BUFFALO FISCAL STABILITY AUTHORITY
Meeting Minutes
May 14, 2014

The following are the minutes from the meeting of the Buffalo Fiscal Stability Authority (the "BFSA") held on Wednesday, May 14, 2014, in the first floor conference room of the Buffalo Market Arcade Complex. The meeting was called to order at 1:00 PM.

Board Members Present
Arthur, Brown (and proxy Estrich), Doherty, Floss, Jurasek, Mesiah, Olsen, and Poloncarz (proxy Williams)

Board Member(s) Excused
None

Staff Present
Collin, Link, N. Miller, R. Miller, and Mongold-Robe

Additionally Present
Mr. James Magavern, Esq., Legal Counsel, Magavern Magavern & Grimm LLP
Dr. Pamela Brown, Superintendent, Buffalo City School District

Opening Remarks
Chair Olsen called the meeting to order and reviewed the agenda for the meeting:

- Review of 2015-2018 Financial Plans of:
  - The City of Buffalo (the "City"),
  - The Buffalo City School District (the "District"),
  - The Buffalo Urban Renewal Agency ("BURA"), and
  - The Buffalo Municipal Housing Authority ("BMHA).

The Joint Schools Construction Board will be reported on in conjunction with the School District.

- Review of third quarter reports in connection with the review of the respective financial plan for:
  - The City of Buffalo, and
  - The Buffalo City School District.

- Review of BMHA's third quarter report.

Chair Olsen noted that BFSA staff was unable to report on BURA's third quarter financial results at this time and will meet with BURA management to develop a report format that provides a comprehensive update on BURA's financial operations. A report to the Directors will be provided as soon as possible.

- Executive Session for the purpose of receiving advice from legal counsel deferred at the March Board meeting.

- A discussion with Dr. Pamela Brown, District Superintendent, who had been invited to the meeting to discuss certain logistical matters involving the District's financial plan.

Chair Olsen noted prior to the conclusion of the meeting, the privilege of the floor would be extended to any member of the audience who wished to comment on any matters discussed today.

Roll Call of Directors

Chair Olsen deferred to Secretary Arthur to call the roll of the members. Finding a quorum present, the meeting commenced.

Mayor Byron W. Brown was present, however due to a schedule conflict would need to leave before the conclusion of the meeting. City of Buffalo Commissioner of Administration, Finance, Policy, & Urban Affairs, Ms. Donna Estrich, represented Mayor Byron W. Brown, in his absence, in accordance with Subdivision 1 of §3853 of the BFSA Act.

Erie County Constituent Services Assistant, Mr. Leonard Williams, represented County Executive Mark C. Poloncarz, in accordance with Subdivision 1 of §3853 of the BFSA Act.

Subdivision 1 of §3853 of the BFSA Act reads: *"…The Mayor and the County Executive shall serve as ex officio members. Every director, who is otherwise an elected official of the City or County, shall be entitled to designate a single representative to attend, in his or her place, meetings of the Authority and to vote or otherwise act in his or her behalf. Such designees shall be residents of the City of Buffalo. Written notice of such designation shall be furnished prior to any participation by the signal designee…."*

Secretary Arthur noted for the record that Mr. John Giardino is no longer a BFSA Director and the position is vacant.

Approval of the March 26, 2014 Minutes

Chair Olsen advanced the agenda to the first item for consideration: a review of the draft meeting minutes from the March 26, 2014, meeting. He introduced Resolution No. 14-03: "Approving Minutes and Resolution from March 26, 2014," and requested a motion to move the item.

Director Mesiah offered a motion to approve Resolution No. 14-03.

Director Floss seconded the motion.

RESOLUTION NO. 14-03
APPROVING MINUTES AND RESOLUTION FROM MARCH 26, 2014

BE IT RESOLVED that the Buffalo Fiscal Stability Authority hereby approves the minutes of its meeting on March 26, 2014.

BE IT FURTHER RESOLVED that the Buffalo Fiscal Stability Authority ratifies and affirms Resolutions Nos. 14-01 through 14-02 that were approved on March 26, 2014.

The Board voted 8-0 to approve Resolution No. 14-03.

Discussion with District Superintendent

Chair Olsen noted a resolution was passed at the March Board meeting requesting certain information be provided in connection with the District's Financial Plan. The financial plan that was submitted is substantially more specific as compared to what was provided last year. Dr. Brown will be submitting the financial plan in its current format to the Board of Education for approval. The actions to close the projected budgetary gaps in the out-years of the financial plan have not yet been prioritized, as requested in our March resolution, along with an assessment of the effect of such actions on the educational achievement and welfare of the students. Dr. Brown appeared at BFSA's request to explain the process and plan to address these particular items.

Chair Olsen thanked Dr. Brown for attending and deferred to her. Dr. Brown noted that she and her staff are more encouraged by the financial picture looking forward for the District and noted that it was a little easier planning the budget for the upcoming school year as well as looking four years forward. She noted that she would address the question about how the District goes about approaching some of the cost-cutting they had to do to have a more balanced budget and also the process for prioritizing resources for the coming year as well as the following three years.

Several months ago, as the budget process was approaching, the first thing the District did was review the strategic plan, developed with community participation, and reviewed the strategic priorities outlined in that plan. The priorities include, but are not limited to:

- Parent and community engagement,
- Access to a world class education through strong curriculum aligned with new common core standards, and
- The use of data to drive planning.

The District revisited the priorities in the plan, reviewed the data from some initiatives that were in place last year and used the data to determine which of those initiatives appear to be generating the results that were desirable and aligned with the goals and objectives in the strategic plan and which ones were not generating strong results. As areas not generating strong results were identified, the District looked to "right-size" the resources being dedicated to those areas. Based on this, the District held a series of meetings and in depth discussions on the budget to prioritize how resources would be utilized. These meetings were held with stakeholders, cabinet members, District leadership members and the Board of Education. The District is appreciative of the advocacy of the Western New York delegation, the City Administration and many other entities which resulted in anticipated additional New York State Aid ("NYS Aid") of $30 million. The District also benefited from Legislative decisions which impacted funding for charter schools. Dr. Brown credited these measures as well as the cost-cutting measures outlines in the District budget for being able to become closer to balancing the District budget.

Dr. Brown referred to a question previously raised by the BFSA Board: “What will the District do about prioritizing the non-mandated expenses that are indicated in the four year plan?” She proposed the prioritization take place after the new school board members take office in early July in order to give the new school board members the opportunity to comment on the strategic priorities that have been identified. Information has been provided to BFSA which should be helpful in the prioritizing discussions by virtue of the non-mandated expenses included in the plan.

In review of the plan, BFSA will find a “menu” that can be considered by the Board of Education and District staff, who are making the decisions about what cost-cutting measures can be considered. In addition, Dr. Brown is waiting for a decision about a few plans that were submitted to the State Education Department including plans for Martin Luther King Multicultural Institute and Bennett High School; these schools need a different turnaround plan. Options may include implementing a new program at Martin Luther King Multicultural Institute and resources will need to be identified for this. Additional directives may be received from the State Education Department that may have funding needs attached to it. The Erie 1 BOCES initiative continues with LaFayette and East high schools in which students are given the option of taking career and technical education (“CTE”) courses through BOCES. Bennett High School will now have access to this opportunity. Permission has been given from the New York State Education Department (“NYSED”) to allow these students to consider some of the District’s CTE programs provided at Hutchinson Central Technical and Emerson high schools. The District is waiting to find out about school improvement grant applications and school innovation fund applications; these are just a few of the potential dollars/programs pending, responses are anticipated in the next few weeks corresponding with the timing the new board members will be seated.

Dr. Brown’s concluded her comments.

Chair Olsen offered the following remarks:

- The District’s financial plan provides a significantly better financial picture as compared to the projections that were provided last year. While there is a structural imbalance that continues to exist and recurring expenditures continue to exceed recurring revenues, the gap is significantly smaller than projected last year.
- The programs-to-eliminate the gap (“PEG”) action plan to close the budgetary gaps in the out-years do not include the sweeping changes that were included in last year’s report and more detail has been provided. The plan should be evaluated and prioritized in the context of how these actions would affect students.

Chair Olsen noted his comfort with Superintendent Brown’s request for additional time to prioritize the PEG action plan, noting that the decisions should not be hurried and that the reason for requesting this prioritization was to avoid crisis mode responses. The award of additional State Aid to the District, which is assumed to continue throughout the financial plan, has had a significant impact on the financial stability of the District. Additionally, the District’s expenditures are budgeted for less than what was projected last year, resulting in an overall reduction of the three year gap from $166 million to $53 million. The projected budget gap contracts over the out-years, assuming the additional NYS Aid continues, as revenues slightly outpace the growth in expenditures. While the financial plan continues to rely on fund balance to address the structural imbalance of the District, the reliance is not as significant as it was projected last year. There is concern that funds available for collective bargaining continue to be used for recurring operations. The use of these funds makes it much more challenging to successfully negotiate contracts.

