

Buffalo Fiscal Stability Authority
Summary of the City of Buffalo's 2018 First Quarter Report

General Fund Overview:

As required by the Buffalo Fiscal Stability Authority (the "BFSA") Act, the City of Buffalo (the "City") has submitted to the BFSA its first quarterly report for the three-month period from July 1, 2017 to September 30, 2017. As of the end of the first quarter, the City is projecting a total year-end deficit of \$10.6 million, as follows:

Projected year-end revenues	\$ 485,098,792
Projected year-end expenditures	<u>\$ 495,661,078</u>
Total projected deficit/use of fund balance	<u><u>\$ (10,562,286)</u></u>

With respect to the anticipated budgetary results as of September 30, 2017, the City is projecting a favorable budgetary variance of \$1.6 million for the year ending June 30, 2018. The 2017-18 Adopted Budget included an operating deficit of \$12.2 million, which has been reduced by \$1.6 million to an estimated budgetary deficit of \$10.6 million at the end of the first quarter. The current deficit is the result of a projected unfavorable revenue budgetary variance of approximately \$2.4 million and a projected favorable expenditure budgetary variance of approximately \$4.0 million as follows:

City of Buffalo	
2017-18 1st Quarter Summary	
Projected Budget Variances - General Fund	
Revenues - projected unfavorable budget variance	\$ (2,371,609)
Expenditures - projected favorable budget variance	<u>\$ 3,996,398</u>
Total - projected favorable budget variance	<u><u>\$ 1,624,789</u></u>

The City's 2018 Adopted Budget included estimated revenues of \$487.5 million, total budgeted appropriations of \$499.7 million and the resulting deficit of \$12.2 million to be funded with the use of fund balance. The following chart demonstrates the current projections as compared to the Adopted 2017-18 Budget as of the end of the City's first quarter:

City of Buffalo					
2017-18 1st Quarter Summary					
Projected Budget Variances - General Fund					
	Adopted Budget	1st Qtr. Year End Projection	Variance Favorable / (Unfavorable)		
	\$	\$	\$	%	
Estimated revenues	487.5	485.1	(2.4)	-0.5%	
Budgeted appropriations	(499.7)	(495.7)	4.0	-0.8%	
Projected deficit - funded through use of fund balance	<u>(12.2)</u>	<u>(10.6)</u>	1.6	-13.1%	

Revenues:

Following is a line item summary of the 2018 Adopted Budget and current year-end projections as reported in the City's first quarter report:

First Quarter Report 2017-18 Summary of Revenues					
Revenue Source	Adopted Budget	1st Qtr.		Variance	
		Year End Projection		Favorable / (Unfavorable)	
	\$	\$		\$	%
<i>Intergovernmental</i>	258,803,329	258,803,329		0	0.0%
<i>Taxes</i>	150,758,994	151,318,269		559,275	0.4%
<i>Service Charges</i>	14,841,160	14,328,508		(512,652)	-3.5%
<i>Non-Property Taxes</i>	12,250,000	12,050,000		(200,000)	-1.6%
<i>Fines</i>	14,233,000	12,801,719		(1,431,281)	-10.1%
<i>Miscellaneous</i>	14,420,950	13,765,064		(655,886)	-4.5%
<i>Licenses and Permits</i>	5,269,260	5,138,108		(131,152)	-2.5%
<i>Interest</i>	675,000	675,087		87	0.0%
Total Departmental	471,251,693	468,880,084		(2,371,609)	-0.5%
<i>Operating Transfers In</i>	16,218,708	16,218,708		0	0.0%
<i>Use of Fund Balance⁽¹⁾</i>	12,187,075	12,187,075		0	0.0%
Total Resources and Transfers In	28,405,783	28,405,783		0	0.0%
Total Revenues, Resources and Transfers In	499,657,476	497,285,867		(2,371,609)	-0.5%

(1) Per generally accepted accounting principles (GAAP) the use of fund balance is not recognized as a revenue source, but a deficit of \$12.2 million which will be closed utilizing the use of fund balance.

