

BUFFALO FISCAL STABILITY AUTHORITY

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

The following is an analysis of the third 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 following summarizes the highlights for the District since the start of FY 2018-19:

- The District is currently projecting a budget surplus of \$14.0 million and a deficit of \$5.0 million. This is a decrease from the deficit included in the Adopted Budget of \$19.0 million.

General Fund Revenues

Actual General Fund revenues were \$698.0 million at the end of the third quarter. The District is projecting year-end revenues to be consistent with the budget with a minor unfavorable budgetary variance of \$1.6 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 3rd Quarter			
	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	46.8	2.2
<i>Federal Medicaid Reimbursement</i>	2.6	3.0	0.4
<i>New York State Aid</i>	764.7	760.5	(4.2)
<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	\$895.8	(\$1.6)

The District budgeted New York State Aid of \$764.7 million, or 85.4%, of its FY 2018-19 General Fund revenue; the District is projecting actual New York State Aid will be \$760.5 million. 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.

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 \$895.8 million, an increase of \$17.0 million or 1.9%. The projected increase in total General Fund revenue is the result of a projected net increase of \$14.0 million in total NYS Aid, additional miscellaneous revenues of \$4.0 million, and an increase in Erie County sales tax receipts of \$0.5 million. The federal Medicaid reimbursement is projected to decrease \$1.5 million and is consistent with historical actual receipts of \$2.6 million.

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 nine-month period ended March 31, 2019, were \$639.3 million, representing \$16.3 million less than the amount budgeted for the quarter of \$655.6 million.

The FY 2018-19 Adopted Budget for the General Fund was modified and has increased \$2.9 million from \$916.4 million to \$919.3 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 (BFSA) nor the Buffalo Board of Education’s approval.

The following summarizes the major categories of General Fund expenditures as budgeted and projected for the year ending June 30, 2019:

BCSD Expenditures			
2018-19 3rd Quarter Update			
General Fund Expenditures	Modified Budget	Projected FYE	Variance
	\$ in Millions		
<i>Total Employee Compensation</i>	\$314.4	\$313.8	\$0.6
<i>Total Employee Benefits</i>	197.1	183.6	13.5
<i>Payments to Charter Schools</i>	128.5	128.0	0.5
<i>Debt Service</i>	113.6	113.6	0.0
<i>Transportation</i>	51.6	51.6	0.0
<i>All Other Expenditures</i>	111.2	110.2	1.0
Total General Fund Expenditures	\$916.4	\$900.8	\$15.6

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 third quarter, the District is projecting a favorable budgetary variance of \$0.6 million related to employee compensation. Actual General Fund employee compensation was \$211.8 million which was \$2.5 million, or 1.2%, less than the \$214.3 million budgeted for the end of the third 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 March 31, 2019.

BCSD Expenditures 2018-19 3rd Quarter Update				
Employee Compensation	Modified Budget	Projected FYE	Variance	FTE Variance (Adopted Budget vs. 3/31 Actual)
	\$ in Millions			
<i>Teachers</i>	226.6	226.8	(0.2)	(3.0)
<i>Administrators</i>	24.9	24.9	0.0	(15.0)
<i>Professional, Clerical, & Technical Employees Assoc. (White Collar)</i>	17.9	16.8	1.1	32.0
<i>Local 264 - (Blue Collar)</i>	2.5	2.5	0.0	3.0
<i>Teacher Aides/ Teaching Assistants</i>	16.8	16.5	0.3	(7.0)
<i>All Other Employees/ Overtime</i>	25.7	26.3	(0.6)	10.0
Total Employee Compensation	314.4	313.8	0.6	20.0

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 third quarter, the District had net 20 vacant FTE positions representing a vacancy rate of 0.4%. The vacancies consisted of 32 vacant white-collar employees, 3 blue-collar employees, 7 operating engineers, and three exempt employees. Actual positions exceeded the budget for teachers of 3 as compared to the budget of 3,148 positions, administrators which exceeded the 212 budget by 15 positions, and teacher aides/teaching assistants which exceeded the 769 budget by 7 FTEs.

On a District-wide basis the District had 5,475 actual FTEs at March 31, 2019. Total actual FTEs were greater by 88 FTEs, or 1.6%, than total budgeted 5,387 FTEs.

The projected budgetary variances are as follows:

Favorable Budgetary Variances

- Professional, Clerical, and Technical Employees' Association (PCTEA) - \$1.1 million favorable FYE projected variance:
 - The current \$1.1 million favorable variance is projected based on the current level of vacancies. Given the significant level of vacancies within this employee group through all three quarters of the fiscal year, a greater budgetary variance at fiscal year-end is likely.
- Teacher Aides/Teaching Assistants - \$0.3 million favorable FYE projected variance:
 - The favorable budgetary variance is projected based on the level of vacant positions for a significant portion of the school year. The current number of filled positions exceeds that which was budgeted.

