

BUFFALO FISCAL STABILITY AUTHORITY
Special Meeting Minutes
April 14, 2020

The following are the minutes from the Buffalo Fiscal Stability Authority (the “BFSA”) Special Board Meeting held April 14, 2020. The Board met via teleconference in compliance with New York State Executive Order 202.1. As required by such Executive Order, a transcript of the meeting has been prepared. The meeting was called to order at 1:00PM.

Board Members Present

Chair R. Nils Olsen, Jr.
Secretary George K. Arthur
Director Frederick G. Floss
Mayor Byron Brown (Estrich)
County Executive Poloncarz (Swanekamp)

Board Member Excused

Interim Vice-Chair Jeanette T. Jurasek

Staff Present

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

Additionally Present

Rick Ganci, Public Financial Management (“PFM”)

Opening Remarks

Chair Olsen (11:18):

Welcome to this special meeting of the Buffalo Fiscal Stability Authority. Thank you for being here. This special meeting was called for the sole purpose to review and comment on the proposed City of Buffalo financing for the 2020 capital program. This meeting is being recorded and will be transcribed as required. Therefore, it would be helpful you state your name before commenting. Due to the circumstances of holding this meeting by conference call, we will not be holding the usual public comment session at the end of the meeting. Any comments should be submitted to the Buffalo Fiscal Stability Authority either by phone at area code (716) 853-0907 or by email at info@bfsa.ny.gov. This contact information is also available at the website. At this time, I will ask Nikita to indicate who from this authority and City are on the call.

Nikita Fortune (12:47):

Good afternoon. As far as BFSFA staff, we have Executive Director Jeanette Robe, Comptroller Claire Waldron, Principal Analyst Bryce link, and Administrative Assistant myself. We also have Geoff Pritchard from Buffalo City School District on the line and Richard Grimm is on the line from Magavern, Magavern and Grimm. We also have Benjamin Swanekamp as the County Executive proxy on the line and Bill Ferguson from the City Comptroller's Office. I see two or three unidentified callers.

Mayor Brown (Proxy) (13:39):

You have Donna for the Mayor?

Nikita Fortune (13:41):

Yes, Donna for the Mayor.

Jeanette Robe (13:45):

One of them was Rick Ganci from PFM.

Gregg Szymanski (13:51):

Gregg Szymanski with the City of Buffalo.

Nikita Fortune (13:55):

Thank you.

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 (13:58):

Thank you Nikita. I will now ask Secretary Arthur to take the roll call of the directors.

Secretary Arthur (14:07):

[Roll called]

Secretary Arthur (14:31):

Mr. Chairman I'm glad to announce that you have a quorum.

Review of City of Buffalo Financing for the 2020 Capital Program

Chair Olsen (14:35):

As there is a quorum present, we will begin our meeting. We will be discussing reports from staff on the proposed financing and the final 2020 Capital Budget and 2020-24 Capital Plan. Recent rating reports from Moody's, S&P and Fitch, a submission letter from the City Comptroller's office and the recommendation letter from the Citizens' Planning Council have been provided to you. Please note this review is performed as required by Section 3859 of the BFSFA act, which requires BFSFA to review and comment on the terms of any proposed borrowing, including the prudence of each proposed issuance of bonds or notes. Jeanette will summarize the proposed transaction with us.

Jeanette Robe (15:28):

Thank you. I emailed out earlier today a PowerPoint presentation to assist with the discussion today. Did all the directors receive this presentation?

Thank you. The last time we reviewed the Capital Budget with this Board was back in December and it was the preliminary Capital Budget at that time. The 2020 Capital Budget has since been adopted.

The initial budget was approved by Common Council in December 2019 for \$42.6 million. Common Council reallocated \$2.7 million from the citywide infrastructure line to provide \$300,000 for each of the nine council districts. The reallocation moved the funds into the specific individual districts but it did not change the total budget. On February 4, 2020, the Capital Budget was further amended to increase it by \$4.1 million for costs associated with the engine 25 fire station project. From 2004 to 2007, the City issued debt on behalf of the City. The Buffalo City School District as an independent school district is unable to issue debt and therefore the City issues debt on behalf of the District. During this four-year period, the BFSFA issued \$25.8 million of deficit borrowings, series for new projects and that would include money for both the City of Buffalo's capital projects as well as the School District's. The BFSFA refunded City and District bonds that were outstanding, and currently \$11.1 million of BFSFA bonds are outstanding. In contemplation of transitioning from a control period to an advisory period, the BFSFA allowed the city to access the bond market beginning in 2008. The City sold bonds between 2008 and 2012 and the BFSFA transitioned into an advisory period on July 1st of 2012. Since that time, the City has sold debt annually.

