

**BUFFALO FISCAL STABILITY AUTHORITY**  
**Meeting Minutes**  
**May 18, 2016**

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The following are the minutes from the meeting of the Buffalo Fiscal Stability Authority (the “BFSA” or the “Authority”) held on Wednesday, May 18, 2016, 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**

Chair R. Nils Olsen  
Secretary George K. Arthur  
Mayor Byron W. Brown (proxy Estrich)  
Director Frederick Floss  
Director Frank B. Mesiah  
County Executive Mark C. Poloncarz (proxy Maloney)

**Board Member(s) Excused**

Interim Vice-Chair Richard Jurasek  
Director Dottie Gallagher-Cohen

**Staff Present**

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

**Additionally Present**

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

**Opening Remarks**

Chair Olsen welcomed everyone to the May Board meeting, thanked all that were in attendance, reviewed the logistics of the meeting, and reviewed the meeting’s agenda.

**Roll Call of the Directors**

Secretary Arthur called the roll. A quorum being present, the meeting commenced.

City of Buffalo Commissioner of Finance, Ms. Donna Estrich, represented Mayor Byron W. Brown in accordance with Subdivision 1 of §3853 of the BFSA Act.

Erie County Project Administrator, Ms. Siobhan Maloney 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 [of Buffalo] or County [of Erie], 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....”

### **Approval of the Minutes**

Chair Olsen introduced Resolution No. 16-04, “Approving Minutes and Resolutions from March 9, 2016”.

Director Floss made a motion to approve.

Director Mesiah seconded the motion.

The Board voted 6-0 to approve Resolution No. 16-04.

### **City of Buffalo**

Chair Olsen stated that the BFSA has received tentative labor agreements between the City of Buffalo (the “City”) and Local 264, representing blue collar employees, as well as Local 2651, representing building inspectors. Due to the timing of the submission, these items are unable to be reviewed today and will be reviewed at a subsequent meeting.

Director Floss suggested a special meeting be held prior to the next scheduled Board meeting which is scheduled for Tuesday, June 21, 2016, in order to advance the review of the labor contracts. The Directors agreed with the suggestion by consensus.

### ***Fiscal Year (“FY”) 2015-16 Third Quarter Report Analysis***

Chair Olsen advanced the agenda to the City of Buffalo’s FY 2015-16 third quarter report as well as the FY 2017-2020 Financial Plan to be presented by BFSA Principal Analyst Bryce Link.

Mr. Link addressed the Board and provided the following information. The FY 2015-16 Adopted Budget included estimated revenues at \$476.5 million, \$491.5 million of budgeted appropriations and a projected deficit of \$15.0 million. At the end of the third quarter, projected year-end revenues total \$465.7 million while projected expenditures are \$476.5 million. A resulting deficit of \$10.8 million is projected, representing a decrease of \$4.2M as compared to the FY 2015-16 Adopted Budget amount. The City is using fund balance to close out the deficit.

Major highlights of the budgetary revenue variances include:

- \$4.4 million unfavorable variance in miscellaneous revenues resulting from properties which were intended to be sold during the current FY and instead will close during the next FY.
- \$3.7 million unfavorable variance in fines which is largely attributed to the delay in the traffic adjudication process. There is a lag in City fine collections between the time the citation is written and the ticket is paid of approximately three to six months.
- \$3.6 million unfavorable variance in intergovernmental revenues due to a decrease in sales tax.
- \$0.6 million unfavorable variance in service charges attributed to lower than projected earnings from the Buffalo Sewer Authority and additional towing and storage fees.
- \$0.4 million unfavorable variance in licenses and permits due to fewer number of permits being issued.

- \$0.1 million unfavorable variance in interest earnings.

The decreases are offset by a favorable variance in payments-in-lieu-of-taxes (“PILOTs”) of \$2.1 million.

Total departmental expenditures are expected to be under budget by \$5.0 million. General Charges are projected to be under budget by \$10.0 million for a total favorable budgetary variance of \$15.0 million between year-end projections and the adopted budget. The favorable variances include:

- \$5.0 million net budgetary favorable variance in departmental expenditures. The police and fire departments are expected to exceed the adopted budget by \$3.2M. The variance in police department expenditures is due to the labor contract approved in July 2015. The remaining thirteen departments provide \$8.2 million in projected favorable budgetary variances which are primarily attributed to vacancies.
- \$10.0 million net budgetary favorable variance in general charges as follows:
  - \$10.8 million favorable variance in fringe benefits.
  - \$0.5 million favorable variance in utilities.
  - \$1.2 million unfavorable variance in other (primarily judgments and claims).
  - \$0.2 million unfavorable variance in debt service.
  - \$0.2 million favorable variance for all other

Director Floss questioned the variance in debt service. Ms. Estrich replied there was a lease that was unaccounted for.

- The \$10.8 million favorable variance in fringe benefits is broken down as follows:
  - \$4.0 million favorable variance for ERS pension
  - \$3.6 million favorable variance for salary accruals
  - \$2.4 million favorable variance for PFRS pension
  - \$1.0 million favorable variance for health insurance
  - \$336,500 unfavorable variance in payroll taxes
- Vacant positions continue to remain unfilled with 2,652 budgeted full-time equivalent (“FTE”) positions and 2,355 filled FTEs leaving 297 unfilled, or an 11.2% vacancy rate. Compared to last year’s third quarter there is a decrease of 60 vacant positions, specifically for fire and police.

Significant factors and conclusions include:

- Revenue
  - Collections from traffic adjudication have lagged three to six months, for a \$3.7 million budget variance.

