BUFFALO FISCAL STABILITY AUTHORITY
Analysis of the Buffalo City School District's 2018-19 Adopted Budget & 2019-2022 Financial Plan

INTRODUCTION

The Buffalo City School District (District) submitted the fiscal year (FY) 2018-19 Recommended Budget (Recommended Budget) and FY 2019-2022 Adopted Financial Plan (Financial Plan) to the Buffalo Fiscal Stability Authority on May 1, 2018. The District adopted the 2018-19 budget on May 16, 2018 (Adopted Budget).

The Recommended Budget included estimates as to how the discretionary funding would be allocated. The Adopted Budget includes the refined and finalized school-based budgets.

The Adopted Budget contains minor changes from the Recommended Budget and reflects the final school-based budgets of 72 individual school and program's budgets. Individual schools submit their budget requests to the District's Finance Department. Each school is allocated two types of funds: baseline and discretionary. Baseline funds are allocated based on District formulas which incorporate General Education student enrollment, the Special Education student population, the English Language Learner student population, and school's configuration (e.g. elementary school), designated teacher-to-student ratios, as well as if it is a specialty school with specific programs offered. The Adopted Budget implements a reduction to the school-based budgets in the total amount of $3.6 million which varies between $40,000 for priority schools, $60,000 for focus schools, and $100,000 for schools in good-standing, unless the schools have prescribed and/or exempted budgets.

The District reported a deficit in five of the last six years. Expenditures exceeded revenues for each of the fiscal years ended June 30, 2012 through June 30, 2015, resulting in a cumulative deficit and a corresponding reduction to fund balance of $44.6 million. The District reported a surplus of $12.2 million for the year ended June 30, 2016, which was prior to settlements of the long outstanding labor contracts with the Buffalo Teachers' Federation (BTF or Teachers) and the Buffalo Council of Supervisors and Administrators (BCSA or Administrators). The District reported a deficit of $20.6 million for the year ended June 30, 2017, and had forecasted a deficit for the year ended June 30, 2018 of $16.2 million.

A deficit of $19.0 million has been budgeted in the Adopted Budget. A budget gap has been projected for each year of the Financial Plan with a cumulative four-year deficit of $86.7 million.

The Financial Plan includes a series of gap-closing measures under "Deficit Closing and Cost Saving Initiatives." These gap-closing measures were formulated for FY 2017-18 to demonstrate the potential methods that the District has available to close the projected out-year budget gaps. The Financial Plan includes these gap-closing measures along with status updates as of April 18, 2018. These actions include the appropriation of fund balance and a series of prioritized gap-closing measures to be achieved through enhanced efficiencies, cost reductions, and revenue enhancements. Several measures have been implemented or are slated to be implemented in FY 2018-19. The cost savings associated with these implemented actions have been incorporated in the Financial Plan.

The following key observations have been made related to the Financial Plan:

1. General Fund revenues increase at a compound annual growth rate of 2.05% while expenditures increase at a slightly greater rate of 2.11%.

   The District has budgeted to use fund balance in fiscal years 2018-19 and FY 2019-20. The appropriation of $19.0 million of fund balance allows the District to balance the FY 2018-19 budget. The appropriation of $10.0 million of fund balance in FY 2019-20 reduces the projected deficit from $19.5 million to $9.0 million. In total, the four-year deficit of $86.7 million is reduced to $57.7 million following the appropriation of fund balance.

All collective bargaining units have labor agreements that are either currently expired or are scheduled to expire in the next several years in the following order:

- Operating Engineers – June 30, 2010
- Teacher aides/Teaching assistants – June 30, 2012
- White-collar employees – June 30, 2013
- Blue-collar employees – June 30, 2013
- Bus aides – June 30, 2018
- Teachers – June 30, 2019
- Substitute teachers – June 30, 2019
- Administrators – September 1, 2020

The District has included $1.5 million within the Adopted Budget for negotiating expired labor contracts. This amount increases by $500,000 annually over the Financial Plan.

2. The use of fund balance in addition to the implementation of proposed gap-closing measures appear to be sufficient to address out-year budgetary gaps. In the event the District does not receive additional revenues or achieve the level of budgetary savings and efficiency savings as estimated, a significant level of gap-closing measures through cost reductions will likely need to be implemented to close the projected out-year budgetary gaps. The cost reduction initiatives include reducing or eliminating non-mandated programs and reducing instructional positions.

FY 2018-19 ADOPTED BUDGET SUMMARY

The following are the highlights of the Adopted Budget:

1. The Adopted Budget includes estimated revenues of $897.4 million and budgeted appropriations of $916.4 million. The excess of expenditures over revenues of $19.0 million represents the budgeted deficit and is closed through the appropriation of fund balance consisting of $2.0 million set aside for other postemployment benefits (OPEB), $15.8 million of unassigned fund balance, and $1.2 million assigned for capital needs.

2. The New York State (NYS) Legislature approved a State Fiscal Year (SFY) 2018-19 budget that included $22.6 million in additional NYS Aid for the District as compared to the 2017-18 Adopted Budget. The increase in the FY 2018-19 NYS Foundation Aid exceeds the statutory minimum.

3. The Adopted Budget includes estimated revenues that are significantly less than the $912.0 million projected in the FY 2017-18 Financial Plan. Budgeted expenditures are also significantly less than the $931.1 million projected in the FY 2017-18 Financial Plan, despite the additional $4.9 million expenditures to fund the administrators and substitute teachers' labor contracts, both of which were resolved during the prior fiscal year (PFY). Appropriated reserves of $19.0 million exceeds the PFY projected need of $13.7 million.

4. The Adopted Budget continues the full implementation of the Superintendent's New Education Bargain, representing the District's comprehensive educational program which includes a rigorous elementary education program, strong community schools, new innovative high schools, extended learning time, additional services and supports for students and their families, and a new relationship with the teachers.

FY 2019-2022 FINANCIAL PLAN SUMMARY

The following are the highlights of the Financial Plan:

1. An operating deficit is present in all four years of the Financial Plan. The cumulative deficit totals $86.7 million. The budget gaps are reduced to a cumulative $57.7 million following the draw-down of $29.0 million in fund balance.

2. Total assigned and unassigned fund balance is projected to be significantly reduced to $137.4 million by June 30, 2022, consisting of:

    a. $53.4 million set-aside for specific purposes including capital needs ($3.9 million), prior years' claims ($3.0 million), encumbrances ($3.4 million), and other postemployment benefits ($43.1 million); and

    b. $58.5 million of unassigned fund balance. The Board of Education (Board) requires unassigned fund balance to be maintained at a level equal to or greater than 4% of total General Fund expenditures. This policy is adhered to within this Financial Plan. After taking into consideration the minimum fund balance policy and the amounts set aside for specific future purposes, a balance of $19.3 million more than the Board's policy remains at June 30, 2022. With respect to assigned fund balance, District management may reassign purposes for which those dollars are allocated, which could increase the amount available to use to close budgetary gaps.

The following chart provides a summary of the Financial Plan:

FY 2019-2022 Financial Plan Summary	2018-19 Adopted Budget	2019-20 Outyear 1	2020-21 Outyear 2	2021-22 Outyear 3	4-Year Totals
	$ in Millions				
Revenues	$897.4	$916.4	$935.4	$953.8	$3,703.0
Expenditures	916.4	935.9	960.4	977.0	3,789.7
Surplus/(Deficit)	**(19.0)**	**(19.5)**	**(25.0)**	**(23.2)**	**86.7**
Assigned Fund Balance	3.2	5.5	3.0	0.0	**11.7**
Unassigned Fund Balance	15.8	4.5	(3.0)	0.0	**17.3**
Total Fund Balance	19.0	10.0	0.0	0.0	**29.0**
Remaining Deficit	**($0.0)**	**($9.5)**	**($25.0)**	**($23.2)**	**($57.7)**

GAP-CLOSING MEASURES

The District has allocated $19.0 million of fund balance to address the budget gap for FY 2018-19. Of this amount, the District is utilizing $3.2 million of assigned fund balance including $2.0 million designated for OPEB and other benefits and $1.2 million designated for capital needs. Additionally, $15.8 million of unassigned fund balance has been appropriated for general operations.

The District has allocated $29.0 million of fund balance over the Financial Plan including $11.7 million of assigned fund balance and $17.3 million of unassigned fund balance. Unassigned fund balance is projected to total $58.5 million at June 30, 2022, a level which exceeds the minimum District policy retention requirement by $19.3 million.

The Financial Plan includes various deficit closing and cost savings initiatives which represent actions either being taken or recommended to be taken to eliminate the cumulative remaining deficit of $57.7 million. These gap-closing measures were introduced in the FY 2017-18 Financial Plan. These potential actions are separated into three categories including other revenue and fund balance items, savings to be achieved through efficiencies, and other cost reductions. There are twenty-three (23) initiatives listed which have been provided largely as a prioritized list with some discrepancies noted but for discussion and analysis purposes have been considered in the order as provided.

