

BUFFALO FISCAL STABILITY AUTHORITY
Meeting Minutes
June 16, 2017

The following are the minutes from the meeting of the Buffalo Fiscal Stability Authority (the “BFSA” or the “Authority”) held on Friday, June 16, 2017, in the first-floor conference room of the Buffalo Market Arcade Complex. The meeting was called to order at 1:04 PM.

Board Members Present

Chair R. Nils Olsen (via video)
Interim Vice-Chair Jeanette T. Jurasek
Director Dottie Gallagher-Cohen
Director Frederick G. Floss
Mayor Byron W. Brown (proxy Estrich)
County Executive Mark C. Poloncarz (proxy Cornell)

Board Member(s) Excused

Secretary George K. Arthur
Director Frank B. Mesiah

Staff Present

Executive Director Jeanette M. Robe
Principal Analyst/Media Liaison Bryce E. Link
Senior Financial Analyst II/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 welcomed everyone to the June Board meeting, thanked all who were in attendance, reviewed the logistics of the meeting, and reviewed the meeting’s agenda and reminded attendees that the Buffalo City School District (“BCSD” or “District”) made assurances that a final District fiscal year (“FY”) 2018-2021 Financial Plan would be submitted to the BFSA no later than June 30, 2017.

Roll Call of the Directors

Director Floss 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, 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 BFS 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

Interim Vice-Chair Jurasek introduced Resolution No. 17-07: "Approving Minutes and Resolutions from May 15, 2017."

Director Floss made a motion to approve.

Director Gallagher-Cohen seconded the motion.

The Board voted 6-0 to approve Resolution No. 17-07.

Final FY 2017-18 Adopted Budget & Related Four-Year Financial Plan

Determination with Respect to the City of Buffalo 2018-2021 Four-Year Financial Plan

Interim Vice-Chair Jurasek stated the next item was to approve the City of Buffalo's FY 2017-18 Adopted Budget ("City's Adopted Budget") and FY 2018-2021 Financial Plan ("City's Financial Plan") and turned the floor over to Principal Analyst/Media Liaison Mr. Bryce Link for his presentation.

Mr. Link thanked the Board for the opportunity to present the staff's analysis on the City's Financial Plan. The Common Council modified and approved the Mayor's FY 2017-18 Proposed Budget (the "City's Proposed Budget") on May 16, 2017. The Mayor accepted the Common Council modifications and approved the City's Adopted Budget on June 8, 2017. There were no modifications made to the revenues and no changes made to the total amount of expenditures from the City's Proposed Budget; however, departmental changes were modified by \$550,927 and carried forward for all four years of the City's Financial Plan. Staffing is flat at 2,691 budgeted FTE's over the City's Financial Plan.

Common Council changes totaling \$137,009 were made in the following areas:

- A net increase of \$102,165 consisting of \$72,751 for the changing of three job titles and as increase of \$29,414 to the auto allowance for Councilmembers
- Public Works changed three job titles for a net increase of \$12,585
- City Clerk changed one job title, reduced the hourly salary line which resulted in a net increase of \$22,259

A reduction was made to the amount budgeted for collective bargaining to fund departmental increases of approximately \$137,000 annually or \$548,000 over the duration of the City's Financial Plan.

The cumulative estimated revenues for the City's Financial Plan are \$2,004.9B and the budgeted appropriations are \$2,037.3B, which leaves a budgeted deficit of \$32.4M which is addressed through the appropriation of fund balance.

Overview of Financial Plan Revenues:

- Intergovernmental revenues are projected to increase \$27M or 10.7%;
- Sales tax is projected to provide an additional \$7.4M of revenue over the Financial Plan;
- Taxes are projected to increase \$7.8M, or 5.2%;
- Fines are projected to increase \$3.6M, or 25.2%;
- Miscellaneous revenue is projected to decrease by \$3.8M, or 26.5%;
- All other revenue sources remain flat or include an estimated minimal growth;
- Transfers In are projected to increase by \$3.1M in FY 2018 but then decline. Over the life of the City's Financial Plan, Transfers In will decrease by \$2.9M, or 17.9%;
- There will be continued dependency and use of Unassigned fund balance. The Rainy-Day Fund is scheduled to remain intact