Unfavorable Budgetary Variances

- Buffalo Teachers' Federation (BTF) - \$0.2 million unfavorable FYE projected variance:
 - The current \$0.2 million unfavorable variance is projected based on the average level of vacancy seen throughout the fiscal year 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. As of the end of the third quarter, the total number of teachers employed by the District exceeded that which was originally budgeted by 3 FTEs. The District hired 14 teachers between October 1, 2018 to March 31, 2019.
- All Other Employees: Compensation for substitute teachers is projecting to be unfavorable at FYE by \$0.5 million, projected based on the actual need to call in substitute teachers.
- Overtime is projected to exceed budget by \$0.1 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 third quarter, actual General Fund employee benefits were \$122.0 million, \$11.0 million or 8.3% less than the amount budgeted for the third quarter of \$133.0 million. The District is projecting an \$13.5 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 3rd 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	56.6	4.0
<i>Health Insurance - Retirees</i>	62.0	53.0	9.0
<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	13.0	0.5
Total Employee Benefits	197.1	183.6	13.5

The District is projecting an \$13.0 million favorable budgetary variance for health insurance expenditures including \$9.0 million for retiree health insurance and \$4.0 million for active employee health insurance. The District converted to a traditional model of self-insurance effective July 1, 2018 and discontinued the practice of paying premium equivalent rates. 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 District is reporting that additional savings have materialized from various cost-savings initiatives including: increased Medicare Advantage enrollments, a conversion to employer group waiver plans (EGWP plans), improved drug rebates, and various reductions as a result of recently approved labor agreements.

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 third quarter, the District is projecting a favorable budgetary variance of \$0.5 million for payments to area schools. Actual payments to area charter schools were \$106.4 million, which was \$0.5 million, or 0.5%, 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 and there are currently 9,038 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 enrollments counts are updated.

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 third quarter, the District is not projecting any FYE variances in debt service expenditures. Actual Debt Service payments were \$111.1 million or \$2.5 million less than the budget-to-date amount of \$113.6 million based on the timing of the payments made. Debt service payments have predetermined payment dates and amounts. It 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.

No budgetary variance is currently projected for this expenditure. Actual expenditures for transportation were \$26.8 million, or \$0.4 million less than originally budgeted by the end of the third quarter due to the timing of vendor payments made.

It is noted that the District receives an approximate 90% 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 General Fund expenditures other than employee compensation and benefits, charter school payments, debt service, and transportation and includes 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 3rd 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	17.4	1.0
<i>Equipment</i>	1.7	1.7	0.0
<i>Contracts - Misc.</i>	21.1	20.6	0.5
<i>Reserve for Contingency</i>	0.1	0.1	0.0
<i>Rental Contracts</i>	6.7	6.7	0.0
<i>Repairs/Maintenance</i>	3.7	3.7	0.0
<i>Textbooks</i>	2.7	2.7	0.0
<i>Supplies and Misc.</i>	7.8	7.8	0.0
<i>Software</i>	3.6	3.6	0.0
<i>Interfund Transfers</i>	3.0	3.0	0.0
Total All Other Expenditures	111.2	110.2	1.0

As of the end of the third quarter, the District is projecting an unfavorable budgetary variance of \$0.5 million for tuition expenditures and projected favorable budgetary variances of \$1.0 million and \$0.5 million for custodian contracts and miscellaneous contract expenditures respectively.

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 yearend based on the prior fiscal year's actual tuition expenditures as well as the current fiscal year's expenditures to date.

Custodian contract expenditures are projecting a favorable budgetary variance of \$1.0 million at fiscal year-end based on custodian health insurance which is projecting to be less than budget.

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 \$900.8 million, representing an increase of \$34.1 million, or 3.9%.

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

- Employee Compensation – An increase of \$23.8 million, or 8.2%, over prior fiscal year.
- Employee Benefits – A decrease of \$2.8 million, or 1.5%, over prior fiscal year.
- Charter School Payments – An increase of \$9.7 million, or 8.2%, over the fiscal prior year.
- 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.
- All Other Expenditures – A decrease of \$0.1 million, or 0.1%, 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 - \$40.0 million;
- Expenditures - \$38.1 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 FY 2018-19 budget remains balanced with the appropriation of \$19.0 million. The District is projecting a \$14.0 million favorable budgetary surplus, consisting of unfavorable revenues of \$1.6 million and favorable budgetary expenditures of \$15.6 million. The projected deficit for 2018-19 is \$5.0 million and appears to be conservatively projected.