The following chart summarizes the impact of the deficit closing and cost savings initiatives as provided in the Financial Plan:

General Fund Gap-Closing Measures (As Updated)	FY 2018-19 Adopted Budget	FY 2019-20 Outyear 1	FY 2020-21 Outyear 2	FY 2021-22 Outyear 3	4-Year Totals
	$ in Millions				
Revenues	897.4	916.4	935.4	953.8	3,702.9
Expenditures	916.4	935.9	960.4	977.0	3,789.7
Baseline Gap	(19.0)	(19.5)	(25.0)	(23.2)	(86.7)
Use of Fund Balance	19.0	10.0	0.0	0.0	29.0
Revised Baseline Gap	**(0.0)**	**(9.5)**	**(25.0)**	**(23.2)**	**(57.7)**
Priority #1-2: Other Revenue and Fund Balance Items	0.0	0.1	10.6	8.6	19.3
Priority #3-17: Savings to be Achieved Through Efficiencies	0.0	7.3	7.5	7.7	22.5
Priority #18-23: Other Cost Reductions*	0.0	9.8	10.3	10.8	30.9
Surplus/ (Deficit)	**0.0**	**7.7**	**3.4**	**3.9**	**15.0**

*** Includes staffing reductions of $6.2 million in each out year of the Financial Plan**

The gap-closing measures plan continues to rely heavily on the use of available fund balance which constitute 62.8% of the gap-closing measures in FY 2018-19 through FY 2019-20 and 28.5% of the gap-closing measures overall. The appropriation of fund balance is not utilized in FY 2020-21 or FY 2021-22 as the District's intent is to be operationally balanced beginning in FY 2020-21.

Deficit Closing and Cost Savings Initiatives – Other Revenue and Fund Balance Items
The Financial Plan includes a revenue enhancement item and the further appropriation of fund balance. Such actions are detailed as follows:

1. Revenue enhancement: A $0.1 million annual savings and a cumulative $0.3 million is included for various revenue enhancements resulting from several current initiatives which are intended to yield greater revenues though better data collection and understanding of the various NYS and federal regulations.

   The District projects a $0.9 million increase in FY 2018-19 of STAC (System to Track and Account for Children) reimbursements from the New York State Education Department (NYSED) as a result of these efforts. Additionally, other work allowed the District to increase the prior fiscal year's Foundation Aid by capturing more students to include in the aid calculation.

2. Unassigned fund balance: The amount of unassigned fund balance projected to be available in excess of the fund balance policy is estimated at $19.3 million at the conclusion of FY 2021-22. The Financial Plan lists the drawdown of $19.0 million of reserves as an action which could be taken to reduce budgetary deficits. Unassigned fund balance is currently required to be maintained at a level that is at least 4% of budgeted expenditures per District policy as recommended by the New York State Comptroller.

Deficit Closing and Cost Savings Initiatives – Efficiencies and Savings
The Financial Plan includes sixteen (16) individual actions for cost reductions and savings to be achieved through efficiencies providing a cumulative $22.5 million of cost reductions over the three out-years of the Financial Plan. Several of the items listed have been implemented and are now incorporated in the Adopted Budget. The gap-closing actions are detailed as follows:

3. Vacancies: The District has included annual savings of $2.0 million for vacancies; cumulative savings of $6.0 million are included. The District annually has budgetary savings based on budgeted but unfilled full-time equivalent (FTE) positions, particularly within the white-collar and blue-collar employee groups.

   The Adopted Budget includes a $2.0 million vacancy contingency in keeping with best practices and historical performance.

4. Retiree healthcare: The District has included annual savings of $300,000 and a cumulative savings of $0.9 million related to retiree healthcare. Efforts are underway to obtain better prescription drug pricing for the Medicare Advantage product leading to potential savings.

   The District notes its goal to eliminate the cosmetic surgery rider for retirees and reports that as of December 2017 retirees who utilize this benefit are now subject to federal income tax based on the amount paid for this benefit. The District issued W-2 forms in January; the taxable nature of the benefit is anticipated to curtail its utilization. The District has opted to exclude projected savings from this action as it was previously deemed too speculative to quantify by BFSA.

   The District notes that the most recent OPEB valuation included a $200 million favorable impact on future Teacher health insurance expenditures, per the terms of the current collective bargaining agreement. Additionally, the recently ratified labor agreement with the Administrators includes a mandatory Forever Blue enrollment clause upon eligibility which is anticipated to generate additional future savings.

5. Employee healthcare: The District intends to aggressively negotiate healthcare concessions when settling expired collective bargaining agreements which would lead to savings for the District. The District has established a goal of 10% contributions to healthcare from all current active employees and 20% from future employees, along with a change in the copay structure. Notably, the recently settled collective bargaining agreement with the Buffalo Council of Supervisors and Administrators includes provisions for employees hired prior to September 1, 2017 to contribute 9% of the premium's cost by the start of FY 2018-19, and for those hired after September 1, 2017 to contribute 15% of the premium's cost beginning with FY 2018-19.

   Additionally, elective cosmetic surgery continues to be provided in one older labor contract for the engineer union. The District intends to eliminate this provision; no cost savings are estimated as it is expected that savings will be used towards a new labor contract.

The District has included $0.5 million annually for a cumulative $1.5 million in savings from a dependent verification program to be initiated in FY 2018-19. The expectation is that employees who have dependents listed inappropriately on their healthcare policy will be removed allowing for a cost reduction. The savings from this new initiative are carried forward in each fiscal year of the gap-closing measure report.

6. Reduce substitute teacher costs: Beginning in FY 2018-19, the District has included annual savings of $100,000 for a cumulative $0.3 million in substitute teacher savings resulting from better management of Teacher absences. The District's Associate Superintendent for Human Resources has implemented approval controls for the use of substitute teachers. Substitute teachers are often requested in additional to the regular teaching staff to assist with classroom instruction. This additional use of substitute teachers now requires approval by the Department of Human Resources as opposed to the individual school administrators.

   The District has indicated that Teacher absentee rates are high compared to other school districts and that savings could be realized by tighter controls over the use of Teacher leave thus reducing the need for substitute teachers. The District had previously estimated $0.5 million annually could potentially be saved from this gap-closing measure but has subsequently reduced the estimated financial impact of this action as only small reductions are anticipated in the future.

7. Reappropriated grants: The Financial Plan includes $1.2 million annually for a cumulative $3.6 million related to nursing costs. Historically, the District has received $1.2 million in nursing services grants from NYS as a portion of NYS Aid. These grants are non-competitive and are a reauthorization of grants previously awarded. The grant awards are recorded as "bullet aid" or "one-shot" as there is no requirement for this aid to be received on an annual basis.

   The District received $1.2 million for FY 2018-19 through its lobbying efforts. Additionally, a Request for Proposals was issued to provide nursing services for the District. The submissions by the prospective providers are currently being evaluated.

8. Renegotiate occupational therapy and physical therapy contracts: The FY 2018-2021 Financial Plan included $0.5 million of savings annually for a cumulative $1.5 million from renegotiating and/or letting new contracts for both occupational and physical therapy. The District opted to extend the existing contract based on the cost savings realized in the current fiscal year and a $1.0 million cost savings is projected for the 2018-19 fiscal year and thereafter and has been reflected within budgeted and projected expenditures. As this gap-closing measure has been actualized, no potential savings are listed.

9. Renegotiate service contracts: The Financial Plan includes anticipated savings in procurement related to "Best and Final Offers"; estimated savings of $500,000 are included in FY 2019-20 and increases annually by $200,000 for a cumulative balance of $2.1 million. New York State Finance Law, §163 "Purchasing Services and Commodities" subsection (j) defines "Best Value" as, "…the basis for awarding contracts for services to the offeror which optimizes quality, cost and efficiency, among responsive and responsible offerors."

   A Best and Final Offer is considered a redefinition of a bid/Request for Proposals response under NYS Finance Law which would afford the District reductions in the cost of bidding and request for proposal pricing. A Best and Final Offer allows the District to obtain better pricing once the evaluation of the technical components is completed and the bidders eligible for award are given another opportunity to adjust their pricing (e.g. technology pricing).

   The District has reported that $0.5 million in savings were realized in FY 2017-18 associated with the cost of purchasing and installing security cameras through a mini-bid on a NYS contract item. The mini-bid process is similar to the Best and Final Offer process and allows governmental entities the opportunity for a reduced cost from the vendor.

10. Textbook purchases: The FY 2018-2021 Financial Plan included $0.2 million annually for a cumulative savings of $0.6 million in textbook purchases by purchasing through a bid process rather than directly from the publisher if a secondary source exists. This gap-closing measure was realized in FY 2017-18 and incorporated into the Financial Plan.

11&12. Two facility closures - PS #86 and #187: These facilities are currently underutilized; the District can close the facilities outright and transfer the functions performed at these schools into excess capacity within the District. These closures have been recommended but have yet to be implemented. The operational cost savings is listed annually at $937,000 for a cumulative three-year impact of $2.7 million. A facilities task force was created to analyze facility usage District-wide and propose additional reductions.

