BUFFALO FISCAL STABILITY AUTHORITY

Overview of the Buffalo Municipal Housing Authority's FY 2018-19 Adopted Budget & FY 2019-22 Financial Plan

Introduction

The Buffalo Municipal Housing Authority (BMHA) has submitted its fiscal year (FY) 2018-19 Adopted Budget (Adopted Budget) and FY 2019-2022 Financial Plan (Financial Plan) to the Buffalo Fiscal Stability Authority (BFSA). The Adopted Budget and Financial Plan were approved by the Board of Commissioners on April 19, 2018.

The Financial Plan includes the individual financial plans for the seventeen Asset Management Programs (AMPs), the Central Office Cost Center (COCC), the Marine Drive Apartments, and the U.S. Housing and Urban Development (HUD) Section 8 voucher program (Section 8). Theses individual financial plans are consolidated into the Financial Plan.

Financial Plan Summary

The following are the highlights of the Adopted Budget and Financial Plan.

FY 2019-2022 Financial Plan Summary							
	Final	Budget	Financial Plan				
	FYE 2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Totals
$ in Millions							
Total Operating Revenues	$42.7	$42.8	$44.6	$45.2	$45.6	$46.2	$181.6
Total Operating Expenses	43.1	44.6	45.4	45.8	46.1	46.5	183.8
Net Operating Income before Debt Service	($0.4)	(1.8)	(0.8)	(0.6)	(0.5)	(0.3)	(2.2)
Net Income reduced for debt service	($1.9)	(3.0)	(2.2)	(2.0)	(1.9)	(1.7)	(7.8)
Cash Impact (remove OPEB Normal)	($0.4)	(1.6)	(1.2)	(1.0)	(0.9)	(0.7)	(3.8)

Note: Total operating expenses include OPEB Normal, the annual accrual for Other Postemployment Benefits (OPEB), which represents a non-cash accrual of future benefits earned by active employees.

The Adopted Budget contains a budgeted net loss of $0.8 million prior to the payments for debt service. The three out-years of the Financial Plan include net losses of $0.6 million, $0.5 million, and $0.4 million respectively before the payment of principal on debt. After reducing for the debt service expense and adding back in the non-cash accrual for OPEB Normal, BMHA is projecting a cumulative, four-year deficit of $3.8 million including $1.2 million in FY 2018-19.

BMHA has indicated that $1.2 million of the projected $4.7 million of combined AMP and COCC operating reserves available as of June 30, 2018, would be appropriated to balance the Adopted Budget. This amount is equal to the combined operating deficits in these two budgets. Overall, an aggregate $0.8 million operating deficit is budgeted for all four components of the Adopted Budget. The cash impact after subtracting for debt service and adding back in the non-cash OPEB Normal is $1.2 million.

BMHA has indicated that operating reserves would continue to be appropriated to close out-year deficits. The projected cumulative deficit over the three out-years is $2.6 million. Appropriating a total of $3.8 million from the projected $4.7 million in operating reserves at June 30, 2018, would significantly reduce operating reserves to $0.9 million.

Operating revenues in total are budgeted to increase $1.8 million, or 4.2%, from FY 2018-19 as compared to the FY 2017-18 budget. For the remaining years of the Financial Plan, revenues are projected to increase each year from $44.6 million in FY 2018-19 to $46.2 million in FY 2021-22, representing an increase of $1.6 million, or 3.6% over the Financial Plan.

BMHA's assumption is that the Operating Subsidy received from HUD will be increased in FY 2018-19 based on the current fiscal year's higher than anticipated projected allocation of $0.4 million as well as the increase in HUD's overall funding as approved by the U.S. Congress in the 2018 Omnibus Bill. A proration of 95% of eligible expenses with an occupancy rate of 95% is assumed. It is increased further to $17.3 million in FY 2019-20 based on and held flat over the final two years of the Financial Plan.