Chair Olsen questioned when the City began traffic adjudication. Mr. Link responded the City received approval to begin July 1, 2015 and was operating by September 2015.

- Sales tax is estimated to be under budget by \$3.2 million.
- Any additional shortfalls would place additional pressure in the City.

Chair Olsen stated the Rainy Day fund has not been used by the City.

- Expenditures
  - Savings from self-funded health insurance may not materialize as projected due to six-month delay in implementation.
  - Overtime in both fire department and police department are over budget by \$1.3 million and \$1.9 million, respectively.

Chair Olsen questioned if the overtime costs will decrease with the onboarding of new hires. Mr. Link replied that due to the high rate of attrition, overtime costs were not expected to decrease much.

Chair Olsen asked how many positions the overtime costs are equivalent to. Ms. Estrich responded that the number is variable due to minimally required staffing levels and attrition.

### ***FY 2017-2020 Financial Plan***

Executive Director Jeanette Robe began the presentation of the City's FY 2017-2020 Financial Plan. From 2009 to 2015, a seven year period, revenues have increased \$23.4 million, or 5%. Over this same period expenditures have increased \$34 million, or 8.3%. Fund balance has increased, an indicator of fiscal improvement, over the same time period.

Total revenues since the BFSAs were created in 2003-04 have increased \$101.4 million, or 26%. Adjusted for inflation, the increase is \$2.1 million, or 0.4%.

NYS AIM has been held flat at \$161.3 million over the past 4 years and has remained relatively stable for the past 7 years. Since 2003-04, NYS AIM has increased \$58.5 million (57%); adjusted for inflation the amount of the increase is \$31 million (24%). NYS AIM has not increased while at the same time a property tax cap was imposed further straining municipalities' finances.

Chair Olsen questioned how much NYS AIM would increase if it had been adjusted for inflation. Ms. Robe replied that staff would perform this calculation and report back to the Board.

Executive Director Robe indicated that the growth of sales tax has tapered off over the past year. From 2003-04, sales tax has increased \$20 million, or 34%. The growth rate is 5.5% after backing out the inflationary impact.

Property taxes have declined since 2005-06 by \$9.1 million, or 6%. Adjusted for the impact of inflation, the decrease represents a 29% decrease in property taxes, both homeowners and commercial combined. Chair Olsen questioned the number and percentage of exempt properties, especially considering the expansion for the University at Buffalo and the related medical campus. Ms. Estrich stated 46-48% of properties are currently tax-exempt and the City is researching remedies enacted by other cities to address the situation. Director Floss stated his concern that taxing the students at the University at Buffalo would be the alternative, which has been the answer in other cities and would not be beneficial here. He then suggested addressing this issue at an upcoming special meeting. Chair Olsen agreed with Director Floss and stated that some creative suggestions need to be offered to SUNY Trustees and Governor Cuomo in

order to compensate for the additional strain on City resources. He also stated the “tax gifts” offered to private developers strain City finances.

Director Floss questioned if the analysis for the additional structures being built also includes their additional costs to the City with respect to maintenance, police and fire. Ms. Estrich also emphasized the importance of infrastructure problems that need to be addressed.

Director Floss questioned the reason for the decrease in the tax levy. Executive Director Robe stated the reduction was planned by the City’s Administration. Ms. Estrich indicated this practice resulted in a 30% reduction for commercial properties and 16% decrease for residential properties based on the assumption that lower taxes incentivizes people to move into the City. Director Floss requested that it be documented in the records that the decrease in taxes was a planned tactic to bring more people into the City.

Chair Olsen stated the Buffalo City School District (the “BCSD”) is an impediment for the City with respect to job creation and people moving into the City. Both Director Floss and Chair Olsen commended the City and the unions on the contracts they have been able to negotiate over the past few years.

Executive Director Robe stated that similar to what was seen with revenues, expenditures have remained stable since the inception of the BFSA in 2003-04 after adjusting the amounts for the impact of inflation; the actual amount increased \$100.2 million, or 26%, whereas the increase adjusted for inflation was approximately \$1.1 million, or 0.2%. It is noted that 80-85% of the General Fund expenditures are employee-related costs. The offset to the increase in salaries and wages has been a reduction to the staffing levels of the City while still providing the same level of services to the residents of the City. Ms. Robe then thanked the City’s Administration for their work on the City’s Financial Plan in addition to BCSD, the Buffalo Urban Renewal Agency (“BURA”) and the Buffalo Municipal Housing Authority (“BMHA”) for their reporting as well as to the BFSA staff for their hard work.

Ms. Robe then turned the presentation over to Mr. Link to explain the City’s Financial Plan. Mr. Link stated that revenues are expected to increase from \$483.2 million to \$499.6 million over the four years of the Financial Plan, while expenditures are expected to increase \$493.9 million to \$505.5 million over the same time period, resulting in a \$30.7 million deficit over the life of the Financial Plan. The resulting deficit is being funded with the use of fund balance.

Total General Fund 2016-17 revenue is budgeted at \$483.3 million and is comprised of the following:

- State aid is \$192.5 million, or 40% of the total;
- City based revenue is \$186.3 million, or 38% of the total;
- County revenue is \$82.8 million, or 17% of the total;
- Transfers in are \$13.1 million, or 3% of the total;
- Federal and Other equal \$8.6 million, or 2% of the total.

There is a projected use of fund balance of \$10.7 million.

The \$6.8 million increase in General Fund revenue from the 2015-16 Adopted Budget of \$476.5 million to the 2016-17 Proposed Budget of \$483.3 million is representative of the following:

- Miscellaneous revenue is increasing by \$2.3 million;
- Taxes are increasing by \$1.5 million;
- Intergovernmental increase of \$1.4 million;
- Service Charges are increasing by \$1.4 million;
- All other revenues net increase of \$0.2 million.