13. Reduction in overtime: The District scrutinized the use of overtime in FY 2017-18, particularly within trades, transportation, and security. A significant amount of overtime was paid in the summer of 2017 for Plant operations. This is not anticipated to be needed in the summer of 2018.

    An annual amount of $100,000 is estimated to be saved for a cumulative $0.3 million in savings and reflects tightening of controls over the use of overtime following this review.

14. Further realign school start/end times: For the FY 2017-18 school year, the District utilized its powers granted under the NYS receivership laws to realign school hours and reduced bussing costs by $1.0 million by developing more efficient routes. However, two new charter schools and two existing charter schools have requested transportation services. As such, the savings from this gap-closing measure have been removed due to these newly added expenditures.

    The District is currently evaluating fuel cost controls including fixed pricing and/or purchasing fuel in the current fiscal year to reduce FY 2018-19 expenditures. Transportation reductions continue to be analyzed and may result from the Community School Initiative, a key component of the New Education Bargain.

15. Reduced compensated leave time: The District implemented procedural controls over staff's utilization of workers' compensation, medical leave, and administrative leave in FY 2016-17. An annual savings of $0.7 million and a cumulative savings of $2.1 million is listed as a gap-closing measure by expanding these efforts to curtail the use of compensated leave time to reduce the number of staff on paid leave.

16. Master Scheduler: The District intends to hire a master scheduler who will be tasked with ensuring high school schedules are built efficiently and that resources for special education and English as a second language services are efficiently utilized. The District estimated that eleven FTEs could be eliminated by analyzing and reorganizing the initial schedules for two of the larger high schools and then applying the findings and processes to the remainder of the schools. The position will be responsible for auditing schedules during the year to make sure that, if staffing is excessive, positions may be moved or reallocated. This gap-closing measure anticipates an annual savings of $1.0 million for a cumulative $3.0 million in cost savings.

    This position was posted in December of 2017 but remains unfilled.

17. Special education: The District currently places chairs on its committee of special education within individual schools and will examine whether centralizing this process will result in a reduction of students being identified as needing more restrictive settings.

    A task force was formed in 2018 to analyze Special Education and propose reductions of $1.0 million, which is reflected in the Adopted Budget. The District's Financial Plan indicates systemic changes are necessary to control the growth of special education expenditures. In particular the District cites the one-to-one teacher-to-student growth since 2014-15 for special education as being an unsustainable practice. The Special Education Department is currently examining programmatic changes for the summer handicapped program that may reduce unreimbursed costs by $0.2 million annually.

    No cost savings have been projected for this gap-closing measure.

Deficit Closing and Cost Savings Initiatives – Other Cost Reductions

From a priority standpoint, the District intends to prioritize actions that create savings through efficiencies; these actions are addressed above. Following these initiatives are six (6) individual gap-closing measures to provide additional cost reductions to be achieved through various methods. These six actions have a cumulative $30.9 million impact and include more severe measures as follows:

18. Reduce or eliminate the general contingency account: The District has budgeted and projected a contingency expense over the Financial Plan which could potentially be reduced or eliminated if other instructional policies are threatened. This budgeted/projected expenditure could be reduced by $1.36 million annually for a cumulative total of $4.1 million. It is noted that diminishing this budgeted expenditure will impair the District's ability to fund unexpected expenditures within the General Fund, which becomes more of a challenge as the budget is tightening each year.

19. Reduce or eliminate the contract settlement contingency: The District is currently, or will be, out-of-contract with four of its eight unions; the TAB contract expires June 30, 2018, the BTF and substitute teachers' contracts both expire on June 30, 2019, and the BCSA contract expires September 1, 2020. Fund balance that was set-aside for collective bargaining was significantly reduced at the conclusion of the 2017-18 fiscal year; the total projected balance of fund balance set-aside for contract negotiations was estimated to be $9.0 million at June 30, 2018. The District has included an additional $1.5 million in the Adopted Budget for contract negotiations; the amount is increased annually by $500,000.

    The District will not annually accrue for unsettled labor contracts and this amount will require annual reappropriation during the budget process. The elimination of the settlement contingency has been provided in the Financial Plan which would provide a cumulative cost reduction of $7.5 million. The elimination of this balance would affect the District's ability to negotiate labor contracts.

20. Eliminate non-mandated programs: Last year the District identified two large programs funded through the General Fund including the Hillside Work Scholarship Connection program and the Say Yes to Education Summer Enrichment program. These programs had initially been funded through grant funding and, as they are not mandated, could be eliminated to address out-year budgetary gaps. The Hillside Work Scholarship Connection Program was reduced in the Adopted Budget. The gap-closing plan has been adjusted to reflect cost reductions of $0.25 million annually for a cumulative $0.75 million for future reductions.

21. Emerson II: The District plans to expand the Emerson Commons School of Hospitality program and last year had listed potentially delaying or eliminating this expansion as a gap-closing measure. The District has taken the necessary steps to proceed with this program's expansion. The potential cost reductions as previously outlined beyond 2018-19 of $1.7 million are no longer appropriate and are no longer listed in the gap-closing measures report.

22. Reduce Central Office positions: It is estimated that if necessary, 15 full-time positions could be eliminated by layoffs or not filling vacant positions. The estimated reduction in budgeted salary costs is $660,000 annually for net savings of $2.0 million. The District is currently examining strategic reductions within central office departments and is exploring a desk audit process and/or other vacancy analysis to reduce open positions.

23. Reduce Instructional and Support positions: The District listed a sizeable potential reduction in instructional and support positions as the lowest priority of all potential gap-closing actions. This gap-closing action had been included in the FY 2018-2021 Financial Plan with an annual cost reduction of $8.5 million, for a cumulative $25.4 million, in reduced costs.

    The District has provided a revised estimate in the 2019-2022 Financial Plan of $5,400,000 annually for a cumulative $16.6 million in reduced costs over the Financial Plan. The Adopted Budget implements a reduction to the school-based budgets in the total amount of $3.6 million which varies between $40,000 for priority schools, $60,000 for focus schools, and $100,000 for schools in good-standing, unless the schools have prescribed and/or exempted budgets. This reduction in funding will reduce instructional and support positions as determined in the final school-based budgets. As a portion of this gap-closing measure has been implemented, the potential savings have been reduced. The total number of positions impacted will not be known until the finalization of the school-based budgeting process, estimated to be on May 16, 2018.

Deficit Closing and Cost Savings Initiatives – Other Considerations & Grants
In addition to the deficit closing and cost reduction initiatives discussed above, the District has provided information related to other initiatives that are being pursued that could provide either additional revenues, cost savings or operational advantages. They are listed as speculative and do not include estimated savings. These items are summarized as follows:

1. Consolidation of funds: As reported last year, the District was exploring a different methodology for cash management of school-level spending to target the use of funds available to the District. The intent was to reduce the amount of available but unspent grant funds along with maximizing the use of available grants funds, thus reducing the reliance on the General Fund. The District is continuing with this initiative. The District is presently exploring a weighted student funding pilot project through the federal government. No cost-savings have been included for this gap-closing measure.

2. Lobbying efforts: The District has been successful in its lobbying efforts in recent years in securing additional NYS Aid in the form of "bullet-aid." The District is currently lobbying for an amendment in the manner that charter school supplemental aid is provided. This aid reimburses districts in the following year for the additional tuition funds forwarded to charter schools. The District is lobbying for this reimbursement to occur within the year the payment is made rather than as a prior year reimbursement. The enhanced revenue would be a one-time increase estimated at $9.5 million for FY 2018-19 with a smaller impact annually thereafter. This lobbying effort was unsuccessful this past June.

3. Additional revenue from the City of Buffalo: The City of Buffalo (City) increased its contribution to the District in FY 2017-18 by $0.5 million. The District will continue to request additional funding beyond this amount. The City of Buffalo's FY 2018-19 Adopted Budget did not include an increase in the City's contribution to the District.

   City and District staff are collaborating on possible efficiencies through consolidating procurement, pooling resources to jointly negotiate with Blue Cross/Blue Shield for health insurance, and other cost-saving measures. Both the City of Buffalo and the District are self-insured for health insurance. Pooling the procurement of health insurance could allow for lower administrative expenses associated with the implementation of the health insurance programs.

   The District is also meeting with several area charter schools to see if pooled procurement and/or healthcare purchasing is viable as an additional cost-saving measure.

4. Foundational Grants - The final category of gap-closing measures relates to revenue enhancement through grants through national foundations. The District has applied for $30.0 million to $35.0 million to be received over a five-year period from eight national foundations to support the Superintendent's New Education Bargain and provide other financial support. These funds are by nature speculative in that there is no guarantee that they will be approved or, if approved, at what funding level.

The District has demonstrated the ability to close the projected budgetary deficits in each out-year of the Financial Plan. This is accomplished largely through the ability of the District to continue to adhere to its plan in FY 2018-19, as any inability to incur budgetary savings and reduced costs or obtain additional revenues will create a larger budgetary deficit to be addressed the following year which would have a compounding effect over the Financial Plan.