Overview of Financial Plan Expenditures:

- Expenditures are projected to increase \$20.5M, or 4.1%;
- Departmental expenditures are projected to increase by \$5.7M, or 2.5%. Most of the projected increase is due to the Police Department estimated increase of \$5.2M, or 5.8%;
- General charges are projected to increase by \$14.7M, or 8.7%. The largest increase is due to fringe benefits which are increasing \$14.2M, or 9.6%;
- Interfund Transfers Out are held flat over the life of the Financial Plan after increasing in Year 1
 - Transfer to BCSD of \$70.8M which reflects an increase of \$500,000, the first increase since FY 2007-08
 - Transfer to capital Debt Service Fund at \$24.9M
 - Transfer to Solid Waste and Recycling Fund at \$3.2M
 - Transfer to Capital Projects Fund at \$400,000

Conclusions

- Overtime costs may be under-budgeted on a year-to-year basis;
 - Decrease of \$1.5M budgeted in Police Department
 - Increase of \$0.2M budgeted in Fire Department
 - Historically the City has been able to use vacancies to fund overages in overtime; however, there has been an increase in the number of filled positions due to additional recruit classes eliminating the vacancies. Subsequently, overtime must be utilized to provide the appropriate number of officers in the field until the new recruits have completed their training.

Director Gallagher-Cohen asked how long the training period is for new officers. Mr. Link advised it is approximately six months of training for police officers until they are deployed on the street and are working in patrol with other officers. It appears that the City may have underestimated the overtime costs associated with training and onboarding new recruits.

- Police Department is projected to be \$2.3M over budget in current year;

- Fire Department is projected to be \$4.6M over budget in current year. Additional mandatory firefighter training was required by New York State (“NYS”) which drove the overtime costs up.
- Monitor specific revenues due to the difficulty in estimating:
 - Sales tax estimated to increase \$1.7M, or 2.0% in 2017-18 with the expectation it will increase annually over the remainder of the Financial Plan by 2.5-3.0%. Actual sales tax has been flat the last two years.

Director Floss asked if any calculations were performed by the City regarding the exchange rate with Canada assuming the exchange rate moves in Canada’s favor which would likely bring more shoppers across the border and support the expectation that sales tax revenue will increase annually. Mr. Link stated it is the City’s expectation that Canadian shoppers will return to the area in addition to local residents purchasing higher ticketed items. Ms. Estrich stated the increased cost for gasoline is also a factor in the sales tax increase assumption.

- Monitor specific revenues due to the difficulty in estimating:
 - Fines, service charges and miscellaneous revenue;
 - Class I utility tax: the tax applied to landline phones is steadily decreasing
- Uncertain revenue as contained in the City’s Financial Plan includes:
 - State Aid and Incentives to Municipalities (“AIM”) of \$20.1M
 - Tribal State Compact revenue and related disbursement dispute for \$28.2M between NYS and the Seneca Nation. NYS is anticipating receiving said funds and has budgeted accordingly

Director Gallagher-Cohen questioned if a decrease in State AIM would be a reason to use Rainy Day Funds. Ms. Robe stated the Rainy Day fund can be utilized if there is an unexpected decrease in revenue, such as a mid-year decrease in State AIM after the annual amount had been committed, or if there is an unanticipated increase in expenditures. An inaccurate projection of revenues and/or expenses is not a justifiable reason to use the Rainy Day Fund. Ms. Estrich noted that the Rainy Day Funds are to be replenished if they are drawn upon and the repayment is required to be reflected in upcoming budgets.

Conclusions on City’s Financial Plan (continued)

- Unassigned fund balance is projected to decrease up to \$39.4M;
- Unassigned fund balance as of June 30, 2016 was \$41.9M;
- Continued reliance on fund balance is an unsustainable practice;
- Budgetary surpluses will reduce the impact on use of fund balance;
- No impact on Rainy Day Fund as it remains fully funded
- City continues to rely on non-operating income to fund general operations

Interim Vice Chair Jurasek questioned how the Administration budgets for aid that has been static. Ms. Estrich stated that NYS aid has been flat for so long the assumption is eventually the State will have to increase its aid for the jurisdictions that have remained within their required tax caps.