The available tax margin for FY 2016-17 is \$49.0 million, an increase of \$7.1 million, or 14.6%, which is equivalent to 66.2% its of taxing capacity.

The property tax levy is \$139.6 million; property tax revenue in total is budgeted to increase in FY 2016-17 by \$2.6 million, or 1.9%. The real property tax levy is projected to increase beginning in FY 2018-19 with an average increase of 2.2% annually.

Mr. Link stated the City is still in the beginning stages of the City-wide tax reassessment process and expects it to begin in FY 2017-18 and to take twelve to fifteen months to complete.

Financial Plan revenue highlights are as follows:

- Revenue is projected to increase \$16.3 million;
- Intergovernmental revenue is increasing by \$9.2 million, or 3.6%;
  - State AIM is increasing 2% in FY 2018, 2019, 2020 which is equivalent to \$4.9 million;
- Sales Tax is estimated to be flat in FY 2016-17 and increases 1.5% annually over the three remaining out-years;
- Taxes are increasing \$9.0 million, or 6.0%;
- Fines are increasing \$2.6 million, or 22.1%;
- Miscellaneous revenue is decreasing by \$6.2 million, or 36.3%;
- All other revenue sources remain flat, or have minimal growth
- Transfers in from Parking Enterprise Fund:
  - \$6.2 million in FY 2016-17, increasing to \$7.1 million and \$7.2 million in FY 2017-18 and 2018-19.
  - Decreasing to \$6.1 million in FY 2019-20.
- Continued dependency and use of available fund balance
  - Rainy Day Fund remains intact.
  - Unassigned Fund Balance will be used to close the deficit over the life of the plan as follows:
    - FY 2016-17: \$10.7 million, or 2.2% of total expenditures.
    - FY 2017-18: \$10.0 million, or 2.1% of total expenditures.
    - FY 2018-19: \$4.1 million, or 0.8% of total expenditures.
    - FY 2019-20: \$5.9 million, or 1.2% of total expenditures.

Chair Olsen questioned how much fund balance would remain. Mr. Link responded as of June 30, 2015, the Unassigned fund balance was \$43.4 million. With a planned use of \$30.7 million, the remaining amount would be approximately \$13.0 million including any carryover from this current fiscal year (“CFY”). Mr. Link stated fund balance was not used in FY 2012-13 or FY

2014-15 as a result of miscellaneous revenue being returned to the City with the settlement of labor contracts.

Total General Fund expenditures are budgeted at \$493.9 million, representing an increase of \$2.4 million, or 0.5%, over the prior year and consists of the following:

- Total departmental spending of \$231.3 million, or 46.8%, of total expenditures,
  - Includes projected increases for settled labor contracts,
- Total general charges total \$164.5 million, or 33.3%, of total expenditures.
  - General Charges assumptions:
    - The City will continue to benefit from self-insured health insurance which is budgeted to decrease by \$2.7 million.
    - Pension rates are budgeted to increase by \$1.8 million.
      - Increase for the Police & Fire Retirement System (“PFRS”) is \$2.0 million.
      - Increase for Employee Retirement System (“ERS”) is \$0.2 million.
    - Salary adjustment line is eliminated.
    - Utilities will remain flat over the Financial Plan.
- Interfund Transfers Out total \$98.2 million, or 19.9% of total expenditures.

Mr. Link stated that fringe benefits are the largest expenditure within the General Charges category. Chair Olsen questioned the assumption that self-insurance will not become more expensive during the out years. Ms. Estrich advised that the City’s Administration worked closely with advisors at Blue Cross/Blue Shield to provide more programs for employees. Employees who contribute will continue to contribute approximately 20% of \$18,000 in premium costs per year for insurance for family coverage.

Financial Plan expenditure highlights are as follows:

- Expenditures are projected to increase \$11.6 million, or 2.3%.
  - Departmental expenditures are increasing at \$7.2 million, or 3.1%.
  - General Charges are increasing by \$5.2 million, or 3.2%.
- Interfund transfers out are reduced by \$0.9 million, or 0.9%.
  - Solid Waste and Recycling Fund currently owes the General Fund \$17.4 million. The amount is reserved as nonspendable fund balance.
  - Reduction of transfer to Solid Waste Fund to \$3.0M in FY 2018-19 and FY 2019-20.

Mr. Link reviewed employee costs in total as compared to the budget and discussed salary and fringe benefit trends over the past 10 years.

Mr. Link again noted the Solid Waste and Recycling Fund owes the General Fund \$17.4 million. Chair Olsen questioned if the debt is constant. Ms. Estrich answered in the affirmative that the debt is remaining constant and that the City’s Administration released a Request For Proposals for privatizing recycling and garbage services.

Chair Olsen asked if incentives had been or are currently being offered to retirees in order to make Medicare the primary insurance. Ms. Estrich stated the Administration is considering Medicare Advantage programs for retirees which would give retirees an upfront payment.

Mr. Link stated employee costs for the City have represented 83-87% of the budget for the past several years at a rate of 1.1% annual growth.

Budgeted positions are budgeted to increase by 26 positions with the majority of positions being added within the executive branch.