Operating expenses in total are budgeted to increase $1.1 million, or 2.4%, over the four-year plan. BMHA has not accrued for salary increases from settling expired collective bargaining agreements but has applied a 2.8% annual increase in total salaries. BMHA has reduced the expenses for total employee benefits by 6% over the four-year plan based on the assumption that collective bargaining agreements would be settled leading to theses reduced expenses. The labor agreement with Local 264 representing white-collar, blue-collar, and managers expired on June 30, 2011. The labor agreement with Local 409 representing the operating engineers of BMHA expired on June 30, 2013.

Prior-Year Operating Revenues and Current Year Projections

The BMHA's financial results for the year ended June 30, 2017, reflected a net loss (excluding depreciation and debt service) of $0.4 million. Actual revenues were $42.7 million while expenses were $43.1 million.

FY 2017-18 operating revenues were favorable by $1.2 million at the end of the third quarter as the HUD Operating Subsidy was favorable by $0.4 million, HUD Public Housing Authority (PHA) vouchers were favorable by $0.8 million, and all other revenues were favorable by $0.3 million. Dwelling Rent income was unfavorable by $0.3 million.

Revenues
The following schedule summarizes operating revenues within the Financial Plan:

FY 2019-2022 Financial Plan Operating Revenues								
Operating Revenues	FYE 2016-17	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								
HUD Subsidy	$16.8	$15.8	$16.8	$17.3	$17.3	$17.3	$0.5	**5.0%**
Net Dwelling/Non-Dwelling Income	13.2	14.0	13.9	14.1	14.4	14.7	0.8	**6.0%**
HUD PHA Grants - Vouchers	5.1	4.9	5.4	5.6	5.7	5.9	0.5	**9.3%**
All Other Revenues	6.2	5.4	5.4	5.5	5.5	5.6	0.2	**3.7%**
Transfers from Capital Grants	1.4	2.7	3.1	2.7	2.7	2.7	-0.4	**-13.3%**
Total GF Revenue	42.7	$ 42.8	$ 44.6	$ 45.2	$ 45.6	$ 46.2	$ 1.6	**3.6%**

Operating Subsidy
Housing authorities receive an operating subsidy from HUD to assist in funding the operational and maintenance expenses of public housing 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 PHAs. PHAs provide HUD with information on the Project Expense Level, Utilities Expense Level, Other Formula Expenses, and Formula Income, which are the major Operating Fund components. HUD reviews the information to determine each PHA's formula aid amount and the funds to be obligated for the funding period based on the appropriation by the U.S. Congress.

BMHA's HUD subsidy is budgeted at $16.8 million for FY 2018-19, a $1.0 million, or 6.3% increase over the prior fiscal year's budget. The subsidy is anticipated to increase $0.5 million, or 5.0%, over the Financial Plan. The Operating Subsidy is the BMHA's largest funding source at 37.7% of operating revenues.

The budgeted increase is based on the current fiscal year's higher than anticipated appropriation as well as the increase in HUD's overall funding as approved by the U.S. Congress in the 2018 Omnibus Bill. HUD's 2018 Public Housing Operating Fund was increased by 3.4% from $4.4 billion in 2017 to $4.55 billion in 2018. As noted, the projected proration is 95%. A 3% inflationary factor was applied for FY 2019-20 and held flat over the remaining two years of the Financial Plan.

Dwelling/Non-Dwelling Income
BMHA has budgeted $13.9 million in net dwelling/non-dwelling income, or 31.1% of total budgeted revenues. Net dwelling/non-dwelling income is anticipated to increase $0.8 million, or 6.0%, over the Financial Plan based on an inflationary factor of 2% annually. The last two budgets adopted by BMHA have included a rental increase at the Marine Drive Apartments. BMHA is currently awaiting approval of this increase from the New York State Division of Housing and Community Renewal and intends to implement this increase once this approval is received. Due to the delay in this implementation, BMHA has indicated that it has excluded these revenues in the Adopted Budget.

Voucher Grants

BMHA receives PHA voucher grants from HUD. The FY 2018-19 Adopted Budget includes $5.4 million in voucher grants, or 12.1% of total budgeted revenues. This projection is based on the HUD Housing Choice Voucher approved funding which increased from $20.3 billion in the federal FY 2017 Enacted Budget to $22.0 billion in the recently approved 2018 Omnibus Bill. These operating revenues are projected to increase $0.5 million, or 9.3%, over the course of the Financial Plan based on a 3% inflationary factor. This revenue source has little impact on overall BMHA operations as the BMHA passes the vouchers to recipients.

