

BUFFALO FISCAL STABILITY AUTHORITY

Analysis of the Buffalo Municipal Housing Authority's FY 2018-19 Second Quarter

The following is an analysis of the Buffalo Municipal Housing Authority's fiscal year (FY) 2018-19 second quarter report.

Significant Events

The Buffalo Fiscal Stability Authority (BFSA) reviewed a tentative Memorandum of Agreement (MOA) on September 10, 2018 between the Buffalo Municipal Housing Authority (BMHA) and the American Federation of State, County and Municipal Employees, Local 264 (Local 264), representing the managerial, white-collar and blue-collar units. The cost for the labor agreement was estimated at \$1.5 million in FY 2018-19 and \$5.8 million over the FY 2019-2022 Financial Plan (Financial Plan). The BMHA Board of Commissioners approved the MOA on September 13, 2018 and a modified FY 2018-19 budget and FY 2019-2022 Financial Plan on December 20, 2018. The modified budget and financial plan:

- a) recognized additional estimated operating revenue of \$0.5 million annually from FY 2018-19 to 2020-2021 and \$0.4 million in FY 2021-22. The additional revenues totaling \$1.9 million over the four years of the Financial Plan were projected based on an increased operating subsidy from the U.S. Department of Housing and Urban Development (HUD) as well as an increase in the administrative fee reimbursement associated with the HUD Section 8 Housing Voucher Program;
- b) reduced the staffing plan by nine budgeted positions, impacting the Financial Plan by reducing projected expenses by \$4.2 million; and
- c) increased personnel costs over the Financial Plan by a net \$1.8 million.

Summary

The BMHA submitted its second quarter report for the period of July 1, 2018 through December 31, 2018. The BMHA's FY 2018-19 Modified Budget (Modified Budget) includes estimated revenues of \$45.1 million, budgeted expenses of \$45.8 million, and a resulting loss of \$0.7 million prior to the payment of debt service. Debt service payments are budgeted at \$1.4 million.

As reported by the BMHA, year-to-date operating results include revenues of \$23.5 million and expenses of \$21.3 million, respectively, representing 52% and 47% of the FY 2018-19 Modified Budget. As of the end of the BMHA's second quarter, revenues exceeded expenses by \$2.2 million.

BMHA is not currently projecting an increase to the estimated net operating loss for fiscal year-end as operating revenues and expenses are projected to be consistent with the Modified Budget.

Operating Revenues

Actual revenues were \$22.4 million at the end of the second quarter, or 52% of budget, representing a \$1.0 million favorable budgetary variance when compared to the FY 2018-19 budget-to-date.

The following schedule summarizes revenues of the BMHA as of December 31, 2018:

2nd Quarter Consolidated Results - Revenues						
Description	2018-19 Adopted Budget	2018-19 Modified Budget	Budget- to-Date	Actual as of December 31, 2018	Variance	Percent Received Year-to- Date
\$ in Millions						
<i>HUD Subsidy</i>	16.8	17.3	8.7	9.0	0.3	54%
<i>Net Dwelling/Non-Dwelling Income</i>	13.9	13.9	6.9	6.9	0.0	50%
<i>HUD PHA Grants - Vouchers</i>	5.4	5.4	2.6	3.1	0.5	57%
<i>All Other Revenues</i>	5.4	5.4	2.7	2.9	0.2	54%
<i>Transfers from Capital Grants</i>	3.1	3.1	1.5	1.5	0.0	50%
Total Revenue	44.6	45.1	22.4	23.4	1.0	52%

Operating Subsidy

Housing authorities receive an operating subsidy from HUD to assist in funding the operational and maintenance expenses of their own 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 public housing authority'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 operating subsidy is budgeted at \$17.3 million in FY 2018-19 constituting 38.3% of all budgeted revenues. As of the end of the second quarter, BMHA had received 54% of this subsidy. BMHA modified the budget for an additional \$0.5 million in the HUD operating subsidy based on HUD's July 2018 update for the current year proration calculation.

Dwelling/Non-Dwelling Income

BMHA has budgeted \$13.9 million in net dwelling/non-dwelling income for FY 2018-19, or 30.8% of total budgeted revenues. As of the end of the first quarter, actual revenue receipts were \$6.9 million, as budgeted.

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 \$5.4 million in PHA Grants, or 12.0% of total budgeted revenues. As of the end of the second quarter, actual voucher revenues received were \$3.1 million, \$0.5 million more 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. Public Housing Authorities (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 \$3.1 million for reimbursement of administrative costs incurred in implementation of the capital grants as allowable under the grant agreement(s) or for the reimbursement of direct costs. The amount represents 6.9% of total budgeted revenues. Actual revenue was \$1.5 million as of the end of the second quarter, equal to the budget-to-date projection.