#### Recommendations and Conclusions:

- Monitor specific revenues due to the difficulty in estimating:
  - Sales tax, fines, service charges and miscellaneous revenue.
  - Class I Utility taxes.
  - Parking fines and fees, which are dependent on timing of collections with the traffic adjudication division.
- Uncertain revenue:
  - NYS AIM \$4.9 million.
- Modest annual departmental spending (1.0% annually).
- Fringe benefits have modest growth, \$5.5 million:
  - Minimal increases for health insurance over the Financial Plan.
  - Pension payments held flat over the Financial Plan.
  - Salary adjustment eliminated.
- Certain expenditures may be under-projected:
  - Overtime costs may be under-budgeted specifically due to attrition.
  - Police is budgeting an increase of \$2.5 million.
  - Fire is budgeting an increase in \$0.1 million.
- Available fund balance is used over the Financial Plan:
  - Operating deficit of \$30.7 million.
  - Unassigned fund balance as of June 30, 2015 of \$43.4 million.
  - No impact on the Rainy Day Fund.
- Operating Transfers Out:
  - Transfer to the District is maintained flat at \$70.3 million.
  - \$3.2 million transfer to Solid Waste and Recycling fund is maintained and reduced to \$3.0 million in the last two out-years.
    - Potential privatization of the Solid Waste and Recycling Fund.
    - Currently \$17.4 million due to the General Fund.
- Operating Transfers In:
  - Transfer from the Parking Fund of \$6.2 million in FY 2016-17.
  - Increased to \$7.1 million and \$7.2 million in FY 2017-18 and FY 2018-19.
- Solid Waste and Recycling Fund:
  - Currently operates with an annual deficit, subsidized by the City's General Fund (\$3.2 million).
  - Proposed plan to privatize the services.
  - Out-year subsidy reductions to \$3.0 million in FY 2018-19 and FY 2019-20.

Chair Olsen commended the City on a fine budget and reiterated the importance of finding collaborative solutions for additional monies for the City.



**Buffalo City School District**  
***FY 2015-16 Third Quarter Report Analysis***

Chair Olsen acknowledged the attendance of BCSD Chief Financial Officer Geoff Pritchard. He asked Senior Financial Analyst/Manager of Technology Nathan D. Miller to provide a summary of the staff's analysis.

Mr. Miller presented the staff's analysis of the BCSD's FY 2015-16 third quarter report. The CFY budget has been modified twice: once to recognize carryover encumbrances and again to recognize new grant revenues and related expenditures. An unfavorable budgetary variance of \$6.4 is projected for General Fund revenues. A favorable budgetary variance of \$9.2 million is projected for General Fund expenditures. A budgetary surplus of \$2.8 million is projected at fiscal year-end ("FYE").

Of the projected expenditures for the current FY the most notable is a favorable variance of \$5.0 million within employee benefits, of which \$4.0 million is related to active and retiree employee health insurance. Payments to Charter Schools remain the same as in the modified budget and a favorable budget variance in transportation is projected of \$1.2 million due to the lower cost of gasoline.

***FY 2016-17 Preliminary Budget and Four-Year Financial Plan***

Mr. Miller presented the BCSD's FY 2016-17 Preliminary Budget and 2017-2020 Financial Plan. The District has been faced with a structural imbalance over the past several years with operating deficits totaling \$44.7 million over the past four years and projected to be an additional \$8.3 million in the CFY. In each year of the Financial Plan expenditures are expected to exceed revenues by a total of \$34.4 million as follows:

- FY 2016-17: \$9.9 million.
- FY 2017-18: \$10.9 million.
- FY 2018-19: \$9.3 million.
- FY 2019-20: \$4.3 million.

The Financial Plan is predicated on the following assumptions:

- Revenues increase at an average annual rate of 1.7%.
- Expenditures increase at an average annual rate of 1.6%.
- Budgetary gaps eliminated via the draw-down of \$25.2 million in fund balance and \$19.9 million in various programs-to-eliminate-the-gap actions ("PEG Actions")
- Long-expired collective bargaining agreements remain unsettled. No increases are built into the Financial Plan for contract settlement.

Secretary Arthur asked how much was reserved to settle expired collective bargaining agreements. Mr. Miller stated that approximately \$50.0 million was reserved in Assigned fund balance for prior years' claims and noted that further detail would be provided later within the presentation.

The FY 2016-17 budget is balanced with the appropriation of \$9.9 million in fund balance. FY 2016-17 General Fund revenues exceed the current year's projected revenues by \$25.9 million,

or 3.2%. FY 2016-17 General Fund budgeted expenditures exceed the current FY's projected amount by \$30.5 million, or 3.7%.

Superintendent Cash announced a series of educational initiatives:

- New Education Bargain:
  - Lengthening the school day/year, provide extended-day programs, reduce class sizes, incorporate rigorous early elementary education programs, establish community schools to provide additional supports for students, expand social supports for children and families in need, and implement innovative new high school programs. These changes would result in an additional 68 FTEs at a cost of \$18.1 million.
- Continued instructional investments:
  - The budget includes an additional 19 FTEs (\$1.9 million) for physical education teachers.
  - English Language Learner (“ELL”) teachers (required per the New York State Education Department or “NYSED”) are budgeted to increase by 29 FTEs (\$1.8 million).
  - An additional 24 FTEs (\$1.9 million) for school-level Special Educational teachers.
  - In total these changes result in an additional 72 FTEs at a cost of \$5.4 million.

Chair Olsen asked if the suggested changes were being imposed as a result of impending receivership. Mr. Pritchard advised that the plans are not related to receivership and simply a function of how to move the District forward as a result of school-based budgeting. He also noted that community schools monies are set aside in foundation aid.

Chair Olsen asked if the extended day was part of a collective bargaining agreement or if it would be imposed. Mr. Pritchard responded it is a voluntary option and teachers would receive compensation for the extra time spent.