Additionally, it is noted that total projected savings to be achieved through efficiencies will not fully address the revised baseline gap. Additional cost reductions may be required to the extent necessary as determined by the District during the annual budget process in the event additional revenues are not obtained. These necessary cost reductions include the reduction or elimination of programs intended to address the educational reform issues the District has faced over many years.

GENERAL FUND REVENUES

General Fund revenues total $897.4 million in the Adopted Budget. Total revenues are projected to increase through the out-years of the Financial Plan by a compounded annual growth factor of 2.05%. The total increase in revenues over the four years of the Financial Plan is $56.4 million, or 6.3%.

The following chart summarizes General Fund revenue as projected in the Financial Plan:

2019-2022 Financial Plan General Fund Revenues							
General Fund Revenues	2017-18 Adopted Budget	2018-19 Adopted Budget	2019-20 Outyear 1	2020-21 Outyear 2	2021-22 Outyear 3	$ Change from Year 1-4	% Change from Year 1-4
$ in Millions							
Real Property Tax	$70.8	$70.8	$70.8	$70.8	$70.8	$0.0	0.0%
Erie County Sales Tax	42.4	44.6	45.2	45.8	46.5	1.9	4.3%
State Aid (less Building Aid)	626.3	645.2	663.3	681.5	699.1	53.9	8.4%
State Building Aid	115.8	119.5	119.5	119.5	119.5	0.0	0.0%
All Other Revenue	16.9	17.3	17.6	17.8	17.9	0.6	3.5%
Total GF Revenue	$872.2	$897.4	$916.4	$935.4	$953.8	$56.4	6.3%
Fund Balance	22.0	19.0	10.0	0.0	0.0		
Total GF Revenue & Assigned Fund Balance	$894.2	$916.4	$926.4	$935.4	$953.8		

The projected year-to-year increase in General Fund revenues is consistent with recent historic actual revenue increases.

Real Property Taxes

The City forwards a portion of collected property tax revenues to the District for use for both general operations and annual debt payments. The amount budgeted by the City for FY 2018-19 is $70.8 million, which is carried throughout the Financial Plan. The City's contribution increased $0.5 million in FY 2017-18 for the first time since FY 2007-08. It is noted that the City may provide whatever contribution it deems necessary, but the level of effort must be maintained once the contribution for general operations has increased, unless there is a decrease in the total taxable assessed property value.

New York State Aid

The District receives revenues for its General Fund from several sources, most significantly through NYS Aid. The District is one of the "Big Four" NYS school districts which include the Buffalo City School District, the Rochester City School District, the Syracuse City School District, and the Yonkers City School District. These school districts are financially dependent on their respective city governments as they have no independent authority to levy taxes or issue bonds. The District is heavily dependent on NYS Aid which comprises 85.2% of the District's total budgeted revenues for FY 2018-19. NYS Aid as a percentage of total budgeted revenue is projected to grow to 85.8% in FY 2021-22. It is noted that NYS Aid has historically been the revenue with the highest annual rate of growth. NYS Aid as a percentage of total General Fund revenue has increased in each fiscal year since BFSA's inception at 74.5% of total General Fund revenues in FY 2003-04.

NYS Aid is a composite term utilized to combine a variety of different formula and expense-based aids, most significantly Foundation Aid, which uses objective criteria to target funds to school districts. Foundation Aid represents funds available for the general operations of the District. It is estimated to be $525.9 million in FY 2018-19 out of the total budgeted NYS Aid (excluding NYS Building Aid) of $645.2 million, or 81.5%. Foundation Aid is projected to increase by $48.7 million to $574.6 in FY 2021-22.

Total FY 2018-19 NYS Aid, excluding NYS Building Aid, is budgeted to increase by $18.9 million, or 3.0%, as compared to the FY 2017-18 Adopted Budget, although individual components of NYS Aid are budgeted to fluctuate.

New York State Building Aid

NYS Building Aid (Building Aid) is shown separately to delineate it from funds available for general operations. Building Aid is a reimbursement from NYS for capital projects and is directly correlated to the District's General Fund debt service payments. NYS reimburses the District approximately 94% of eligible capital improvement costs in the form of Building Aid. These funds are applied to the related principal and interest payment due on the outstanding bonds.

NYS Building Aid is budgeted at $119.5 million and is maintained at this amount over the Financial Plan based on anticipated debt service expenditures. Funding at this level represents a $3.7 million increase over the PFY.

Erie County Sales Tax

The fourth largest revenue source for the District is sales tax, which is budgeted at $44.6 million for FY 2018-19. Budgeting sales tax receipts at this level is deemed prudent given the 2017-18 projection of $43.4 million. This revenue is projected to increase $1.9 million, or 4.3%, over the course of the Financial Plan, representing an average annual increase of 1.1%.

The local funding structure for the District is different from the other Big 4 NYS school districts. The District receives a total of 9.1% (excluding NYS Building Aid) of its funding from the City property tax levy, which furthermore represents 52.4% of the total levy. In addition, the District receives a significant portion of the 3% base sales tax levied by Erie County. Of the other three Big 4 NYS school districts, only the Syracuse City School District receives any portion of county sales taxes receipts, budgeted at $0.6 million for FY 2018-19. Conversely, both the Syracuse and Rochester City School Districts receive a higher percentage of their host municipalities' property tax levy at approximately 65.5% and 68.3%, respectively, of the total levy and is equal to 14.4% and 17.2%, respectively, of total budgeted revenues excluding Building Aid.

All Other Revenue

All Other Revenue combined totals $17.3 million in the Adopted Budget, or 1.9% of total General Fund revenues. These amounts increase $0.6 million, or 3.5%, over the Financial Plan. This category includes investment earnings, tuition received, interfund transfers, reimbursements from prior fiscal year expenditures, and federal Medicaid reimbursements.

All Other Revenues are $0.4 million, or 2.4%, higher in the Adopted Budget compared to the FY 2017-18 Adopted Budget. These revenues are budgeted at a higher level than the prior fiscal year primarily as tuition received from other school districts, interest earned, interfund revenues, and the federal Medicaid reimbursement are assumed to have a 1% inflationary factor from the prior fiscal year.

GENERAL FUND EXPENDITURES

General Fund expenditures total $916.4 million in the Adopted Budget. Expenditures are projected to total $977.0 million in FY 2021-22, an increase of $60.6 million, or 6.6%, over the course of the Financial Plan. The compounded annual growth factor over this period is 2.11%.

The projected year-to-year increase in General Fund expenditures represents an average annual increase consistent with historical actuals when excluding the District's debt service payments and pension payments.

Expenditures are projected to increase at a rate which is slightly greater than the rate of increase for revenues in the first three fiscal years of the Financial Plan. The operating gap expands in each of these three years until FY 2021-22 when the rate of increase for revenues is projected to exceed that of expenditures. Since current expenditures exceed current revenues, and the rate of growth of revenues is lesser than the projected rate of growth of expenditures, a structural imbalance continues to be reported for each year of the Financial Plan.

General Fund expenditures are examined here in six discrete subcategories: Employee Compensation, Employee Benefits, Charter School Payments, Debt Service, Transportation, and All Other Expenditures.

The following chart summarizes General Fund expenditures by these six subcategories as projected in the Financial Plan:

2019-2022 Financial Plan General Fund Expenditures

General Fund Expenditures Categories	2017-18 Adopted Budget	2018-19 Adopted Budget	2019-20 Outyear 1	2020-21 Outyear 2	2021-22 Outyear 3	$ Change from Year 1-4	% Change from Year 1-4
$ in Millions							
Employee Compensation	$300.0	$312.8	$315.4	$318.5	$321.9	$9.1	2.9%
Employee Benefits	192.0	198.1	205.6	213.0	220.6	22.5	11.4%
Debt Service	113.7	113.6	113.0	112.7	109.2	(4.4)	-3.9%
Charter School Payments	123.8	129.6	136.7	147.4	153.8	24.2	18.7%
Transportation	48.5	51.3	52.7	54.0	55.4	4.1	7.9%
All Other Expenditures	116.1	111.0	112.5	114.8	116.1	5.1	4.6%
Total	**$894.1**	**$916.4**	**$935.9**	**$960.4**	**$977.0**	**$60.6**	**6.6%**

Employee Compensation

Employee Compensation is the largest expenditure category of the District at 34.1% of total General Fund expenditures. Total General Fund expenditures for Employee Compensation is budgeted at $312.8 million in the Adopted Budget and increases $9.1 million, or 2.9%, to $321.9 million over the course of the Financial Plan. Employee Compensation includes salaries and wages for District employees.

Employee Compensation includes the salary and wages for District employees including the following groups/categories:

- The Buffalo Teachers' Federation
- The Substitutes United of Buffalo
- The Buffalo Council of Supervisors and Administrators
- The Professional, Clerical, and Technical Employees' Association (PCTEA or white-collar)
- The Buffalo Educational Support Team (BEST) including teacher aides who are non-certified and teaching assistants who are certified
- The Transportation Aides of Buffalo (TAB or bus aides)
- Skilled Trades (trades)
- Local 264 members (blue-collar)
- Local 409 members (engineers)
- Miscellaneous Compensation Items and Overtime.

