

Buffalo Urban Renewal Agency
Overview of 2019 – 2022 Financial Plan

Grant revenues administered by the Buffalo Urban Renewal Agency (“BURA”) on behalf of the City of Buffalo are largely based on funding received from federal allocations through the U.S. Department of Housing and Urban Development (“HUD”). Funding is approved by Congress; a formula determines how such funds will be distributed to local communities. In addition to the current grant awards, BURA also has the ability to draw down previously allocated funding that has not been expended from previous grant awards for program and administrative costs incurred in the current year. BURA’s financial plan addresses the current year allocations as well as planned use of available prior year funds including: Community Development Block Grant (“CDBG”) and Housing Opportunities Made Equal (“HOME”) Program Funds resources, in addition to Emergency Shelter Grants (“ESG”) and Housing Opportunities for People with Aids (“HOPWA”). Collectively these four funding sources are commonly referred to as Entitlement Funds, since they are an annual allocation to BURA from HUD.

The Office of the City Comptroller’s Department of Audit and Control is responsible for several functions related to program implementation of CDBG funds including review of subrecipient submissions for the drawdown of grant proceeds, the issuance of payments to local service providers under contract, monitoring contracts between BURA and its subrecipients, and the auditing of payments and invoices. These functions were handled by BURA directly until 2012-13, when such functions were moved to the City as a result of a directive issued by HUD. BURA has entered into a subrecipient agreement with the City of Buffalo in accordance with the HUD directive; the subrecipient agreement is renewed on an annual basis once the HUD entitlement is received by the City of Buffalo.

In 2013, three staff positions were added to the Office of the City Comptroller’s Department of Audit and Control. These positions are funded by CDBG funds, subject to the administrative cost limitations as per grant requirements, and all three positions are currently filled.

Population is a major factor used within the allocation formulas in determining the amount of grant funding; it is noted the City had a population decrease of 31,338, or a decline of 10.7 percent, reported with the 2010 census results. The reduction in population had a negative impact on the amount of funding provided by HUD since the results of the census were released. Total entitlement funds have decreased by \$5.0 million, or 21 percent, since the 2010-11 fiscal year and is reflective of the 2010 census results. The notice of funding from HUD for the 2018-19 fiscal year was received by the City on May 1, 2018. The notice provided the City with an increase in CDBG, HOME and HOPWA entitlement funds and decreased ESG funds for a net increase of \$2.2 million when compared to the 2017-18 fiscal year. BURA has taken a conservative approach in preparing the 2018-19 budget and 2019-2022 Financial Plan. The budget reflects the HUD entitlement increases in 2018-19 and the three out-year projections include reductions of 2 percent, 3 percent and 4 percent over the course of the financial plan for entitlement fund allocations. The BURA Board of Directors adopted the 2018-19 budget on May 24, 2018.

The following is a three-year comparison of total HUD funding by major grants as awarded to the City and BURA; the grant allocation is reflective of that year's funding and does not include any prior year awards:

	<u>Amount of Grant Award</u>		<u>Increase/</u>	
	<u>2018-19</u>	<u>2017-18</u>	<u>(Decrease)</u>	
	\$	\$	\$	%
Grant:				
Community Development Block Grant	13,677,706	12,480,174	1,197,532	9.6%
HOME	3,255,279	2,307,774	947,505	41.1%
Emergency Shelter Grants	1,123,496	1,129,225	(5,729)	-0.5%
Housing Opportunities for Persons with Aids	720,135	635,722	84,413	13.3%
	<u>18,776,616</u>	<u>16,552,895</u>	<u>2,223,721</u>	<u>13.4%</u>
	<u>Amount of Grant Award</u>		<u>Increase/</u>	
	<u>2017-18</u>	<u>2016-17</u>	<u>(Decrease)</u>	
	\$	\$	\$	%
Grant:				
Community Development Block Grant	12,480,174	12,543,125	(62,951)	-0.5%
HOME	2,307,774	2,401,418	(93,644)	-3.9%
Emergency Shelter Grants	1,129,225	1,137,467	(8,242)	-0.7%
Housing Opportunities for Persons with Aids	635,722	557,911	77,811	13.9%
	<u>16,552,895</u>	<u>16,639,921</u>	<u>(87,026)</u>	<u>-0.5%</u>
	<u>Amount of Grant Award</u>		<u>Increase/</u>	
	<u>2016-17</u>	<u>2015-16</u>	<u>(Decrease)</u>	
	\$	\$	\$	%
Grant:				
Community Development Block Grant	12,543,125	12,635,721	(92,596)	-0.7%
HOME	2,401,418	2,398,152	3,266	0.1%
Emergency Shelter Grants	1,137,467	1,159,066	(21,599)	-1.9%
Housing Opportunities for Persons with Aids	557,911	546,763	11,148	2.0%
	<u>16,639,921</u>	<u>16,739,702</u>	<u>(99,781)</u>	<u>-0.6%</u>

