

BUFFALO FISCAL STABILITY AUTHORITY

Analysis of the Buffalo City School District's FY 2018-19 Second Quarter

The following is an analysis of the second quarter report of the Buffalo City School District (District) for fiscal year (FY) 2018-19. The focus is on the District's General Fund. Certain financial information on the Food Service Fund and the Special Projects Fund is additionally provided.

Summary

The District has revised its year-end projections and is conservatively estimating a year-end deficit of \$11.3 million. This reflects a budget surplus of \$7.7 million; the deficit included in the Adopted Budget was \$19.0 million.

The District has made progress towards addressing the projected outyear budgetary gaps estimated at a cumulative \$86.7 million within the FY 2019-2022 Financial Plan (Financial Plan). Savings have been realized and/or projected from revenue enhancement and efficiency initiatives. These efficiency initiatives include both retiree and active employee health insurance which are projected significant current fiscal year budgetary variances, as detailed below. The Financial Plan is heavily reliant on gap-closing measures from these two broad categories in order to avoid gap-closing measures from other cost reductions including program cuts and staffing reductions in the combined, four-year amount of \$30.9 million.

General Fund Revenues

Actual General Fund revenues were \$259.6 million at the end of the second quarter. The District is projecting year-end revenues to be consistent with the budget with a minor unfavorable budgetary variance of \$1.3 million currently projected.

The following schedule summarizes revenues of the District, and compares the FY 2018-19 Modified Budget to projected total revenues for the year ending June 30, 2019:

BCSD Revenues			
2018-19 2nd Quarter Update			
	Modified Budget	Projected FYE	Variance
	\$ in Millions		
<i>Real Property Tax</i>	\$70.8	\$70.8	\$0.0
<i>Erie County Sales Tax</i>	44.6	46.0	1.4
<i>Federal Medicaid Reimbursement</i>	2.6	2.7	0.1
<i>New York State Aid</i>	764.7	761.9	(2.8)
<i>Miscellaneous (Tuition, Interest Earnings, Interfund Revenues, earnings on Debt Service Reserve Fund)</i>	14.7	14.7	0.0
Total General Fund Revenues	\$897.4	\$896.1	(\$1.3)

The District budgeted to receive \$764.7 million, or 85.2%, of its FY 2018-19 General Fund revenue in the form of New York State Aid. This amount does not include the budgeted \$11.6 million in New York State School Tax Relief Program (STAR program) funds received by the City of Buffalo from the State of New York and forwarded to the District as a portion of the City's contribution to the District's General Fund. Revised state aid projections are based on updated data.

The District budgeted \$44.6 million, or 4.9%, of its FY 2018-19 General Fund revenue from Erie County sales tax receipts. This revenue has been budgeted conservatively; historically actual sales tax receipts exceed the originally budgeted amount, as seen in thirteen of the last sixteen budget cycles. The District is currently projecting sales tax revenue of \$46.0 million for 2018-19 which is likely conservative; BFA has estimated sales tax revenue of \$47.8 million based on current trends.

FYE 2017-18 Actual Revenues Compared to FY 2018-19 Projected Revenues

Actual General Fund revenues for FY 2017-18 were \$878.8 million. General Fund revenues at 2018-19 FYE are projected to be \$896.1 million, an increase of \$17.3 million or 2.0%. The majority of the projected increase in total General Fund revenue is the result of the projected net increase of \$15.3 million in total NYS Aid. Additionally, miscellaneous revenues are projected to increase by \$4.0 million as tuition payments received by the District from area school districts is budgeted at a higher level based on the current pupil population. The federal Medicaid reimbursement is projected to decrease \$1.7 million consistent with historical actual receipts of \$2.6 million. The District has projected Erie County sales tax receipts to decrease \$0.3 million; however, based on sales tax trends this will likely increase on a year-to-year basis.