The following chart compares General Fund Employee Compensation expenditures in the Adopted Budget and the three out-years of the Financial Plan. Staffing information is also depicted to show how budgeted FTE positions in the General Fund have changed. The individual staffing positions may be impacted based on the final school-based budgets which will included reductions in staffing positions.

General Fund	FY 2017-18 (Adopted Budget)	FY 2018-19 (Adopted Budget)	FY 2019-20 (Outyear 1)	FY 2020-21 (Outyear 2)	FY 2021-22 (Outyear 3)
			$ in Millions		
BTF	$218.3	$225.7	$227.3	$229.4	$231.6
# of FTEs	**3,174**	**3,136**	**3,113**	**3,092**	**3,076**
Substitutes*	$6.7	$7.0	$7.0	$7.0	$7.0
BCSA	$20.0	$24.2	$24.6	$24.9	$25.3
# of FTEs	**207**	**217**	**215**	**215**	**215**
PCTEA	$17.9	$17.6	$17.9	$18.2	$18.4
# of FTEs	**378**	**371**	**373**	**373**	**373**
BEST	$16.2	$17.2	$17.2	$17.4	$17.7
# of FTEs	**762**	**786**	**778**	**778**	**778**
TAB*	$5.5	$5.4	$5.5	$5.6	$5.7
Trades	$3.2	$3.3	$3.4	$3.5	$3.6
# of FTEs	**33**	**33**	**33**	**33**	**33**
Local 264 (Blue-Collar)	$2.6	$2.5	$2.6	$2.6	$2.7
# of FTEs	**68**	**65**	**65**	**65**	**65**
Local 409 (Engineers)	$3.7	$3.3	$3.3	$3.3	$3.3
# of FTEs	**58**	**56**	**56**	**56**	**56**
Exempt Employees	$3.9	$4.4	$4.4	$4.4	$4.4
# of FTEs	**32**	**35**	**35**	**35**	**35**
Board Members*	$0.0	$0.1	$0.1	$0.1	$0.1
# of FTEs	**9**	**9**	**9**	**9**	**9**
Total # of FTEs	**4,721**	**4,708**	**4,677**	**4,656**	**4,640**
Miscellaneous Items	$0.4	$0.4	$0.4	$0.4	$0.4
Overtime	$1.6	$1.7	$1.7	$1.7	$1.7
TOTAL EMPLOYEE COMPENSATION	$300.0	$312.8	$315.4	$318.5	$321.9
*** The District does not provide FTE estimates for hourly, part-time positions.**					
***Board members receive a $5,000 annual stipend.**					

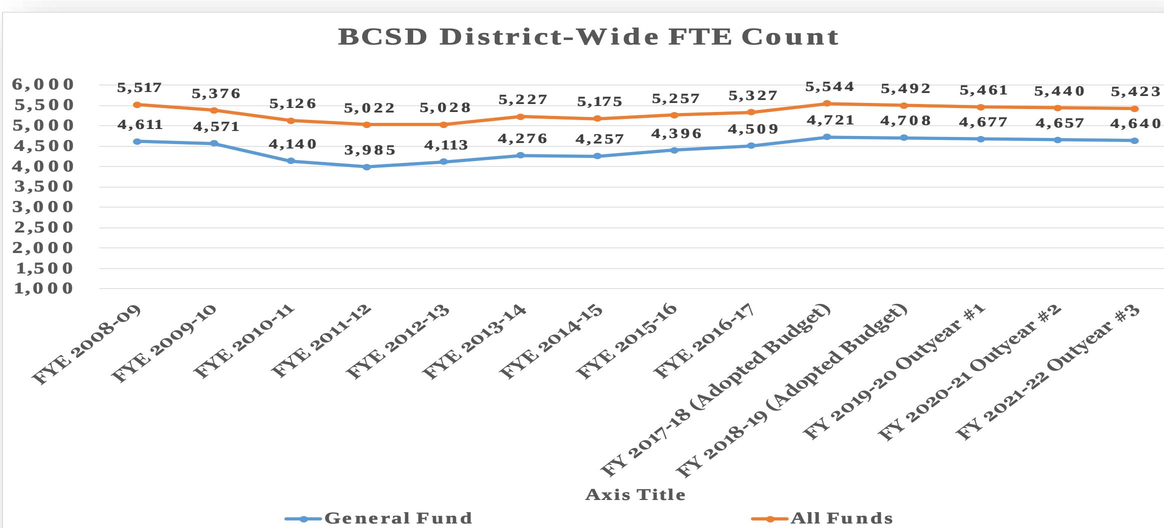
The decreased number of budgeted positions on a General Fund and an All Funds basis discontinues a six-year trend. Total FTEs at FYE 2011-12 were 3,985 FTEs in the General Fund basis and 5,022 FTEs District-wide. The District has included a staffing plan which includes a reduction of FTEs to 4,640 FTEs on a General Fund basis and 5,423 FTEs on an All Funds basis by FY 2021-22.

The District's staffing plan includes the reduction of 60 Teacher FTEs over the four-years of the Financial Plan. The Financial Plan assumes a flat population of public school students in the City of Buffalo with District students declining from 33,250 in FY 2018-19 to an estimated 32,319 by FY 2021-22. The overall number of public school students is projected to be 42,500 in each year of the Financial Plan as the number of Buffalo resident pupils enrolled in area charter schools is projected to increase in an amount equal to the decline in District students.

The Financial Plan incorporates the reduction of 6.5 FTE teaching positions for every 100 students that leave the District. This projection assumes that District enrollment will decline as charter school enrollment increases. In recent years District enrollment has been relatively flat while charter school enrollment has grown. The growth assumption for charter schools is based on the assumption that existing charter schools will continue to expand seating capacity as well as the addition of two new charter schools opening in FY 2018-19. This is a change in District policy from prior years, in which a reduction of Teachers was not contemplated as part of the fiscal planning process as it was argued that the student population entering charter schools was too diffuse across the District to allow for an adjustment in teaching positions. The impact on the Financial Plan is a reduction of 60 positions over the Financial Plan at an annual savings of $1.6 million to $1.2 million, for a cumulative impact of $4.3 million.

On a District-wide basis, total budgeted FTEs decrease from 5,544 FTEs in the FY 2017-18 Adopted Budget to 5,484 FTEs in the 2018-19 Adopted Budget.

The following depicts overall staffing levels on a General Fund and All Funds basis:



BTF Compensation

The largest area of employee compensation is for Teachers. It is the largest employee group for the District, representing 3,136, or 66.6%, of the total 4,708 budgeted FTE positions in the General Fund. General Fund expenditures for Teacher compensation are budgeted at $225.7 million in the Adopted Budget and increase to $231.6 million, an increase of $5.9 million, or 2.6%, through the fourth year of the Financial Plan. The salary increase in FY 2018-19 is 4.5% and is based on the contractual salary increases associated with the settled collective bargaining agreement, as well as annual step increases entitled to the members of the BTF under the terms of the current labor contract, less natural attrition of the current workforce. A 1.5% salary increase is assumed in the three out-years and reflects the estimate of the net increase in costs for settling the labor contract, as the current labor contract expires on June 30, 2019. Budgeted expenditures for Teacher compensation have been reduced to reflect the decrease in the number of Teacher positions budgeted.

BCSA Compensation

The BCSA represents the District's unionized Administrators. Members of the BCSA represent 217 of the total 4,708 budgeted FTEs, or 4.6% of the workforce. Budgeted positions are held flat at 215 FTEs in each out-year of the Financial Plan.

General Fund expenditures for BCSA compensation are budgeted at $24.2 million in the Adopted Budget and increase by $1.1 million, or 4.5%, to $25.3 million by the fourth year of the Financial Plan. The increase in BCSA compensation is based on projected annual salary increases of 2.5% and 2.75% per the terms of the current CBA, as well as on annual step increases, less natural attrition of the workforce. Annual salary increases of 1.5% are projected in the final two fiscal years of the Financial Plan and reflects the estimate of the net increase in costs for settling the labor contract. The labor agreement expires September 1, 2020.

PCTEA Compensation

PCTEA represents the white-collar employees of the District. Members of PCTEA represent 371 of the total 4,708 FTEs, or 7.9% of the workforce. Budgeted positions are held flat at this level in each year of the Financial Plan.

Personnel costs total $17.6 million in the Adopted Budget and increases $0.8 million, or 4.6%, to $18.4 million over the Financial Plan. An increase of 1.5% is projected in salary increases and reflects the estimate of the net increase in costs for settling the labor contract as the overall number of employees is budgeted at a consistent level in each year of the Financial Plan and the labor agreement expired June 30, 2013.

BEST Compensation

BEST represents both Teachers' Aides (non-certified) and Teaching Assistants (certified by NYS) of the District. Members of BEST represent 786 of the total 4,708 FTEs, or 16.7% of the workforce. Budgeted positions are held flat at this level in each year of the Financial Plan.

