

BUFFALO FISCAL STABILITY AUTHORITY
Meeting Minutes
December 9, 2015

The following are the minutes from the meeting of the Buffalo Fiscal Stability Authority (the “BFSA” or the “Authority”) held on Wednesday, December 9, 2015, in the first floor conference room of the Buffalo Market Arcade Complex. The meeting was called to order at 1:01 PM.

Board Members Present

Interim Vice-Chair Richard Jurasek
Secretary George Arthur
Director Frederick Floss
Director Dorothy Gallagher-Cohen
Director Frank Mesiah
County Executive Mark Poloncarz (proxy Williams)

Board Member(s) Excused

Chair R. Nils Olsen
Mayor Byron Brown

Staff Present

Executive Director Jeanette Robe
Comptroller Robert Miller
Principal Analyst/Media Liaison Bryce Link
Senior Financial Analyst/Manager of Technology Nathan Miller
Administrative Assistant Nikita Fortune

Additionally Present

Mr. James Magavern, Esq., Magavern Magavern & Grimm LLP

Opening Remarks

Interim Vice-Chair Jurasek welcomed all attendees to the Board meeting and reviewed the logistics of the meeting as well as the agenda.

Roll Call of the Directors

Secretary Arthur called the roll noting that Chair Olsen and Mayor Brown were excused. A quorum being present, the meeting commenced.

Interim Vice-Chair Jurasek introduced Resolution No. 15-32, “Approving Minutes and Resolutions from September 21, 2015.”

Secretary Arthur made a motion to approve.

Director Floss seconded the motion.

The Board voted 5-0 to approve Resolution No. 15-32.

Buffalo City School District Items
FY 2014-15 Audited Financial Statements

Interim Vice-Chair Jurasek advanced the agenda to receive a presentation on the Buffalo City School District's ("BCSD's) fiscal year ("FY") 2014-15 Audited Financial Statements by Senior Financial Analyst/Manager of Technology, Mr. Nathan Miller. Mr. Miller addressed the Board and provided the following information.

The fiscal year-end ("FYE") results for the BCSD depict a budgetary surplus of \$10.2 million and an actual deficit of \$2.7 million.

Actual General Fund revenues were near 98.9% of the amounts originally budgeted.

Individual significant revenue budgetary variances included:

- New York State Aid – unfavorable by \$3.9M;
 - Lottery Aid favorable by \$11.5M,
 - Basic Formula Aid unfavorable by \$14.8M,
 - Miscellaneous Aid unfavorable by \$0.6M.
- Local Sources – unfavorable by \$2.7M;
 - Erie County Sales Tax unfavorable by \$0.3M,
 - Miscellaneous Local Sources unfavorable by \$2.4M.
- Federal Aid – unfavorable by \$1.9M (fluctuates yearly based on Medicaid reimbursements); and
- Interfund Transfers In – unfavorable by \$0.4M.

Actual General Fund expenditures were 97.6% of the final budget with a favorable budgetary variance of \$19.1M and an additional \$2.9M encumbered.

Individual significant variances include:

- General Support favorable by \$3.9M;
 - Central Services \$3.1M,
 - Finance/Staff \$0.8M.
- Instruction – Regular Schools favorable by \$9.5M;
 - Teaching Regular School \$6.7M,
 - Instruction, Admin., Improvements \$1.2M,
 - Instructional Media \$0.9M,
 - Pupil Services \$0.7M.
- Pupil Transportation favorable by \$2.1M;
- Employee Benefits favorable by \$5.3M; and
- Interfund Transfers Out unfavorable by \$1.6M.

The BCSD's fiscal year ended with its fourth consecutive deficit.

Total fund balance declined and was used to fill the gap between revenues and expenditures. Prior to the previous four fiscal years, the last deficit was during FY 2001-02.

Fund balance assigned for prior year claims which represents largely the amount for retroactive costs for collective bargaining was reduced by \$4.8M, roughly equivalent to the cost of the cosmetic surgery rider.

