BUFFALO FISCAL STABILITY AUTHORITY
Meeting Minutes
March 8, 2017

The following are the minutes from the meeting of the Buffalo Fiscal Stability Authority (the "BFSA") held on Wednesday, March 8, 2017, in the first-floor conference room of the Buffalo Market Arcade Complex. The meeting was called to order at 1:05 PM.

Board Members Present
Chair R. Nils Olsen (via video)
Interim Vice-Chair Jeanette T. Jurasek
Secretary George K. Arthur
Mayor Byron W. Brown (proxy Estrich)
Director Frederick G. Floss
Director Frank B. Mesiah
County Executive Mark C. Poloncarz (proxy Cornell)

Board Member(s) Excused
Director Dorothy Gallagher-Cohen

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

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

Opening Remarks
Interim Vice-Chair Jurasek served as Chair Pro Tem. She welcomed and thanked everyone for attending. She announced the meeting's agenda.

Interim Vice-Chair Jurasek advised that the Audit, Finance and Budget Committee met earlier in the day and authorized the posting of BFSA's fiscal year ("FY") 2017-2018 preliminary budget and FY 2018-21 four-year financial plan as prepared by BFSA staff, commencing the public comment period. Any additional comments by Directors should be forwarded to Executive Director Jeanette M. Robe who will circulate updated versions of the budget as necessary. Approval of the budget will be required at the June Board meeting; no Board action is required at today's meeting.

Roll Call of Directors
Interim Vice-Chair Jurasek deferred to Secretary Arthur to call the roll of the members. Finding a quorum present, the meeting commenced.

Chair Olsen attended via video conference, in accordance with the BFSA Bylaws, Article III, Section 7: "Personal Attendance by Video Conference; Participation Remotely by Electronic Means."

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 Budget Analyst, Mr. Mark Cornell, 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…."

<u>Approval of Minutes</u>
Interim Vice-Chair Jurasek introduced Resolution No. 17-02, "Approving the Minutes and Resolutions from December 7, 2016," and Resolution No. 17-03, "Approving the Minutes and Resolution from February 6, 2017."

Secretary Arthur made a motion to approve the resolutions jointly.

Director Floss seconded the motion.

The Board voted 7-0 to approve Resolution No. 17-02 and Resolution No. 17-03.

<u>City of Buffalo</u>
Review of 2017 Capital Borrowing
Interim Vice-Chair Jurasek advanced the agenda to the next item for consideration: a review of the City of Buffalo's 2017 Capital Borrowing. The BFSA reviewed the preliminary budget and five-year capital plan at the December Board meeting. Interim Vice-Chair Jurasek turned the presentation over to Ms. Robe for her presentation.

Ms. Robe stated that the Buffalo Common Council (the "Common Council") approved the final 2017 Capital Budget in December after the BFSA December Board meeting. The total amount of $17.3M remained unchanged, with $545,000 being reallocated from City-wide infrastructure to other improvements.

Ms. Robe presented the history on capital borrowing since the creation of the BFSA. The City has issued bonds since 2008 as the BFSA contemplated transitioning from a control period. Prior to that, the BFSA issued bonds between 2003 to 2007 on behalf of the City. The BFSA is structured to have a higher bond rating than the City by intercepting the state aid and sales tax therefore making the probability of default extremely low. BFSA has a bond rating that is three notches higher than the City.

The financial advisor performed analyses of what the potential savings could have been by having the BFSA issue debt instead of the City since 2012, after the BFSA transitioned to an advisory board. Savings were estimated at $1.65M since 2012 and based on current market conditions, it is estimated that the potential savings for the City would be an additional $390,000 with respect to the 2017 bonds to be issued.

The bond sale is timed for late April with a 2017 debt limit of $20.8M. City projects to be bonded include $22.7M of general fund funded projects and parking fund of $2.9M. The parking enterprise fund debt is excluded from the City's NYS debt limit by law and $2.2M in payment in lieu of taxes increment financing ("PIF") for 500 Seneca Street is also excluded from the Comptroller recommended debt limit at the discretion of the Comptroller's office.

Interim Vice-Chair Jurasek asked if 500 Seneca Street was a private entity and if the PIF should be viewed as the City borrowing with the financing carried by the private entity. Ms. Robe confirmed this.

Ms. Estrich stressed that the financing is for the public infrastructure of that project.

Secretary Arthur asked what the limit was on public infrastructure borrowing. Ms. Robe stated it ranged between $20M and $25M depending on the yearly calculation. It must be less debt than what is being paid off which is determined by the established debt service schedules.

Ms. Robe stated the Comptroller is no longer reducing the annual bond sale by 15%, which had been done to reduce the amount of unspent proceeds carried by the City. The authorized but unissued balance remaining after the 2017 capital bond sale of $12.5M covers projects that Common Council has approved. There will not be a Buffalo City School District (the "District") portion of the debt. The District will continue to use proceeds from refunding Joint School Construction Board ("JSCB") debt to pay for the District's capital needs.