Jeanette Robe (18:38):

There's a four-step difference on the Fitch rating scale between the BFSFA and the City and there's a three-step difference between Moody's. AAA demonstrates the strongest credit worthiness of municipal bonds compared to the counterparts. AA is very strong credit worthiness and A is above average credit worthiness. They're all very good ratings. On a short-term rating basis, Moody's and S&P just rated this preliminary offering of a MIG 1 for Moody's and SP-1+ for S&P. Those are the highest short-term ratings that are provided by these particular rating agencies. Because of the higher bond rating, BFSFA can sell debt at a lower interest rate.

Jeanette Robe (19:50):

On August 1st of every year, the City Comptroller issues a report and outlines the recommended annual debt limit for the City of Buffalo. These amounts include the recommended debt limit not just for the City of Buffalo, but also for the School District. The District intends to use refunding savings for next year's capital program. This has been consistent with the last several, probably many years at this point that they're using the refunding savings. The recommended limit of \$25.3 million for 2020 was fully allocated to the City of Buffalo's capital program.

Jeanette Robe (20:39):

Originally, the City had planned a bond sale to occur in April. It was originally sized at a par amount of \$46.4 million. The stock market crash began on March 9, 2020. There was resulting significant volatility in the bond market. Investors were selling their investments to convert their holdings into cash. There was uncertainty as to whether any bond sale could be successful, not just the City of Buffalo bond sale.

The City's Comptroller's Office reassessed and determined that it was prudent to change its strategy and to issue a short-term borrowing to provide time for the markets to settle to see where the markets would be. It will be a one-year note and at maturity the City is planning on selling a bond, assuming that the market's conditions will support a sale.

Jeanette Robe (21:55):

Before I move into the proposed financing, I just want to pause and see if there's any comments or questions on any of those points so far.

The change from a long-term borrowing to a one-year note involved resizing the overall transaction. The BAN is broken down into what I'll call two categories. First is the amount of the 2019 bond anticipation note that is maturing at the end of April. \$20.5 million of that bond anticipation note is being rolled over into the 2020 BAN. The second portion is new money and this was based on a prioritization and a schedule of what the immediate cash needs would be for a one year period for these projects. \$13.9 million represents projects that were authorized in the 2020 capital plan, \$1.3 million authorized in prior years.

Jeanette Robe (23:13):

Within your board packets there is a schedule of projects being sold included as Appendix A to the report. The estimated costs of issuance are \$53,570, this is about 38% higher than the cost of issuance for last year or about \$15,000 higher and it pertains to two categories. One is the legal fees which are \$8,200 higher on a year-to-year basis; the explanation was that there were more bond resolutions drafted this year. The City also went out for another additional rating on the short-term debt with Standards and Poor and that accounted for a budget increase of \$7,000. The budgeted principal reduction to be made next April is \$3.9 million and after the note sale, total City authorized and unissued projects is \$30.1 million. I also included a detailed list of those projects as Appendix B to the report in your board book. I just want to point out that that \$30.1 million excludes the \$10 million tax increment financing project that was approved by Common Council; that would have been approved back in December of 2019.

Jeanette Robe (24:59):

The city wasn't able to provide an estimate on the interest rates. There weren't a lot of sales to compare things to and the market's been quite volatile. I reached out to our financial advisor to ask their pricing desk what they thought the target would be. Their comments were that they do not expect the city will have any problem with a competitive sale, which is scheduled for this week Thursday. And based on the various movements in the market, they're estimating a City target of 2.17% on that particular BAN sale.

Jeanette Robe (25:51):

Back in 2019, we had a lot of discussion and dialogue about the City Comptroller's Office strategy and the initiation of a BAN/bond program with a determination that BANs would be sold in the first year that the capital plan was approved. Long-term bonds would be sold at the time it was determined to be appropriate with this review of conversion from BANs to bonds to be occurring annually; this annual review was changed pursuant to of the BFSAs recommendation.

