, it actually increased between the two quarters. If it follows the historical trend, one would expect to see OT decrease in the third quarter and then spike again in the fourth.

Uniformed & Non-Uniformed OT Hours Worked

They have had a decrease of 8 FTE's since the first quarter update; and will continue to lose personnel.

Director Townsend asked Mayor Brown if the City has plans to hire additional firefighters. Mayor Brown replied that the City does have this intention; he asked Fire Commissioner Michael Lombardo to address the Board and elaborate.

Mr. Lombardo updated the Board regarding the status of new firefighters. They have gone through written and physical agility exams, and are awaiting validation of the list from the Justice Department and the federal courts, which can take up to 5 months. Once approved they will proceed to conduct medical exams, background checks and interviews. Commissioner Lombardo expects to bring in a class of 55 not later than the end of the summer.

Director Townsend asked if women had taken the exam to become firefighters. Mr. Lombardo replied that there had been a number of women applying and there are a dozen in the list out for validation. Currently the fire department has 21 females.

Chair Kolkmeyer expressed his dissatisfaction with the higher than budgeted overtime costs. He hoped that overtime expenses would be more in line with the budgeted amount after new hires were added to the Departments.

Director Arthur explained his view that the overtime costs were not as bad as they appeared to be, as the Departments have a number of unfilled vacancies. The money not spend on these positions will help close a deficit at the end of the FY.

Mayor Brown asked Police Commissioner H. McCarthy Gipson to address the Board and provide a summary on the status of Police overtime, where they are ahead of the fire department in hiring new officers. Commissioner Gipson stated that the new officers are starting to show their impact on overtime in the current quarter and should help in reducing overtime once their on the job training is completed. Mr. Kolkmeyer asked whether new detectives were being added, since they are responsible for a good amount of the overtime. Mr Gibson explained that no new detectives are being added, as they come from the police ranks and these ranks cannot be reduced until the new officers are in place.

Director Townsend noted that Fire and Police services are essential and valued. She went on to note that unlike most other states, NYS workers have the ability to exploit the rules to utilize large amounts of overtime in the final years of employment to maximize pension payments,. If overtime pay were not pensionable, it is likely that it would not be handled similarly.

Financial Plan Adjustment – Discussion

Chair Kolkmeyer asked that the Mrs. Mitchell summarize a document which had been provided to BFSA by the City Finance Department at the Board's request.

Mrs. Mitchell stated that, at the meeting on December 12, 2008, the BFSA board approved the new CBA with Local 264 including the costs of the contract being covered by the currently approved budget and four-year plan. Because the discussions went on for a significant period of time, the City's explanation as to how they were able to cover the costs within the budget without eliminating vacancies was never fully discussed. BFSA has since requested that the City provide supporting materials confirming how balancing the budget and four-year plan was achieved and we would like to briefly go over their response. Since the plan is being balanced from savings within the current plan, no budget modification is required. She asked Mr. Link to summarize an overhead slide which depicted the financial impact of the negotiated CBAs on the City's Financial Plan.

Mr. Link summarized the impact of negotiated CBAs on the City's Four-Year Plan and explained that deficits in two years of the plan will be covered by decreases in purchases of supplies and by decreasing outside contracting.

Update of Parks Agreement

Chair Kolkmeyer stated that Mrs. Mitchell had distributed a document to the Board regarding BFSA understanding of the current status of the Inter-municipal Parks Agreement. The City of Buffalo was asked to provide information to BFSA about the current status of the agreement. At the next BFSA Board Meeting. BFSA would welcome the participation of Erie County on such a presentation, if appropriate

Director Johnstone noted that the agreement has large implications for both the City and County, given the amount of money involved in the contract. An expeditious resolution to the disagreement is paramount.

At 2:28 PM County Executive Collins exited the proceedings.

<u>BFSA Issues</u>
BFSA Statements 12/31/2008 [Mid-Year Report]

At Chair Kolkmeyer's behest, Mrs. Mitchell summarized BFSA's Mid-Year financial statements.

She provided the following information.

A new report of revenues and expenditures for BFSA operations as of 12/31/08 compared to the approved budget has been provided. This replaces an earlier version and has some slight changes. The statement has been prepared on an accrual basis of accounting.

There are certain items that require some explanation. Sales tax receipts to date appear low because all of July and a good portion of August cash receipts are accrued against fiscal year 2008. These lines will not fully reflect receipts for fiscal year 2009 until sales tax distributions for July and August 2009 are received. However we are forecasting lower than budgeted receipts, as the soft economy is beginning to be reflected in incoming sales taxes beginning in January. Because collections are skewed towards the second half we expect these revenues to come in below budget.

State Aid shows no receipts to date. Because of some strange language in the State's appropriations bills $19 million received in December are accrued back to 2008. Most of State Aid is received in the months of March and June. The $19 million to be received December 2009 will be accrued back to the current fiscal year. The City does not anticipate major reductions in the current year.

Investment income is expected to come in below budget as short term rates have plunged. FDA's covering debt set asides will continue to pay at budgeted rates but other funds are vulnerable to lower rates. All investment income earned by BFSA is distributed to the City.

Operating expenses are well below budget and should remain under budget through the rest of the year, as long as legal expenses continue the current moderate trend.

Distributions to the City and School District reflect the accrual nature of sales taxes (July and most of August distributions were accrued to 2008) and the timing of State Aid.

Executive Director Search

Chair Kolkmeyer noted that Mrs. Mitchell had expressed her intention upon accepting the position as Executive Director to retire at the end of the 2009 FY. Given this, a committee has been created to facilitate the selection of a new Executive Director. Director Johnstone has agreed to Chair the committee. Directors Mertz and Giardino have also agreed to participate.

Directors will have access to information that is privy to the Committee members. Open Meetings Law requirements will be adhered to. Additionally, applicants' privacy must also be respected.

New Business

Director Arthur requested that the Board enter into an Executive Session at a future meeting to discuss the current status of litigation involving BFSA.

Mayor Brown took the opportunity to congratulate County Executive Collins on the recent bond rating upgrade bestowed upon the County by the rating agencies.

Closing Remarks

Chair Kolkmeyer requested a motion to adjourn. Motion to adjourn by Norwood, second by Townsend. Vote 7-0 to adjourn the meeting at 3:25 PM.