Ms. Robe stated there are many conservative underlying estimates that are taken into consideration when the budget is being assembled. The BFSAs keep a close eye on trends when assessing the City's budget and recognizes that there is room for movement within the City's expenditures and not as much movement available for the City's revenues. Director Floss stated there are always savings built into the budgeted lines in contrast to the actual lines which offset the use of reserves. Ms. Estrich advised the Administration is highly focused on decreasing the number of firefighters classified as injured-on duty ("IOD") by having them retire, in order to hire new firefighters.

Chair Olsen commended the City for remaining well under the statutory tax cap and for submitting a well-developed budget.

Director Floss stated adequately staffed police and fire departments are essential for City growth. The City's Administration is moving in the right direction by hiring more police officers and firefighters.

Chair Olsen stated the ever-increasing amount of untaxed real estate development associated with the expansion of the University of Buffalo's Medical Campus and other related developments do require the use of municipal services and therefore a payment in lieu of taxes ("PILOT") program should be explored. The BCSD also remains a drag on residential growth within the City. The vast difference in a suburban education and BCSD is dire and presents a problem; the inadequacy of the BCSD remains a major issue.

Director Gallagher-Cohen stated the move of the UB Medical School to the downtown corridor has spurred major growth and private investment in the area which has caused many properties to be placed back of the City's tax rolls and, therefore, disagrees with implementing a PILOT program with such a valuable investor in the City. Ms. Estrich stated the City has reached out to the Medical Campus and other non-profits throughout the City to work out a program in order for the City to be compensated for the municipal services it provides such as street lights, police, fire and plowing.

Interim Vice-Chair Jurasek emphasized that a PILOT agreement with all tax-exempt organizations should be explored as the City's budget gets tighter and tighter.

Director Floss stated that PILOT agreements were negotiated in Albany that were advantageous to the city and involved the Albany delegation to work with them. The City of Buffalo should look to the WNY delegation of the NYS Assembly and Senate to be at the forefront to secure higher PILOTs for the City. Other communities are being successful in this area and there is no reason Buffalo shouldn't attempt to accomplish the same.

Mr. Link continued his presentation on the City's Financial Plan conclusions with respect to operating transfers in:

- City continues to rely on non-operating income to fund general operations
- Transfer from the Parking Fund increases by \$2.7M to \$8.9M in FY 2018;
- Parking Fund transfer decreases to \$6.0M in FY 2019 and FY 2020;
- Parking Fund transfer decreases to \$5.0M in FY 2021

The following conclusions pertain to operating transfers out:

- Transfer to BCSD is increased by \$500,000 in 2017-18 and held at \$70.8M over the remaining three out-years of the City's Financial Plan. The increase in the contribution to the District was the result of increasing pressure from various sources for an increase;
- \$3.2M transfer to Solid Waste and Recycling Fund
 - Currently operates with an annual deficit;
 - Currently \$16.8M in outstanding borrowings is owed to the General Fund, and no formal plan has been developed to address the outstanding receivable;
 - Subsidy held flat over the Financial Plan

Interim Vice-Chair Jurasek opened the floor for any further questions or discussion. Hearing none, she advanced the agenda to request a motion to approve Resolution No. 17-08 noting that during the May 15th Board meeting the Board agreed that the BCSD would have until June 30, 2017 to provide their updated version of the District's Financial Plan.

Director Gallagher-Cohen made a motion to approve Resolution No. 17-08.

Director Floss seconded the motion.

Minor modifications to the wording of the resolution was addressed by Ms. Robe. Director Floss made a motion to make the appropriate wording change the title from "Preliminary Four-Year Financial Plan" to "Adopted Four-Year Financial Plan."

Ms. Estrich seconded the motion.

The Board voted 6-0 to approve changing the title of the resolution from "Preliminary Four-Year Financial Plan" to "Final Four-Year Financial Plan".

The Board voted 6-0 to approve Resolution 17-08 with the approved name change.

Buffalo Fiscal Stability Authority
BFSA 2017-18 Budget and 2018-2021 Financial Plan

Interim Vice-Chair Jurasek advanced the agenda to approve Resolution No. 17-09: "Adoption of 2017-18 Buffalo Fiscal Stability Authority Budget and 2018-2021 Four Year Financial Plan" as recommended to the full Board by the Audit Finance & Budget Committee. It was noted that no changes have been made since the proposed budget was presented to the Board in March.