Conclusion:

- Total amount to be bonded: $25.6M
- Tax-exempt
- Average bond life: 6.65 years
- Final maturity: 2029
- Costs of issuance: $120,000
- Interest rate (est. at 2/27/17) 2.387%
- Interest costs: $4.1M
- Total principal & interest: $29.7M

Ms. Robe stated the proposed 2017 Capital Borrowing is consistent with the 2017 Capital Plan, with the exception of the inclusion of the borrowing for the 500 Seneca Street PIF bond. The City's Administration and Comptroller will need to determine the impact of larger agreements in the future.

Interim Vice-Chair Jurasek thanked Ms. Robe for the report and opened the floor for questions.

Director Floss asked if the City Administration had taken the yield curve into account to take advantage of the lower interest rates. In addition, Director Floss stated his desire that the BFSA and the City should strike a balance in issuing bonds over time to save money. While it is believed that the City issues bonds to receive a bond rating, it should also be noted that the City can save money by the BFSA issuing bonds would also help the City's bond rating.

Interim Vice-Chair Jurasek asked for clarification whether the Common Council approves the bond sale. Ms. Robe confirmed this.

Chair Olsen questioned if the City's rating would be compromised if BFSA issued the bonds. Ms. Robe replied BFSA hasn't issued debt since 2007 and has received an increased rating even though not being active in the market and therefore does not believe the City's bond rating would be affected if the BFSA were to issue the debt on their behalf. Chair Olsen stated the BFSA has been noted as playing a significant role in the financial improvement of the City. All the objective criteria suggest bonds should be issued by BFSA instead of the City.

Interim Vice-Chair Jurasek stated a strong justification of tangible benefits should be given by the City with respect to the City issuing bonds instead of the BFSA.

Director Floss made a motion that Ms. Robe draft a letter to the City Comptroller and the Mayor to justify the City issuing the bond instead of generating savings if the bonds were issued by BFSA.

Secretary Arthur seconded the motion.

The Board voted 7-0 to approve the motion.

Interim Vice-Chair Jurasek questioned the extensive amount of unspent bond proceeds. Ms. Robe stated the Internal Revenue Service requirements for spending the bond proceeds. Ms. Estrich stated public works has been diligent in spending down the bond proceeds.

Labor Agreement with Operating Engineers Local 17
Interim Vice-Chair Jurasek advanced to the next item on the agenda, the Memorandum of Agreement ("MOA") between the City and the International Union of Operating Engineers, Local 17-17s ("Local 17").

Ms. Robe stated Principal Analyst Bryce E. Link would present this item. Mr. Link stated 32 positions were budgeted, 16 of which were funded by the Water Enterprise Fund and 16 funded by the General Fund. There were six vacancies as of March 1, 2017, a vacancy rate of 19%. The previous CBA expired on June 30, 2013 and the current MOA covers July 1, 2013 through June 30, 2020. The MOA was ratified on October 14, 2016 with a vote of 16-0. Total increase over the seven covered years is 14.9%.

Highlighted changes of MOA:

- The MOA eliminates retiree health insurance for new hires
- The City has the right to implement a time-keeping system
- The protective footwear allowance increased to $100 annually

- The City may suspend a worker up to 90 days without pay if the City is looking to terminate said employee
- There are currently twelve employees that receive the 204-healthcare plan at no cost because they were hired prior to July 1, 2011
- Employees hired after July 1, 2011 contribute a set percent toward health insurance:
    - Single coverage: 25%
    - Family coverage: 15%
- Retirees hired before July 1, 2011 with a minimum of 10 years of service contribute 0% toward health insurance
- Retirees hired after July 1, 2011 and prior to ratification contribute 15% for family coverage and 25% for single coverage with a minimum 10 years of service
- Employees hired after ratification will not receive retiree health insurance

Financial Impact on General Fund:

- The City accrued $110,500 for the retroactive pay for FY 2013-14 through FY 2015-16
- The current year costs are $83,400 and will be covered through vacancies as the current year budgetary vacancy savings are estimated at $129,000
- The increased costs through the remaining out-years has been included in the City's 2017-2020 Financial Plan.

Financial Impact on the Water Enterprise Fund:

- The City accrued $69,000 for the retroactive pay
- The current year costs of $86,957 will be covered through vacancies as the current budgetary vacancy savings are estimated at $129,000
- The increase costs through the remaining out-years has been included in the City's 2017-2020 Financial Plan. If necessary, additional revenue can be raised by increasing the water rates.