As shown above, excluding the effect on fund balance which is not a revenue source, a budgetary deficit for total revenues of \$2.4 million is projected as compared to the Adopted Budget. The variance is attributed to several revenue categories projecting to be lower than the Adopted Budget.

Notable variations to the adopted budget include:

- The unfavorable variance for fines of \$1.4 million is resulting from lower than projected parking fines, traffic violations and penalties. The reductions are based on actual revenue collected during the first quarter of the year, with the final year-end projection being reduced to reflect that actual revenue through the first quarter was lower than anticipated.
- The projected unfavorable variance of \$0.7 million in Miscellaneous revenue is the result of lower than projected receipts from the sale of capital assets, primarily City owned properties, vehicles and other equipment. In addition, the City is expecting a reduction in insurance payments to the City due to a reduction of accidents involving City property. Additionally, there is a projected reduction in district heat program revenue; the City generates heat in a central location for various buildings in the downtown district and invoices users. Erie County is terminating participation this upcoming year.

- Lower than anticipated parking service charges of \$512,652 and licenses and permits of \$131,153 are projected. There are multiple service charges and licensure fee projections being reduced based on actual revenue collected during the first quarter of the year, with the final year-end total projection being reduced to reflect that actuals through the first quarter were lower than anticipated. The revenue variance is attributed to the City over-estimating current year collections for these charges and fees.
- Non-property taxes are projected to be under budget by \$200,000 due to a decrease in collections for the Class-I utility tax.
- The unfavorable variances are partially offset by a favorable variance in Taxes in the amount of \$559,275. This favorable variance in Tax revenue is due to higher than projected property tax collections.
- The Tribal State Compact (“TSC”) revenue, related to the operation of the Seneca Buffalo Creek gaming facility was projected to be \$7.0 million in the Adopted Budget; however, the Seneca Nation has not made any TSC payments since March 31, 2017 and has stated that the continuation of payments is no longer required. This position is disputed by New York State and the matter is expected to be arbitrated. The City continues to include the receipt of this revenue in the year-end projections. There is a substantial risk that it will not be received, which could result in an additional budget shortfall.

Expenditures:

The following chart summarizes the variances for expenditures between the adopted budget and the year-end projections as of the first quarter:

First Quarter Report 2017-18 Summary of Expenditures					
Departments	Adopted Budget	1st Qtr.		Variance	
		Year End	Projection	Favorable / (Unfavorable)	
	\$	\$		\$	%
Police	89,462,484	89,826,133		(363,649)	-0.4%
Fire	57,191,877	57,060,347		131,530	0.2%
Public Works	30,096,172	29,512,988		583,184	1.9%
Administration & Finance	9,478,770	9,001,263		477,507	5.0%
Permits & Inspections	5,785,330	5,679,520		105,810	1.8%
Human Resources	5,533,095	5,338,467		194,628	3.5%
Management Information Systems	5,432,459	5,429,644		2,815	0.1%
Community Services	4,370,611	4,294,226		76,385	1.7%
Law	3,771,578	3,650,402		121,176	3.2%
Assessment	2,597,794	2,528,726		69,068	2.7%
Mayor & Executive	5,320,860	5,036,384		284,476	5.3%
Audit & Control	3,476,880	3,343,817		133,063	3.8%
Parking	2,924,676	2,881,724		42,952	1.5%
City Clerk	2,691,149	2,625,062		66,087	2.5%
Common Council	2,345,865	2,301,474		44,391	1.9%
Total Departmental	230,479,600	228,510,177		1,969,423	0.9%
General Charges					
Fringe Benefits	142,471,258	140,444,283		2,026,975	1.4%
Other	2,470,000	2,470,000		0	0.0%
Personal Services	5,200,000	5,200,000		0	0.0%
Capital Outlay	0	0		0	n/a
Grants In Aid	895,000	895,000		0	0.0%
Debt Service	92,000	92,000		0	0.0%
Services	1,566,500	1,566,500		0	0.0%
Utilities	17,225,000	17,225,000		0	0.0%
Total General Charges	169,919,758	167,892,783		2,026,975	1.2%
Total General Fund	400,399,358	396,402,960		3,996,398	1.0%
Transfers Out	99,258,118	99,258,118		0	0.0%
Total General Fund w/ Transfers	499,657,476	495,661,078		3,996,398	0.8%

At the end of the first quarter, fourteen out of fifteen departments are projecting to be under budget at year-end compared to the Adopted Budget. The City is projecting a cumulative budgetary favorable variance of \$2.0 million in estimated departmental savings. Current year savings are attributed primarily to lower than projected staffing (i.e., vacancies) and related personal services expenditures, reduced salaries for new hires to replace retirees, and to a lesser degree a decrease in the purchasing of supplies and services contracts. Staffing will be discussed in further detail later in the report.