General Fund Expenditures

General Fund expenditures include all main operational costs including employee compensation and benefits, payments to charter schools, debt service, transportation, and all other expenditures including contracts, textbooks, supplies, et cetera.

Actual General Fund expenditures for the six-month period ended December 31, 2018, were \$335.4 million, representing \$9.8 million less than the amount budgeted for the quarter of \$345.2 million.

The FY 2018-19 Adopted Budget for the General Fund was modified and has increased \$3.0 million from \$916.4 million to \$919.4 million to recognize carryover encumbrances from the prior fiscal year. This budget modification is automatic as per accounting standards and requires neither the review from the Buffalo Fiscal Stability Authority (BFA) nor the Buffalo Board of Education's approval.

The following summarizes the major categories of General Fund expenditures as budgeted and modified for budget transfers (excludes encumbrances) and projected for the year ending June 30, 2019:

BCSD Expenditures			
2018-19 2nd Quarter Update			
General Fund Expenditures	Modified Budget	Projected FYE	Variance
\$ in Millions			
<i>Total Employee Compensation</i>	\$313.6	\$313.4	\$0.2
<i>Total Employee Benefits</i>	198.2	189.7	8.5
<i>Payments to Charter Schools</i>	128.5	128.2	0.3
<i>Debt Service</i>	113.6	113.6	0.0
<i>Transportation</i>	51.6	51.6	0.0
<i>All Other Expenditures</i>	110.9	110.9	0.0
Total General Fund Expenditures	\$916.4	\$907.4	\$9.0

General Fund Expenditures – Employee Compensation

Employee compensation includes compensation for the District’s various collective bargaining units, exempt employees, and school board members. At the end of the second quarter, the District is projecting a favorable budgetary variance of \$0.2 million related to employee compensation. Actual General Fund employee compensation was \$114.6 million which was \$2.1 million, or 1.8%, less than the \$116.7 million budgeted for the end of the second quarter.

The following chart summarizes the major categories of employee compensation as budgeted and projected for the General Fund for the year ending June 30, 2019, and summarizes the total variance for budgeted full-time equivalent (FTE) positions at December 31, 2018:

BCSD Expenditures				
2018-19 2nd Quarter Update				
Employee Compensation	Modified Budget	Projected FYE	Variance	FTE Variance (Adopted Budget vs. 12/31 Actual)
\$ in Millions				
<i>Teachers</i>	225.9	225.8	0.1	2.0
<i>Administrators</i>	24.9	24.9	0.0	(17.0)
<i>Professional, Clerical, & Technical Employees Assoc. (White Collar)</i>	17.8	17.1	0.7	27.0
<i>Local 264 - (Blue Collar)</i>	2.5	2.5	0.0	5.0
<i>Teacher Aides/ Teaching Assistants</i>	16.8	16.5	0.3	16.0
<i>All Other Employees/ Overtime</i>	25.7	26.6	(0.9)	10.0
Total Employee Compensation	313.6	313.4	0.2	43.0

Personnel

The FY 2018-19 Adopted Budget included 4,708 budgeted full-time equivalent (FTE) positions, of which 3,148, or 66.9% of total positions are teachers. As of the end of the second quarter, the District had 43 vacant FTE positions representing a vacancy rate of 0.9% and consisted of 2 vacant teaching positions, 27 white-collar employees, 16 teaching assistant/teacher aides, 5 blue-collar employees, 7 operating engineers, and three exempt employees. Filled administrator positions exceeded the 212 FTEs originally budgeted by 17 FTEs, or 7.5%.

On a District-wide basis the District had 5,449 actual FTEs at December 31, 2018. Total actual FTEs were greater by 62 FTEs, or 1.1%, than total budgeted FTEs overall of the 5,387 FTEs originally budgeted.