Chair Olsen noted the importance of current labor agreements in order to most effectively address the many challenges that face the District. The financial plan does not include any increases for new labor contracts and any additional costs will need to be addressed if and when such contracts are reached. He thanked Superintendent Brown and the District Chief Financial and Operating Officer Barbara Smith for their hard work in addressing the Board's concerns. The document provided is very responsive and helpful.

Secretary Arthur asked Dr. Brown if recommendations were made for the financial plan by Distinguished Educator Judy Elliott. Dr. Brown responded that she was in ongoing communications with the Distinguished Educator; they speak regularly on programmatic and related needs.

Secretary Arthur asked if the Distinguished Educator had made any recent recommendations. Dr. Brown responded she had just met with the Distinguished Educator prior to this meeting where they had discussed launching an initiative at one of the schools for the upcoming school year that will help the District better meet the needs of English Language Learner ("ELL") students. The Distinguished Educator discussed strategies for continued improvement in the District.

Secretary Arthur asked if any of these recommendations can be made public and requested a copy of them. Dr. Brown responded one of the best references is the Action Plan that was developed in collaboration with the Distinguished Educator that includes a number of areas for improvement in the District which they have been working on for the last year and a half or more. This is available on the District website but will be furnished to BFSA. Secretary Arthur noted that he had a copy of the Action Plan and but would also like a copy of the recommendations made since the Action Plan. Dr. Brown stated that she will provide that list.

Director Floss referred to Dr. Brown's request to put off plans until the new Board of Education members are in place and asked if there were any new projects or programs that Dr. Brown believes needs to start now so the delay won't incur additional costs or prevent the program from running as smoothly as possible and how will a smooth transition be ensured. Dr. Brown responded the additional time as requested for prioritizing the four year plan will not delay anything included in the budget for the upcoming school year. The Board of Education will be voting on the budget proposal for the upcoming school year following BFSA's Board meeting.

Director Floss asked for clarity on whether proposed cuts in the out-years could affect the programs for the upcoming year. Dr. Brown noted that there is no such impact.

Vice-Chair Doherty inquired about the recent announcement of the Buffalo Promise Neighborhood pulling their support out of Bennett High School and asked if there was an economic impact on the budget. Dr. Brown confirmed that there was an economic impact on the District. The District was assessing what that impact is exactly and how they can sustain the programs and services that have been instituted at Bennett High School by Buffalo Promise Neighborhood. The District is appreciative of the college success center provided by Buffalo Promise Neighborhood and noted students will still have access to the technology and the space. The District will need to be sure it is adequately staffed so the children will be able to utilize the center.

Vice-Chair Doherty followed-up inquiring if additional staff for this center was accounted for in the proposed budget. Dr. Brown responded that this budget and other budget sources, including grants (new or amendments to existing grants), are being reviewed. The programs and services provided at Bennett High School will continue to be funded through other grants.

Dr. Brown exited the proceeding at 1:25 PM.

City Items

Review of Financial Plan

Chair Olsen noted that Ms. Jeanette Mongold-Robe and Principal Analyst Bryce Link had prepared an overview of the City's Financial Plan. The review of the quarterly review will be made concurrently. Mayor Brown and Ms. Donna Estrich were present for any questions.

Mr. Link began his presentation with a review of the City's third quarter report. Compared to the adopted budget, the City is currently projecting a fiscal year end ("FYE") negative variance of $6.6 million. Estimated revenues are projected to be up by $2.7 million and budgeted appropriations are up $9.3 million, resulting in a net $6.6 million increase in the use of the fund balance. It is noted that the City of Buffalo is modifying its budget by $12.6 million to reflect the increases associated with the fire and police raises. The actual amount of fund balance projected to be used is less as noted.

Various budget modifications already completed or pending include:

- $1.5 million for additional City demolitions;
- $1.1 million for the purchase of police vehicles;
- $400,000 for additional road salt;
- $400,000 for building maintenance;
- $2.5 million for a recent legal settlement funded through the Judgments and Claims reserve;
- $400,000 for the District music program; and
- Up to $6.3 million for the Police and Fire labor settlements. The City is currently looking at using current vacancies to fund additional costs.

To fund the budget modifications, $5.1 million will be appropriated from the Restricted Fund Balance and Assigned Fund Balance and $7.5 million appropriated from the Unassigned Fund Balance.

Revenues to date are projected to be $2.7 million over budget. The largest variance is in the intergovernmental revenues line and is driven by the receipt of Tribal State Compact funds which were not originally budgeted. Fines are another significant area and are under budget; the City was originally aggressive with their estimates with the revenue that would be generated with the new license plate readers that were deployed on police vehicles. The City has adjusted their projections. Non-property taxes have also come in under projections; the Class II Utility Tax Collection is not coming in as originally projected, driven by the reduction in the number of landline phones being used in the City as people move to cellular phone only homes.

Additional Significant Departmental Budgetary Fluctuations:

- Permit & Inspection Services are nearly $1.1 million over budget, largely driven by the additional $1.5 million in demolitions being offset by vacancies to a net of $1.1 million, and
- The remaining twelve departments are projected to be under the adopted budget by $3.9 million.

Significant Budget Fluctuations for General Charges:

- The fringe benefits projection is in excess of the budgeted amount due to the settled labor contracts for fire and police; due to vacancies maintained in the current year the excess amount is minimal.
- Personal services are projected to exceed budget by $2.3 million. This expenditure is for firefighters injured-on-duty but not moved into the State disability system within the set time. The City will need to pay them until they reach the mandatory retirement age of 72 years old,
- Other general charges are projected to exceed the budget by $2.4 million due to a legal settlement; and
- Utilities are projected to be $1.3 million over budget due to higher utility costs from the harsh winter.

Vacant positions continue to remain unfilled at 12% or 315 positions, as of March 31, 2014. Firefighters are currently down 100 FTEs compared to what they budgeted. There was a planned firefighter's class for this year but due to the U.S. Department of Justice oversight there has been a delay in moving that class forward.

Mr. Link outlined the recommendations as follows:

- A final year-end projection should be performed which includes estimated year-end financial adjustments to revenues and expenditures for the purpose of identifying if there is a need to modify the FY 2013-14 budget.
- Modify the budget as necessary prior to the adoption of the FY 2014-15 budget.
    - Per City Charter, the current year budget may not be modified after the adoption of the subsequent year's budget.
- The City should not exceed its budgeting authority for the current year operations.

Mr. Link concluded his presentation. There were no questions.

Mr. Link deferred to Ms. Mongold-Robe who introduced the City's FY 2015-2018 Financial Plan. She began by recognizing the efforts of the Mayor, the Commissioner of Finance, and all of their staff that worked on the financial plan. She also thanked the BFSA staff for all their hard work in reviewing the financial plans in such a short time period and the detailed reporting that they created for the Board.

Ms. Mongold-Robe noted that overall the BFSA is comfortable with the projections of expenditures. The City's Financial Plan importantly provides an amount for the accrual of unsettled labor contracts throughout the financial plan. The plan takes into consideration areas where the City anticipated increases and has budgeted for those items accordingly. The City budgets conservatively and any concerns on individual expenditures are included in the review.

The financial plan reveals the struggles of the City to maintain the current level of services and staffing during a period when revenues have been stagnant.

Ms. Mongold-Robe reviewed actual operating results for the City from 2008 to 2013, noting the wage freeze was lifted on July 1, 2007. In 2008, the City reported a $15.9 million surplus; in 2011 regular recurring expenditures began to exceed regular recurring revenues. In FY 2013, there were one-time revenues that were reported that resulted in a significant surplus with a corresponding increase to the fund balance which in turn is being used throughout the financial plan.

Revenues for the City were flat between FY 2007-08 through 2011-12, increasing by $2.7 million or 0.6%. The three sources which make up 85% of this total revenue are:

- State Aid to Municipalities ("AIM") - The annual State Aid allocation has declined since 2008-09, by $4.3 million;
- Sales Tax revenue – During the period of 2008-2012, it remained relatively flat. The City is starting to show an increase in sales tax reflecting a potential recovery and not a one-time increase; and
- Property Tax Levy – Since FY 2005-06, the overall property tax levy has declined from $146 million to $138 million, a decrease in FY 2012-13 of $4.7 million.

During this same time, the City has had growing expenditures. Since FY 2007-08, expenditures have increased $23.5 million, or 5.3%; revenues during the same time period increased $2.7 million demonstrating the structural deficit.

Ms. Mongold-Robe noted the development of the financial plan does take an aggressive stance on revenues, in particular to NYS Aid. There are also new revenue sources and enhanced revenue sources. The financial plan also includes the use of essentially all the available fund balance over the four year period. Beyond this four year period, it's uncertain how the financial plan will be balanced while continuing the same level of services and the same amount of City personnel without an offsetting increase to revenue.