Chair Olsen furthermore asked if the continued instructional investments were sustained by grants. Mr. Pritchard stated the BCSD's Board of Education asked that the physical education program be expanded and is therefore a General Fund expenditure. The ELL and Special Education programs are driven by NYSED regulations and the District has to deal with the growth of those populations. Mr. Pritchard stated the District is much more compliant with Special Education regulations.

Mr. Miller continued with his presentation to state the Financial Plan is expected to result in a four year deficit totaling \$34.4 million

The combination of NYS Aid and NYS Building Aid totals 85% of total General Fund revenues. The growth over the Financial Plan within revenues is primarily due to projected increases in NYS Aid of 2.5% annually. Overall there is a 7% increase in NYS Aid over the life of the Financial Plan.

Director Floss questioned the methodology of how the projected increases in New York State Aid were tested given its volatility in recent years. Mr. Miller replied that 80% of total New

York State aid was attributable to Foundation Aid. The increases in Foundation Aid were deemed conservative based on the established aid formula which includes the prior fiscal year's base amount and a minimum statutorily-required increase.

Mr. Miller continued stating approximately 55% of total General Fund expenditures are employee related. Chair Olsen asked if there were any assumptions made for contract settlements with teachers or administrators. Mr. Miller advised those assumptions were not incorporated in the budgeted employee compensation expenditures.

Chair Olsen stated there seems to be less incentive for the parties to come to any agreement on a contract. Director Floss stated the longer the CBAs continue to remain expired the harder it will be for the BCSD to fund a settlement in order to compensate both active employees as well as retirees. Chair Olsen stated the aggressive assumptions within the negative job market seems to create a standstill, which in turn causes a burden for the Superintendent and the Board of Education. Director Floss stated his concern with the looming national shortage of teachers and not having a contract will be a hindrance in attracting qualified teachers.

Chair Olsen stated the City had made contractual progress. The Buffalo Teachers' Federation (the "BTF") and the Board of Education cannot reach an agreement in order to salvage the school system in an effort to incentivize people to reside within the City. Buy-in of the teachers is imperative if new programs are to be implemented and successful. Superintendent Cash has been invited to the BFSA June Board meeting.

Mr. Miller continued with his presentation stating there is a projected increase of \$53.4 million, or 6.3%, in expenditures over the life of the Financial Plan. There is a low rate of increase for employee compensation due to a decrease in staffing and since most of the unions are out-of-contract the projections are based solely on employees that are eligible for step increases. Pension contribution rates are decreasing and therefore the rate of increase for employee benefits has been curtailed.

Charter school payments for the CFY are projected at \$103.5 million and grow to \$125.4 million over the Financial Plan. This increase is based on increased projected enrollment of Buffalo resident pupils at area charter schools as well as an additional charter school scheduled to open in FY 2017-18. Chair Olsen questioned if the current charter schools are expanding the grades they cover. Mr. Miller answered in the affirmative. Chair Olsen stated it is inevitable that the demand to expand charter coverage beyond elementary schools due to the unacceptable performance level of some public high schools. Director Mesiah asked if there is an evaluation filed regarding the effectiveness of charter schools with respect to their removal of problematic children from the charter schools and their inability to deal with special education. Chair Olsen stated other subsidies for charter schools are funneled through BCSD such as transportation. Mr. Miller advised that the District is the lead educational agency for all the schools in the area and therefore serves as a pass-through for charter schools. Chair Olsen expressed his disappointment in the decreased availability of parochial school activity; the opportunities seem to be decreasing for students.

Mr. Miller continued with his presentation stating that all of the District's unions funded through the General Fund were out-of-contract with the exception of the Trades group whose salaries are

dictated by local prevailing wage laws, and the Exempt employees who typically are under 24-36 month individual contracts.

Over the duration of the FY 2017-2020 Financial Plan, total resident Buffalo public student enrollment is expected to increase at a rate equivalent to 843 FTEs, or 2.0%. Payments to charter schools are expected to increase from \$109.6 million to \$125.4 million, or 14.4%.

Health insurance for active employees and retirees is expected to increase by \$21.3 million, or 16.2%.

Chair Olsen asked if there has been success in incentivizing retirees to switch their traditional health coverage plan to a less-costly plan. Mr. Miller stated there is an offer to all retirees to swap their existing healthcare policy for a Forever Blue Medicaid Advantage plan. There is no cash payout to make the change; as of January 2016 over 400 people made the switch.

New York State Teacher Retirement System (“TRS”) and ERS payments are decreasing by \$4.7 million, or 15.0%, over the duration of the Financial Plan. Rates for these plans are estimated to decrease 9.5% and 12.0%, respectively.

Director Floss stated the rates were so high previously because they were below market rate for a number of years and therefore the previously higher rates were enacted for balance. An increase is expected for TRS and ERS contributions in the event a contract is settled and future planning should include this exception. It may be a good idea to test the impact on the pension’s financial health if similar contracts to those negotiated by the City were explored. Chair Olsen stated in addition to the difficult negotiation is back pay which is a cost that is difficult to assess in that there has been a wage freeze. Director Floss stated his concern about the increased population of the retiree pool while out of contract.

Mr. Miller continued with his presentation by stating each year of the Financial Plan has budgetary gaps. The BCSD offered a PEG Action Plan to demonstrate its ability to address these out-year gaps. The 2016-17 gap is being fully funded with the use of fund balance. There is a combination of recurring savings, additional revenues and one-time savings presented to address the out-year deficits. Such actions include reducing the contingency account (\$1.0 million annually/\$3.0 million in total), delaying implementation of the New Education Bargain (\$4.0-\$6.0 million annually/\$16.0 million in total) and additional funding from the City of Buffalo (\$3.0 - \$3.6 million annually/\$9.9 million in total). The BFSA considers certain of these items to be highly speculative and has reduced the PEG actions accordingly. This has resulted in a \$400,000 gap in year 2017-18 which results in an unbalanced Financial Plan. Chair Olsen asked what initiatives could be removed to close the gap. Mr. Miller stated that the PEG Action Plan notes that the initiatives within the New Education Bargain could be curtailed as a PEG Action as the initiatives are not mandated.