Budgetary Variances

The projected budgetary variances are as follows:

Favorable Budgetary Variances:

- Buffalo Teachers' Federation (BTF) - \$0.1 million favorable FYE projected variance:
 - The current \$0.1 million favorable variance is projected based on the current level of vacancies less the projected unfavorable budgetary variance for other BTF compensation which is over budget due to sick leave replacements exceeding the budgeted amount to date.
- Professional, Clerical, and Technical Employees' Association (PCTEA) - \$0.7 million favorable FYE projected variance:
 - The current \$0.7 million favorable variance is projected based on the current level of vacancies.
- Teacher Aides/Teaching Assistants - \$0.3 million favorable FYE projected variance:
 - The favorable budgetary variance is projected based on the current level of vacant positions.

Unfavorable Budgetary Variances:

- All Other Employees: Compensation for substitute teachers is projecting to be unfavorable at FYE by \$0.5 million, projected based on actual expenditures to date.
- Overtime is projected to exceed budget by \$0.4 million as operating engineers have been utilized specifically for equipment repair, transportation, and at the service center.

General Fund Expenditures – Employee Benefits

Employee benefits include the cost of non-salary and wage compensation to District employees including payments to the New York State Employee Retirement System, New York State Teacher Retirement System, employer payroll taxes, health insurance costs for both active employees and retirees, and other miscellaneous fringe benefits.

At the end of the second quarter, actual General Fund employee benefits were \$77.7 million, \$6.9 million or 8.9% less than the amount budgeted for the second quarter of \$84.6 million. The District is projecting an \$8.5 million favorable budgetary variance at FYE.

The following chart summarizes the major categories of employee benefits as budgeted and projected for the year ending June 30, 2018:

BCSD Expenditures			
2018-19 2nd Quarter Update			
Employee Benefits	Modified Budget	Projected FYE	Variance
\$ in Millions			
<i>Civil Service Retirement</i>	5.7	5.7	0.0
<i>Teacher Retirement System</i>	27.5	27.5	0.0
<i>Social Security</i>	24.2	24.2	0.0
<i>Health Insurance - Active Employees</i>	60.6	60.1	0.5
<i>Health Insurance - Retirees</i>	63.1	55.1	8.0
<i>Termination Pay</i>	3.6	3.6	0.0
<i>All Other Fringe Benefits (Supplemental Benefits, Workers' Compensation, Unemployment, Life Insurance, Leave-time Incentives, Longevity Payments (excluding PCTEA))</i>	13.5	13.5	0.0
Total Employee Benefits	198.2	189.7	8.5

Through the second quarter ending December 31, 2018, the District is projecting an \$8.5 million favorable budgetary variance for health insurance expenditures including \$8.0 million for retiree health insurance and \$0.5 million for active employee health insurance. The District has been self-insured for health insurance since January 1, 2015, but payments to the third-party administrator (BCBSWNY) were in the form of premium equivalents, similar to fully insured plans. The District's expenditures have essentially been a multiple of the number of individuals within the plans multiplied by the premium equivalent rate for each plan. This resulted in overpayments that would be refunded to the District in the subsequent year fiscal year.

The District converted to the traditional model of self-insurance effective July 1, 2018 and discontinued the practice of paying premium equivalent rates. The intent is to allow for increased cashflow as the District is not required to prepay for potential claims through the premium-equivalent rates but rather to pay as actual services are rendered. Actual expenditures will likely fluctuate more as a result.

Savings which accrued in the prior year on premium equivalent overpayments for retiree health insurance were refunded to the District in the current fiscal year, resulting in a projected favorable budgetary variance for health care expenditures, primarily with retiree healthcare. The refund is a one-time adjustment, not to be received in future years. Several of the District's four-year financial plan cost savings initiatives that the District began in 2016-17 and have continued to implement, including Medicare Advantage enrollments, Employer Group Waiver Plans (EGWP) conversion, improved drug rebates, along with the final Medicare Part D subsidy prior to conversion to EGWP, have resulted in reductions in health insurance costs.