The plan is balanced through a series of Programs to Eliminate the Gap (PEGs) action plan. These are projections for budgetary savings in the two last out-years of the financial plan. This is in combination with the uncertain revenues from additional state aid projections and other revenue sources. There is pressure on the financial plan especially as New York State (the "State") Aid to Municipalities ("AIM") has not increased for a number of years.

Ms. Mongold-Robe concluded her summary. There were no questions.

Mr. Link began his review of the City's FY 2015-2018 Financial Plan. Beginning in FY 2014-15 revenues are projected to increase from $477 million to $517 million in FY 2017-18, a projected increase of $41 million over four years. Over the same time period, expenditures are expected to increase from $504.5 million to $526.1 million, an increase of $21.6 million. There is a projected four year deficit of $79.3 million closed with the use of fund balance of $67.7 million and PEG actions.

The FY 2014-15 proposed budget includes a reduction in Restricted State AIM of $12 million; this is State aid that is held by the BFSA and can only be drawn down as requested by the City. The FY 2014-15 proposed budget also includes a reduction in property taxes of $710,000.

To address the revenue decreases, the FY 2014-15 budget includes revenue from the Tribal State Compact estimated at $6.1 million, a new revenue source for the adjudication of traffic fines which projects a $2.5 million revenue over the next year and a new revenue source from the State for restricted Capital Aid of $3.0 million.

The Financial Plan over the four years includes:

- $12.0 million of restricted Capital Aid;
- State AIM increase of 2% in FY 2015-16 followed by two years of 5% increases, equivalent to $34 million;
- Use of PEG actions starting in FY 2016-17, valued at $21 million; and
- Depletion of available fund balance. The Rainy-Day fund will remain intact.

Mr. Link indicated there is currently no formal deficit reduction plan for the Refuse Fund. The General Fund is liable for the deficit in the Refuse Fund in the amount of $16.1 million which is reserved in Nonspendable Fund Balance. The annual operating transfer from the General Fund is held flat at $3.2 million each year over the four years of the financial plan.

The available tax margin for FY 2014-15 is $43 million. This is a minor increase from the prior year of $900,000, or 2.1%, and is equivalent to 67.4% of the taxing capacity. Property taxes are decreasing in FY 2014-15 by 0.6% ($700,000). The real property tax levy is projected to increase beginning in FY 2015-16 at 2.24% annually, consistent with the real property tax cap.

Mr. Link reviewed the General Fund operating results since FY 2010-11 which is the first year the City reported an operating deficit:

- 2011: ($12.8) million or (2.8%)
- 2012: ($16.3) million or (3.5%)
- 2013: $52.2 million surplus; certain one-time revenues were reported
- 2014: estimated deficit is $18.6 million or 3.8%

The Financial Plan projected deficits are as follows:

- 2014-15: ($27.5) million or (5.4%)
- 2015-16: ($25.2) million or (4.9%)
- 2016-17: ($18.0) million or (3.5%)
- 2017-18: ($8.5) million or (1.6%)

The City plans to close the gap through the use of fund balance of $67.7 million and budgetary savings from PEG actions in the estimated amount of $21 million, as follows:

- FY 2014-15: Use of $27.5 million of Unassigned Fund Balance;
- FY 2015-16: Use of $25.2 million of Unassigned Fund Balance;
- FY 2016-17: Use of $10.0 million of Unassigned Fund Balance and $10.0 million of PEGs; and
- FY 2017-18: Use of $5.0 million of Unassigned Fund Balance and $11.0 million of PEGs.

Mr. Link turned to the details of the FY 2014-15 Proposed Budget, which has operating revenue of $477 million comprised of:

- $161.3 million (33.8%) - State AIM;
- $137 million (28.8%) - real property tax and School Tax Relief Program ("STAR");
- $81 million (16.9%) - sales tax;
- $79 million (16.7%) - all other (i.e., fines, fees, federal reimbursements);
- $15.2 million (3.2%) - transfers; and
- $3 million (0.6%) - restricted capital aid.

FY 2014-15 proposed spending is $504.5 million. This is comprised of:

- Fringe Benefits (31%) including health insurance expenditures for retiree and active employees and pension costs. There will be a significant increase in pension expenditures in FY 2014-15 due to the settlement of the firefighters' labor contract in June 2013 and the police arbitration award in July 2013.
- Transfers (20%) including an operating transfer of $3.2 million to the Refuse Fund, a $70.3 million transfer to the District, and $28 million to the Debt Service Fund;
- Police (16%)
- Fire (12%)
- The City's other twelve departments excluding Public Works (12%)
- Public Works (5%); and
- Utilities (4%).

Employee costs represent 84.5% of the 2015 budget, at $340.2 million. In comparison actual City employee costs, including salaries, fringe benefits, and retiree health care, ranged between $228.9 million in FY 2005-06 to $323.4 million in FY 2013-14.

A comparison of the actual average cost per employee for the same time period was reviewed. In FY 2005-06 this amounted to $80,316 per employee, in FY 2013-14 this totaled $109,325 per employee. The increase is due mainly to increased costs for health insurance and pension. Including the cost of retiree health insurance, these per employee amounts increase to $90,296 in

FY 2005-06 and $122,593 in FY 2013-14. Retiree health care costs are legacy costs the City is required to pay.

Mr. Link reviewed the major funding sources over the four-year financial plan. They include:

- State AIM – $161.3 million proposed in FY 2014-15 increases to $191.4 million in 2018;
- Property Tax and STAR – $137.2 million proposed in FY 2014-15 increasing to $145.6 million in 2018, representing moderate growth;
- Sales Tax – $80.8 million proposed in FY 2014-15 to $87.9 million projected in FY 2017-18;
- Restricted AIM – $0 available as all remaining funds used this year (FY 2014); and
- Restricted Capital Aid – $3 million, projected annually.

Mr. Link noted these resources represent 85% - 86% of annual revenues included in the Financial Plan.

Mr. Link reviewed the annual growth for State AIM, Property Taxes and Sales Tax. He mentioned State AIM is aggressively projected for the out-years; property tax has a 2% growth factor applied annually; and sales tax projections are similar to the projections by Erie County.

Vice-Chair Doherty asked Mr. Link to address the City-wide reassessment in fiscal year FY 2016, and asked if the expectation was that the property tax assessments would remain neutral. Mr. Link deferred to City representatives present to respond but did point out the actual assessment process can take up to two years to complete due to the process. Mayor Brown confirmed that overall taxable assessment would increase. Ms. Mongold-Robe added the property tax levy was limited to the real property tax cap and that the reassessment will increase the constitutional tax margin while readjusting the tax rate per $1,000 of assessed value.

Mr. Link returned to his presentation and addressed the FY 2014-15 proposed annual growth in sales tax of $4.9 million; $3.0 million of the increase is due to the final payment on the 2004A deficit borrowing in August 2014, meaning the BFSA will no longer be holding back sales tax to pay for this borrowing, and $1.9 million is attributed to the natural growth of sales tax.

The City has continued to project a transfer from the Parking Enterprise Fund to support operations in the General Fund. Last year there was a total transfer in the amount of $9.6 million as compared to $5.2 million in the prior year. It is projected to be $7.5 million for years FY 2014-15 though FY 2017-18 and is expected to be achievable due to expected increased parking rates.

Mr. Link reviewed the uncertain State Aid revenues over the Financial Plan:

- Increases of State AIM totaling $34.7 million;
- Traffic fine adjudication of $15 million; and
- Restricted Capital Aid of $12 million.

Total: $61.7 million of uncertain revenue is included in the financial plan, representing 3.1% of total revenues.

Ms. Mongold-Robe noted the Administration has received certain verbal commitments at the state level for the traffic fine adjudication and Restricted Capital Aid.

Mr. Link continued that PEG actions are the other measure the City is taking to close the out-year deficits. The three programs the City listed to move forward with for savings projected in FY 2016-17 and FY 2017-18 are:

- Light-Emitting Diodes ("LED lighting") – projected $8 million in savings for LED street lighting;
- Sale of assets – projected to provide $7 million; and
- Building consolidations – projected $6 million of savings.

The City recently completed a City-wide building assessment to determine the quality of City buildings. A task force is being put together to review the City buildings to determine if they are repairable or maintainable and if they should be sold or moved to a private or commercial entity. The task force will look at retrofits and investment strategies in the buildings the City decides to maintain.

Mr. Link reviewed Financial Plan key assumptions:

- Restricted Capital Aid $12 million
  - Assumed annual receipt of $3 million to total the $12 million.
- Increased State Aid and Incentives for Municipalities ("AIM") $34.7 million
  - Annual increases not included in State's financial plan;
  - NYS economic climate is a risk, no projected increase of State AIM, no appetite for increased taxes; and
  - The City has projected State AIM to increase 2% in FY 2015-16 and 5% thereafter while the State's budget holds this amount flat.
- Increase in property tax levy beginning in FY 2015-16
- Parking Fines-Traffic Adjudication for $15 million
  - Will require State legislation; and
  - The City is projecting an additional $2.5 million to $5.5 million annually to adjudicate Traffic fines. This bill is presently in State committee and session ends in June. If this is not moved out of State committee and approved, the City will need to identify other revenue sources;
- Depletion of available Fund Balance
- Programs to Eliminate the Gap of $21 million
  - Beginning with out-year FY 2016-17.