## Conclusion

- After eliminating speculative items, the PEG Plan provides \$19.9 million of budgetary savings or additional revenues that effectively address the budgetary gap in total.
  - Out-year #1 not in balance by \$0.4 million.

- Unassigned fund balance exceeds the minimum amount to be retained under the District's fund balance policy of 4% of total expenditures.
- Over the Financial Plan a total of \$20.3 million of Assigned fund balance and \$4.9 million of Unassigned fund balance is allocated towards closing the proposed budgetary gaps
- A remaining amount of Assigned fund balance for future labor agreements is estimated to be reassigned/returned to Unassigned fund balance to account for the continued implementation of the cosmetic surgery rider by those union groups that still receive this benefit.
  - \$51.2 million at June 30, 2015.
  - \$29.1 million projected at June 30, 2019.
- Financial Plan does not include increases associated with the settlement of labor agreements
  - BTF/Buffalo Council of Supervisors and Administrators contracts expired June 30, 2004.

Chair Olsen stated enough surplus needs to be accumulated to negotiate in good faith with unions. These reserves are being drawn down to close operating deficits. Director Floss stated the reserved fund balance was approximately \$75 million several years ago. Mr. Miller stated the reserve was established following the resolution of the wage freeze litigation and at one point held as much as \$80.0M. Chair Olsen stated the District is unable to accumulate funds due to the continuing rising costs and diminished resources. There is a lack of labor collaboration and cooperation. It will be extremely difficult to implement any new initiatives without a contract with the teachers and administrators. This is arguably the single most important factor the City needs in order to realize the gains it is positioned to obtain. If the performance level of the BCSD does not increase it is highly unlikely that highly specialized employees will settle in Buffalo. There needs to be some discussion to get a fund significant enough to negotiate contracts in good faith. The initiatives proposed by Superintendent Cash are very promising, including improved safety and social services, but it is unclear how they will be implemented without complete buy-in of teachers and administrators.

- The District has little to no control over major cost drivers.
  - Employee compensation – step increases continue to be provided per NYS Law.
  - Health Insurance – active employees
    - Many do not contribute toward health insurance.
    - New terms need to be negotiated in future labor agreements.
  - Health Insurance – retirees
    - Many do not contribute toward health insurance.
    - New terms need to be negotiated in future labor agreements.
    - Forever Blue Medicare Advantage incentive a positive development.
- Payments to Charter Schools continue to increase as enrollment and tuition rates continue to rise.
  - Tuition rate increases reimbursed via NYS Supplemental Charter School Tuition Aid.
- FY 2016-17 Proposed Budget is yet to be finalized.
  - Board of Education to consider budget May 25, 2016.
  - Financial Plan to be revised as needed.

**Buffalo Municipal Housing Authority**  
***FY 2015-16 Third Quarter Report Analysis***

Chair Olsen advanced the agenda to review BMHA FY 2015-16 third quarter financial results and FY 2017-2020 Financial Plan to be presented by Ms. Robe. Ms. Robe stated the BFSA Board reviewed the BMHA modified budget at the March 9, 2016 board meeting. The adjustment is carried forward through the newly submitted Financial Plan.

Total revenues as of March 31, 2016 are lower than the modified budget of \$44.0 million by \$543,400 or 1.2%:

- HUD subsidy has exceeded the modified budget by \$333,500, or 2.4%.
- Dwelling rental income is less than the modified budget by \$250,400, or 2.5%.
- Section 8 Voucher revenue is less than modified budget by \$411,600, or 10.6%; this revenue is essentially a pass-through revenue with an amount retained for the administration of the program.

In total expenses are under the modified budget as of March 31, 2016 by approximately \$2,226,700 or 6.8%.

- \$1,449,400 Ordinary & Routine expenses:
  - Administrative Expenses – exceeded modified budget by \$224,500 or 4.0%. Salaries have exceeded budget by \$320,500, or 12.5%. Salaries decrease compared to prior year of \$585,300.
  - Maintenance Expenses – below modified budget by \$66,800, or 1.0%. Salaries have exceeded budget by \$48,200, or 1.9%. Unit turnaround costs were below budget by \$86,600, or 14.1% and salaries decrease compared to prior year of \$353,400.

Director Floss questioned the lag in unit turnaround and its direct correlation with the decrease in unit rental income. Ms. Robe deferred to Ms. Dawn Sanders-Garrett, Executive Director of BMHA, to address Director Floss' inquiry. Ms. Sanders-Garrett stated part of the fluctuation is a result of staffing shortage, attrition and trying to supplement with contractors to turn around the units. The occupancy department determines applicant eligibility and the maintenance department is responsible for rehabilitation of the units for occupancy. There are always families moving in and out of the units.

Secretary Arthur questioned the standard turnaround time for a unit. Ms. Sanders-Garrett stated it takes approximately 60 to 70 days; some developments may be able to turnaround units at a faster rate. There are a number of older units that need to be taken off-line due to electrical issues and/or mechanical issues which in turn adds to the length of time required to get a unit ready for occupancy. The optimal turnaround time for a unit is 21 days.