Projected departmental savings from vacancies may be premature at this time, especially within the fire and police departments. Both departments are key public health and safety functions and have minimum manning requirements, so even with a reduction in the workforce, there could be a correlated increase to overtime to provide base level protective services across the City. The police department is currently at 97 percent staffing capacity with 24 vacancies and the fire department is at 87 percent capacity with 96 vacancies. The staffing rate of 97 percent for the police department is at a historic high. Both departments have a sizable number of personnel that are currently eligible for retirement or could be eligible within the year.

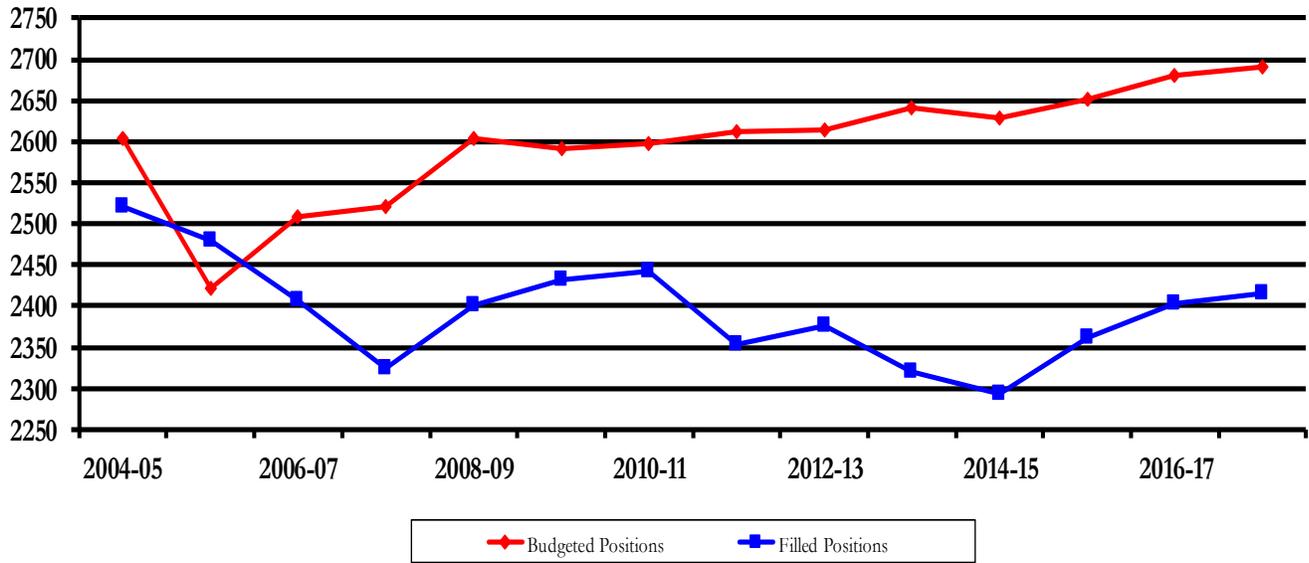
Overtime in both the police and fire department for the current year are comparable on a percentage-basis through the end of the first quarter compared to FY 2017 first quarter. At the end of the first quarter in FY 2017 the police department had expended \$4.2 million, or 34 percent, of the \$12.5 million budgeted for overtime; in the current year \$3.8 million had been expended, or 34.3 percent, of the \$11.0 million budgeted for overtime. Total overtime for the police department in FY 2017 was \$13.6 million, or \$1.1 million higher than what was budgeted. Police overtime is currently trending to exceed the budgeted amount of \$11.0 million by \$200,000, for a total of \$11.2 million in the current fiscal year. Fire department overtime through the end of the first quarter in FY 2017 was \$3.1 million, or 59.8 percent, of the total \$5.2 million budgeted for overtime. Current year expenditures total \$3.1 million through the end of the first quarter and represent 57.1 percent of total budgeted overtime of \$5.4 million. Overtime exceeded the budget by \$4.2 million in FY 2017 for a total of \$9.3 million and is projected to exceed the budget by \$4.1 million in the current fiscal year, for a total of \$9.5 million. Budgetary savings from vacancies are expected to fund the overages in overtime to a significant extent. As previously noted, the City is conservatively budgeting total departmental savings of \$2.0 million at fiscal year-end.