Moving on to major expenditures, including transfers out, the expenditures are expected to increase by $20.4 million over the plan, from $504.5 million in FY 2014-15 to $524.9 million in 2017-18, an increase of 4%.

- Departmental spending is held relatively flat during the plan, increasing $4.5 million, which is attributed to the recent Fire contract and the Police arbitration award. All other unions are currently out of contract in the General Fund;
- Health insurance costs are projected to increase by $12 million;
- Pension costs projected to increase by $3.8 million; it is hopeful the City will begin to see a decrease in this rate between the returns the pension fund recently reported as well as a

change in workforce demographics. More individuals will be entering into City service as Tier 6 level employees;
- Transfers to the District are held flat at $70.3 million; and
- All other transfers out are projected to decrease from $34.8 million to $31.2 million.

Mr. Link reviewed health insurance trends for active and retirees. In FY 2008-09 the health insurance premiums totaled $59.15 million and increased to $66.40 million by FY 2012-13 with projections for this year at $72 million. The City is being proactive and looking for ways to reduce health insurance costs.

The pension costs in FY 2013-14 were $45.3 million. A spike is expected in FY 2014-15 to $52.9 million and levels off with slight growth by fiscal year 2017-18 to $56.7 million.

The staffing plan shows a net decrease of ten positions from the current year to next year from 2,638 to 2,628 budgeted FTEs positions with the FTE count remaining constant over the four-year plan. Police staffing is being held flat at 801 FTEs and Fire staffing at 719 FTEs. An area of concern is uniform fire personnel because with 97 vacancies as of the March 2014 with vacancies anticipated to continue over the next few months.

Director Jurasek requested clarity that there is a net decrease of ten positions with 315 budgeted and unfilled FTEs and asked if the rate of vacancy was normal or if the Mayor had instituted a soft hiring freeze. Mayor Brown responded that there is a process of vacancy control with City employees that gives the City the ability to save taxpayers money; additionally he expects Fire and Police positions to be filled to return to proposed levels.

Mr. Link continued noting the following concerns related to expenditures:
- Flat annual departmental spending;
- $9 million budgeted annually for retroactive salary adjustments for collective bargaining; anything above budget would place additional strain on the financial plan;
- Modest growth in fringe benefits; and
- Certain expenditures may be under-projected:
  - Overtime costs are budgeted at relatively flat levels for police and fire in the out-years; and
  - Supplies and materials for the Department of Public Works.

In conclusion, Mr. Link summarized the uncertain revenue and expenditure actions that need to be taken. In total there are $82.7 million of uncertain actions.

Director Floss commented that the largest issue is the decline of the property tax base, whether due to declining population or the large number of properties taken off the City tax roll due to federal or state allowances. He asked if the City or BFSA members had begun to think about the State property tax cap of 2%. With respect to the additional upcoming projects such as the SUNY project where large amounts of would be taxable property is taken off the tax rolls; he asked how it was counted against the tax levy. Mayor Brown replied the City Administration had extensively examined State tax and economic policy. There will be circumstances where development over the next seven to ten years will not be taxable. Hopefully the result will be more investment in business development and more employment opportunity. The City has built their budget to incentivize and attract smaller to midsize commercial investment that will be on the tax rolls. The City has determined it must capture a certain number of new job opportunities for the benefit of the City. The Mayor's Administration has focused its budget process with the focus on re-growing Buffalo.

Director Floss noted that it would be useful to know the average age of the workforce population when examining the growth of salaries and benefits. The average age will help determine if the costs are a reflection of starting salaries and benefits or of an aging population of workers meaning the growth may slow down in future years. Ms. Mongold-Robe replied this will be included in future reports.

Chair Olsen thanked the Mayor and his staff on the balanced financial plan in light of continuing difficult financial circumstances that the City in particular with the stagnation of revenues over the past number of years. He concurred with Director Floss that the large number of upcoming tax exempt projects places a big strain on the ability to adequately fund the budget as does the property tax cap. The reliance on uncertain revenues within the out-years of the financial plan is demonstrative of the structural imbalance facing the City. It's important to note that the City of Buffalo is not alone and is actually positioned stronger than many municipalities across New York State. Pension expenditures continue to be high, and healthcare expenditures continue to rise. The City has done a good job negotiating with unions for contributions from employees and eliminating the cosmetic surgery rider for the firefighters. Revenues have remained stagnant over the last number of years, with the exception of the one-time revenues received last year. The operating surplus from last year provides the City with the necessary cushion over the next four years and allows the City to continue providing a consistent level of services. The budget also includes additional provisions for the District, such as funding for the music program, attendance teachers, and an amount to be provided to Say Yes to Education. The City is paying 52% of its property tax revenues for educational costs. In addition, the City carries through other initiatives such as the creation of the Office of New Americans. The City is relying on fund balance to close the projected budgetary gaps and is also relying on budgetary savings from PEG actions in the two out-years of the financial plan, which demonstrates the widening of the budgetary gap as projected expenditures continue to outpace projected expenditures.

Mayor Brown thanked Chair Olsen for his comments and the staff of the BFSA for their excellent analysis of the fiscal circumstances in the City of Buffalo. He relayed that the City has had extensive conversations with State officials. The State has been supportive and receptive to the City's needs in these conversations. There is a legislative package of items, some not contemplated in this budget which Mayor Brown would like to share with the Directors in the near future for their assistance with the items going forward. The City has had conversations with the other mayors across New York State with communities facing similar pressures and issues as the City of Buffalo and going forward will need some of the same kinds of relief as Buffalo proposes in this budget. Finally, the City Administration has been very focused on the need to reduce, consolidate and sell assets. In the analysis of the property assessment, it was determined the City owns 240 municipal buildings costing $20 million annually to maintain and have a repair cost of $150 to $200 million. The City proposes selling some of these City assets. This will probably materialize in the next budget year. There has been some outreach from the private sector to purchase some of the properties and the City will be aggressive in going forward with selling the properties that don't fit within the City inventory or the areas of business the City should be in. By selling the properties, the City can achieve some revenue and some cost savings in those areas.

Mayor Brown concluded by stating this was a complicated budget for his administration to put together. He thanked Ms. Estrich for her hard work and time preparing the proposed budget. He thanked the City's Commissioners collectively and the Deputy Mayor for getting the City to this point. He also thanked the members of the BFSA for their time, effort and work.

At 2:28 PM Mayor Brown exited the proceedings. Ms. Estrich entered to the proceedings and served as the Mayor's proxy for the remaining duration of the proceedings.

Buffalo School District

Proposed Budget and Financial Plan

Chair Olsen advanced the agenda to the next item for consideration: a review of the District's proposed FY 2014-15 Budget and FY 2015-2018 Financial Plan. He asked Financial Analyst/Manager of Technology, Mr. Nathan Miller, to review the BFSA's analysis of the BCSD Proposed Budget and Financial Plan.

Mr. Miller began his presentation and reviewed the projected 2013-14 revenues and expenditures along with the variances currently projected. The modified budget includes revenues at $762.9 million, expenditures of $801.5 million, and a deficit of $38.6 million. As of the end of the third quarter, the deficit is conservatively projected to be $26 million.

As of March 31, 2014, revenues are projected higher at $768.1 million for a favorable variance of $5.2 million. This projection is due to increased New York State formula based aid and not additional general operating funds, Erie County sales tax revenues which are projected to be higher than the modified budget, and projected minor variances within all other miscellaneous revenues.

Overall, the projected budgetary variance for expenditures is favorable at $7.4 million. All other expenditures are projected to be favorable by $3 million due to transportation which is projected to be $1.7 million less than budgeted and the contingency of $1.3 million which won't be needed. Employee benefits are projected to be favorable as compared to budget by $2.9 million due to fewer retirees receiving health insurance as projected, in addition to lower than originally assumed unemployment, worker's compensation claims and other various expenditures. The payments to the charter schools has changed significantly from what was originally budgeted to the modified budget, due to the closure of the Pinnacle Charter School

At this time, Mr. Miller deferred to Ms. Mongold-Robe for additional comments. Ms. Mongold-Robe recognized the efforts of the Chief Financial and Operating Officer, Ms. Barbara Smith, the Superintendent, and all of their staff that worked on this financial plan.

The revenues and expenditures in the financial plan are extended over the out-years based on the current year model with any potential changes that are not definitive included within the

Programs to Eliminate the Gap plan. A detailed list of all key assumptions was included for each year of the financial plan.