Total FYE 2014-15 General Fund revenue increased \$23.5M, or 3.1%, over FYE 2013-14, primarily driven by increases in NYS Aid. Total FYE 2014-15 General Fund expenditures increased \$11.6M, or 1.5%, over FYE 2013-14 driven by increases in total charter school payments as well as employee benefits which increased \$12M. The increase was due to health insurance for active employees as well as payments to the New York State Employees' Retirement System and the New York State Teachers' Retirement pension systems.

Director Gallagher-Cohen asked for clarification on the \$12.0 increase to employee benefits and how much of the increase was attributed to pension costs and how much to health insurance costs. Mr. Miller responded that the split is approximately 50/50.

The actuarial accrued liability for other postemployment benefits ("OPEB") was \$1.89 billion as of FYE June 30, 2015. The FY 2014-15 annual required contribution to fully fund the expenditure was \$169 million. The actual amount paid was much lower than that since the "pay-as-you-go" method was used. There is no legal mechanism to establish a trust to fund other postemployment benefit liabilities.

Director Floss questioned if the extreme change in liabilities from FY 2006-07 to FY 2013-14 was based on General Accounting Standards Board ("GASB") calculation changes. Mrs. Robe stated part of the change has been the continued increase in health insurance as well as further implementation of GASB requirements. Mr. Miller stated that a change in the length of the amortization period as well as the discount rate utilized in the assumptions also contributed to year-to-year fluctuations.

BCSD Interim Chief Financial Officer, Mr. Geoff Pritchard, addressed the BFSA and noted that the OPEB liability is determined using a series of assumptions such as the population size, projected rates of increase in healthcare costs, mortality of the population, and a determined discount rate.

Mrs. Robe highlighted the fact that Unassigned fund balance has remained flat over the past nine years. The remaining fund balance includes the amount set aside for collective bargaining agreements.

Director Gallagher-Cohen asked for clarification on the actual amount set aside by the District. Mr. Miller stated that \$56.7M in fund balance had been assigned in fund balance for settling prior years' claims associated with unsettled collective bargaining agreements. The amount has historically been reduced annually in the amount equivalent to the District's cost to provide a cosmetic surgery rider to several of the collective bargaining groups.

Director Floss stated his concern about the length of time that the District has been out-of-contract with the teachers and administrators unions. Given that the contracts have been expired for a protracted period of time, fund balance should be increasing instead of decreasing in order to increase the likelihood of reaching an agreement.

Interim Vice-Chair Jurasek asked Mr. Pritchard if he recalled the percentage of total General Fund revenue the BCSD received in New York State aid. Mr. Pritchard replied that New York State aid comprised approximately 80% of total General Fund revenues.

Erie County Constituent Services Assistant, Mr. Leonard Williams, entered the meeting 1:20 PM.

Mr. Williams represented County Executive Mark C. Poloncarz in accordance with Subdivision 1 of §3853 of the BFSAs Act.

Subdivision 1 of §3853 of the BFSAs 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...."

BFSAs Items

Mission Statement Performance Measurements Report, 2016 Meeting Calendar, & 2016-17 MWBE Goals

Interim Vice-Chair Jurasek asked for a motion to reorder the meeting's agenda to consider the three recommendations issued earlier by the BFSAs's Governance Committee: to approve the following items:

- Resolution No. 15-33: "Approval of the Buffalo Fiscal Stability Authority's Mission Statement Performance Measurements Report";
- Resolution No. 15-34: "Adoption of a BFSAs Board of Director Regular Meeting Schedule for Calendar Year 2016"; and
- Resolution No. 15-35: "Approval of the 2016-2017 Minority and Women-Owned Business Enterprise Goal Plan."

Secretary Arthur made a motion to reorder the agenda and consider all three resolutions in the form of a consent agenda.

Director Floss seconded the motion.

The BFSAs voted 6-0 to reorder the meeting's agenda and consider all three resolutions in the form of a consent agenda.

