

## Buffalo Fiscal Stability Authority

### *Analysis of the Buffalo Municipal Housing Authority's FY 2017-18 First Quarter*

The following is an analysis of the Buffalo Municipal Housing Authority's fiscal year (FY) 2017-18 first quarter operating results.

#### Summary

The Buffalo Municipal Housing Authority (BMHA) submitted its first quarter report for the period of July 1, 2017 through September 30, 2017.

The BMHA's FY 2017-18 Adopted Budget (Adopted Budget) includes operating revenues of \$42.8 million, operating expenses of \$44.6 million, and a budgeted net loss of \$1.8 million prior to the payment of debt service. Debt service payments are budgeted at \$1.2 million.

BMHA is not currently projecting any fiscal year-end increase in the net operating loss as operating revenues and expenses are projected to be consistent with the Adopted Budget.

#### Revenues

Actual revenues were \$10.8 million, or 25.2% of budget, at the end of the first quarter, representing a \$0.1 million favorable budgetary variance when compared to the FY 2017-18 budget-to-date.

Actual revenues are projected to be consistent with the Adopted Budget amount of \$42.8 million.

The following schedule summarizes revenues for BMHA as of September 30, 2017:

<b>BUFFALO MUNICIPAL HOUSING AUTHORITY</b>					
<b>1st Quarter Consolidated Results - Revenue</b>					
<b>Description</b>	<b>FY 2017-18</b>	<b>Budget-to-</b>	<b>Actual at</b>	<b>Budget-to-</b>	<b>Percent of</b>
	<b>Adopted Budget</b>	<b>Date</b>	<b>9/30/2017</b>	<b>Actual</b>	<b>Adopted</b>
				<b>Variance</b>	<b>Budget</b>
<b>\$ in Millions</b>					
<i>HUD Subsidy</i>	\$15.8	\$4.0	\$4.0	\$0.0	25.4%
<i>Net Dwelling/Non-Dwelling Income</i>	14.0	3.5	3.4	(0.1)	24.2%
<i>HUD PHA Grants - Vouchers</i>	4.9	1.2	1.4	0.2	28.0%
<i>All Other Revenues</i>	5.4	1.3	1.3	0.0	25.0%
<i>Transfers from Capital Grants</i>	2.7	0.7	0.7	0.0	25.0%
<b>Total Revenue</b>	<b>\$42.8</b>	<b>\$10.7</b>	<b>\$10.8</b>	<b>\$0.1</b>	<b>25.2%</b>

#### Operating Subsidy

Housing authorities receive an operating subsidy from the U.S. Department of Housing and Urban Development (HUD) to assist in funding the operational and maintenance expenses of public housing dwellings, in accordance with Section 9 of the U.S. Housing Act of 1937, as amended. HUD's operating fund determines the amount of operating subsidy to be paid to public housing authorities. Public housing authorities provide HUD with information on the major operating fund components including project expenses, utilities expenses, other formula expenses and formula income. HUD reviews the information to determine each PHA's formula aid amount and the funds to be obligated for the funding period based on the annual appropriation by the U.S. Congress.

BMHA's HUD subsidy is budgeted at \$15.8 million for FY 2017-18, constituting 37% of all budgeted revenues. This constitutes a \$1.8 million, or 10.2%, decrease over the prior fiscal year's budget due to the estimated decrease in the HUD subsidy proration rate from 90.1% to 87%. BMHA historically has conservatively projected this amount lower than actual due to the uncertainty of housing appropriations as finalized by Congress. As of the end of the first quarter, BMHA has received 25% of this subsidy. BMHA is not projecting any budgetary variances at fiscal year-end for the HUD subsidy.

#### Dwelling/Non-Dwelling Income

BMHA has budgeted \$14.0 million in net dwelling/non-dwelling income for FY 2017-18, or 33% of total budgeted revenues. As of the end of the first quarter, actual revenue receipts were \$0.1 million less than projected at 24.2% of budget. The budgetary variance is partially attributed to a delayed implementation of a rent increase at the Marine Drive Apartments, as BMHA is awaiting final approval for this increase from the New York State Homes and Community Renewal. Marine Drive rental fees constitutes 24.3% of total budgeted dwelling rental revenues. BMHA has indicated that these rental increases will proceed immediately upon this approval. The BFSAs analysis indicates there will be an unfavorable budgetary variance at fiscal year-end for this specific revenue as the rental increase was assumed to be effective for the entire fiscal year as included in the Adopted Budget.

It is noted that, with the exception of the fiscal year ended June 30, 2013, fiscal years 2010-11 through 2015-16 ended with unfavorable budgetary variances in net dwelling/non-dwelling income. As of March 30, 2017, FY 2016-17 was projected to have an unfavorable budgetary variance of \$0.7 million at fiscal year-end.