The projections have changed significantly since last year. Last year's financial plan was projecting a baseline four-year budgetary gap of $166 million, included the use of $70 million of fund balance, and left a remaining projected budgetary gap to be closed with various actions of $96.5 million. In comparison, the FY 2015-2018 financial plan includes a baseline four year budgetary gap of $53 million, the reliance on $25 million of fund balance, leaving a revised projected four year budgetary gap of $28 million to be closed by various actions. There is still a structural imbalance but the fiscal outlook is not as dire as it was one year ago.

Additionally the actions included in the financial plan to close the budgetary gaps largely stay away from classroom reductions. There are certain actions that would have an effect on students, however the proposed sweeping reductions in programs presented in last year's PEG action plan do not appear in the FY 2015-2018 PEG action plan. This financial plan does not include any increases for labor costs for any expired collective bargaining agreements. The largest unions, teachers and administrators, have been without a contract since 2004.

The financial plan identifies and addresses potential changes to state laws and policies, as well as local City policies, which would have a positive and significant financial impact on the District's financial stability and would allow them to be able to continue the level of services being provided. Overall, the financial plan shows the District in a significant better financial position, which is largely due to the increase in state aid it was awarded for this upcoming fiscal year which is carried through the financial plan.

As discussed by the Superintendent, the PEG action plan isn't prioritized and an assessment of the effect of these actions on the educational achievement and welfare of the students has not been provided. It is an important process to go through so that difficult decisions are not being made in a crisis mode and allow for parental input. The overall implications of the PEG plan are much less substantial. The approach with the PEG plan was to provide a comprehensive list of actions and potential savings; the actual total projected savings or additional revenues included in the PEG plan exceed the projected budgetary gaps in total. Many of the actions in out-year one of the PEG plan carry forward to the next year, so without a prioritization of the PEG plan a determination of how the plan is balanced cannot be made. For example, if certain staff reductions don't occur in out-year one there would be not be a corresponding effect on out-year two and out-year three. Although a clear plan has not been provided, the total dollar amount of these actions exceed the projected budgetary gap to a level where and the financial plan is balanced.

Ms. Mongold-Robe concluded her comments.

Director Floss inquired about the financial plan going forward and what the assumptions were by the District on the GAP Elimination Adjustment ("GEA") as included in the State budget as opposed to the gap plan discussed here. He added that in FY 2007-08 school aid was cut as part of the formula and the GEA was put into the State budget. The State has been moving to eliminate the GEA by adding additional funding above and beyond normal school aid funding.

There is a proposal by the New York State Senate to, over the next year or two in their budget, eliminate the GEA. Although speculative, he asked if this additional funding was reflected in this budget. Ms. Mongold-Robe replied that the assumption throughout the financial plan was that the GEA would remain constant with what was included in the current State budget. Any reductions to the GEA would reflect additional revenues to the District above and beyond what is included in the Financial Plan.

Mr. Miller returned to the presentation of the District's proposed budget and four-year financial plan with the following introductory comments:

<u>District FY 2014-2015 Proposed Budget Summary</u>

- The District is currently faced with a structural imbalance, as current expenditures exceed current revenues.
  - The deficits at fiscal year-end ("FYE") 2012 and FYE 2013, were a combined $27.5 million;
  - The deficit projection for the current fiscal year ("CFY") is $26 million; and
  - The four-year cumulative deficit over the financial plan is $52.7 million.
- The proposed budget as submitted to the BFSA on May 1, 2014 has yet to be finalized. The CFY is year two of school-based budgeting and slightly less than half of the school based budgets had yet to be incorporated into the document, and therefore some areas were estimated.
- The FY 2014-15 proposed budget is balanced.
  - Revenues total $796.4 million; expenditures exceed this by $10.2 million. The gap is filled through the appropriation of Assigned Fund Balance. The budget does not include the appropriation of any Unassigned Fund Balance.
- FY 2014-2015 General Fund revenues exceed FY 2013-14 General Fund revenues by $33.5 million or 4.4%.
- FY 2014-2015 General Fund expenditures exceed FY 2013-14 General Fund expenditures by $12.6 million or 1.6%. The structural gap still exists but has narrowed.

<u>Significant Changes from FY 2013-14 Adopted Budget to FY 2014-15 Proposed Budget</u>
The main changes between the FY 2013-14 and FY 2014-15 budgets were highlighted, as follows:

- The District currently has an extended-learning program, funded through grants. The proposed budget appropriates $4.7 million out of the General Fund to expand this program;
- There is a retraction in spending for Special Education instructional services in the amount of $3.3 million. This is achieved by eliminating the Integrated Co-Teacher ("ICT") model in instances where it is non-mandated. The model includes a special education teacher in a regular instruction classroom with fewer than five special education students in that classroom and a special education teacher is not-mandated, the special education teacher may be assigned elsewhere, thus creating budgetary savings of $4 million. Only $3.3 million in budgetary savings would be realized because $700,000 would be reinvested in special education services;
- Physical Education is also expanded by $200,000; and
- Site closures and consolidations have been included.

District FY 2015-2018 Financial Plan Summary

With focus on the financial plan, Mr. Miller noted that the four year cumulative deficit was $52.7 million. Assigned fund balance of $25.0 million has been appropriated. Unassigned Fund Balance is maintained at approximately $12 million additional than what the minimum level required by Board of Education policy. The PEG Action plan addresses the remaining budgetary deficit and total projected savings and/or additional revenues total $64.4 million, which exceeds the remaining projected budget gap of $27.7 million by $36.7 million. The PEGs include:

- Staffing reductions,
- Program reductions,
- Administrative, alternative and/or swing site closures,
- Additional revenue,
- One-time savings, and
- Other notable areas.

Mr. Miller noted the FY 2014-2015 General Fund revenue totals $796.4 million as follows:

- ➢ New York State Aid – $550.3 million or 69%,
- ➢ New York State Building Aid - $114.8 million or 14%,
- ➢ City of Buffalo contribution - $70.3 million or 9%,
- ➢ Erie County sales tax - $40.5 million or 5%, and
- ➢ All other revenue - $20.5 million or 3%.

Mr. Miller reviewed the four-year financial plan and how it compared with the FY 2013-14 Adopted Budget. General Fund revenue of $796.4 million in the proposed budget grows over the four year plan a total of $851.1 million or 6.9%. The growth is driven by State Aid increases of $51 million, growth of $3.8 million in projected sales tax revenue, with the City contribution, New York State Building Aid and all other revenues held flat across the financial plan.

The FY 2014-15 General Fund expenditures by major categories was reviewed. The six major expenditure categories are:

- ➢ Employee compensation - $243.4 million or 30%,
- ➢ Employee benefits – $190.6 million or 24%,
- ➢ Debt service - $120 million or 15%,
- ➢ Other expenditures (e.g. contracts, utilities, etc.) - $110.1 million or 14%,
- ➢ Charter schools payments - $98 million or 12%, and
- ➢ Transportation - $44.5 million or 5.5%.

In reviewing the categories across the financial plan, Mr. Miller noted:

- ➢ All areas are projected to increase except for debt service;
- ➢ The financial plan does not include the assumption of contract settlements; the 5.5% increase in employee compensation over the four years is solely for the purpose of step increases. The staffing plan is held flat across the four years;
- ➢ Employee compensation is held flat; employee benefits increase $22.4 million, or 11.7%;
- ➢ Payments to charter schools increase, while both enrollment and tuition increase across the financial plan, with the caveat that is this is the actual payment out to the Charter Schools based on enrollment. Beginning in the following fiscal year the District will

begin to receive a payment of reimbursement for the increase in tuition payments from this year; and

- Overall, total General Fund expenditures increase from $806.6 to $862.0 million, a $55.3 million dollar increase, or 6.9%, over the four years of the financial plan.

District Staffing

Mr. Miller reviewed District staffing as outlined in the financial plan. The review included the FY 2013-14 Adopted Budget, the 2013-14 FYE projection as of the end of the District's third quarter, and the FY 2014-15 proposed budget. It excludes the three out-years of the financial plan because the increases are only within the areas receiving the step increases and the staffing amounts are flat. On a budget to budget basis the number of full time equivalent positions budgeted is increasing by 74 positions from 4,103 to 4,177. Considering the present employment figures, the budgeted number of positions is a reduction of 100 fewer FTE in total and includes 120 fewer teacher FTEs positions.

Public School Enrollment: District and Charter School

In looking at the enrollment numbers, enrollment is generally projected to be flat over the four years of the financial plan. Enrollment of 40,778 was assumed in the 2013-14, Adopted Budget. It spikes to 42,300 in the 2014-15 proposed budget due to a larger number of students enrolling especially in pre-kindergarten than originally assumed. The enrollment increase is carried through each year of the four year plan. Within District public schools there are decreases projected of 700 FTE students over the four year plan while Charter School enrollment increases over the four year plan public school enrollment is projected to increase from 42,300 to 42,625, just fewer than 1%.