Secretary Arthur made a motion to accept the recommendations from the BFSAs's Governance Committee and approve all three resolutions.

Director Floss seconded the motion.

The BFSAs voted 6-0 to approve Resolutions No. 15-33 through 15-35.

Director Floss excused himself from the meeting at 1:26pm.

City of Buffalo

2016 Capital Budget and 2016-2020 Capital Improvements Plan

Interim Vice-Chair Jurasek advanced the agenda to the next item for consideration: a review of the City of Buffalo’s 2016 Capital Budget and 2016-2020 Capital Improvements Plan (the “CIP”). He asked Mr. Link to provide a summary for the Board.

Mr. Link addressed the Board and provided the following information:

There are a total of \$30.4M in 2016 projects that the Mayor has requested the Common Council approve; however, the City has only requested funding for \$20.6M in new projects as follows:

• Engineering – streets	\$7.6M
• City owned building improvements	\$4.1M
• Parks	\$3.6M
• Demolitions & tree management	\$2.5M
• Econ. Development & Cultural	\$1.5M
• Vehicles	\$1.3M
	<hr/>
	\$20.6M

The City of Buffalo Comptroller (the “Comptroller”) provided a maximum amount to be financed for FY 2014-15 of \$22.2M; the City approved \$29.1M in projects, which exceeded the cap by \$6.9M. The Comptroller’s cap for FY 2015-16 was set at \$21.3M. The City currently intends to finance \$29.5M in projects which constitutes \$20.6M of approved 2016 projects and \$8.9M from previously approved projects.

The five-year CIP establishes the current year capital budget, as well provides a schedule of capital improvements and acquisitions the City anticipates making over the following four years. The multi-year plan is to be used as a planning tool that allows the City to plan and coordinate projects over multiple years, and prioritize said projects. Recently, in FY 2015 and CFY 2016, the Mayor has proposed an annual capital plan which exceeded the maximum amount that could be financed without an offsetting reduction of planned spending in the remaining out-years of the CIP. We recommend the City revisit and modify the five year capital improvement plan to reflect this overage and reduce future out-year authorizations. The City should be selective in which debt to issue.

Management should pay close attention to the pattern of exceeding the Comptroller’s spending cap.

The City has not borrowed on behalf of the District since FY 2011-12 and is using refunding savings on its the Joint Schools Construction Board (“JSCB”) debt to fund the current capital projects and needs.

As of December 1, 2015, the outstanding capital proceeds from the FY 2014-15 borrowing (\$29.1M) is \$8M.

Mr. Link advised that the 2016 Capital Budget will be further discussed by the Common Council on December 14, 2015.

Mrs. Robe stressed the City has included demolitions and tree management in its 2016 Capital Budget as bondable items, which is allowable. The BFSA has recommended that these types of general expenses not be bonded as it is a more costly way to finance the expenditures which are routine in nature. The City has previously acknowledged this, but has deemed it necessary to borrow for these types of expenditures due to the fiscal constraints within the annual budget.

Mrs. Robe reiterated that the Mayor's 2016 Capital Budget as presented to Common Council has exceeded the Comptroller's maximum amount to be bonded/financed for the past two years. This has resulted in projects being approved without a plan for financing the projects.

City of Buffalo Accountant Bill Ferguson addressed the BFSA and stated that the Comptroller has concerns about the total capital plan exceeding the financing cap; these concerns are included with the response on the capital budget filed with Common Council on December 8, 2015.

Director Gallagher-Cohen questioned the process in deciding which projects are funded and which are not. Mr. Ferguson responded that the Comptroller would like some changes made to the selection process.

Interim Vice-Chair Jurasek asked if the financing requested was funded to the operating budget or if it is equal to borrowing. Mrs. Robe responded that financing request is the same as borrowing request.

Director Gallagher-Cohen questioned whether the designation of "authorized but unused" referred to the projects that are beyond the cap. Mrs. Robe confirmed this and stated that some of the projects are rolled over from year to year.