There were three key reasons why the City Comptroller's Office had indicated this program was preferential to bonding and one of them was to better manage the capital process and be able to issue bonds once the cost of the projects are firmly established. The second was that it would be easier to correct unintended mistakes. And the third was that it would open capacity for unfunded projects because there were unspent proceeds as they were bonding before the final cost of the projects were firmly established. They recognized at the time that they were forgoing the opportunity to lock in low interest rates, but that the benefits outweighed the potential risk. Now in 2020 it appears that the BAN/bond program has been abandoned. It's unclear what the current strategy is to address the needs and concerns that were identified and discussed last year. It's unclear what the results were on the capital budget from last year to this year, being that the City did wait a year to be able to formulate better project costs from year-to-year. Our recommendation is that a strategy be developed by the City Comptroller to plan for future debt issuances that addresses the current needs of the City as identified and the changes in the overall bond market.

Jeanette Robe (28:36):

With respect to another recommendation that our board had discussed last year, the Citizens Planning Council also recommended an amendment to the City Charter that would move the calendar for capital planning up three months from January 1st to October 1st with the goal to improve the start of the construction season, ensuring more of the project dollars would be used in year one of the particular projects. The recommendation is consistent with that made by BFSAs last year and that we reiterate the recommendation to move the calendar to whatever time makes most sense for the City of Buffalo in order to address some of the needs as identified by the City Comptroller, at least last year.

Secretary Arthur (29:41):

Jeanette, why wasn't this introduced last year? We made the recommendations and the Citizens Planning, did it ever hit the law department to be drawn up for consideration?

Jeanette Robe (29:58):

It has not gone anywhere from the recommendations.

Mayor Brown (Proxy) (30:08):

This is Donna. Some of the difficulty is timing related because most of these projects are spring and summer projects. It's turning a big boat around and getting a different timing for all these projects. We tried to do it last year and we couldn't get everything together from the August meetings. We tried to rush everything to get the approvals and the resolutions ahead of time and there was just too much to get it on time this year. We are hoping to do it this year.

Secretary Arthur (30:53):

Okay, thank you.

Jeanette Robe (31:01):

This summarizes my discussion on this matter. The floor is back to the Chair for comments, questions, discussions.

Director Floss (31:21):

Donna, how is this going to impact the debt service and the budget given the expectation of much lower tax revenues? Have we looked at that and what the impact is going to be over the next three or four years?

Mayor Brown (Proxy) (31:43):

Gregg is probably better to answer that. From last current year to this year, we are looking at probably about \$700,000 increase. Is that about right, Gregg?

Gregg Szymanski (31:55):

Yes, it's similar to last year's number as far as overall debt service. In the past few years we've had significant premiums that brought those numbers down for a three-year period. We were originally anticipating a big premium number this year until the market changed course. We were anticipating really low numbers this year for interest rates.

Director Floss (32:35):

I agree. I'm just wondering the impact on the day-to-day given everything else going forward. It's obvious that the debt service could be the biggest number, but if we're only talking about a million or \$2 million difference, then that's not really going to make that big of an impact. The only other thing that I would say is whether or not we want to structure everything in one year or issue a series of different term bonds. I'm assuming you have looked at that.

Mayor Brown (Proxy) (33:21):

Yes, between Public Works and Gregg Szymanski, the manager, they've worked on what's actually going to be ready to go shovels in the ground and limit projects to those that are ready to go.

Director Floss (33:37):

What I'm interested in is from the finance side. Would be better to look at the yield curve at different levels and try to fix the duration problems that we're probably going to have with the swings through all of this? We're putting together some smaller denominations versus just going out full force for 30 years; it make be advantageous to consider whether or not some combination of BFSAs and City issuances might yield savings. We'd have to sit down and actually calculate a strategy that would play out that would make sense and I am not sure that it will, but I was just wondering.

Gregg Szymanski (34:35):

I agree. Next year with the market hopefully changing course again, and if the number is larger for savings if the BFSAs was to issue debt on behalf of the City, is something certainly to look at.

Director Floss (35:07):

I guess I'm not worried just about the BFSAs versus the City. I know we've had that long discussion. I guess what I'm interested in is what the yield curves going to look like and whether or not we can capture cost savings by looking at different length bonds and putting together a number of bond issues versus just one.

Rick Ganci (35:35):

This is Rick, if I may add to that. Under local finance law the State provides for terms for which the City and municipalities could borrow under. The weighted average maturity of this particular group of projects is only 11 years. The City can't go beyond the 11 year PPU for blended limitation under, under state law.

Director Floss (36:05):

I was thinking of shorter term, breaking it into maybe a five-year and a ten-year and whether or not the yield curve will have changed enough. Obviously, we have no idea of whether or not we would want this, but there could be an advantage to asking the State to change some of this in an emergency situation. I'm just trying to think out of the box to try to save us as much money as we can. I suspect the next three to five years are going to be pretty draconian. I'm just wondering if there are some ideas that people have been thinking about.