Director Floss stated there are approximately three month's rent lost on each unoccupied unit, and therefore questioned if there is work that can be completed while the units are occupied on a more preventative basis in order to curtail the extensive turnaround time. Ms. Sanders-Garrett stated there are other factors that affect the turnaround time such as court orders that may require a 30 day hold. Another factor to consider is an applicant has 60 days to elect to occupy a unit.

In light of these factors the turnaround time will continue to fluctuate. Director Floss asked if an inventory control model is used. Ms. Sanders-Garrett advised that there is an electrical board used to monitor occupancy inventory system in order to assign maintenance jobs. Director Floss questioned if a financial inventory control model is used to project vacancies and age and maintenance of units. Ms. Sanders-Garrett stated staff is doing their very best to forecast. Director Floss asked Ms. Robe to research the BFSA's possible assistance with this issue.

Ms. Robe continued her presentation.

- Utilities Expenses – below modified budget by \$1,437,400, or 27.3% as a result of a mild winter. Costs were lower than prior year by \$1,417,000, or 27.0%.
- \$777,300 Other General expenses - Housing Assistance Payments lower than modified budget by \$379,500.

Other items of note

- Manpower status – filled positions of 167 compared to budgeted positions of 182. Therefore, there is a vacancy rate of 15, or 8.2%. This is lower than the third quarter of 2015 by 18 positions, or 9.7%.
- Independent Audit was received in April 2016.

#### ***FY 2017-2020 Four Year Financial Plan***

Ms. Robe stated the Financial Plan has been adjusted to provide for more realistic expectations. Over the four-year period revenues are projected to increase \$1.2 million (2.6%) while expenses are increasing \$1.3 million (3%). Annually a net income of \$1.7 million to \$1.9 million is forecasted which provides adequate cash flows to pay debt service.

The FY 2016-17 budget was approved by BMHA's Board of Commissioners on April 21, 2016. Prior year results for FYE June 30, 2015 on an entity-wide basis was net income of \$882,400; of this, \$328,500 pertains to the Marine Drive Apartments. The entity-wide net income was consistent with BMHA's revised budget.

The 2016-17 budget by division was reviewed; it was noted that net income is budgeted for both Asset Management Projects ("AMPs) and Marine Drive Apartments, while a net loss of \$510,000 is budgeted for the Central Office Cost Center.

With respect to reserves:

- HUD recommends maintaining four months of operating expenses for AMPs only; this amount is \$8.6 million based on 2016-17 budgeted appropriations.
- Actual reserves for AMPs at July 1, 2015 totaled \$3.3 million.
  - Reserves are \$5.3 million below estimated recommended amount; reserves are budgeted to increase by \$650,000 in 2016-17.
- Financial Plan does not forecast any deficits or use of reserves in any year.

Underlying key assumptions for revenues throughout the Financial Plan are as follows:

- United States Housing and Urban Development ("HUD") operating subsidy proration of 88% is used throughout the Financial Plan based on the most recent published federal

budget and varies every year. An inflation factor of 2% is included in the three out-years of the Financial Plan.

- Capital Fund revenues – total \$11.0 million, or \$2.6 million to \$2.9 million annually, provided to the Central Office in order to administer the capital grants for BMHA.
  - Total projected grant revenue is \$14.7 million annually.
  - Administrative costs at 10%.
  - Operations and management improvements at 20%.
- Average occupancy rate of 95%.

Underlying key assumptions for expenses throughout the Financial Plan are as follows:

- A reduction of nine budgeted positions from FY 2015-16 budgeted to FY 2016-17, or a 5% reduction.

Director Floss questioned the continued reduction in staff which affects unit turnaround time and occupancy rates and questioned if more external contracting would be necessary in order to meet goals. In response, Ms. Robe stated that BMHA management is constricted with the revenues available to it and can only provide the staffing in accordance with the monies received.

Director Floss stated the assumptions are inconsistent and inappropriate, specifically utilizing an occupancy rate of 95% and using a 3% inflation rate used while all other entities use a 2% inflation factor.

Ms. Robe noted there are three unions at BMHA and all have expired contracts.

Chair Olsen reiterated the City's success in negotiating contracts with unions. Public housing and education are vitally important to the lower income community in the City and unfortunately are not positively affected by all the development happening in the City. Ms. Robe stated the funding issues that BMHA are facing is a nationwide issue. Director Floss stated the same is happening within school districts nationwide with respect to flat State Aid. Chair Olsen stated public housing is crucial with the increased gentrification taking place in the City.

- Personnel costs – salaries increased by \$1.0M, or 13%, as compared to the previous year budget. The increase is reflective of an adjustment to bring the budgeted cost in line with more realistic expectations.
- Active employee and retiree health insurance is budgeted to increase. 3%
- OPEB accrual is included in Financial Plan - non-cash expense of \$1.5M annually

Conclusion:

- Financial Plan is deemed to be in balance
- Revenues and expenses have been adjusted for amounts under budgeted in prior years
- Financial Plan provides for a payment of debt service out of current year operations
- Financial Plan does not use reserves – small surplus budgeted/projected annually. BMHA had significant reserves several years ago but were spent down through investing in various BMHA properties.
- Revenues in total appear reasonable however impact of change in Federal administration is unknown



- Salaries/wages not projected to increase – there are no increases available to negotiate expired labor contracts
- Recommend year-end projections be made at least quarterly and the budget and/or Financial Plan be modified as necessary

Ms. Robe stated the Financial Plan was much more timely and the numbers more in line with expectations. Chair Olsen stated improving quality of life is starkly drawn to one particular group of people within the City. The services which are available to everyone else, more specifically housing and education are being more and more underfunded. There must be a real turnaround to get the funding to an acceptable level. Chair Olsen thanked BMHA for their timely report. Ms. Sanders-Garrett stated BMHA has been involved in an initiative in NYS for the past two and a half years to provide resources to distressed federally funded public housing while at the same time continuing the build out of the AD Price neighborhood, working on the Kensington Heights site and Marine Drive Apartments. BMHA applies for every development program available for public housing. BMHA has made a request for funding for demolition because many units are uninhabitable. BMHA is also trying to create job opportunities for residents in order for them to achieve self-sufficiency.