Interim Vice-Chair Jurasek stressed that the budget conversation between the Mayor, Comptroller and Common Council should address the importance of retiring debt.

Buffalo Urban Renewal Agency
FY 2014-15 Audited Financial Statements

Interim Vice-Chair Jurasek advanced the agenda to the next item for consideration: a review of BURA's FY 2014-15 Audited Financial Statements. He asked Mr. Link to provide a summary of the material.

Mr. Link addressed the Board and provided the following information:

BURA entered into a sub-recipient agreement with the City for implementing federal entitlement grants for the Community Development Block Grant ("CDBG"), Emergency Shelter Grant ("ESG"), Housing Opportunities Made Equal ("HOME"), and Housing Opportunities for People with AIDS ("HOPWA") programs; HOPWA is set to expire September 30, 2016. BURA is the administrator for such programs and performs planning, administration, and implementation of services for the programs.

Fund balance at June 30, 2015 consisted of:

- General Fund \$5.3M
 - \$3.1M Nonspendable (equipment, land, buildings)
 - \$2.2M Unassigned
- CDBG Fund \$739,375 Nonspendable.

Total FY 2014-15 expenditures were \$47.2M. FY 2013-14 and FY 2012-13 expenditures were \$50.2M and \$43.5M respectively.

Director Gallagher-Cohen questioned the decrease in expenditures between FY 2013-14 and 2014-15 as well as how the amount of is revenue determined. Mrs. Robe advised that the United States Department of Housing and Urban Development (“HUD”) determines the revenue funding by a formula. Mr. Link advised that a large amount of the funding is based on City census data.

Between 2013-14 and 2014-15, operating grants and contributions decreased approximately \$1.0M from \$49.7M to \$48.7M.

Mr. Link advised that the BURA budget includes prior years’ funds that are available to BURA. This information is not directly reflected on BURA’s quarterly reports.

Total expenses decreased by approximately \$600,000 between FY 2013-14 and 2014-15.

BURA has experienced a 43% decrease in OPEB between June 2011 and June 2015. The driving factors were:

- A reduction of the workforce by almost 50%;
- An increase in employee contributions toward health insurance; and
- Changing qualifying factors to receive health insurance.

The following were single audit findings of financial records and statements:

Finding #1:

- Material weakness identified over internal controls due to insufficient expertise in governmental accounting and lack of appropriate internal control procedures;
- Monitoring controls over financial reporting were not completely effective during the year;
- Resulted in delays to audit process, material adjusting entries, including prior period restatements, and difficulties in reconciling accounts.

Management’s response:

- Hired additional staff, including the Executive Director and an accountant;
- Reviewed and updated numerous policies that put a process in place where items are received, processed and tracked in a systematic manner; and
- Contracted with external accounting firms to provide technical assistance and expertise.

Finding #2:

- Material weakness identified over inventory records;
- BURA has not implemented procedures for conducting an inventory count of equipment.

Management's response:

- A physical inventory of equipment will be completed in 2016 and reconciled to the Agency's equipment records;
- A count will be completed once every two years.

Finding #3:

- Unable to reconcile financial information relating to the Community Development Block Grants and Home Investments Partnership program between federal reports and the financial data recorded in BURA's general ledger.

Management's response:

- Acknowledgment of lack of documentation for reconciliation;
- Implemented procedures to facilitate the reconciliation process between federal reports and the general ledger,

Follow-up of previous year's findings:

- Numerous adjusting entries which were material to the financial statements were identified;
 - Update: BURA has made progress, however similar finding, specifically the adjusting journal entries were reported for 2014 and again in 2015.
- Deficiencies in overall control environment, which led to improper reporting of encumbrances as long-term liabilities;
 - Update: BURA no longer reports encumbrances as long-term liabilities.
- Deficiencies in overall control environment related to financial reporting;
 - Update: Additional staff has been hired, however additional training is needed to adequately address this finding.
- Deficiencies in overall control environment related to grant compliance:
 1. Insufficient governance, oversight and the implementation of formal policies over grants,
 2. Recommendation to add an appropriate number of staff to aid in the internal audit function, specifically grant compliance.
 - Update: deficiencies in the financial control environment regarding compliance still exist.