BMHA is more reliant on these revenues for operations as the HUD subsidy has decreased not only as a percentage of total revenues but in actual funds received over the past several fiscal years.

#### Voucher Grants

BMHA receives public housing authority voucher grants (PHA Grants) from HUD. This revenue source does not impact overall BMHA operations as the BMHA passes the vouchers along to recipients. The Adopted Budget includes \$4.9 million in PHA Grants, or 11.5% of total budgeted revenues. As of the end of the first quarter, actual voucher grant revenues were \$1.4 million, \$0.2 million greater than the budget-to-date projection. The revenues and expenses of the voucher program reflect BMHA's continued efforts to fully utilize the total vouchers available from the program. PHAs that do not spend 100% of available PHA Grants are considered underutilized and may be subject to either a penalization or a recapture of the underutilized funds. BMHA's efforts to maximize the grant utilization allows more voucher grant dollars to be allocated to eligible families.

### Capital Grants

BMHA has budgeted \$2.7 million in capital grant revenue in FY 2017-18 representing 6% of total budgeted revenues. Actual revenue receipts were \$0.7 million at the end of the first quarter, consistent with the budget-to-date amount. These funds represent capital grant funds that may be used to reimburse BMHA for administrative work performed on the grants and therefore may fund general operations. This revenue represents the transfer of grant funds for the reimbursement of expenses and other direct costs related to the projects.

### All Other Revenues

All other revenues are budgeted at \$5.4 million in FY 2017-18, or 12.6% of total FY 2017-18 operating revenues. These revenue receipts were \$1.3 million as of the end of the first quarter, consistent with the Adopted Budget projection. All other revenues include interest income, fees for services, administrative fees for development, the administrative fee reimbursement associated with the HUD Section 8 Housing Voucher Program, and other miscellaneous income. With respect to the HUD Section 8 Housing Voucher Program, HUD provides an administration fee based on the number of units rented at the beginning of each month.

### Operating Expenses

Total FY 2017-18 operating expenses are budgeted at \$44.6 million. Budgeted debt service payments are an additional cash outlay of \$1.2 million. The total projected expenses and debt service are \$45.8 million including the annual accrual for OPEB costs.

The BMHA is not projecting any budgetary variances at fiscal year-end. Actual expenses were \$10.5 million, or 23.6% of the budget-to-date amount of \$11.1 million.

The following schedule summarizes expenses of the BMHA for FY 2017-18:

<b>BUFFALO MUNICIPAL HOUSING AUTHORITY</b>					
<b>1st Quarter Consolidated Results - Expenses</b>					
<b>Description</b>	<b>FY 2017-18</b>	<b>Budget-to-Date</b>	<b>Actual at</b>	<b>Variance</b>	<b>Percent</b>
	<b>Adopted Budget</b>		<b>9/30/2017</b>		
<b>\$ in Millions</b>					
<i>General Expenses</i>	\$14.0	\$3.5	\$3.1	\$0.4	22.2%
<i>Maintenance</i>	9.9	2.5	2.3	0.2	23.7%
<i>Administrative</i>	8.4	2.1	1.9	0.2	22.9%
<i>Utility</i>	5.4	1.3	1.2	0.1	21.9%
<i>Other Expenses</i>	4.9	1.2	1.6	-0.4	32.3%
<i>Protective Services/ Resident Service Costs</i>	2.0	0.5	0.4	0.1	18.5%
<b>TOTAL EXPENSES</b>	<b>\$44.6</b>	<b>\$11.1</b>	<b>\$10.5</b>	<b>\$0.6</b>	<b>23.6%</b>

### General Expenses

BMHA has budgeted \$14.0 million in general expenses, representing 31.4% of total budgeted operating expenses. These expenses include: employee benefits, insurance, the annual accrual for other postemployment benefits (OPEB), and other miscellaneous expenses. Actual general expenses were \$3.1 million at the end of the first quarter, \$0.4 million less than the budget-to-date amount of \$3.5 million. Actual employee benefit expenses were \$1.1 million, or \$0.2 million lower than the

budget-to-date amount as the BMHA currently has a vacant rate of 23.6%. The BFSA analysis indicates that there will be a favorable budgetary variance at fiscal year-end for these expenses as employee benefits were budgeted on the assumption that all budgeted positions would be filled.

#### Maintenance

BMHA has budgeted \$9.9 million in maintenance expenses in FY 2017-18, representing 22.2% of total budgeted operating expenses. Actual maintenance expenses were \$2.3 million at the end of the first quarter, \$0.2 million less than the budget-to-date amount of \$2.5 million. Total maintenance expenses area projected to be consistent with the amount originally budgeted. The favorable variance as of the end of the first quarter is not necessarily predictive of a fiscal year-end favorable variance as the severity of the winter season will impact the level of maintenance required.