Director Floss made a motion to approve.

Chair Olsen seconded the motion.

The Board voted 6-0 to approve Resolution 17-09.

New Business

Interim Vice Chair Jurasek advanced the agenda to review the City Comptroller's response to the BFSA's inquiry letter regarding capital borrowing.

Ms. Robe stated the BFSA reviewed the City's issuance of debt at the March 2017 Board Meeting. At that time, the BFSA's financial advisor was asked to construct a hypothetical issuance to determine the level of savings that would be obtained if BFSA issued the 2017 capital borrowing on behalf of the City. Since the BFSA entered an advisory period, it is estimated that approximately \$2.0M of cumulative savings could have been captured if the debt was issued by the BFSA on the behalf of the City, including the 2017 capital borrowing. At that time, the BFSA Board of Directors requested a letter be sent to the Mayor and Comptroller to obtain an understanding as to the reasons why the City would continue to issue debt considering the estimated savings. The Comptroller's response was discussed; the most significant reason provided was that issuing debt has allowed the City to increase its bond ratings.

Director Floss stated a cost/benefit analysis should be completed which would allow the BFSA to issue some of the bonds on behalf of the City, not necessarily all the bonds. There will be an additional cost if both entities pay for the issuance of bonds and as long as the benefits and lower interests rates cover these additional costs, remaining savings would be passed along to the City.

Chair Olsen expressed his concerns regarding the City's intent to continue to issue bonds at a higher cost to the City and therefore supports the BFSA issuing bonds on behalf of the City to capture the available savings.

Interim Vice-Chair Jurasek asked how the Board should proceed.

Director Floss asked if Ms. Robe should encourage further discussion with the Comptroller to explore possible savings and benefits. Ms. Estrich stated the benefit would be in having a larger sale or alternating the sales. Ms. Robe stated the analyses were done in March and updated to reflect the market on the date of sale in May. Director Floss clarified his request for further discussion with the Comptroller, that an unbiased estimate to discuss potential savings over time which would still allow the City to continue to reap the intangibles along in addition to savings should be explored.

Interim Vice Chair Jurasek stated the intangible of an increasing bond rating bond rating is desirable; whether it is worth forgoing \$2.0M in savings is unknown. Director Floss stated locking in a sale at a lower interest rate may improve the City's bond rating over time by using BFSA for bond financing.

Chair Olsen noted the City's continued responsible budgeting in addition to using BFSA financing will have a positive outcome on the City's bond rating; hopefully objective criteria can be reached to determine when the Authority can issue bonds on behalf of the City. Ms. Robe stated the BFSA has an A+ rating with Standard & Poor's and is three steps higher than the City.

Director Gallagher-Cohen posed the question of what the target number would be to determine which entity should finance the bonds.

Interim Vice-Chair Jurasek requested BFSA staff formally draft an overview and summary of the Board's concerns. Ms. Estrich asked if the City's bond rating would be effected if the BFSA issued bonds on the City's behalf. Ms. Robe stated there is no expectation that the City's bond rating would be negatively affected if the BFSA issued the bonds.

Chair Olsen questioned how Erie County handles the issuing of their bonds in the presence of an advisory board. Mr. Cornell stated there is much discussion in the County regarding bonds as there are many factors to take into consideration; therefore, bonding is determined on a case by case basis.

Ms. Robe stated the sunset period for the BFSA is 2037 and the BFSA Act prohibits the BFSA to issue debt that matures after that date.

Ms. Robe gave an update that the financial plan from BCSD is expected to be approved by the Board of Education on June 20 and to be subsequently submitted to BFSA. The next BFSA meeting scheduled for July 26, 2017 will be rescheduled to accommodate the schedules for a discussion with District leadership.

Privilege of the Floor

Interim Vice-Chair Jurasek extended the Privilege of the Floor to any member of the audience who wished to comment on any actions taken during the meeting for the public record. Hearing no comments the agenda was concluded.

Adjournment

Director Floss moved to adjourn.

Chair Olsen seconded the motion.

The Board voted 6-0 to adjourn the meeting.

Meeting adjourned at 2:25 PM.