Mrs. Robe emphasized the reporting problems and increased employee turnover at BURA make it difficult to obtain reports in a timely manner as requested by the BFSA.

Interim Vice-Chair Jurasek stated BURA received an extremely poor report card.

Mr. Link also stated that the position of Director of Finance and Administration had been vacant for a while and therefore there was no direction and no one managing the department. A person was hired and left after eight or nine months. BURA has since restructured itself.

Interim Vice-Chair Jurasek questioned if the BFSA would receive BURA's first quarterly report at the next Board meeting scheduled for March 2016. Mrs. Robe responded that it is hopeful that a first quarter report will be received by March 2016 but it is not guaranteed. Secretary Arthur stated there is hope for some improvement by BURA for the next Board meeting.

Hearing no further comments, Interim Vice-Chair Jurasek closed the discussion and advanced the agenda.

FY 2015-16 1st Quarter Summary Reports
City of Buffalo

Interim Vice-Chair Jurasek advanced the agenda to the next item for consideration: a review of the City of Buffalo and the Covered Organization's individual first quarter summary reports. He asked Mr. Link to provide an update on the City of Buffalo's report.

Mr. Link began his presentation and stated the projected revenues for the City are \$470.2M and the projected expenditures are \$482.1M for a projected deficit of \$12M. The City is planning to use Assigned fund balance to close the gap. The adopted budget planned the use of \$15M in fund balance so the first quarter saw a \$3M reduction in the planned use of fund balance.

The projected revenues of the adopted budget were \$476.5M. The revised projected revenue at the end of the first quarter was \$470.2M.

The City did implement its traffic adjudication department; however, there is a four to six month lag time between ticket issuance and the ticket being paid and because of this the projected revenue in fines for the current fiscal year, 2016, is expected to decrease by 20.3%.

Director Gallagher-Cohen asked if this change causes a permanent change in the budget and confirmed that there is no way for the City to 'make-up' for this miscalculation in budgeting. Mr. Link advised this is a one year occurrence and the City budget should reflect the expected revenue more accurately next year.

Intergovernmental revenue which is received from the State from parking surcharge fees is expected to decrease by \$300,000.

Expenditures are also expected to decrease from the adopted budget of \$491.5M to \$482.1M. The savings is attributed to a decrease in fringe benefits and vacancies within departments not being filled; the vacancy rate is 10.9%. The vacancy rate for fire is 5.0% and the vacancy rate for police is 11.0%.

The next police exam will be offered in spring/summer 2016 and the positions will take approximately 6 months to fill.

Considerations:

- This report is reflective of the first three months of the fiscal year only.
- Revenue from adjudication traffic tickets locally has a 4 to 6 month delay.
- Timing of implementing self-funded health insurance program may impact projected savings.
- Sales tax revenue should be monitored closely as it is currently projected to be flat year-to-year; however, it was budgeted at a 2.5% increase, or \$2.0M.

Hearing no additional comments, Interim Vice-Chair Jurasek advanced the agenda to the next quarterly review.

Buffalo City School District (“BCSD”)

Mr. Nathan Miller began his presentation with highlights of the first quarter:

- FY 2015-16 adopted budget deficit is \$11.1M. No adverse changes to the budget are projected at fiscal year-end (“FYE”) as of the end of the first quarter. If this deficit materializes it will be the fifth year in a row that the BCSD operating with a deficit.
- Dr. Kriner Cash was appointed as BCSD Superintendent in August 2015.