Recommendations & Conclusions:

- ➢ Retroactive costs for the CBA have been fully funded through the annual accrual for unsettled labor contracts
- ➢ Current year funding of the MOA will be addressed with current year vacancies in both the General Fund and the Water Enterprise Fund
- ➢ Out-year costs have been built into the FY 2017-20 Financial Plan
- ➢ MOA provides predictability of Local 17 employee costs through the end on the Financial Plan June 30, 2020
- ➢ No significant changes to healthcare for those hired prior to 2011 – they continue to not contribute to health insurance
- ➢ Elimination of retiree healthcare going forward is a significant change, however the savings will not fully materialize for 25-35 years

Director Floss stated his lack of support for family coverage having a lower out-of-pocket percentage than single coverage which encourages employees to select that coverage which does not promote additional savings for the City.

Chair Olsen agreed with Director Floss that the more expensive plan is being incentivized. Chair Olsen also commended the Administration on addressing retiree healthcare costs and stressed the importance of providing the BFSA with contracts in a timely manner.

Interim Vice-Chair Jurasek commended the City's Administration on being fiscally responsible and fully funding the contracts in the financial plan.

Director Floss commended Local 17 for their work on the MOA and asked if they would like to comment for the public record.

Steven Palmari, a union representative, stated there were extensive negotiations with the City. Retroactive pay was negotiated in this labor agreement in an attempt for members to be paid at the same rate as in the private sector. He asked the BFSA for approval of the contract.

Ms. Estrich thanked the union members for working collaboratively to develop a CBA that accommodates both the union and the administration.

Interim Vice-Chair Jurasek stated the BFSA is required by statute to review and comment on labor agreements and in doing so has approved the CBA; a vote will not be taken by the BFSA as the voting is done by the union members. Ms. Estrich stated the CBA will be filed with the Common Council for their next meeting on March 21, 2017.

FY 2016-2017 Second Quarter Analyses

City of Buffalo Second Quarter Analysis

Interim Vice-Chair Jurasek advanced the agenda to review the second quarter reports for the City and covered organizations.

Mr. Link began his presentation of the City's second quarter report. The City had a projected deficit/ use of fund balance of $10.3M at the end of the second quarter. The adopted budget included planned use of fund balance of $10.7M. There is a variance of $4.9M or 1% of the adopted budget for the projected revenues. There is a variance of $5.4M, or 1.1% for projected expenditures. Vacancies and department spending are higher, as fire overtime is trending higher at $3.5M, as the department has mandated training per the NYS Department of Labor, Public Employee Safety and Health Bureau. As of December 31, 2016, there were 196 vacancies in the City. Vacancies within the police department have been reduced by half with the onboarding of a new police class. Revenue from adjudicating traffic tickets should be monitored closely as this is the first full year of implementation and they are trending below budget by $1.1M. Another revenue source to be watched closely is the projected sale of capital assets which is currently under budget by $3.0M. Although the City is being aggressive in moving some of their assets, the total may be closer to $6.0M.

Mr. Link stated a number of firefighters and police officers are at or near retirement and therefore the City will consistently try to fill those positions going forward.

Governor's Executive Budget Impact

Mr. Link reported that the State Aid and Incentives to Municipalities ("AIM") is held flat again within the Executive Budget, at $161.3M as it has been since 2012. If the Governor increased local AIM at 2%, the impact would be $3.2M.

Buffalo Urban Renewal Agency ("BURA") Second Quarter Analysis
Mr. Link stated BURA is expected to administer $7.3M of the $16.6M in U.S. Housing and Urban Development ("HUD") entitlement funds for program year 42; the remaining $9.4M is to be administered by the City. Expenditures will be roughly equal to revenues. Year 42 funds were received in early February 2017. Thirty-nine of forty-one positions are currently filled. Salaries and fringe benefits total $1.8M. All prior year audit findings have been addressed.

Buffalo City School District ("BCSD") Second Quarter Analysis
Hearing no questions, Interim Vice-Chair Jurasek advanced to the BCSD second quarter, presented by Mr. Nathan Miller, BFSA Senior Analyst/Manager of Technology. Mr. Miller stated the budget was greatly impacted by the settlement with the teachers' union at the end of 2016. The original budgeted deficit was $4.9M, and the modified budget deficit is $54.6M which is funded via the appropriation of $45.0M of Assigned fund balance and $9.6M of Unassigned fund balance. The projected fiscal year end ("FYE") budgetary variance is projected favorably at $6.3M. Retiree health insurance contributed to a favorable variance primarily because of the positive opt-in to the Medicare Advantage plan.

<u>Governor's Executive Budget Impact</u>
Mr. Miller stated minimum statutory requirement increases of New York State aids would result in an increase of $22.4M, or 3.2%.

Director Floss asked how much of the appropriated $54M fund balance was to pay for retroactive portions of the contract. Mr. Miller responded that $40.5M was calculated to fund retroactive payments and the remaining balance is the original deficit along with encumbrances. Ms. Robe stated it appears BCSD will use all available fund balance within two years. All set-asides for collective bargaining will be exhausted. All collective bargaining units will be out-of-contract as of June 30, 2019.