Vice-Chair Doherty asked for clarification about enrollment. She asked if the spike in District enrollment from 32,765 in the FY 2013-14 adopted budget to 34,700 in the FY 2014-15 proposed budget is caused by people moving into the City. Mr. Miller responded it is due to many factors. A demographics study is scheduled to be completed later this year to refine the enrollment projections. He noted that a significant portion of the increase was from students from transferred within District schools from the former Pinnacle Charter School as well as a larger than anticipated pre-kindergarten enrollment.

Ms. Barbara Smith added that some of the projected enrollment increases are due mostly to ELL students projected to transfer to District schools as well as transfers to District schools from closing area Catholic schools.

Mr. Miller added that the assumption of increased enrollment in area charter schools was based on expanded capacity within existing charter schools as well as the assumption that two new schools would open in FY 2015-16.

Major District Cost Drivers

One of the two major cost drivers for the District is the tuition payment to charter schools. Tuition payment increases as enrollment at charter schools increases. The FY 2014-15 proposed budget anticipates tuition payments to charter schools at $98 million and increasing by $24.8 million, or 25.3%, to $122.8 million in FY 2017-18.

Chair Olsen inquired if the District must maintain capacity to absorb students who shift from charter schools on an annual basis. Ms. Smith replied that the District will maintain buildings to be sure they have capacity for all students. Chair Olsen noted those are additional costs that aren't represented in terms of payments to charter schools. There are a number of costs that aren't reflected and there needs to be a clear understanding of how the funding of the charter schools operates.

Director Floss asked if there was any expectation that the District would receive a portion of the additional pre-kindergarten funding to be appropriated by the State of New York. He asked if any of the area charter schools were applying for these funds. Ms. Smith replied she is unsure of the charter schools intents and the applications for the funds are not due yet. The District's Early Childhood Department will be handling the application process for this funding.

The second major cost driver for the District is retiree and active employee health insurance expenditures. Mr. Miller reviewed the cost for these two categories combined in the proposed budget of $114.0 million and increases to nearly $140.0 million, or 21%, over the four year plan. The health insurance increase is somewhat tempered; there is an assumption of 6% annual growth within health insurance premiums for active employees based on the Affordable Care Act. Chair Olsen noted it is remarkable to see the cost disparity growing between the active employees and the retirees.

District Programs to Eliminate the Gap Action Plan

Mr. Miller reviewed the District's PEG action plan. The PEG action plan is a list of potential actions which could be considered to balance budgets in the out-years of the financial plan. It does not include specific recommendations how to approach the actions in a prioritized order.

Mr. Miller reviewed the six PEG Actions options. They are:

1. Staff Reductions:
    - Beginning in 2015-16 a reduction of 50 bus aides for saving of $2.1 million over the course of the financial plan;
    - Process automation and department consolidations for a savings of $7.5 million. Fiscal year 2015-16 would see an reduction of 23.5 FTE's and an additional seven FTE's in each out-year; and
    - A reduction of Assistant Principals, Guidance Counselors, Psychologists and Social Workers in fiscal year 2015-16 resulting in 43 fewer FTE's and a savings of $13.6 million.

Director Floss inquired if the staff reductions would be done through attritions. Ms. Smith responded some of the reductions would be due to attrition, with the exact number unknown.

Director Jurasek inquired about the PEG action reduction of 43 FTE's relating to Principals, Guidance Counselors, Psychologists and Social Workers as an option. Ms. Smith noted they looked at similar school districts and the formulas those districts used to fund these positions and a range of what the reductions could be for each of the categories, depending on certain criteria, was the result. There are options within these options to be considered as necessary. Director Jurasek and Chair Olsen clarified that this does not necessarily mean layoffs would occur.

Director Jurasek addressed Ms. Smith and commented that the Directors saw from the City's three year projection a workforce reduction of ten. When the District built the three year projection, was the assumption a flat level of staffing? Ms. Smith confirmed that this was the assumption.

Mr. Miller continued his summary of the District's PEG action plan:

2. Program Reductions:
    - Reduce school-based budgets for a savings of $3.4 million, resulting in the reduction of 11 FTE's in the 2015-16 fiscal year;
    - Eliminate modified sports for a savings of $1.1 million; and
    - Reduce the extended learning program for a $3 million savings.
3. Administrative, Alternate and/or Swing Site Closures:
    - The WNED lease will not be renewed for a savings of $800,000; and
    - Following the comprehensive demographic study, two non-reconstructed schools could close in fiscal year 2016-17 for a savings of $10.3 million. The loss on building aid is not significant.
4. New Revenues:
    - The PEG Action Plan notes the City's contribution has been flat since it was increased to $70.3 million. Additional funding of $12 million is proposed within this PEG Action Plan; the BFSA Staff found this to be speculative.
5. One-Time Savings:
    - Equalization of Bell Times – largely a one-time savings, equalization of bell times would mean changing the actual start and close times in order to more efficiently use buses. Of the $4 million in potential savings, $3 million would take effect upon implementation in fiscal year 2015-16; because the District receives such a sizable reimbursement on their prior year's expenditures for transportation, the impact of this PEG action would be diminished over the final two years of this financial plan; and
    - Transfer of net assets from closed charter schools for additional revenues of $2 million. This is a conservative estimate. This item highlights a newly-enacted New York State law requiring the net assets of a closed charter school to follow the pupil's transfer. For example, Pinnacle Charter School closed and all of the students transferred within the District, the net assets of Pinnacle Charter School will also transfer to the District.
6. Other Notable Areas:
    - Each year there is a Reserve for Contingency budget line which allows the District some flexibility for unforeseen expenditures. It is listed in the proposed PEG Action plan as a potential to eliminate or reduce this line and realize a savings of $4.5 million across the three out-years of the financial plan;
    - There is $12.0 million of Unassigned Fund Balance available;
    - Also noted is a budget workout with Say Yes to Education to identify other potential savings; and
    - New York State Aid lobbying efforts continue.

Mr. Miller reviewed a snapshot of all the PEG actions; it showed the FTE reductions and the potential budgetary savings assumed across the four years of the financial plan.

Mr. Miller advanced the presentation to the next item: a review of the New York State law and policy changes that the District had proposed and requested BFSA's collaboration to amend, as follows:

- Reliable Funding Sources:
  - Foundation Aid has not increased as envisioned when it was created in fiscal year FY 2007-08 and the cumulative adjustment reduction of the GAP elimination adjustment since introduced in FY 2010-11 is $94 million; and
  - The City's contribution has remained flat at $70.3 million since the FY 2007-08 and the District does not have the ability to raise its own funds.
- Triborough Amendment

  The District requests the Buffalo Fiscal Stability Authority's collaboration in working to reform the Triborough Amendment in a matter that is fair to public employees and taxpayers.

Director Floss noted that the Triborough Amendment does not apply to retiree benefits once an employee has entered the State retirement system. Negotiators do not negotiate employee pensions and current retiree health benefits. Changing the Triborough Amendment would not have an impact on current retirees' benefits. Also, the perpetuity component of the contracts does not apply to pensions.

Chair Olsen clarified that the amendment applies to fringe benefits and step increases. It is problematic because it removes the incentive to negotiate when an employee is receiving fringe benefits and step increases without having to give back any of the benefits. It makes it difficult to foresee a situation which would be reasonable to negotiate. It is important to bring the service providers into contract so you can have an effective relationship rather than always question will this savings which needs to be negotiated, be possible.

Director Floss noted it was not the Triborough Amendment spoken about in the District's Financial Plan. Pensions and retiree benefits can't be changed per the New York State Constitution unless you call for a constitutional convention to change pension law. The United Federation of Teachers in New York City, after eight years of negotiations, has settled a contract. One of the benefits of having the Taylor Law and the Triborough Amendment in place is that there haven't been the strikes, particularly in the field of education, that have been seen in many other states which have caused an amazing amount of damage in those states. He made the recommendation that this is not one of the Board's major priorities.

Chair Olsen disagreed and noted that while it's important to have fair treatment of the unions who lack the right to strike, that fair treatment can be best reached by freezing the obligation to pay fringe benefits at the amount that was last in contract so that as years go by the massive increase in contract costs including health care costs are more balanced. The Triborough Amendment originally resulted from a public authority which canceled benefits when a contract ended. The cancellation of benefits should not be allowed to happen but over the years an imbalance has occurred between the policies to be served and how it works in practice, particularly in the area of education. It is critical to work out a sensible and fair proposal. Another change to consider for those out of contract is to go through a "fact-finder" process. If it is unsuccessful a city's common council can impose a provision that is specifically taken away from the public education system.

Director Floss noted the original Taylor Law had binding arbitration that was changed by New York State.

Mr. Miller concluded his presentation and deferred to Ms. Mongold-Robe to summary the staff's conclusions on the FY 2014-15 Proposed Budget and FY 2015-2018 Financial Plan.

