

**BUFFALO FISCAL STABILITY AUTHORITY**  
**Audit, Finance and Budget Committee Meeting Transcript**  
**March 23, 2020**

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The following is the Buffalo Fiscal Stability Authority (the “BFSA”) Audit, Finance and Budget Committee (the “Committee”) March 23, 2020 meeting minutes. The Committee met via teleconference in compliance with New York State Executive Order 202.1 at 12:33 PM.

**Committee Members Present**

Committee Chair R. Nils Olsen, Jr.  
Director Frederick G. Floss

**Additional Directors Present**

Secretary George K. Arthur  
Mayor Byron Brown (Estrich)  
County Executive Poloncarz (Swanekamp)

**Committee Member Excused**

Interim Vice-Chair Jeanette T. Jurasek

**Staff Present**

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

**Additionally Present**

Mary Francoeur, Managing Director, Public Financial Management (“PFM”)

**Opening Remarks**

**Chair Olsen:** Welcome to the March meeting of the Audit, Finance and Budget Committee. Thank you for attending. I'll briefly review the logistics of the meeting. All Directors and staff should “mute” their lines in order to reduce background noise while listening. All BFSA staff are in attendance as is customary. All Directors have been invited to attend the Committee meeting. I ask that prior to speaking you state your name so that members of the public know who is speaking. Members of the public and representatives of the City and Covered Organizations have muted lines and are able to listen only. I will call a roll of attendees.

**Roll Call of Directors**

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

Erie County Deputy Budget Director, Benjamin Swanekamp 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...."

Chair Olsen (00:57): I'm here. Director Floss?

Director Floss (01:00): I'm here.

Chair Olsen (01:01): Vice Chair Jurasek is excused. As we have a quorum, we may now begin with the first order of business, which is the approval of the minutes from the September 23rd, 2019 Audit, Finance and Budget meeting. A copy of these minutes and the accompanying draft resolution are located in board book under tab one. Is there a motion to approve?

Director Floss (01:22): So moved.

Chair Olsen (01:22): Okay, I'll second. All in favor? Aye.

Director Floss (01:27): Aye.

#### **Authorization, Sale and Issuance of Sales Tax and State Aid Secured Bonds**

Chair Olsen (01:27): Next item on the agenda is a discussion of the current municipal bond market and to consider a resolution authorizing BFSA to issue new debt on behalf of the City. Jeanette has asked Mary Francoeur from PFM to join us today to provide a high-level overview of the recent impact to the municipal bond market due to the pandemic. Jeanette, would you please begin?

Jeanette Robe (02:03): I'll provide a brief summary of a look back for the last two years as well as the current year as it relates to what the BFSA has performed in evaluating the cost effectiveness of issuing debt on behalf of the City. Back in late 2017 and early 2018 the BFSA worked collaboratively with the City Administration and the City Comptroller's Office to analyze the potential financial benefit between a BFSA issue versus a City of Buffalo issue. At that time, the savings over the life of the bond were not significant enough for a clear position to be taken. The City determined it was advantageous to issue debt themselves and issued the 2018 bond series for capital projects. Last year in 2019, the City did not issue long-term debt but entered into a bond anticipation note ("BAN") program. We had extensive communications with the then Interim City Comptroller surrounding the development of the BAN program. It appears that the current City Comptroller has vacated that program. This past February, the City Comptroller's office issued a \$7.5 million refunding bond. The original intent was to issue a new money bond in April 2020 for the current capital year projects to coincide with the maturity of the one-year bond anticipation note, which is maturing towards the end of April 2020.

Moving forward to what we have evaluated for 2020, I initially had our financial advisor review the interest rate differences back in December in preparation for what would typically be the timing when we do our financial analysis. BFSA is rated AAA and Aa1 by Fitch and Moody's rating agencies, respectively, and the City is collectively rated as A1 by all three major rating agencies. It is noted that City bonds price more favorable than what would be expected from an A1 bond rating. This is attributed to the existence of BFSA and the resulting increase in investor confidence. In December 2019 we were advised that the municipal bond market was strong, and spreads were not significant. In anticipation of reviewing the City's final proposed borrowing structure at our March board meeting, I had reached out again to Mary at PFM for an update on the municipal bond market. It's been volatile to say the least. Mary, if you wouldn't mind providing an overview on the municipal bond market, it would be appreciated.