General Charges are projected to be lower at year-end when compared with the 2017-18 budget by \$2.0 million. Variances are attributed to lower than projected pension payments, lower than expected workers' compensation costs and lower retire health insurance costs. The City's projections for actual fringe benefits expenditures may be understated at this time as a result of vacancies being maintained throughout the entire year.

Personnel

The following chart compares budgeted positions to actual filled positions on an annual basis from 2005 to 2018:

City of Buffalo Personnel
(Budget vs. 1st Quarter Actual)
At September 30, 2017



The City budgeted for 2,691 positions for fiscal year 2017-2018, representing an increase of 10 positions from the prior fiscal year of 2,681 full-time equivalent positions (FTE's). As of September 30, 2017, 2,415 positions have been filled resulting in 276 vacant positions, or a vacancy rate of 10.3%. As compared to last year's first quarter, there is an increase of 11 filled positions from 2,404 as of September 30, 2016 to 2,415 as of September 30, 2017. It is also noted that the budgeted number of FTE's of 2,691 in FY 2018 exceeds the number of FTE's budgeted in FY 2008 of 2,521 for a net increase of 170 budgeted FTE's over the past ten years. In regards to actual positions filled, that is an increase of 90 FTE's over that same period, actual filled positions of 2,325 in FY 2008 compared to 2,415 at the end of the first quarter FY 2017.

The police department currently has 801 FTE sworn officers budgeted; as of September 30, 2017, 777 positions were filled leaving 24 FTE's vacant, or a vacancy rate of 3 percent. Non-sworn police department personnel are budgeted at 215 FTE's with 192 filled, creating a vacancy of 23 FTE's or 10.7 percent. Approximately 47 out of the 276 current vacancies, or 24.5 percent of vacancies, are located in the police department.

Currently the fire department has 717 FTE uniformed officers budgeted and currently 621 of those positions are filled, representing a vacancy rate of 96 positions, or 13.4 percent. The vacancy rate of 96 is equivalent to 34.7 percent of total City vacancies as of September 30, 2017.

On a year-to-year basis, the City has decreased the number of filled firefighter positions from 703 FTE's as of September 30, 2016 to 621 FTE's as of September 30, 2017, a decrease of 82 FTE's, or 11.7 percent, on an annual basis. Police FTE's have increased over the same time period going from 689 FTE's up to 777 FTE's, an increase of 88 FTE's or 12.8 percent.

The City is planning on both a police recruit class as well as a fire class at some point during the 2018 fiscal year, with a greater need to fill the vacancies in the fire department.

Significant Risk Factors That Could Impact Financial Results:

The most significant risk that year-end actual results may be adversely impacted from what is currently projected is that events may occur that are not expected that could have a material financial impact on the City. While three months does allow the City to analyze certain trends and determine if there are any significant areas of concern, assumptions/events could change that could have a significant impact on current estimates. Areas of sensitivity to be monitored closely are as follows:

- A revenue source to be monitored is Fines, including parking, towing and storage fines which are projecting to be lower than budget. Currently the City estimates actual revenue will be less than budgeted by \$1.4 million based on recent historical experience and current year fiscal trends.
- The Tribal State Compact revenue in the amount of \$7.0 million may not materialize and should be monitored.
- Overtime concerns exist for both the fire and police departments based on recent historical experience and current year fiscal trends. Historically both departments have used vacancy savings to cover the overage.