Ms. Mongold-Robe provided a summary of BFSA's conclusions. She noted the FY 2013-14 fiscal year budget is balanced with the use of $10.2 million of Assigned Fund Balance including $5.6 million previously reserved for retiree health insurance costs and $4.2 million for the settlement of contracts. The Unassigned Fund Balance is maintained at $44.0 million and does exceed the District's 4% minimum fund balance policy.

The four-year financial plan includes the use of $25.0 million in Fund Balance:

- $5.5 million was reserved Other Postemployment Benefits ("OPEB"); and
- $18.6 million of the fund balance set-aside for the settlement of contracts has been included.

The BFSA staff typically forewarns the use of fund balance to fund operational deficits as being an unsustainable practice. Chair Olsen commented that the diminishment of fund balance set aside for settling contracts continued to be appropriated for general operations. As this reserve is diminished, it will be more difficult to fund the retroactive and prospective costs of settling expired labor agreements

Secretary Arthur asked how much the decrease was over the past four years for the settlement of the teachers' contract. Ms. Mongold-Robe replied that the exact amount would be provided following the proceedings.

There are significantly smaller budgetary gaps in the FY 2015-2018 financial plan compared to last year's plan. The potential options to eliminate the gap total $64.4 million, which greatly exceeds the projected budgetary gap of $28 million. In total, $19.5 million of the PEG plan is considered highly speculative and relies on increases from the City and the ability to change the bell times.

The BFSA recommends that:

- District management evaluate the individual actions in the PEG Action Plan with respect to the potential impact on the educational achievement and welfare of its students and prioritize the financial plan based on this evaluation; and
- The process should be discussed with and approved by the Board of Education. The evaluation should consider the financial impact that would result from not being able to reduce the projected number of FTEs in FY 2015-16 and adjust the financial plan accordingly.

Ms. Mongold-Robe noted that the District has little to no control over major cost drivers including:

- Step increases continue to be provided under New York State law;
- Health insurance for both active and retirees continue to grow;
- Pension rates;
- Payments to charter schools that continue to increase as enrollments rise. There is a one year lag on the reimbursement the District will receive to cover enrollment tuition costs. Ms. Mongold-Robe mentioned Ms. Smith and the District lobbied very hard for the charter school legislation; and
- The proposed budget is yet to be finalized; it lacks half of school-based budget requests and discretionary spending in non-mandated areas is not fully known.

This concludes the presentation on the District's proposed Budget and Financial Plan.

At 3:23 PM Vice-Chair Doherty exited the proceedings.

At 3:24 PM Mayor Brown's proxy, Commissioner Estrich, exited the proceedings.

<u>Buffalo Municipal Housing Authority</u>
FY 2014-2015 Budget & 2015-2018 Financial Plan

Chair Olsen noted the report on the Buffalo Municipal Housing Authority's FY 2015-2018 Financial Plan was not finalized. Secretary Arthur stated they have always been slow and we have had problems with them reporting timely. Ms. Mongold-Robe commented that Mr. Robert Miller was the analyst for the BFSA on the BMHA and they had been proactive over the past few months in meeting with the BMHA Deputy Executive Director and Legal Counsel to discuss the problems the BFSA is having with obtaining information.

Secretary Arthur asked if BFSA has registered a protest with the BMHA Board of Commissioners and ask them to direct their staff to provide the information. Ms. Mongold-Robe has informally contacted the Chair.

Secretary Arthur would like the request to be formal and asked that a formal BFSA resolution be approved to send the request to the BMHA Board of Commissioners, outlining the ongoing problems and asking for the cooperation of the BMHA staff.

Director Mesiah asked if there was a penalty that could be imposed. Unless a penalty could be imposed, a formal resolution is a waste of time.

Secretary Arthur felt the BMHA Board of Commissioners needed to have formal notice, by way of a resolution from the BFSA Board of Directors, that there is an ongoing problem and that perhaps "heads needed to roll" to get some cooperation from the BMHA.

BFSA Legal Counsel, Attorney Jim Magavern replied the statute does give the BFSA the authority to require information and there is a penalty for willful refusal to comply. This is not something that is used often but it is available if an extreme situation calls for its need.

Director Mesiah does not believe the situation has not reached the point of willful refusal.

Secretary Arthur expressed that the BMHA has had a history going back years of not providing information as requested and believed it has reached the point of necessity for a formal notice to the BMHA Board of Commissioners, for them to know the lack of cooperation that has been going on and the BFSA Director's dissatisfaction with the situation.

Chair Olsen asked how late the BMHA reports were last year. Ms. Mongold-Robe replied that the reports were received a few days before the June meeting.

Chair Olsen agreed with Secretary Arthur that a formal complaint to the BMHA Board of Commissioners indicating the BFSA Directors have exhausted their patience over the years and we respectfully urge them to ensure this does not continue. There are penalties that could ultimately be imposed and the inadequate submission of material from BMHA has persisted for a long time.

Mr. Williams inquired as to the difference between a formal and informal request. He believed that the Board of Commissioners was unaware of the problem the BFSA had in obtaining information.

Chair Olsen replied that an informal notice would be for Ms. Mongold-Robe to communicate the Board's displease verbally versus the Board adopting and issuing a formal resolution. Secretary Arthur insisted the request needed to be formal with the whole BFSA Board on record in order to have the desired impact.

Secretary Arthur made a motion to send a formal complaint to the BMHA Board of Commissioners outlining the difficulties the BFSA is having with the BMHA staff in receiving materials in a timely basis, and there could be repercussions and penalties if it persists.

Chair Olsen seconded the motion.

The Board voted 6-0 to approve this motion. It passed unanimously.

<u>Buffalo Urban Renewal Agency ("BURA")</u>

Review of Budget and Financial Plan

Chair Olsen deferred to Ms. Mongold-Robe to discuss items related to BURA. She provided the following information:

- BURA is primarily funded through U.S. Department of Housing and Urban Development ("HUD") grant awards with Community Development Block Grant ("CDBG") constituting 65% of the total revenues;
- Funding for HUD grants is approved by Congress; funding formula based population being a major factor;

  - Due to the population decline noted in the 2010 census results, there has been a 10.7% decline of aid the City has received.
- HUD awards have decreased 23% since FY 2011-12, or $5.1 million, due to the impact from the 2010 census and overall Federal funding reductions;
- Monies are available from previous grant awards. The Financial Plan includes only current year grant awards and related expenditures.

Regarding the administration of programs, Ms. Mongold-Robe noted:

- HUD mandates the City perform many of the administrative functions. This is currently being performed by the Comptroller's Office in the Department of Audit and Control. This office draws down funds, pays the subrecipients, audits payments to vendors, and has entered into a subrecipient agreement with BURA and as a result must monitor BURA.

From an overall HUD funding standpoint, there is an approximately $200,000 decrease in HUD funding from year to year. The largest amount, CDBG has decreased by $420,000 or 3.1%.

Ms. Mongold-Robe showed a visual snapshot of the Financial Plan during her review. The snapshot showed:

- The 5% decrease of CDBG and Housing Opportunities Made Equal ("HOME") on an annual basis;
- Emergency Shelter Grant ("ESG") is projected to decline;
- Housing Opportunities for Persons with AIDS ("HOPWA") is projected to stay flat;
- A spike in program income in 2014-15 to $2.3 million which includes $1.4 million for the sale of the Market Arcade Building.

Over the five years of the financial plan there is a $4.1 million decrease in total HUD funding. BURA submitted a five year financial plan rather than the standard four year plan this year.

Ms. Mongold-Robe recapped CDBG funds are the most significant grant source at 65% to 71% of total grant revenues for BURA. HOME is the second largest amount at 12% to 16%. The final two grant sources, HOPWA and ESG are not particularly significant at 3% to 5% of total revenues. Program income is 7% to 13% of total revenue and must be reinvested into the programs.

BURA expenditures are broken up by program and administrative costs. A recommendation Ms. Mongold-Robe has made to BURA management is to modify the Financial Plan to provide more information on what the Administrative Costs are, because the way it is developed now it is difficult to tell if grants are adequate to fund Administrative expenses.

Regarding the staffing model, it does increase by one individual from last year's budget for a records custodian. The Department of Audit and Control has three employees funded by HUD dollars. The limitations for Administrative expenses include:

- CDBG = 20%
- HOME = 10%
- ESG = 7.5%
- HOPWA = 3.0%

Other Notable Items:

- No increases for salaries are included; the CBA expired June 30, 2013;
- BURA has hired Mr. Thomas Baines as the Director of Finance, Control and Administration;
- BURA continues to pay on the Section 108 Loan Guarantee Program. There is $6 million outstanding: $4 million on July 1, 2013 due to defaulted loans between $1.2 million and $2.4 million is budgeted to be paid annual through FY 2018-19 for principal and interest. After FY 2018-19 the funds will be repaid fully and the money can then be returned back into program expenses; and
- BURA will continue to strategically assess their real property portfolio and sell properties. There are approximately 85 properties held for redevelopment in accordance with grant regulations.