Mary Francoeur (05:25): Thanks Jeanette and good afternoon everyone. At Jeanette's request, we had done a refresh of the analysis that compared a City issue versus a BFSA issue. We had originally done that about two and a half weeks ago. At the time there was still market access for municipalities. As you know municipals were finding a place despite some indications of widening spreads and it was actually those widening spreads that suggested at the time that a BFSA transaction would actually be more cost effective after an extended period of very tight credit spreads. We were finding a widening of the spreads between that high A and the AAA that the City and that the BFSA enjoy respectively. About one or two weeks ago, we were seeing a market that had suggested that a BFSA issue could potentially be more cost effective. Since then the municipal market has really closed up for lack of a better term. There are a handful of municipal transactions that were successfully marketed up until about the middle of last week. Since then there's really been a lack of liquidity in the market. One of the things that's happened is that, across the board in all sectors, not just municipals, but corporates as well, is that investors are really looking to establish strong cash reserves. There's been a lot of sell off in the municipal market in addition to not the same level of demand that we have had seen in the new issue market as well as in the secondary market. As a result, spreads have started to really widen out. The 10-year MMD, which is a AAA rate, back on January 31<sup>st</sup> was 1.15%; on the 19th of March that rate was 2.34%. So that ten-year MMD is actually now double what it was just six weeks ago. It's sort of that 10-year mark where, the City or BFSA would be borrowing. What we're seeing is that the MMD has actually been increasing at 50 points across the entire curve. That 50 point raise occurred on March 19th when the ten-year was at 2.34%. We actually saw another 45-50 point increase on Friday. So those, that 2.34% that I just quoted to you, it's actually now a 2.80%.

Mary Francoeur (09:14): So the indication from our pricing at this point is that they're not expecting any greater stability in the market over the next week or so. What works right now is really kind of taking a wait and see attitude as we're advising our clients as to whether or not it's time to actually enter the market. It's a really a challenging time in the municipal market and we're not quite sure exactly where things are going.

One of the things that we're expecting is that issuers who have short-term debt or variable rate demand bonds will have concern if there is going to be bank funds. That's not going to be a market similar to what we saw during the financial crisis of 08-09. One of the things that we're looking at is really trying to see what alternatives are available in terms of your short-term access

to capital and liquidity through banks and direct purchases. That's a quick update on the municipal market. It's actually about as bad news as I've seen in 30 years of working in municipal markets. I'm happy to take any questions.

Jeanette Robe (10:55): Thank you, Mary. I'll pause at this point and ask Director Floss and Chair Olsen if either have any questions as to what's been discussed up to this point.

Director Floss (11:33): This is Fred Floss. Given the pandemic and the obvious liquidity needs at the local level, both at the school district and at the City, it seems to me that there's going to be a big need for borrowing, even if it's short-term, until the federal and state governments try to figure out how to get money and what our financial position is going to be. Do we have any recommendations; are we going to be able to enter the market at all given the issues of liquidity? And given the Fed's reactions today, do we have any idea about whether or not the markets are going to be open?

Mary Francoeur (12:34): One of the things that we're seeing at the moment is that on the short-term, financial institutions, primarily the commercial banks, are willing to lend. We're seeing a lot of issuers go to their trusting relationships, their financial institutions, and establishing lines of credit. I think that between that access to capital as well in advance of what might come out of Washington, and the potential for the Fed shore up capital markets, including municipals, is that one of the things that may be important is for the City and the School District is to be reaching out to their banking relationships in order to establish some level of liquidity through a line of credit or some other resource.

Director Floss (14:13): I'm just wondering Jeanette, if we think we need to make that recommendation to the City and the School District. I am sure both organizations are thinking about it, but it would be a good idea for the Control Board to make a recommendation that they look at a line of credit given the uncertainty?

Jeanette Robe (14:36):

I think that is a good recommendation for the Board to make. We spoke to the City Comptroller's Office, with the debt manager and financial advisor on Friday. Due to the volatility in the market, they were proceeding with the understanding that they would be issuing a bond. Then the last few weeks happened.

They're looking into vacating a long-term bond issue at this point and issuing or obtaining some type of a short-term financing vehicle, whether it's a line of credit or whether it's a bond anticipation note or whether it's some other type of loan to kind of try to float them until the August time-frame. At that point they would take a look at where the bond markets are and if they've opened up, and look at doing something more long-term in August. They are having those conversations with the financial institutions. Mary had made that recommendation on that phone call to them and their financial advisor assured us that was occurring. It certainly is a good idea to reinforce it from a BFA board perspective.

Director Floss (16:30): Then I would make that motion that we direct our Executive Director to put forward our concern that both the City and the school district should look at a line of credit or some other vehicle to ensure that they have short term financing in place given the pandemic.

Chair Olsen (17:05): Second. Any further discussion? Hearing none, all in favor? Aye.

Director Floss (17:09): Aye.

Chair Olsen (17:16): Opposed?

