BUFFALO FISCAL STABILITY AUTHORITY
Special Meeting Minutes
April 2, 2019

The following are the minutes from the meeting of the Buffalo Fiscal Stability Authority (the "BFSA") held on Tuesday, April 2, 2019 in the fourth floor conference room of the Buffalo Market Arcade Complex. The meeting was called to order at 1:07 PM.

Board Members Present

Secretary George K. Arthur
Mayor Byron W. Brown (proxy Nosworthy)
Director Frederick G. Floss
Director Dottie E. Gallagher
County Executive Mark C. Poloncarz (proxy Cornell)

Board Member(s) Excused

Chair R. Nils Olsen, Jr.
Interim Vice-Chair Jeanette T. Jurasek

Staff Present

Executive Director Jeanette M. Robe
Principal Analyst/Media Liaison Bryce E. Link
Administrative Assistant Nikita M. Fortune

Additionally Present

Ms. Vanessa Glushefski, Esq., CPA, Acting Comptroller, City of Buffalo
Ms. Tracey Keays, Managing Director, PFM Financial Advisors, LLC (via conference call)
Mr. James L. Magavern, Esq., Magavern Magavern & Grimm LLP
Mr. Gregg Syzmanski, CPA, Investment and Debt Management Officer
Mr. Rick Ganci, Capital Markets Advisors, LLC

Opening Remarks

Director Floss served as Chair Pro Tem and welcomed and thanked everyone for attending and announced the meeting's logistics and agenda for the sole and specific purpose of reviewing City of Buffalo's financing of the 2019 capital program.

Roll Call of Directors

Director Floss deferred to Secretary Arthur to call the roll of the members. Secretary Arthur called the roll noting the excused absences of Chair Olsen and Interim Vice-Chair Jurasek. Finding a quorum present, the meeting commenced.

City of Buffalo Associate Management Analyst with the Department of Administration, Finance Policy and Urban Affairs, Mr. Raymour Nosworthy, 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…."

Review of the City of Buffalo Financing for the 2019 Capital Program

Director Floss stated the review is being performed as required by Section 3859 of the Buffalo Fiscal Stability Authority Act which requires the BFSA to review and comment on the terms of any borrowing and turned the floor over to Ms. Robe for her presentation.

Ms. Robe began her presentation stating the Common Council approved the final 2019 Capital Budget in the amount of $31.1M and has a proposed borrowing of $22.1 million ($16.3M from the current year capital budget and $5.8M authorized in prior years). The BFSA Board of Directors reviewed the information in detail concerning the final Capital Budget at the March 13, 2019 board meeting.

Historically, BFSA issued all City bonds from 2004 through 2007 and the City issued bonds from 2008 through 2012 as selling securities on the general public market was one requirement for the BFSA to transition from a control period into an advisory period. The City has continued to annually finance the capital program since 2012.

The City's bond rating is three notches lower than the BFSA which is consistent with last year's rating. It was noted Moody's revised the City's outlook from positive to stable in 2018.

The proposed program differs from prior years in that the City plans to issue bond anticipation notes (BANs) for a period of three to five years. After three to five years the projects will be subsequently sold into long-term bonds. The principal can be rolled over for a maximum of five years, and at that time the requirement is such amounts must be fully paid off or bonded.

The 2019 BAN is scheduled to be sold competitively on April 17, 2019 and close on April 30, 2019. The debt limit for 2019 as issued by the Comptroller's Office is $23.2M and there will be no District portion included in the sale. The District continues to use savings from the JSCB refundings to fund their capital program.

The total proposed amount of the financing is $22.1M with an estimated par amount of $21.8M and premium of $268,000. Estimated costs of issuance are approximately $32,000 and additionally the estimated underwriter fee is $7,645 constituting 0.035% of the par amount. Based on estimated interest rates at the end of February, the total estimated interest cost is $655,275.

The City indicated four main reasons for the City to implement the program of issuing short-term bonds now with the intent to bond at a later date:

1. Better manage the capital process. The annual capital budget is usually approved in the middle of December, the financing is sold in April before construction season, and this schedule leaves little time for the City to review project information. The intent is to issue bonds once the costs of the projects are firmly established.

2. Easier to correct unintended mistakes. For example, a bond resolution was approved in 2012 for streets that do not actually intersect therefore the funding could not be accessed until NYS legislation was passed to correct the error. Subsequently, there were unspent proceeds that the City was paying interest on.

Director Floss asked how long it generally takes to correct mistakes via NYS legislation as there is concern if a correction takes three years as opposed to two weeks. Ms. Glushefski, Acting Comptroller of the City of Buffalo, stated the legislative process is unpredictable and these kinds of corrections may take a two-year cycle. Director Floss stated this is more of a planning issue as opposed to a financing issue. Ms. Glushefski responded that a BAN method allows for more flexibility and narrows exposure down to one year as oppose to paying multiple years of interest for proceeds that are unable to be spent.

Director Floss then asked if there should be multiple bond categories, for example one category could be 10-year long-term projects locked in at a lower interest rate and write the resolutions to match the yield curve and provide the needed flexibility for the differing categories. Ms. Glushefski responded there is a full expectation of issuing both BANs and bonds next year and going forward it will be reviewed on an annual basis. Director Floss stated the bigger picture is to discuss if it would help for BFSA to issue some of the bonds to help keep the City's bond rating higher.