The revenues and expenses of the voucher program reflect BMHA's continued efforts to fully utilize the total vouchers available from the program. 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.

Capital Grants

Capital Grants are budgeted at $3.1 million in the Adopted Budget. These revenues constitute 7% of total FY 2018-19 operating revenues. These operating revenues are projected to decrease to $2.7 million in FY 2019-20 and remain flat over the last two years of the Financial Plan.

Capital Grant funds are used to reimburse BMHA for the administrative work performed on grants and therefore may fund general operations. They consist of two components, one representing the reimbursement of administrative costs for the administering of the capital grant programs and the second for direct personnel costs. This amount will fluctuate depending on the annual capital grants awarded and expensed. This revenue represents the transfer of grant funds for the reimbursement of expenses.

All Other Revenues

All Other Revenues are budgeted at $5.4 million in the Adopted Budget. These revenues are anticipated to increase $0.2 million, or 3.7%, over the Financial Plan. These revenues comprise 12.1% of total FY 2018-19 operating revenues.

All Other Revenues include interest income, fees for services, administrative fees for development, administrative fee reimbursement associated with the HUD Section 8 Housing Voucher Program, and other miscellaneous income.

BFSA has reviewed BMHA's revenue assumptions and determined that they appear fairly stated.

Operating Expenses
Total 2018-19 operating expenses are budgeted at $45.4 million. Budgeted debt service payments are $1.4 million. The total projected expenses and debt service are $46.8 million including the $1.0 million accrual of OPEB costs.

Operating expenses are projected to increase $1.1 million, or 2.4% over the Financial Plan. The following summarizes the operating expenses as included in the Financial Plan:

FY 2019-2022 Financial Plan General Fund Expenses								
	FYE 2016-17	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				
General Expenses	$13.3	$14.0	$14.2	$14.1	$14.0	$13.9	($0.3)	-2.1%
Maintenance	9.3	9.9	10.0	10.1	10.2	10.3	0.3	3.0%
Administrative	7.6	8.4	8.4	8.6	8.7	8.8	0.4	4.8%
Utilities	5.8	5.4	5.7	5.8	6.0	6.2	0.5	8.8%
Other Expenses	5.3	4.9	5.4	5.5	5.5	5.6	0.2	3.7%
Protective Services/ Resident Service Costs	1.8	2.0	1.7	1.7	1.7	1.7	0.0	0.0%
TOTAL EXPENSES	**$43.1**	**$44.6**	**$45.4**	**$45.8**	**$46.1**	**$46.5**	**$1.1**	**2.4%**

General Expenses
General Expenses include employee benefits, insurance, the annual accrual for other postemployment benefits (OPEB), retiree health insurance and other miscellaneous expenses. Budgeted positions are held flat in each year of the Financial Plan.

BMHA has budgeted $14.2 million in General Expenses representing 31.3% of total FY 2018-19 operating expenses. The Financial Plan projects these expenses to decrease by $0.3 million, or 2.1%, over the Financial Plan and has reduced the projected expenses for employee benefits by 5.9%. BMHA has indicated that an inflationary factor of 2% had been applied in each year; however, the Financial Plan does not depict this increase. Total employee benefit expenses decrease 5.9% from $5.6 million to $5.3 million.

These expenses appear underbudgeted given: the 5.2% annual cost increase assumed in BMHA's OPEB valuation projected by the National Health Expenditure Projection 2008-2024 and Society of Actuaries Getzen Long-Term Healthcare Cost Trend Resource Model, the assumption of some annual increase in the number of retirees receiving health insurance, and a static level of active employees. BMHA had previously applied a 3% annual increase for active employee healthcare expenses and a 2.3% annual increase for retiree healthcare expenses in the FY 2018-2021 Financial Plan.