Personnel costs total $17.2 million in the Adopted Budget and increase $0.5 million, or 2.9%, over the Financial Plan and reflect the estimate of the net increase in costs for settling the labor contract. The labor agreement with BEST expired June 30, 2012.

Local 264 (Blue-Collar) Compensation

Local 264 represents the blue-collar employees of the District. The blue-collar employees represent 65 of the total 4,708 FTEs, or 1.4% of the workforce. Budgeted positions are held flat at this level in each year of the Financial Plan.

Personnel costs total $2.5 million in the Adopted Budget and increase $0.2 million, or 8.0%, to $2.7 million over the four years of the Financial Plan. An increase of 1.5% is projected in salary increases and reflects the estimate of the net increase in costs for settling the labor contract as the overall number of employees is budgeted at a consistent level in each year of the Financial Plan and the labor agreement expired June 30, 2013.

S/UB, TAB, Trades, Local 409 Operating Engineers, Exempts, Board Member Compensation, Miscellaneous Compensation, and Overtime

All Other Employee Compensation expenditures include salary and wages for substitute Teachers, bus aides, trades, operating engineers, and exempt employees. Board member stipends as well as overtime and other miscellaneous forms of compensation are included within these expenditures as well. The members of TAB are operating under a labor agreement that expires June 30, 2018 while the engineers are operating under a labor agreement that expired on June 30, 2010. Board members are elected officials and receive a $5,000 annual stipend. Trades employees receive annual salary increases as determined by local prevailing wage laws.

Substitute teachers are operating under a collective bargaining agreement that expires June 30, 2019. Salary is projected to be flat in each fiscal year of the Financial Plan

Exempt employees are workers who are not represented by any collective bargaining unit and are contracted individually, typically for 24 or 36-month terms. Exempt employees received raises effective January 1, 2018, and will receive a second raise effective July 1, 2018.

Miscellaneous Compensation items include non-instructional sick leave replacement and grievance awards. These expenditures are held flat in each of the four years of the Financial Plan at $0.4 million.

Overtime includes compensation to hourly employees who work beyond the regular work week and is budgeted at $1.7 million annually in the Financial Plan.

The combined expenditures for All Other Employee Compensation categories are proposed at $25.6 million and increase $0.5 million, or 2.0%, over the Financial Plan. The increases are based on (1) an increase of 1.5% in projected salary increases for bus aides based on annual step increases less natural attrition of the workforce as the overall number of employees is budgeted at a consistent level in each year of the Financial Plan and the labor agreement expires June 30, 2018 and, (2) annual increases of 2.55% for members of trades based on the requirements of local prevailing wage laws.

The following chart provides a snapshot of the various employee groups, average FY 2018-19 salary and fringe benefits, and date of contract expiration:

Average Employee Salary & Total Compensation/Contract Status				
FY 2018-19 Employee Summary (Adopted Budget)				
Employee Group	FTEs	Average Salary	Average Total Compensation (FICA, Pension, Health Insurance, Supplemental Benefits)	Contract Expiration Date
	#	$		
BTF (Teachers)	3,136	71,971	96,727	6/30/2019
BCSA (Administrators)	217	111,521	146,102	9/1/2019
PCTEA (White-Collar)	371	47,439	69,704	6/30/2013
BEST	786	21,883	40,460	6/30/2012
Trades	33	100,000	121,450	Prevailing Wage
TAB (Bus Aides: Part-Time)	350	15,429	16,609	6/30/2018
S/UB (Substitutes: Part-Time)	650	10,769	11,593	6/30/2019
Local 264 (Blue-Collar)	68	36,765	56,508	6/30/2013
Local 409 (Engineers)	58	56,897	83,970	6/30/2010
Exempt	32	137,500	171,129	Current or Expired
Board Members	9	5,000	5,383	N/A

Employee Benefits

Employee Benefits is the second largest expenditure category at 21.6% of total General Fund expenditures and includes the cost to the District for all non-salary/wage-related benefits for employees such as the pension expenditures, healthcare and employer payroll taxes. The District has included $198.1 million for Employee Benefits in the Adopted Budget. These expenditures increase by $22.5 million, or 11.4%, to $220.6 million over the Financial Plan.

Employee Benefits include payments for:

- The pension expense under the NYSTRS and NYSERS
- The employer portion of the payroll tax
- Health insurance for current and retired employees
- Termination Pay and other miscellaneous benefits

The following chart summarizes General Fund employee benefit expenditures in the Financial Plan as compared to the FY 2017-18 Adopted Budget.

General Fund Expenditures	2017-18 Adopted Budget	2018-19 Adopted Budget	2019-20 Outyear 1	2020-21 Outyear 2	2021-22 Outyear 3	$ Change from Year 1-4	% Change from Year 1-4
Employee Benefits			$ In Millions				
Civil Service Retirement	6.3	5.7	5.5	5.4	5.3	(0.4)	-7.8%
Teachers Retirement	24.1	27.5	28.4	28.7	29.0	1.5	5.4%
Social Security	22.9	24.2	24.2	24.4	24.7	0.5	1.9%
Health Insurance (Active Employees)	53.5	54.6	57.7	60.1	62.7	8.1	14.9%
Health Insurance (Retired Employees)	68.1	69.1	72.5	76.9	81.6	12.5	18.1%
Termination Pay	4.4	3.6	3.6	3.7	3.7	0.1	2.8%
Other Benefits	12.8	13.4	13.7	13.8	13.6	0.2	1.5%
Total Employee Benefits	**192.0**	**198.1**	**205.6**	**213.0**	**220.6**	**22.5**	**11.4%**

New York State Pension

General Fund expenditures for NYSERS and the NYSTRS are budgeted at a combined amount of $33.2 million in the Adopted Budget and increase by $1.1 million to a combined $34.3 million over the course of the Financial Plan. The District's FY 2018-19 rate for NYSTRS is 9.8%; the effective FY 2018-19 rate for NYSERS is 14.8%. The District has conservatively held the NYSTRS employer contribution rate flat at the 2018-19 rate as the FY 2018-19 rate increased over what had been projected based on an actuarial assumption change. The NYSERS rate is projected to decrease to an effective rate of 13.38% over the Financial Plan.

The District payment to the retirement systems is a function of the applicable contribution rates and the annual salaries of the employees. The overall increase in total pension payments is based on the increase in employee compensation and curbed somewhat by a declining employer contribution rate for NYSERS payments. As with employee compensation costs, the costs for pension contributions would be impacted by settled labor contracts.

Payroll Taxes

The District's employer portion for payroll taxes remains at 7.65% of budgeted Employee Compensation over the four years of the Financial Plan. It is budgeted at $24.2 million in FY 2018-19 and increases $0.5 million, or 1.9%, to $24.7 million by the fourth year of the Financial Plan. This increase is consistent with the static tax rates as well as the modest increase in employee compensation costs.

Active/Retiree Health Insurance

Health insurance for active employees is one of several major General Fund expenditures for the District and is budgeted at $54.6 million in the Adopted Budget, which represents a $1.1 million, or 2%, increase from the 2017-18 Adopted Budget. The rate of increase has been budgeted in part due to the healthcare concessions included within the BTF's labor contract as active employees contribute a fixed amount toward the cost of health insurance. Additionally, the rate of increase in premium costs has diminished. The total number of employees budgeted to receive healthcare benefits additionally has decreased.

The cost for health insurance for active employees increases $8.1 million, or 14.9%, over the course of the Financial Plan. The average cost for the District to provide a health insurance policy for an employee is projected to be $13,800 in FY 2018-19 and projected to increase by 4.5% in each FY of the Financial Plan to $15,748 in FY 2021-22. The rate of increase in these expenditures has historically been higher; it is noted that healthcare expenditures are projected to increase at a rate that is exceeded only by the projected rate of increase in healthcare expenditures for retirees and the rate of increase in charter school payments (excluding expenditures budgeted at less than $10.0 million).

A participation rate of 91.7% is assumed for all union and exempt employees.

Beginning in FY 2016-17, Teachers were required to contribute towards the cost of their health insurance premium. The effective contribution amount per Teacher is budgeted at $1,100 per employee. These contributions reduce the budgeted FY 2018-19 expenditure by $3.5 million.

Similarly, in FY 2017-18, Administrators were required to contribute towards the cost of their health insurance premium. The overall expenditure in the Adopted Budget has been reduced by $0.2 million to reflect these contributions.

Premium contributions by exempt employees, members of PCTEA and Local 264 are projected to be $0.5 million in FY 2018-19. Healthcare initiatives implemented in FY 2018-19 are projected to allow for $0.5 million in additional savings. The Adopted Budget reflects these contributions and initiatives.