General Fund Expenditures – Charter School Payments

Charter School payments include the portion of New York State aid received by the District that is required to be forwarded to area charter schools. The District receives New York State aid based on the total number of Buffalo resident pupils enrolled in public schools, both District and charter schools. A charter school tuition payment as well as several additional aid payments are forwarded to area charter schools based on the number of Buffalo resident pupils enrolled in these schools.

The District's charter school payments are budgeted at \$128.5 million. At the end of the second quarter, the District is projecting a favorable budgetary variance of \$0.3 million for payments to area schools. Actual payments to area charter schools were \$64.1 million, which was \$114,000, or 0.4%, lower than budgeted.

Current pupil counts are less than the budgeted FTE estimate: the adopted budget assumed 9,250 Buffalo resident pupils enrolled in area charter schools. There are currently 9,110 FTE Buffalo resident pupils enrolled. The District anticipates that the average number of Buffalo pupils in area charter schools will average less than the 9,250 budgeted for the current school year as pupils begin to dropout of pupil school enrollment.

The District's charter school expenditures can be difficult to budget in that, while seating capacity is known for these schools, enrollment is open to public school pupils of neighboring communities. It is therefore somewhat difficult to project the actual number of Buffalo resident pupils that will ultimately enroll, particularly in charter schools located outside of incorporated city limits. Additionally, when applications for enrollment in area charter schools exceeds capacity, admission is based on a random or "blind" lottery that cannot consider any criteria such as the applicants' gender, ethnicity, disability, economic status, etc. As such, the portion of the charter school payment forwarded to area charter schools can be difficult to project.

General Fund Expenditures – Debt Service

Debt Service payments include the principal and interest that the District pays for bonds outstanding. At the end of the second quarter, the District is not projecting any FYE variances in debt service expenditures. Actual Debt Service payments were identical to the budget-to-date amount of \$35.8 million as these expenditures have predetermined payment dates and amounts. Debt Service is budgeted at \$113.6 million for FY 2018-19.

General Fund Expenditures – Transportation

Transportation expenditures include the transportation costs of the District to bus District, area charter, special education students at agencies, and non-public resident pupils. This includes transportation to and from schools for regular school days, afterschool programs, and summer school busing.

The District utilizes both private and public carriers for pupil transportation and has an on-going contract with a public carrier, the Niagara Frontier Transportation Authority, to provide transit passes for pupils in grades 9 through 12. This contract was recently revised and expanded the level of services at a lower cost per student pass. No budgetary variance is currently projected for this expenditure as more overall services will be provided including 111 “specials,” buses which stop in front of schools rather than at an NFTA stop. The total cost of the contract is \$8.6 million in FY 2018-19, an increase over the \$8.1 million cost in FY 2017-18. Actual expenditures for transportation were \$9.6 million, or \$0.5 million less than originally budgeted by the end of the second quarter due to the timing of vendor payments made.

It is noted that the District receives an approximate 87% reimbursement for eligible transportation-related expenditures in the form of the following year’s New York State Transportation Aid. Transportation expenditures are budgeted at \$51.6 million for FY 2018-19.

All Other General Fund Expenditures

All other expenditures include utilities, tuition, custodial contracts, equipment, miscellaneous contracts, reserve for contingency, rental contracts, repairs and maintenance, textbooks, and supplies and related items. These expenditure areas have historically shown fiscal year-end favorable budgetary variances and will be monitored throughout the fiscal year.

The following chart compares the budget-to-projected actual expenditures for all other expenditures:

BCSD Expenditures			
2018-19 2nd Quarter Update			
All Other Expenditures	Modified Budget	Projected FYE	Variance
\$ in Millions			
<i>Utilities</i>	8.9	8.9	0.0
<i>Tuition</i>	33.5	34.0	(0.5)
<i>Contracts - Custodian</i>	18.4	18.4	0.0
<i>Equipment</i>	1.8	1.8	0.0
<i>Contracts - Misc.</i>	22.2	21.7	0.5
<i>Reserve for Contingency</i>	0.1	0.1	0.0
<i>Rental Contracts</i>	6.6	6.6	0.0
<i>Repairs/Maintenance</i>	4.3	4.3	0.0
<i>Textbooks</i>	3.0	3.0	0.0
<i>Supplies and Misc.</i>	8.1	8.1	0.0
<i>Interfund Transfers</i>	3.0	3.0	0.0
Total All Other Expenditures	109.9	109.9	0.0