Jeanette Robe (17:16): Thank you. I did provide you a copy of the pricing differential analysis. That's very much in flux with the volatility in the market, but what it suggested at that time, as Mary had mentioned, is that there was a substantial cost-benefit for BFSFA to issue. But even more importantly, with AAA rating versus an A1 rating in this market, it was providing a kind of a mechanism to mitigate interest rate risk that the City was facing. Based on that, we worked with our bond counsel to develop a pro-active, tentative approval and authorization to issue debt on behalf of the City. It situates us with an approved financial advisor being PFM. It established us with a bond counsel, which would be a re-engagement of Mintz-Levin. I submitted the engagement letter draft to you as well, and it would tentatively authorize the BFSFA to basically hit the ground running if it becomes cost effective and the Mayor requests the BFSFA to issue that we can do so and start working on it right away. With delegation to certain individuals to work on it, being myself, the Chair, the Interim Vice-Chair, the Treasurer, the Board Secretary and the Comptroller for the BFSFA. So, it's a pretty broad number of people who can be engaged in this. We would of course update the Board as we went along. But this does give us the authorization to be proactive and move forward. Do you have any questions on that?

Director Floss (19:34): We don't need to take any action now or are we set?

Jeanette Robe (19:37): We do, there's a resolution for you. There is a resolution before you that the Chair could make a motion for you to take.

Chair Olsen (19:50): Can you indicate for the public the tentative analysis of savings?

Jeanette Robe (19:58): Yes, I can. The tentative analysis was based on the estimated sizing of the bond of \$46.5 million. That estimated sizing was provided by the City of Buffalo Comptroller's office. The analysis estimated savings of \$406,000 over the life of the bond with the present value amount of \$350,000. This was based on an estimated interest rate difference of 19 basis points. I just want to emphasize that this is clearly subject to change due to the volatility.

Chair Olsen (20:49): Okay. Thank you. I'll make a motion to approve the resolution.

Director Floss (20:56): Second.

Chair Olsen (20:58): Any further discussion? All in favor? Aye.

Director Floss (21:01): Aye.

Chair Olsen (21:03): Opposed? Okay. Does that complete our business Jeanette?

Jeanette Robe (21:13): That does not, but it completes our bond business. Mary, thank you so much for joining us and you certainly are welcome to sit through the rest of the meeting, but you don't need to.

Mary Francoeur (21:24): Okay. I do have another call to hop on to. I appreciate your time and let me know whatever you need from us. We're here to serve you and hopefully someday I'll actually get to come up and visit you all in person.

Jeanette Robe (21:38): That would be great. Thank you so much.

Mary F Francoeur (21:41): Great. Thank you. Bye.

### **BFSA 2020-21 Preliminary Budget and 2021-2024 Financial Plan**

Jeanette Robe (21:51): The next item is to review the BFSA's preliminary 2021 budget and related four year financial plan and to authorize its posting for public comment. The Finance Committee is not approving the budget at this time but rather is approving it to be posted for public review and comment as consistent with prior years. This item will be posted on the BFSA website. Obviously due to what is occurring, public posting at this time will be limited to the website, but at such time that the public facilities reopen appropriate action will be taken to post the information where possible. We typically post it to the public libraries. Public comments can continue to be provided. Information for such comments as posted clearly on the website and any comments that we do receive will be forwarded to this committee. The preliminary budget is provided under tab one of your Board book along with the accompanying draft resolution.

I had a few comments on the budget, which is our overall arching statement of what we do within the organization. We minimize spending to the extent possible as we are cognizant of the fact that we operate with public dollars while performing the duties we are responsible for and to assist the BFSA board in meeting their obligations. I'm pleased to report to you that total operating expenses are budgeted to decline by 0.6% from the prior year. The most significant change is in the area of salaries. I was able to fill the Comptroller position with a part-time employee who is a certified public accountant who has a municipal finance background. The ability to create this as a part-time position was largely due to this municipal background. From a budgetary standpoint, it was an advantageous position for the BFSA. I have changed the budget to reflect that this position is now a part-time position. The total final budget for operating expenses is \$983,187.

Secretary Arthur (24:39): Excuse me for interrupting, what is our total operating budget?

Jeanette Robe (24:43): Our total operating budget is \$983,187.

Secretary Arthur (24:50): Thank you.

Jeanette Robe (24:51): You're welcome.

Chair Olsen (24:57): We should probably repeat the fact that we're able to positively impact the City's financial standing in this difficult time by having a backup on their finances.

Jeanette Robe (25:18): Absolutely. We continue to provide a layer of underlying financial support with the better pricing than an A1 bond would typically get. Furthermore, in the current markets, we're able to mitigate some of the risks.

Chair Olsen (25:36): Without doubt, this is continuing to be reflected, whether we issue the bonds or the City issues the bonds, it's been indicated in every statement from the bond rating agencies. Any further discussion on the budget? Okay, I will entertain a motion for the resolution.

Director Floss (26:20): So moved.

Chair Olsen (26:20): Second. Any further discussion? Hearing none. All in favor? Aye.