All Other Revenues

All other revenues are budgeted at \$5.4 million in FY 2018-19 or 12.0% of total budgeted operating revenues. These revenue receipts were \$2.9 million as of the end of the second quarter, more than the budget-to-date projection by \$0.2 million. 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 2018-19 operating expenses are budgeted at \$45.8 million. Budgeted debt service payments are an additional cash outlay of \$1.4 million. The total projected expenses and debt service are \$46.8 million including the annual accrual for OPEB costs.

Actual expenses for the three-month period ending December 31, 2018 were \$21.3 million, or \$1.6 million less than the budget-to-date amount of \$22.9 million.

The following schedule summarizes expenses of the BMHA as of December 31, 2018:

2nd Quarter Consolidated Results - Expenses					
Description	2018-19 Modified Budget	Budget-to-Date	Actual as of December 31, 2018	Variance	Percent Expended Year-to-Date
\$ in Millions					
<i>General Expenses</i>	13.8	6.9	6.2	0.7	45%
<i>Maintenance</i>	10.4	5.2	4.8	0.4	46%
<i>Administrative</i>	8.8	4.4	4.0	0.4	45%
<i>Utility</i>	5.7	2.9	2.5	0.4	44%
<i>Other Expenses</i>	5.4	2.7	3.1	(0.4)	58%
<i>Protective Services/ Resident Service Costs</i>	1.7	0.8	0.7	0.1	44%
TOTAL EXPENSES	45.8	22.9	21.3	1.6	47%

General Expenses

BMHA has budgeted \$13.8 million in general expenses, or 30% of total budgeted expenses. These expenses include: employee benefits, insurances, the annual accrual for Other Postemployment Benefits (“OPEB”), and other miscellaneous expenses. Actual general expenses were \$6.2 million at the end of the second quarter, \$0.7 million less than the budget-to-date. The favorably budgetary variance when compared with the budget-to-date is attributed to lower-than-projected employee benefits expenses to date based on a 15.3% employee vacancy rate; no FYE favorable budgetary variance has been projected. It is noted that the Modified Budget reflects the impact of the labor agreement with Local 264 as well as the reduction of budgeted personnel.

Maintenance

BMHA has budgeted \$10.4 million in maintenance expenses, or 22.7% of total budgeted operating expenses. Actual maintenance expenses were \$4.8 million at the end of the second quarter, \$0.4 million less than the budget-to-date amount of \$5.2 million. The favorable variance at the end of the second 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 \$8.8 million in administrative expenses, or 19.2% of total budgeted operating expenses. Actual administrative expenses were \$4.0 million at the end of the second quarter, \$0.4 million less than the budget-to-date. The BFSAs 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.

Utility

BMHA has budgeted \$5.7 million in utility expenses, or 12.6% of total budgeted operating expenses. Actual utility expenses were \$2.5 million at the end of the second quarter, \$0.4 million lower than the budget-to-date. This expense is 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/Resident Services

BMHA has budgeted \$1.7 million for protective and resident service expenses, representing 3.7% of total budgeted operating expenses. Protective services are contractually based; \$650,000 has been budgeted for the contract with the Buffalo Police Department. Actual expense disbursements were favorable by \$0.1 million at the end of the second quarter based on the timing of these cash disbursements.

All Other Expenses

The BMHA has budgeted \$5.4 million for other expenses in FY 2018-19, representing 11.8% of total budgeted operating expenses. A majority of these expenses are not operational and represents pass-through expenses. All other expenses include miscellaneous expenses including the housing assistance payment (HAP) which is the payment a public authority makes to housing choice voucher program participants.

Actual expense disbursements were \$3.1 million at the end of the second quarter. As noted previously, BMHA is attempting to utilize a higher percentage of funds available for housing choice voucher payments. The increase in this revenue will mirror an increase in these expenses as BMHA acts as a pass-through.

Personnel

The BMHA budgeted 157 full-time positions for FY 2018-19. As of December 31, 2018, 133 positions were filled. BMHA has reduced the number of budgeted positions from 166 to 157 full-time employees as a means to fund the recently approved labor agreement with Local 264. As a number of positions remain vacant, BMHA has had lower-than-budget employee compensation and fringe benefit expenses.

Conclusions

BMHA's FY 2018-19 Modified Budget and 2019-22 Modified Financial Plan reflects the estimated increased costs associated with the settlement of the Local 264 labor agreement. The budget provides for a deficit of \$0.7 million funded by reserves. Reserves totaled \$4.6 million as of June 30, 2018. BFSA will continue to closely monitor BMHA's operating results.