As of the end of the second quarter, the District is projecting an unfavorable budgetary variance of \$0.5 million for tuition expenditures offset by a projected favorable budgetary variance of \$0.5 million for miscellaneous contract expenditures.

The District's tuition expenditure includes the costs for outside instruction including payments to agencies to educate children with special needs, payments to other school districts to educate foster children who are Buffalo resident pupils, and college tuition for Middle Early College and DaVinci High School students attending classes at Erie Community College, Buffalo State College, and D'Youville College. The tuition expenditure is projected to be unfavorable at fiscal year-end based on the prior fiscal year's actual tuition expenditures as well as the current fiscal year's expenditures to date.

Miscellaneous contract expenditures are projecting a favorable budgetary variance of \$0.5 million at fiscal year-end based on actual contracts let during the first half of the fiscal year.

FYE 2018-19 Actual Expenditures Compared to FY 2018-19 Projected Expenditures

Actual General Fund expenditures for FY 2017-18 were \$866.7 million. Projected General Fund expenditures for 2018-19 FYE are \$907.4 million, representing an increase of \$40.7 million, or 4.7%.

The year-to-year increase is comprised of the following:

- Employee Compensation – An increase of \$23.4 million, or 8.1%, over prior fiscal year.
 - BTF compensation is projected to increase \$16.6 million based on both contractual salary and step increases.
- Employee Benefits – An increase of \$3.3 million, or 1.8%, over prior fiscal year.
- Charter School Payments – An increase of \$9.9 million, or 8.3%, over the fiscal prior year based on a projected increase of 100 enrolled pupils and a tuition rate increase of \$342 per pupil;
- Debt Service – A decrease of \$0.1 million, or 0.001%, over the prior fiscal year.
- Transportation – An increase of \$3.7 million, or 7.8%, over the prior fiscal year based on increased services provided over the prior fiscal year.
- All Other Expenditures – An increase of \$0.5 million, or 0.5%, over the prior fiscal year.

Non-Major Governmental Funds

Food Service Fund

The Food Service fund administers the District's food service program. The District provides breakfast, lunch, and afterschool snacks to all District students as well as six Buffalo charter schools, students at the Buffalo Hearing & Speech Center, three non-public schools, and two out-of-District charter schools. Additionally, the District administers a summer food service program to provide meal services to summer school pupils as well as to various organizations, parks and community centers.

The Food Service FY 2018-19 Adopted Budget is as follows:

- Revenues - \$38.1 million;
- Expenditures - \$40.0 million;
- Fund Balance - \$1.9 million.

The FY 2018-19 Adopted Budget was automatically modified on July 1, 2018, to show an increase in expenditures of \$0.2 million in carryover encumbrances. No new projections in revenues or expenditures have been projected at the end of the fiscal year.

The Food Service fund had \$20.5 million in total fund balance at June 30, 2018. The FY 2018-19 Adopted Budget includes the draw-down of \$1.9 million of Assigned fund balance to close the budgetary gap.

Special Projects Fund

The Special Projects Fund accounts for grants received from Federal, State, and local sources to supplement services provided in the General Fund. The FY 2018-19 Special Projects Budget totaled \$116.5 million and was modified to show the award of new grants. The Special Projects Fund totals \$129.6 million.

Conclusion

The District's Adopted Budget reflected a deficit and corresponding use of fund balance of \$19.0 million; this amount is currently projected to be \$11.3 million and represents a conservative projection. There are no concerns at this time related to adherence to the budget.