Director Floss (26:26): Aye.

Chair Olsen (26:26): Opposed? Okay, that passes. Any other business for us to transact today?

#### **Approval of BFSA Audit Engagement**

Jeanette Robe (26:35): There is. The next is to approve Lumsden and McCormick as auditors for the year-ending June 30, 2020. There is a proposed minor increased a \$300 to the audit fee over last year. We originally contracted Lumsden and McCormick pursuant to our request for proposal. This action extends the contract for an additional year.

Director Floss (27:05): Okay. We approve the audit engagement letter.

Chair Olsen (27:10): I'll second that. They've certainly done an excellent job for us, they are very professional, and very prompt and timely. Any further discussion on the motion? I'll second that if I didn't. None. All in favor? Aye.

Director Floss (27:31): Aye.

Chair Olsen (27:31): Opposed? That passes.

#### **Review of the BFSA 2020 Internal Control Review**

Jeanette Robe (27:39): The last item on the agenda is a brief report from the Internal Controls Officer. It's a statutory-mandated report on his internal controls review that was conducted this past year. Bryce?

Bryce Link (28:02): Yes, thank you. Thank you for giving me the opportunity to address the Committee this afternoon. The two areas that were reviewed were document retention and storage as well as the budget preparation and approval process. With BFSA being an agency of five staff, there is quite a bit of oversight occurring on all transactions. Segregation of duties was reviewed and demonstrated the controls that are in place in regards to BFSA operations and are functioning. During the course of my review, there were no material findings. Additional focus was looking at areas where potential fraud could occur. The first report you'd have in the board book focuses on the document retention and storage. The testing focused on the records retained by the BFSA and if they were maintained in accordance BFSA Directors' guidance and procedures they placed for storing and disposing of all said records. Being a public authority, the BFSA falls under the New York State MI-1 records maintenance schedule and at our August 4, 2014 Governance Committee, the Directors in consultation with Mr. Magavern voted to amend the record retention policy to extend it plus one year. All BFSA records will be maintained a minimum of seven years. We also appointed a record management officer who is Mr. Nathan Miller per resolution 06-60.

Benjamin Swanekamp (30:05): Benjamin Swanekamp, Erie County.

Bryce Link (30:05): I tested a series of records. Some of them include employee time sheets, account payables, meeting minutes-video and written, and BFSA resolutions. A minimum of 25% was reviewed throughout the process. All these documents for the most part were available online. If not, they were being stored within the BFSA's V drive. As I stated the beginning, there were no material findings in BFSA's efforts to promote transparency and good governance. We post the BFSA subject matter list online including all BFSA resolutions for both committees and full Board including our minutes and videos. We also include the BFSA operating procedural documents.

Bryce Link (31:00): Moving on to the second area that was tested. It was the budget preparation and approval process. This one was interesting, just due to the testing cycle. I utilize the 2019-20 budget to look at the timing requirements. As we just discussed this afternoon, BFSA needs to have the approval of the Committee to post our proposed budget. So for 2019-20, I used that budget process for the timing perspective and then in conjunction with the preparation of the 2020-21 budget I worked with the BFSA Comptroller to review what was prepared and submitted. A lot of the review has to deal with a reasonability of revenues and expenses. The revenues reviewed included: sales tax, New York State Aid and Incentives to Municipalities ("State AIM") as well as the investment income from forward delivery agreements and interest income. The BFSA's primary operating revenue though is the Erie County sales tax. In regard to revenues, there was nothing noted. Everything at the time of preparation looked reasonable. The expenses and budgeting review the comptroller prepares and utilizes historical data for expense lines and preparing the budget as well as preparing assumptions over the course of the financial plan. These assumptions seem reasonable, they include the projected increase for health insurance, employee compensation, rent, pension contributions, et cetera.



Bryce Link (32:40): We briefly touched upon the reporting requirements. In addition to the posting requirements the BFSa is also required to post information into the New York State public authorities reporting information system, which is also known as PARIS. There was no variance to our posting, all those requirements were met. It's noted in an effort to promote transparency and good governance, the BFSa posts the following documents on its website: a BFSa budget and financial plan, BFSa resolution authorizing posting a preliminary budget and approval of the final budget and the BFSa also provides the directors a quarterly report on BFSa operations for their review.

Bryce Link (33:42): Questions from the Directors at this time?

Jeanette Robe (33:51): Bryce, thank you very much for your work on that and for the mandated reporting. It's appreciated.

Bryce Link (33:57): Thank you.

Jeanette Robe (34:00): That is the last item on our finance committee agenda.

Director Floss (34:04): Move to adjourn.

Chair Olsen (34:08): Any further discussion from any board members? Hearing none. I'll move to adjourn.

The meeting ended at 1:02 PM.