In conclusion Ms. Mongold-Robe noted the BFSA has requested an amendment to the Financial Plan to include more information on the budgeted salaries and fringe benefits. This request is included in the draft resolution provided to the BFSA Board of Director.

Ms. Mongold-Robe concluded her review of the BURA Budget and Financial Plan.

Secretary Arthur requested the Directors discuss future plans for the BFSA office and meeting location at the June 2014 BFSA Board Meeting, in light of the sale of the Market Arcade Building.

Approval of the Budgets and Financial Plans

Chair Olsen introduced the Resolution in the Board book: "Declaration of Incomplete Financial Plan and Future Modifications to the Financial Plan," and requested a motion to move the item.

Secretary Arthur offered a motion to approve Resolution No. 14-04.

Director Floss seconded the motion.

RESOLUTION NO. 14-04
DECLARATION OF INCOMPLETE FINANCIAL PLAN AND FUTURE MODIFICATIONS TO THE FINANCIAL PLAN

WHEREAS, Article 10-D Title 2 of the Public Authorities Law ("the BFSA Act") requires the City of Buffalo (the “City”) to submit a four-year financial plan that includes the City of Buffalo, the Buffalo Public School District (the “District”), the Buffalo Municipal Housing Authority (“BMHA”) and the Buffalo Urban Renewal Agency (“BURA”) (collectively the “Financial Plan”) along with the Mayor’s proposed City budget to the Buffalo Fiscal Stability Authority (“BFSA”) not later than the date required for submission of the budget to the Common Council as set by the City Charter; and

WHEREAS, the City of Buffalo submitted the proposed City budget and related Financial Plan to the BFSA on May 1, 2014; and

WHEREAS, pursuant to §3857 of the BFSA Act, the BFSA is required to determine within twenty days after submission of a Financial Plan whether the Financial Plan is complete and complies with certain provisions of the BFSA Act, and to submit its recommendations with respect to the Financial Plan; and

WHEREAS, pursuant to §3857.3 of the BFSA Act, the Financial Plan shall be in such form and shall contain such information for each year during which the Financial Plan is in effect as the BFSA may specify; and

WHEREAS, pursuant to §3857.4 of the BFSA Act, the Financial Plan shall include any information which the BFSA may request to satisfy itself that projected employment levels, collective bargaining agreements and other actions relating to employee costs, capital construction and other such matters as the BFSA may specify are consistent with the financial plan; and

WHEREAS, the BFSA has determined that additional information is required to be submitted by BMHA in order for the BFSA to determine whether BMHA’s Financial Plan is complete and complies with certain provisions of the BFSA Act; and

WHEREAS, the BFSA has determined that additional information relating to projected salaries and fringe benefits is required to be submitted by BURA in order for the BFSA to determine whether BURA’s Financial Plan is complete and complies with certain provisions of the BFSA Act; and

WHEREAS, by Resolution No. 13-07 adopted June 19, 2013, BFSA found the Buffalo School District's Financial Plan for Fiscal Years 2013-2014 through 2014-2017 to be complete and compliant with the standards set forth in BFSA Act §3857, subd. 2, subject to certain reservations relating to lack of specificity as to potential program cuts in fiscal years 2014-2015 through 2016-2017 ("the out years") and the potential effects of such cuts on student achievement and essential services, and in light of those reservations BFSA requested a report providing further information in that regard and identifying any changes in state law or policy that would better enable it to perform its mission; and

WHEREAS, the District provided a report in January, 2014; and

WHEREAS, by Resolution No. 14-02, adopted March 26, 2014, BFSA found the District's report to be incomplete and informed the District that in order for the next Financial Plan to be found complete and in compliance with the standards set forth in BFSA Act §3857, subd. 2, it would be necessary for the District to:

> (1) clearly define and delineate the District's potential actions to close the budgetary gaps in the out years of the Financial Plan; and
>
> (2) provide evidence regarding the likelihood achievement of additional revenues and budgetary savings; and
>
> (3) specifically identify those programs, services, or levels of services that would be reduced or impacted as outlined in the District's Programs to Eliminate the Gap; and
>
> (4) assess to the extent possible the effect of such changes upon the District's financial stability and the educational achievement and welfare of its students; and
>
> (5) identify any changes in state law or policy that would better enable it to perform its mission; and
>
> (6) to review with and request the approval of the Plan by the Board of Education.

WHEREAS, the Financial Plan submitted by the District on May 1, 2014:

> (1) is expected to be approved by the Board of Education at a meeting on May 14, 2014, but was not approved prior to its submission to BFSA on May 1, 2014; and
>
> (2) is substantially more specific and informative than the Plan it submitted in 2013; but provides a list of potential savings and staffing and program cuts that could be effected in order to close the gaps in the out years of the Plan, without expressing the District's best judgment at this time as to which of those savings and cuts should be effected, if necessary to, and as to the effect of such savings and cuts on student achievement and welfare; and

WHEREAS, with its Financial Plan the District has proposed two reforms in state law and policy: (a) adherence by the state to a reliable formula for state financial assistance; and (b) modification of the Triborough Amendment of the Taylor Law.

WHEREAS, the District Superintendent has requested additional time to be able to delineate and prioritize the potential actions to close the budgetary gaps in the out years of the Financial Plan and to assess the effect of such savings and cuts on student achievement and welfare.

NOW THEREFORE BE IT RESOLVED that the BMHA is to submit information as requested by BFSA staff by May 30, 2014; and

NOW THEREFORE BE IT RESOLVED that the BURA is to modify its Financial Plan to include detailed summaries of projected salaries and fringe benefits as requested by BFSA staff by May 30, 2014; and

BE IT RESOLVED FURTHER that the District shall specifically delineate those potential actions to close the budget gaps in the out years of the 2015-2018 Financial Plan by prioritizing such potential actions, and such process should be performed as soon as practical; and

BE IT RESOLVED FURTHER that the Superintendent of the District shall review the modified Financial Plan with the Board of Education to the extent necessary to clearly define the actions comprised by the District's Programs to Eliminate the Gap and assess the effect of such changes upon the District's fiscal stability and the welfare and educational achievement of its students and request approval of the Financial Plan by the Board of Education; and

BE IT RESOLVED FURTHER that BFSA will require the District's Financial Plan for Fiscal Years 2015-2016 through 2018-2019:

> (1) be approved by the Board of Education prior to its submission to BFSA on May 1, 2015; and
>
> (2) recognizing that plans for the out years should represent the best judgment of the District at the time the Plan is adopted and are necessarily subject to modification in light of new information and evolving priorities from year to year, to identify specifically any reductions in staffing, services or programs that may be proposed to eliminate gaps in the out years of the Plan, and to assess the impact of such cuts on the achievement and welfare of its students.

The Board voted 6-0 to approve Resolution No. 14-04.

Chair Olsen returned to the agenda and introduced the final agenda item as an Executive Session to receive legal advice. He noted this was carried over from the March 26, 2014 meeting. Ms. Mongold-Robe mentioned that the Director who requested it has left the meeting. Chair Olsen asked the remaining Directors if they felt the item should be tabled to the June Meeting.

Secretary Arthur motioned to table this item.

Director Floss seconded the motion.

The Board voted 6-0 to approve this motion; it passed unanimously.

Summary of the BMHA

Before concluding the meeting, Ms. Mongold-Robe briefed the Directors on a few notable items relating to BMHA.

- The message BFSA has received from the BMHA is they are having significant financial difficulties and are at dangerously low reserves;
- The BMHA is reducing a significant number of positions, not only through attrition but also through layoffs;
- The BMHA Central Office costs are out-of-balance with the revenues generated; and
- The BMHA did a better job with the Financial Plan this year with respect to:
    - Including Marine Drive and recognizing the costs and revenues;
    - Including the Section 8 program in the budget for the first time, however prior year information is not included which hinders the BFSA Staff ability to adequately report the impact to the Board; and
    - There was a budget a loss of $4.2 million this year, which has already been exceeded.

Ms. Mongold-Robe stressed again there are financial issues facing BMHA and this Board needed to be aware of them. BMHA will be asked to provide a Cash Flow Statement with their Financial Plan as it is very important for this Board to have an understanding that they are not going to all of a sudden have a cash deficit position. It is our understanding the BMHA starts drawing on the City to pay for deficits.

Secretary Arthur relayed his understanding that the City of Buffalo is responsible for any deficit of the BMHA. He additionally noted there are differences between State Aid and Federal Aid with developments and the financing of the two. A brief history regarding the source of aid, State or Federal, for a few of the housing developments was given by Secretary Arthur and there is uncertainty about the current source of aid.

This concluded the summary on the status of the BMHA.

Adjournment

Chair Olsen requested a motion to adjourn.

Secretary Arthur offered a motion to adjourn.

Director Floss seconded the motion.

The Board voted 6-0 to adjourn.

The Board adjourned at 3:42 PM.