## **BURA**

Chair Olsen advanced the agenda to review the third quarter and 2017-2020 Financial Plan to be presented by Mr. Link.

### ***Third Quarter 2015-2016***

Mr. Link stated the 2015-16 HUD allocation of entitlement funds was \$16.7M. A large portion of the funds remain with the City, with a portion passed-through to BURA as a subrecipient. Revenue is drawn down as needed as projects move forward; as of March 31, 2016, \$14.4 million, or 44.4% of the budget, had been drawn down. There was a four month delay in receiving the entitlement funds, during which time BURA operated on prior year allotments. BURA's actual expenses through March 31, 2016 were \$10.7million, or 40.2% of the budget. Administration & planning costs were budgeted at \$5.6 million and as of March 31, 2016 actual administration & planning costs were \$3.7 million, or 65.9% of the budget. BURA is staying under budget with administrative and program costs. The program is having timing issues with receiving entitlement funds and the subrecipients completing the work they need to do in a timely manner in order to draw down funds.

### ***2017-2020 Financial Plan***

The Financial Plan is reflective of:

- All known revenues including entitlement funds, program income and additional grants (Evans Fund & JAG); Brownfield Opportunity Funds have expired and are no longer available
- Includes minimal out-year increases for future labor agreements between BURA and Local CSEA 815
- Includes separate projections for salaries and fringe benefits
- Section 108 loan repayments to be paid off in July 2016

BURA is financially balanced over the four years of the Financial Plan. There is a decrease over the Financial Plan with respect to CDBG and HOME grant funding which is due to the reduction of available prior year funds.

Administrative costs are limited to a certain maximum percentage of a grant award as follows; program delivery personal service costs are not included in these limits:

- CDBG: 20% plus program income
- HOME: 10%
- ESG: 7.5%
- HOPWA: 3%

With respect to the funding of administrative costs the following items were discussed:

- Additional grants are received by BURA and are now reflected in the Financial Plan
- BURA is including prior year allocations as a current year resource for CDBG and HOME funds
- Realistic forecast in regards to future entitlement funds, with minimum reductions over the Financial Plan for “new” HUD allocations
- The significant decrease in revenues over the Financial Plan reflects spend-down of prior year entitlement funds, but does not include potential resources, budgeted in the 2015-16 FY, that if not utilized may be used in future years
- Based on the additional grant revenues outside of HUD awards, there is adequate funding for administrative costs

Findings in the review of the BURA Financial Plan were discussed:

- BURA is not participating in self-funding health insurance with the City; they are looking at other health insurance options
- Section 108 Loan Guarantees are scheduled to be paid off in July 2016
- BURA is looking to maximize potential revenue
  - Increasing program revenue through property sales, rents and parking
  - Identifying additional grants similar to Brownfield Opportunities and JAG

BURA staffing will remain flat at 46 positions with 3 being in Audit & Control over the duration of the Financial Plan.

Chair Olsen questioned if program costs are less than projected because some projects are not occurring. Ms. Estrich stated it is more of a timing issue because all projects require an RFP process. Ms. Estrich acknowledged the hard work of Tracy Cooley. Chair Olsen thanked Ms. Cooley for the tremendous improvements in reporting. Ms. Cooley emphasized that some projects are seasonal and therefore several million dollars will soon be encumbered for those projects.

**BUFFALO FISCAL STABILITY AUTHORITY RESOLUTION 16-05**  
**DETERMINATION WITH RESPECT TO THE CITY OF BUFFALO 2016-2019 FOUR-**  
**YEAR FINANCIAL PLAN**

Chair Olsen thanked all covered entities for their timely submissions and presented the resolution stating the Financial Plan is incomplete with respect to BCSD. BCSD has indicated that a revised plan will be submitted when the final budget is adopted by the Board of Education at an upcoming meeting. Ms. Robe stated the revised BCSD plan will address the \$400,000 imbalance as discussed earlier.

Secretary Arthur made a motion to approve resolution.

Director Floss seconded the motion.

The Board voted 6-0 to approve Resolution 16-05.

**PUBLIC COMMENTS**

Ms. Marilyn Gallivan stated BMHA occupancy rate is based on subsidized housing and not on the unsubsidized units like Marine Drive. In the past, management provided by Henry Littles would report the occupancy rate on a monthly basis. When new management came on board the new occupancy was allowed to decline which caused Marine Drive to incur debt. Ms. Gallivan asked for the occupancy rate for Marine Drive to be reported in the future.

Chair Olsen thanked Ms. Gallivan for her comments and stated quality living in the City should not be for the wealthy only. Director Floss asked what the vacancy rate has been in the last two years. Ms. Gallivan stated they have not received a report since Mr. Littles left. Secretary Arthur stated his concern that there is a desire for Marine Drive to be privatized and sold which may be the reason the occupancy rate is being withheld. Ms. Robe stated she will make the request to BMHA to obtain the Marine Drive occupancy rate.

Secretary Arthur moved to adjourn.

Director Mesiah seconded the motion.

Meeting adjourned at 3:55PM.