Chair Olsen (37:04):

Any other comments or questions? Jeanette anything else?

Jeanette Robe (37:25):

I would just ask that the recommendations in the report that we discussed be affirmed by the Board and I can distribute that letter out to the City and the appropriate individuals to distribute that final report.

Chair Olsen (37:47):

Okay. I'll make a motion. Is there a second?

Director Floss (37:48):

Second.

Chair Olsen (37:48):

Any discussion?

Mayor Brown (Proxy) (37:55):

We normally start in August for our citizens participation. If we're moving from December back to October, we're also moving back August to June. We're currently in a difficult situation right now with everybody working from home and part of the staff working, part not. This is a caveat that it may not come to fruition this year.

Chair Olsen (38:31):

Yes. It's got to be an unusual year. I wouldn't be surprised.

Mayor Brown (Proxy) (38:34):

We can try for it, but it'll be difficult if we're still in this situation.

Chair Olsen (38:41):

It's so hard to predict what your situation is going to be and what your options are going to be. Maintaining the greatest flexibility is obviously key.

Mayor Brown (Proxy) (38:56):

We certainly can aim for it but we can't guarantee it.

Chair Olsen (39:05):

Anything else? Okay. All in favor of the motion? Aye.

Secretary Arthur (39:11):

Aye.

Director Floss (39:14):

Aye.

Mayor Brown (Proxy) (39:14):

Aye.

County Executive Poloncarz (Proxy) (39:14):

Aye.

Chair Olsen (39:14):

Okay. Passes. Anything else Jeanette?

Jeanette Robe (39:18):

No.

Secretary Arthur (39:20):

Mr. Chairman?

Chair Olsen (39:20):

Yes George?

Secretary Arthur (39:20):

While not a part of the agenda, I would like to see our attorney Rich Grimm to do a little research on what our options are given the particular financial problems that the City, the School District and the other covered agencies are going to have. It appears that most of them are going to be running deficits. We'll probably have a lot of citizens groups and others talking about what we should do and what we shouldn't do. I'd like to have a little research on that and give us his legal opinion, and then maybe have a special meeting. I would hate to see us being forced back into a control situation and some may holler for that if there are deficits.

Chair Olsen (40:38):

I think that's very good idea George. Things are very uncertain. We're obviously best off if we understand our options completely. I would concur with it.

Secretary Arthur (40:51):

So then let's be prepared.

County Executive Poloncarz (Proxy) (41:02):

This is Ben from the County. I can offer a little insight on this. The County's economic projections in terms of a decline in consumption and consumer spending looks to be a little over 30%. So that's going to be probably pretty commensurate with the sales tax reduction. Obviously, the County is far more sale tax dependent than even the City, but as far as the sales tax sharing agreement goes, I think that's a safe bet to use for the year of 30% cut there. That being said, in DC right now they are working on what we're referring to as stimulus bill 3.5, which would include the \$250 billion to shore up the SBA loan program, but also includes the substantial amount of money that would be given out as a revenue-closer based on the community development block grant formula, which is very favorable to the City. That formula would give the City a substantial amount of additional money. I think the figure I saw was \$222 million as a possible revenue-closer. Not sure if it's going to pass this week, but it's being discussed.

Mayor Brown (Proxy) (42:06):

Do you have any more information on that you could forward to me?

County Executive Poloncarz (Proxy) (42:11):

I have a fact sheet I can send you. As a secondary piece they're also discussing what I'm calling stimulus bill 4, which would be an enormous revenue-closer for States and localities. The governor mentioned \$500 billion. I think to include localities probably needs to be closer to \$600 billion, but that's not going to happen until May.

Secretary Arthur (42:41):

And that's what I mean. Mr. Chairman. We should gather that information ahead of time and I certainly appreciate that update from the County and then take a look at our responsibility from the City's point of view and have a special meeting to determine what our options are just to be prepared.

Chair Olsen (43:11):

I think that's an excellent idea. Do we need a motion on it?

Secretary Arthur (43:14):

I would.

Director Floss (43:21):

I'll second it.

Chair Olsen (43:21):

Any other discussion? Okay. All in favor? Aye.

Secretary Arthur (43:28):

Aye.

Director Floss (43:28):

Aye.

Mayor Brown (Proxy) (43:28):

Aye.

County Executive Poloncarz (Proxy) (43:28):

Aye.

Chair Olsen (43:28):

Opposed? Okay. We're adjourned by consensus. Thanks everybody.

Meeting adjourned at 1:34 PM.