BMHA has indicated that this decrease is budgeted based on the assumption that health insurance expenses will be significantly reduced based on the terms of yet to be settled collective bargaining agreements. BFSA views this as highly speculative as these agreements have not been drafted.

The following is a depiction of the BMHA's four-year staffing plan. Budgeted positions decrease by 7 overall full-time equivalent (FTE) positions in FY 2018-19 including two executive-level FTEs and six AMP maintenance FTEs, as compared to the FY 2017-18 Adopted Budget. The four years of the Financial Plan are static.

BMHA STAFFING				
Employee Group	**2017-18 Adopted Budget**	**2017-18 (as of 03.31.2018)**	**2018-19 Adopted Budget**	**FY 2020-22 Outyears 1-3**
Executive	**12**	**8**	**10**	**10**
MIS	**3**	**2**	**4**	**4**
Finance	**12**	**10**	**11**	**11**
Personnel	**3**	**2**	**3**	**3**
Capital Improvements	**13**	**10**	**14**	**14**
Asset Management	**130**	**113**	**124**	**124**
Total	**173**	**145**	**166**	**166**

Based on BFSA's analysis of budgeted salaries of $8.7 million for FY 2018-19, it appears that the workforce plan is fairly stated as an average salary for FY 2018-19 is $52,429 per employee, an increase of $2,508 per employee as budgeted in FY 2017-18 at $49,921.

Maintenance

BMHA has budgeted $10.0 million in Maintenance Expenses in FY 2018-19 representing 22.0% of total operating expenses. The Financial Plan projects these expenses to increase by $0.3 million, or 3.0%, over the Financial Plan. While most Maintenance expenses are projected to remain static, BMHA is projecting a $0.4 million increase in maintenance employee costs from $4.0 million in FY 2018-19 to $4.4 million in FY 2021-22.

Administrative

BMHA has budgeted $8.4 million in Administrative Expenses in FY 2018-19, representing 18.5% of total operating expenses. The Financial Plan projects these expenses to increase by $0.4 million, or 4.8%, over the Financial Plan. While most Administration expenses are projected to remain static, BMHA is projecting a $0.4 million increase in administrative employee costs from $4.0 million in FY 2018-19 to $4.4 million in FY 2021-22.

Utilities

BMHA has budgeted $5.7 million in Utility Expenses in FY 2018-19, representing 12.6% of total Operating Expenses. Utilities including Water, Sewer, Electric, and Gas are anticipated to increase 9.3% over the four years of the Financial Plan. Additionally, the utility employee cost is anticipated to increase 8.5% over the Financial Plan.

It is noted that the BMHA is reimbursed through the HUD Operating Subsidy for utility expenses. There is, however, a time-lag associated with this reimbursement.

Protective Services/Resident Service Costs

BMHA has budgeted $1.7 million for Protective and Resident Service expenses in FY 2018-19, representing 3.7% of total operating expenses. These expenses are held flat over the Financial Plan.

Protective Services Expenses are contractually based; $650,000 has been budgeted for the contact with the Buffalo Police Department.

Other General Expenses

The BMHA has budgeted $5.4 million for Other General Expenses in FY 2018-19, representing 11.9% of total Operating Expenses. These expenses increase $0.2 million, or 3.7% over the Financial Plan.

All Other General Expenses include miscellaneous expenses including the housing assistance payment (HAP), the payment a public authority makes to housing choice voucher program participants. This payment increases from $5.1 million to $5.3 million over the Financial Plan based on projected PHA Grant Vouchers.

Prior-Year Operating Expenses and Current Year Projections

The BMHA's financial results for the year ended June 30, 2017, reflected a net loss (excluding depreciation and debt service) of $0.4 million. Actual revenues were $42.7 million while expenses were $43.1 million.

FY 2017-18 operating expenses were favorable by $1.5 million at the end of the third quarter as the General Expenses were favorable by $0.6 million, Administrative expenses were favorable by $0.4 million, Protective Services/Resident Services Expenses were favorable by $0.5 million, and Other General Expenses were favorable by $0.2 million. Maintenance Expenses were unfavorable by $0.2 million.