#### Administrative

BMHA has budgeted \$8.4 million in administrative expenses in FY 2017-18, representing 18.8% of total budgeted operating expenses. Actual administrative expenses were \$1.9 million, \$0.2 million less than the budget-to-date amount. The BFSA analysis indicates that there will be a favorable budgetary variance at fiscal year-end as these expenses were budgeted on the assumption that all budgeted positions would be filled. There is currently a significant level of vacancy within administrative positions.

#### Utilities

BMHA has budgeted \$5.4 million in utility expenses in FY 2017-18, representing 12.1% of total budgeted operating expenses. Actual utilities expenses were \$1.2 million at the end of the first quarter, \$0.1 million less than the \$1.3 million budget-to-date. The natural gas expense accounts for 26% of total utilities expenses. This expense will be heavily influenced by the severity of the winter season. It is noted that BMHA is reimbursed through the HUD Operating Subsidy for utility expenses based on a three-year rolling average of expenses, adjusted by an inflationary or deflationary factor, creating a time-lag for reimbursement of increases.

#### Protective Services/Resident Services

BMHA has budgeted \$2.0 million for protective and resident service expenses in FY 2017-18, representing 4.5% of total budgeted operating expenses. These expenses are projected to be consistent with the Adopted Budget at fiscal year-end. Protective services are contractually based; \$650,000 has been budgeted for the contract with the Buffalo Police Department.

#### All Other General Expenses

The BMHA has budgeted \$4.9 million for other general expenses in FY 2017-18, representing 11% of total budgeted operating expenses. A majority of these expenses are not operational and represent pass-through expenses. All other general expenses include miscellaneous expenses including the housing assistance payment (HAP), the payment a public authority makes to housing choice voucher program participants.

Actual other expense disbursements were \$1.6 million, \$0.4 million greater than the budget-to-date, as BMHA had a casualty loss expense of \$0.2 million that was unbudgeted, the and HAP/port-out HAP exceeded the budget-to-date by \$0.2 million. As noted previously, BMHA is attempting to

utilize a higher percentage of funds available for housing choice voucher participants. The increase in this revenue will mirror an increase in these expenses as BMHA acts as a pass-through.

Personnel

The BMHA has budgeted 175 full-time positions for FY 2017-18. As of September 30, 2017, 148 positions were filled, constituting a 15.4% vacancy rate.

It is noted that the BMHA has had a substantial decrease in the number of filled positions over the past five fiscal years. The total number of filled positions at June 30, 2013 was 237. It has decreased each ensuing fiscal year to 156 filled positions at June 30, 2017. The current level of filled positions represents eight fewer positions filled from the close of the last fiscal year and 89 fewer filled positions since the close of the 2012-13 fiscal year. These positions are primarily blue-collar positions who perform asset management job functions.

The following is a depiction of the BMHA’s staffing as of the end of the first quarter:

<b>BUFFALO MUNICIPAL HOUSING AUTHORITY</b>				
	<b>FY 2017-18 Adopted Budget</b>	<b>Actual as of 09.30.2017</b>	<b>Actual Vs. Budget Variance</b>	<b>Vacancy %</b>
<b>Executive</b>	<b>11</b>	<b>7</b>	<b>4</b>	<b>63.6%</b>
<b>MIS</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>66.7%</b>
<b>Finance</b>	<b>11</b>	<b>10</b>	<b>1</b>	<b>90.9%</b>
<b>Personnel</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>66.7%</b>
<b>Capital Improvements</b>	<b>13</b>	<b>10</b>	<b>3</b>	<b>76.9%</b>
<b>Asset Management</b>	<b>134</b>	<b>117</b>	<b>17</b>	<b>87.3%</b>
<b>Total</b>	<b>175</b>	<b>148</b>	<b>27</b>	<b>84.6%</b>

Conclusions

BMHA has budgeted a net loss of \$1.8 million in FY 2017-18. The BMHA is not projecting any budgetary variance at fiscal year-end. The BFSAs analysis indicates that there will likely be a favorable budgetary variance at fiscal year-end related to voucher grant revenues as actual voucher grant revenues were \$0.2 million greater than the budget-to-date projection, which will likely be offset by an unfavorable variance in dwelling income. As noted, the positive expected variance in the voucher grant revenue is reflective of BMHA’s efforts to maximize the grant utilization to allow more voucher grant dollars to be allocated to eligible families. There will likely be a corresponding and commensurate unfavorable budgetary variance in related housing assistance payments as the dollar amount of housing choice vouchers increases.

The BFSAs analysis indicates that there will also likely be favorable budgetary variances at fiscal year-end for expenses related to employee salaries and fringe benefits as the BMHA has had a significant vacancy rate. As noted, the BMHA currently has the lowest level of filled positions since FY 2012-13.

The overall budget appears reasonable compared to first quarter results.

BFSAs has previously recommended that year-end projections be made at least quarterly and the budget and financial plan be modified as necessary. As of the end of the first quarter, these recommendations have not been implemented.