After the first quarter concluded, the BCSD received \$2.4M in additional New York State aid. The aid was divided between health services (\$1.2M) and contingency funds (\$1.2M) expenditures for the phase-out schools which are Bennett, East and Lafayette high schools. The budget was modified to recognize the increase in General Fund revenues and associated expenditures.

There is a projected FYE favorable budgetary variance of \$1.4M in General Fund revenues.

There is a projected FYE unfavorable budgetary variance of \$4.4M for General Fund expenditures. This is primarily based on employee compensation and fringe benefit costs. There were additional budgeted teaching positions added after the adoption of the budget; all have not been filled as of the end of the first quarter. The projected increase in employee compensation and benefits is based on the assumption that the newly budgeted positions will be filled.

The payments to charter schools is projected at an unfavorable variance of \$1.3M based on the number of Buffalo area pupils in public charter schools.

Conclusions:

- The projected FYE \$4.0M unfavorable budgetary variance may be offset by favorable variances identified during the current fiscal year;
- It is too early to determine if a budget modification will be necessary.

Hearing no comments of question Interim Vice-Chair Jurasek advanced the agenda to the next item for consideration.

Buffalo Municipal Housing Authority

Mrs. Robe addressed the BFSAs Board of Directors and provided the following information:

- BMHA had net income of \$288,000 for the first quarter as compared to a net loss of \$700,000 for the same time period;
- The HUD subsidy comprises 41% of the budgeted revenue. BMHA received an increase of \$34,900;
- The rent from tenants, which is the second largest revenue source at 30% of budgeted revenue, also increased by \$94,600;
- HUD voucher grants, 12% of budgeted revenue, were below budget by \$137,500. HUD is reducing reimbursement to let reserves draw down close to zero;

- Administrative expenses have exceeded the budget by \$96,000; salaries are exceeding the budget by \$236,000;
- Utilities expenses are below budget by \$207,200. Actual expenses are typically higher in the second and third quarters of the fiscal year as the weather gets colder;
- General expenses are also exceeding the budget by \$400,000 mainly due to health insurance costs for both active and retired employees;
- BFSA staff will be closely monitoring salaries as they are currently over budget. There are other resources expected to pay for the overage at a later date;
- BMHA has an employee vacancy rate of 6, or 3.3%, which is lower than first quarter 2015 by 24 positions, or 12.0%;
- The independent audit is still in progress.

Conclusion:

- BMHA has been successful in reducing overall costs;
- Salary costs were under budgeted as BFSA anticipated. Excess costs for salaries expected to be funded through other sources;
- BFSA will continue to monitor these costs.

Interim Vice-Chair Jurasek asked if the targeted number of positions to be cut was thirty. Mrs. Robe confirmed that BMHA has already achieved this as compared to last year.

Vice Chair Jurasek complimented BMHA's Assistant Executive Director Modesto Candelario, on the positive first quarter financial results. Hearing no additional comments or questions he turned the floor over to Mrs. Robe to provide information about the BFSA bond refunding.

BFSA Bond Refunding Update

Mrs. Robe stated that BFSA refunding bonds were priced on December 3, 2015. The net present value savings earned through the sale after all costs have been paid out is \$1.35M or almost 7% refunded bond savings.

Mrs. Robe thanked the many people involved with the refunding process including BFSA Comptroller Robert Miller, BFSA's legal counsel Mr. Jim Magavern, BFSA's financial advisor, Tracey Keys from PFM, bond counsel Charles Carey from Mintz Levin, and Eileen Foley from Ramirez which underwrote the bond sale.

The strong credit rating that BFSA holds contributed to the successful refunding opportunity.

Privilege of the Floor

Interim Vice-Chair Jurasek extended the Privilege of the Floor to any member of the attending public who wished to comment for the public record on any actions taken by the Board at the day's meeting.

Hearing none, he asked for a motion to adjourn.

Adjournment

Secretary Arthur made a motion to adjourn.

Director Mesiah seconded the motion.

The Board voted 5-0 to adjourn.

The Board adjourned 2:25 PM.