Secretary Arthur stressed that the BCSD administrators' contract has not been settled and they have been out-of-contract since 2004. Director Floss stressed the importance of continuing to monitor all the other areas to provide an appropriate recommendation.

Chair Olsen questioned when the BCSD will run out of their discretionary fund balance if the Governor's budget is passed. Mr. Miller responded that the modified financial plan uses fund balance for the first two years; a minimal amount of fund balance would be available in year three of the financial plan. It is unavailable in the fourth year leaving the minimum 4% per board policy. Ms. Robe stated the BCSD financial plan already accounts for the minimum increases in New York State aid and therefore the $77M four-year budgetary gap is anticipated after the use of fund balance.

Director Floss suggested a critical look be taken at programs and how the Superintendent plans to address the future.

Interim Vice-Chair Jurasek highlighted that the same issues were addressed six weeks ago at the BFSA special meeting in February. A letter was sent to BCSD and the Superintendent on behalf of the BFSA Board by Ms. Robe. Interim Vice-Chair Jurasek questioned if any additional issues need to be addressed. Director Floss said the second quarter report stresses the need to examine the District's plan going forward. Interim Vice-Chair Jurasek stated that District submitted a menu of opportunities to bring the budget in line and instead of a list of prioritized cuts.

BFSA Legal counsel, Mr. James L. Magavern, Esq., Magavern Magavern & Grimm LLP stated the BCSD revised plan deadline submission should be June 8, 2017 instead of June 1, 2017 as had been discussed at the February meeting.

Buffalo Municipal Housing Authority ("BMHA") Second Quarter Analysis
Interim Vice-Chair Jurasek advanced the agenda to the next second quarter presentation to be given by Mr. Miller.

Revenues and expenses were consistent with the budgeted amount:

- Adopted budget revenues $45.7M, as of December 31, 2016 - $21.8M received or 47.6 % of budget
- Adopted budget expenses $44.0M, as of December 31, 2016 - $20.7M spent or 47.1% of budget

Revenue variance of $1.1M is due to HUD grant subsidies which have not been received and a dwelling rental increase at Marine Drive has yet to be approved and implemented.

The expense favorable variance is due to the number of filled positions being less than budgeted.

It is reasonable to project several favorable revenues and expense budgetary variances at FYE. BFSA will continue to closely monitor BMHA's operating results.

There were no comments or questions from BFSA Directors regarding the BMHA second quarter report.

<u>Buffalo Municipal Housing Authority Items</u>
Impact Negotiations Review
Interim Vice-Chair Jurasek advanced the agenda to address the additional BMHA item on the agenda.

Ms. Robe stated she anticipated a representative from the BMHA administration being in attendance to address the BFSA. BMHA entered into impact negotiations with their two unions, Local 264 and Local 17, resulting from the BMHA administration's intent to hire a private company to manage their AD Price and Frederick Douglass properties. The BMHA Board of Commissioners is expected to approve the plan at their next meeting.

Director Floss questioned the reason for the change in management structure at BMHA without reviewing the information with the BFSA as required by the BFSA Act first. He made a motion that Ms. Robe send a strong letter to BMHA on behalf of the BFSA Board stating that no agreements should be entered into without BMHA making a presentation, including the budgetary impacts, to the BFSA Board first. Ms. Robe stated BMHA has a Request for Proposal under review per conversations she has had with the Deputy Executive Director. Ms. Estrich stated the costs need to be disclosed to the BFSA before a decision can be made. Chair Olsen stated the way this has been handled by BMHA deprives the public of any discussion about the intended change, especially considering past questions about their management. Mr. Magavern stated the BFSA statute authorizes the Board to review other contracts as the Board considers important as having a significant impact on the City's long-term fiscal condition and advised to Board to put BMHA on notice of that fact. Interim Vice-Chair agreed with Mr. Magavern's advice.

Director Floss made a motion to table the BMHA impact negotiation review and directed Ms. Robe to send a letter to BMHA a letter under the advice of counsel to include a deadline for material submission to the Board along with a requirement to attend the next BFSA meeting.

Secretary Arthur seconded the motion.

The Board voted 7-0 to approve the motion.

Privilege of the Floor

Interim Vice-Chair Jurasek extended the Privilege of the Floor to any attending member of the audience who wished to publicly comment on the record on any actions that the BFSA had taken during the meeting.

Adjournment

Interim Vice-Chair Jurasek asked if there was any additional new business for discussion. Hearing none, he requested a motion to adjourn the meeting.

Director Mesiah offered a motion to adjourn the meeting.

Secretary Arthur seconded the motion. The Board voted 7-0 to adjourn the meeting. The meeting adjourned at 2:37 pm.