The cost of health insurance for retired employees is also a major General Fund expenditure. Retiree health insurance is budgeted at $69.1 million in the Adopted Budget. The expenditure increases $12.5 million, or 18.1%, to $81.6 million by the fourth year of the Financial Plan. Excluding payments to charter schools, the projected rate of increase for this expenditure exceeds the projected rate of increase for all other General Fund expenditures (excluding expenditures budgeted at less than $10.0 million). This increase is consistent with the established contribution rates as well as the projected increase in the number of retirees receiving health insurance from 4,558 to 4,858.

Beginning in 2015, the District contacted qualified retirees receiving retiree health benefits to offer an incentive to forego the costlier traditional plan for a Forever Blue Medicare Advantage Plan. The cost of this plan is significantly less than most of the District’s traditional plans for an average savings of $2,100 per member. The number of enrollees currently enrolled in the Forever Blue Medicare Advantage Plan is approximately 1,058. The option to enroll in the Forever Blue Medicare Advantage Plan has allowed the District to curb the rate of growth in retiree health insurance expenditures.

The FY 2017-18 Adopted Budget assumed an average premium cost of $15,706 per retiree. The Adopted Budget assumes a slightly lower average premium cost of $15,600 for retirees. The average cost of the premium increases $1,948, or 12.5%, over the course of the Financial Plan, and assumes an annual net increase of 100 new retirees annually. Actual retirees receiving District healthcare are 4,458. The District has included 4,458 retiree participants in the Adopted Budget, growing to 4,858 retiree participants by FY 2021-22. The projections are deemed reasonable as the District projects the number of new retirees conservatively; actual new retirees tend to be somewhat less than projected.

Termination Pay and All Other Fringe Benefits

Termination Pay and All Other Fringe Benefits total a combined $17.0 million in the Adopted Budget. Termination Pay is projected to increase $0.1 million over the Financial Plan based on the actual number of employees eligible to retire, their estimated termination pay benefit, and the percentage expected to retire based on trend date. Termination Pay includes compensation to newly retired individuals or eligible terminated individuals for unused paid leave was well as payouts for early retirement incentives.

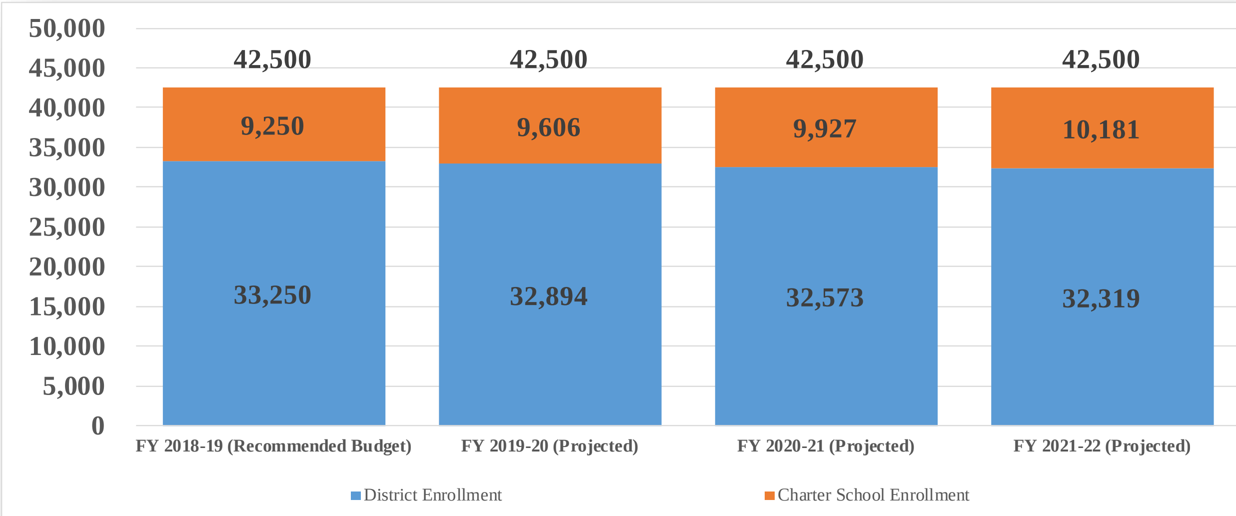
All Other Fringe Benefits include supplemental benefits, workers' compensation costs, unemployment, and other minor fringe benefit costs. These expenditures are projected to increase $0.2 million over the Financial Plan with slight increases in Supplemental Benefits, per the various collective bargaining agreements.

Payments to Charter Schools

In FY 2016-17, payments to charter schools were the fifth largest expenditure category for the District. These expenditures grew and continue to grow at a rate that exceeds that of every other expenditure category and is now the third largest at 14.1% of total General Fund expenditures.

Payments to Charter Schools include the funds the District forwards to area charter schools based on the number of students enrolled in charter schools at a rate established by the NYS. Payments to charter school are budgeted at $129.6 million in the Adopted Budget and increases $24.2 million to $153.8 million over the course of the Financial Plan. The increase is driven by both an increase in estimated pupils from 9,250 to 10,181. The budgeted charter school tuition per pupil is expected to be $14,007 and increase to $14,443 by FY 2021-22. The increase in the tuition rate is reimbursable to the District in the following year in the form of Supplemental Charter Tuition Reimbursement.

The following chart depicts projected enrollment in Buffalo public schools, both District and charter:



The District is projecting a declining enrollment within District schools while projecting an increase of 931 (10.0%) charter school students over the Financial Plan. The sizable increase in expected area charter school enrollment has been projected based on the expansion plans of existing charter schools as they add grade levels to meet their chartered plan as well as the opening to two new schools in FY 2018-19: The Persistence Preparatory Charter School and the Buffalo Collegiate Charter School.

Debt Service

Debt Service payments are the fourth largest expenditure category at 12.4% of total General Fund expenditures. Debt Service includes the annual principal and interest payments that the District pays on its outstanding bonds. Debt Service expenditures are budgeted for FY 2018-19 at $113.6 million, and decrease $4.4 million, or 3.9%, to $109.2 million over the four years of the Financial Plan. As noted earlier, the annual amount of annual Debt Service expenditures is directly correlated to the annual amount of NYS Building Aid received, although it is noted that NYS uses an assumed debt service amortization schedule in calculating the annual NYS Building Aid. NYS Building Aid is budgeted at $119.5 million in each year of the Financial Plan. Debt Service includes the scheduled principal and interest payments on borrowings for capital improvements including work associated with the JSCB project.

Transportation

Transportation expenditures constitute 5.6% of the District’s total Adopted Budget and are the sixth largest General Fund expenditure category. Transportation expenditures total $51.3 million in the Adopted Budget. Transportation expenditures increase $4.1 million, or 7.9%, to $55.4 million over the four years of the Financial Plan.

Transportation Aid is received by the District at a rate of approximately 86% of the prior years' expenditures. Qualified expenditures for reimbursement include, but are not limited to, supplies and materials, insurance, salary and fringe benefits for bus aides providing services to students with disabilities if the aid was required by the student's Individual Educational Plan, etcetera.

Overall, the expenditure is projected to increase based on the increased bussing services provided by the District for four additional charter schools, increased school activities such as extended learning time, evening access to school facilities, etcetera.

The District utilizes both private and public carriers for pupil transportation. The District approved a transportation contract with First Student, a private carrier, in FY 2014-15 that extends through the fiscal year ending 2020. Additionally, the District 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. The contracts provide transportation for Buffalo resident pupils in public schools including District schools and area charter schools, non-public students, and agency and foster students.

All Other General Fund Expenditures

All Other Expenditures is the final expenditure subcategory and is a composite category that includes all General Fund expenditures other than those described above. It constitutes 12.1% of total General Fund expenditures including: tuition, contracts, textbooks and supplies, repairs and maintenance, and a contingency reserve.

The following chart summarizes All Other Expenditures as contained in the Financial Plan and includes for comparison purposes the FY 2017-18 Adopted Budget:

General Fund Expenditures	2017-18 Adopted Budget	2018-19 Adopted Budget	2019-20 Outyear 1	2020-21 Outyear 2	2021-22 Outyear 3	$ Change from Year 1-4	% Change from Year 1-4
All Other Expenditures	$ In Millions						
Utilities	9.4	8.9	9.1	9.2	9.4	0.5	6.1%
Tuition	33.3	33.4	33.7	34.1	34.4	1.0	3.0%
Contacts - Custodian	18.8	18.7	18.4	18.4	18.4	(0.3)	-1.6%
Equipment	1.6	1.8	1.8	1.8	1.8	0.0	0.0%
Contracts - Misc. & Contingency	20.3	21.1	21.1	21.1	21.1	0.0	0.0%
Reserve for Contingency	6.4	0.9	1.4	1.9	2.4	1.5	174.4%
Rental Contracts	6.5	6.7	6.7	7.8	8.1	1.4	20.9%
Repairs & Maintenance	3.8	3.3	3.3	3.4	3.4	0.1	3.0%
Textbooks	3.0	2.5	2.7	2.8	2.8	0.3	12.0%
Supplies and Misc. Related Items	9.9	10.7	10.8	10.9	11.0	0.3	2.9%
Interfund Transfers	3.2	3.0	3.3	3.3	3.3	0.3	10.0%
Total Other Expenditures	**116.1**	**111.0**	**112.5**	**114.8**	**116.1**	**5.1**	**4.6%**

All Other Expenditures are budgeted at $111.0 million and increase $5.1 million, or 4.6%, to $116.1 million over the course of the Financial Plan.