3. Open capacity for unfunded projects
    a. Average unspent proceeds were $1.2M from 2006 to 2015
    b. Under the proposed model it is estimated 3% of each bond issue would be unspent
    c. Based on the average from the last 3 years this is equal to $400,000 of additional capacity
4. The City acknowledges it is foregoing the opportunity to lock in low interest rates but it believes that large amounts of unspent proceeds produce unnecessary interest costs that offset the interest rate opportunity.

The City has indicated there will be total estimated saving of $400,000 over the first 3 years of the program. In total, the program will cost the City an estimated $54,256 over the entire 13 years of the program assuming that interest rates don't change and there is no change in the bond rating.

Director Gallagher asked if there is any indication the City's rating would change. Ms. Glushefski stated there is no reason to believe the rating would shift in either direction.

Ms. Robe continued stating BFSA's financial advisor indicated the following:

- A BAN/Bond program can be beneficial to address concerns raised by the City;
- A 3-to 5-year BAN program raises concerns about market access and interest rate risks. She believes rating agencies will share this concern.
- Rolling BANs for several years is not necessary to resolve the City's issue of limited time between budget approval and drafting of bond resolutions. Issuing a one-year BAN should provide enough time to more accurately determine the actual financing need. The City has included 29 projects which is a reasonable number to manage. Also, the proposed program timing consists of a substantial amount of project's period of probable usefulness which appears excessive.

Director Floss asked Secretary Arthur if the Common Council previously asked for projects earlier, so they could be completely vetted before the January fast-track. Secretary Arthur responded that the Capital Budget was requested earlier for an appropriate turnaround. Ms. Glushefski stated there have been multiple retirements within the past year at the City which may have caused a delay in obtaining information this year. Director Floss stated the BFSA may need to recommend that the process begins earlier to allow an adequate amount of time for review. Mr. Syzmanski provided the following timeline of the budget process: the Citizens Planning Council ("CPC") begins meeting in August and holds several meetings where City residents can present their proposed projects. The budget is then sent to the Mayor on October 1st.

The Mayor submits the capital budget to the Common Council on or before November 1st. The Council has until December 15th to approve the budget. The timeline doesn't leave much time for the resolutions to be written and submitted.

Ms. Robe continued sharing BFSA's financial advisor's comments:

- Correcting mistakes – prolonging bond issuance may not be the correct approach
- Unspent proceeds – the City conservatively estimates 3% will continue to remain unspent. The City should consider modifying the self-imposed debt limit to avoid unnecessarily limiting its ability to invest in capital needs and infrastructure.
- Current interest rates remain low and increased rates could be costly
- More critical issue is whether the City takes near term savings benefits at the risk of potential interest rate increases or market access limitations in the future

The following recommendation was provided by the Financial Advisor:

- The City should issue a one-year BAN with all or the majority of projects bonded in the following year. This would allow time to more accurately determine project financing needs. Projects that are delayed or uncertain could be rolled for an additional year when the City issues its next new money BAN. The bond issue could be downsized as necessary.

The Financial Advisor provided a sensitivity analysis. In the event interest rates increase, the first 3 years will continue to produce savings but total debt service will increase over the life. Assuming interest rates increase by 10 bps in year 1, 20 bps in years 2 and 3, and 40 bps in years 4 to 13, total costs increase by $350,000. If rates increase by 20 bps, 40 bps and 60 bps, total costs increase by $550,000. Furthermore, increases of 30 bps, 60 bps and 100 bps increase costs by $945,000. There examples are provided to demonstrate the potential costs associated with the assured interest rate risk.

Director Gallagher asked how much interest is being paid for the stalled projects on an annualized basis. Mr. Syzmanski stated that information is not readily available. Ms. Robe stated a calculation was performed which showed interest $0.4M of unspent proceeds at 2.45% is equal to $127,400 over the life of the bond.
In light of the analysis, Director Gallagher stated a combination of a BAN and/or bond may be the most appropriate way to finance the City's capital projects, as opposed to planning on rolling the BAN forward over the next five years. Director Gallagher also asked for clarifying language from the City's Comptroller Office to reflect their position that the City will annually review the projects and the market interest rates along with the BAN/bond strategy to determine the most appropriate financing method. Ms. Glushefski stated a letter will be drafted and submitted to the Board.

Ms. Keays commented that the explanation of an annual review of BAN or bond appropriateness clarifies the Comptroller's position and a revision to the previously submitted letter is important.

Mr. Magavern asked what the City earns on its short-term deposits since it is no longer uses arbitrage. Mr. Syzmanski stated the City earns approximately 2% on its money market account which is offset against the interest costs that are incurred on the unspent proceeds.

Hearing no additional comments Director Floss asked for a motion for:

1. a revised letter from the Comptroller as discussed to clarify the annual analysis of financing through BANs versus bonds; and
2. that the City review its time process in developing the Capital Budget to reduce the amount of unspent funds and better forecast the financial costs of the projects.

Secretary Arthur made a motion as stated by Director Floss. Director Gallagher seconded the motion.

The Board voted 5 to 0 to approve the motion.

Hearing no additional comments the meeting was adjourned by acclamation at 1:48pm.