Marine Drive Apartments

In February 2011, BMHA took over management of Marine Drive Apartments which is owned by BMHA. The BMHA has budgeted a net surplus in FY 2018-19 of $16,377. It is noted that in the event there are losses incurred, such losses would be funded by through current year operations of the Central Office or through Central Office reserves to the extent available.

HUD Section 8 Voucher Program

Beginning with the FY 2015-18 Financial Plan, BMHA has included the financial impact from the HUD Section 8 Voucher Program. This program is budgeted to have a net income of $43,133 as total revenues of $6,082,698 million exceed total expenses of $6,039,565 million in FY 2018-19. Net income has been budgeted as BMHA is permitted to retain this amount for its administrative expenses. As previously noted, any reported operating surplus or deficit is temporary in nature as this program essentially self-balances.

Asset Repositioning
Bridges Development Inc. (Bridges) is the BMHA's 504(c)(4) not-for profit instrumentality/affiliate development entity. Bridges works closely with tax credit syndicators, financial institutions, and New York State and federal agencies to identify and target funding opportunities to assist BMHA bolster its aging housing stock. Some housing stock is disposed of from BMHA to Bridges to facilitate redevelopment as Bridges can access funding for which BMHA and private developers are ineligible. The following is a summary of the last two years of Bridges' development transactions, as provided by the BMHA:

- **A.D. Price Courts** – A.D. Price Courts is a family development consisting of 170 units which currently sit vacant and are uninhabitable due to major capital improvement needs. A 9% low-income housing tax credit (LIHTC) funding application was submitted to New York State Homes and Community Renewal. A revitalization plan that incorporated community input was approved by the BMHA Board of Commissioners in November 2016 and submitted to the City of Buffalo Planning Board for approval. The New York State Historic Preservation Office issued its comments to the BMHA and the City of Buffalo. In accordance with federal regulations, the City of Buffalo must conduct a public hearing and seek comments from interested parties as a part of the review process. Following this, BMHA will make a determination regarding the revitalization of this facility.

- **Commodore Perry Homes** – Commodore Perry Homes is largely vacant and uninhabitable. The facility requires approximately $66.0 million in capital improvements to be rehabilitated. BMHA is currently revisiting its transformation plan to resubmit for Choice Neighborhood funding. A previous request in 2013 was not successful.

- **Frederick Douglass Associates** – Bridges, the sole developer for Frederick Douglass, is currently using existing RAD unit awards for Commodore Perry Homes to convert Frederick Douglass to RAD units. In December of 2017, Bridges successfully secured funding for the renovations at Fredrick Douglass Apartments Phase I (FDA1). The total development cost of the project is $16.0 million. Residents currently living at FDA1 will be temporarily relocated while the improvements are made at the facility.

- **Kensington Heights** – BMHA has contracted with the Erie County Medical Center Corporation to sell this property. The sales closure is anticipated by the end of June 2018.

- **Scattered Site "C"** – Construction documents for complete renovations of all 19 scattered units have been completed. The procurement of contractors is complete; construction is expected to begin in 2018.

Conclusions

The BMHA Board of Commissioners has formally reviewed and approved the FY 2018-19 Adopted Budget and the FY 2019-2022 Financial Plan. BFSA has reviewed the FY 2019-2022 Financial Plan and has deemed it balanced. There are several areas of concern as follows:

- Deficits are projected in all four years of the Financial Plan. BMHA has indicated that operating reserves would be appropriated as needed to reduce these deficits. The appropriation of reserves in the amount of the projected deficits would leave BMHA with an estimated $0.9 million in operating reserves as of June 30, 2022.
- Expenses appear understated as total expenses for employee benefits decrease over the four-year plan. These decreases have been projected based on the assumption that collective bargaining agreements will be settled leading to significant reductions in overall benefit expenditures including healthcare costs. BFSA views this as highly speculative as agreements have not been proposed, less approved quantifying these potential savings. Further, increases can be expected in both the New York State Employee Retirement System expense and the FICA expense, given the increases in employee salaries. The projected deficits appear to be understated given this.