Utilities

Utilities expenditures total $8.9 million in the Adopted Budget and is projected to increase by $0.5 million, or 6.1%, to $9.4 million over the four years of the Financial Plan based on an inflationary factor of 2.0%.

Reserve for Contingency
The Reserve for Contingency expenditure was created in FY 2011-12. It is not a specific expenditure and was established as a contingency to cover revenue reductions and/or expenditure increases which occur after a budget's adoption.
The Adopted Budget Reserve for Contingency totals $0.9 million and increases $0.5 million each fiscal year in the Financial Plan to $2.4 million in FY 2021-22. The District plans to increase this expenditure during the fiscal year through budgetary transfers if savings from vacant positions are realized.

Tuition
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 Adopted Budget includes $33.4 million in Tuition expenditures of which $31.0 million, or 93.0%, relate to Agency instruction, representing agencies that educate students with special needs. An additional $1.5 million is budgeted for foster and resident student tuition. The remaining $0.9 million are budgeted for Career and Technical Education college credit, DaVinci tuition at D'Youville College, Early Middle College at Buffalo State, and Early Middle College at Erie Community College.

The District has budgeted a 1.0 % growth rate for this expenditure. It is projected to increase by $1.0 million, or 3.0% to $34.4 million over the Financial Plan based on projected enrollment and rates established by NYS.

Miscellaneous General Fund Expenditures
Miscellaneous General Fund expenditures include: contracts, equipment, rental contracts, repairs and maintenance, textbooks, supplies, and interfund transfers. These expenditures total $68.0 million in the Adopted Budget. They are projected to increase by $1.9 million, or 2.8%, to $69.9 million over the Financial Plan.

Miscellaneous General Fund expenditures includes custodial contracts, budgeted at $18.7 million in FY 2018-19. This amount is flat at $18.4 million over the three out-years of the Financial Plan.

The BCSD is unique in its custodial contracts in that Operating Engineers receive lump sums of money based on the size of the building they maintain and other factors as established by the collective bargaining agreement to perform school custodial duties. These duties are carried out in part by custodians who are employees of the engineers, not the District.

OTHER POSTEMPLOYMENT BENEFITS

The District has significant accrued liabilities for post-retirement healthcare. NYS law does not currently authorize a governmental trust that entities could voluntarily contribute into to fully fund these long-term liabilities. The District provides OPEB benefits on a "pay-as-you-go" basis and may only assign fund balance for future OPEB costs, rather than into an actual trust fund dedicated for this liability. Such a designation is not binding as assigned fund balance may be reallocated by District management.

As of June 30, 2017, the District had $45.1 million of fund balance assigned for OPEB. As of the last actuarial valuation report dated June 30, 2017, the total OPEB liability was $2.5 billion. Normal Cost was estimated at $82.9 million. This is a significant reduction from the estimate of the total OPEB liability at June 30, 2016 of $2.85 billion and related Normal Cost of $102.4 million.

The total OPEB liability estimate has decreased based on several changed assumptions including: a change in the actuarial cost method from the projected unit credit method to the entry age normal level percent of salary method, an increased discount rate from 2.92% to 3.56%, and updated termination, retirement, salary scale, and disability assumptions.

FOOD SERVICE FUND

The District provides breakfast, lunch, and afterschool dinner to all District students as well as seven Buffalo charter schools, three non-public schools, and two out-of-District charter schools. The program is administered through the District's Food Service Fund.

The Food Service Fund totals $38.0 million in the Adopted Budget, an increase of $2.2 million, or 6.1%, from the FY 2017-18 Adopted Budget. This increase is attributed to an increase of $1.1 million in employee compensation expenditures based on step increases, longevity payments, and incentives, an increase of $0.3 million for employee benefits, and a $0.8 million increase in all the food supplies necessary to operate the various cafeterias and the central commissary.

The District drew down fund balance assigned for capital improvements in FY 2015-16, FY 2016-17, and FY 2017-18 for a building improvement and expansion project. This capital work continues in FY 2018-19 as $3.0 million in fund balance assigned for capital improvements is appropriated for continued building improvements and expansion of the District's central commissary.

Food Service assigned fund balance totaled $27.0 million at June 30, 2017. It is projected to total $22.0 million at June 30, 2018 and $14.0 million at June 30, 2022, as $13.0 million of assigned fund balance is appropriated for $3.3 million in the capital improvements as previously noted, $1.0 million is appropriated for reoccurring capital work, and $9.7 million in appropriated to close projected operating deficits in each of the four fiscal years of the Financial Plan.

SPECIAL PROJECTS FUND

The Special Projects Fund includes grants from a variety of sources, though most are from either the Federal government or the NYS government. The Adopted Budget for the Special Projects fund totals $116.5 million. This is projected at a static level in each of the four years of the Financial Plan.

No deficits are projected in any of the years of the Financial Plan. The fund is largely self-sufficient; if anticipated grant applications are either rejected, reduced, or require resubmission, mandated expenditures are funded via the General Fund.

CONCLUSIONS & RECOMMENDATIONS

The following is a summary of the conclusions reached in conjunction with the review of the District's FY 2018-19 Adopted Budget and 2019-2022 Financial Plan:

1. The Financial Plan is developed using consistent underlying key assumptions as used in development of the Adopted Budget, adjusted for known or estimated increases or decreases. Furthermore, the Financial Plan is an update of the plan submitted last year with information included on changes in estimates from last year. This approach differs from submissions in past years.

2. The District's Financial Plan includes $3,703.0 million in estimated revenues and $3,789.7 million in estimated expenditures, leaving an initial budgetary gap of $86.7 million. The District has projected to use $29.0 million in fund balance in the first two fiscal years of the Financial Plan. The final two out-years of the Financial Plan contain projected budgetary gaps which are closed solely through the implementation of various gap-closing measures.

   The remaining budgetary gap of $57.7 million must be addressed through various gap-closing measures. The District has updated its list of deficit closing and cost savings initiatives to address the remaining budget gaps. Several of the cost reductions listed previously have been realized in the Adopted Budget including: a reduction of a non-mandated program, reductions to the school-based budgets in the amount of $3.6 million, and the creation of a vacancy contingency. Additional efficiencies and savings that are planned or in process and other cost reductions may become necessary.

   On a combined basis, the deficit closing and cost savings initiatives are estimated to achieve $72.7 million of additional revenues, savings, and cost reductions. There is no intent to implement all the initiatives, and the listing is intended to demonstrate a viable methodology to close the outstanding projected budget gaps. The ability of the District to balance its Financial Plan is heavily reliant on the District's ability to generate results based on actions having occurred in 2017-18 and to occur in 2018-19. It is noted the District could use additional fund balance in future years, but the District continues with the intent to be operationally balanced by 2020-21.

In the event the District does not receive adequate additional revenues in the future, it is highly likely the District will need to consider further cost reduction measures that include the reduction or elimination of programs intended to address the educational reform issues facing the District and will impact student achievement negatively as these actions include items such as reducing the number of instructional positions and reducing or eliminating non-mandated programs. The Financial Plan depicts out-year deficits that would require a 100% realization of all other revenue and fund balance items as well as all savings to the achieved through efficiencies. Other cost reductions would need to be implemented increasingly in each out-year to close the budgetary gaps as projected.

The Superintendent's New Education Bargain is at risk as a smaller class size is a key component of this program.

3. Over the Financial Plan, a total of $11.7 million of assigned fund balance and $17.3 million of unassigned fund balance is allocated towards closing the proposed budgetary gaps for a total of $29.0 million. Unassigned fund balance in excess of the Board's 4% retainage policy is projected to be $19.3 million at June 30, 2022.

   Fund balance that is classified as nonspendable or restricted is unavailable for use in balancing the budget. Assigned fund balance represents set-asides for specific purposes including other postemployment benefits, prior years' claims and capital improvements. District management can reallocate the intended use of these sources of funds although it would be financially imprudent to use set-asides for balancing the budget beyond the level of fund balance already represented in the Financial Plan. Total assigned fund balance that is not earmarked for use over the Financial Plan is approximately $53.4 million.

4. The District will be out-of-contract with its largest union, the BTF, on July 1, 2019. The CBA with the Substitutes expires July 1, 2019 as well. The CBA with BCSA expires September 1, 2020. The CBA with TAB expires June 30, 2018. All other employee groups funded through the General Fund are operating under expired labor agreements. The District has provided for estimated net increased costs for the future settlement of contracts within salaries, has maintained $9.0 million in fund balance, and has budgeted a contract settlement contingency of $1.5 million in 2018-19 which increases by $500,000 annually over the Financial Plan. The District has included in its deficit closing measures the elimination of the contract settlement contingency which would affect the ability of the District to negotiate.