As per the schedule above, HUD funding to the City will increase \$2.2 million, or 13.4 percent, compared to last year's allocation. This represents an increase of \$2.0 million since 2015-16, or 10.8 percent. The increase for 2018-19 is the first significant increase to CDBG and HOME funding since 2011. BURA had been faced with annual reductions in entitlement funding since 2011. Beginning with the 2017-18 fiscal year, BURA no longer administers HOPWA or ESG funds as the City will be the primary administrator of those funds. HOPWA and ESG grants are funds provided directly to subrecipients for administration of programs at their facilities and it was determined that the funds did not need to pass through BURA but should be administered directly by the City. Examples of several subrecipients include Jericho Road, Salvation Army and the City Mission.

BURA has budgeted total revenues and expenditures of \$13.1 million for 2018-19; unused entitlement funds will carry forward to future years. This represents a decrease of \$11.5 million (46.8 percent) from the 2018 budgeted amount of \$24.6 million. The significant decrease is directly attributed to the manner in which BURA management has budgeted for the use of prior year funds over the course of the 2019-2022 Financial Plan. In previous financial plans, the first year would be significantly higher, with a significant decrease in revenues in the remaining three-years of the Financial Plan; this was due to the available balance of prior year funds that could be utilized to fund BURA’s programming. BURA’s management determined that it was unrealistic to be able to expend such a significant amount of prior year funding in the first year and has adjusted the projections to reflect the use of such funds over all four-years of the 2019-2022 Financial Plan. The chart below provides a high-level summary of the 2017-18 revised budget compared to the 2018-19 Adopted Budget. As noted previously, the total annual grant awards from HUD for the upcoming year is projected to increase \$2.2 million from last year.

	Revised	Adopted	Variance	
	Budget	Budget	\$	%
	<u>2017-18</u>	<u>2018-19</u>		
Total Grant and Program Income	\$ 24,632,495	\$ 13,106,689	\$ (11,525,806)	-46.8%
Total Program Costs	21,207,860	9,181,500	(12,026,360)	-56.7%
Total Administrative & Planning Costs	3,424,635	3,925,189	500,554	14.6%
Total Expenditures	\$ 24,632,495	\$ 13,106,689	\$ (11,525,806)	53.2%

The following schedule provides a summary of the 2019–2022 Financial Plan which is developed based on the grant year (October 1 – September 30), beginning with Program Year 44 (2018-19); BURA does operate on a July 1 – June 30 Fiscal Year. It is noted that BURA is including prior year entitlement allocations as a current year resource, specifically for CDBG and HOME funds. Administrative expenses are reflected in both program costs and administrative and planning costs. The following schedule reflects only the funds that BURA manages, and not the entitlement funds that are managed by the City.

	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>
Grant Revenues and Related Income				
Community Development Block Grant (CDBG)	\$ 6,735,543	\$ 6,680,830	\$ 6,600,405	\$ 6,496,389
CDBG Interest/Rental Income	275,000	275,000	275,000	275,000
Housing Opportunities Made Equal (HOME) Investments Partnership Program	4,037,528	4,331,017	4,121,446	4,109,068
CDBG Program Income	725,000	725,000	725,000	725,000
HOME Program Income	454,000	120,000	120,000	120,000
Evans Fund	140,000	-	-	-
Local Initiatives Support Corporation (LISC)	87,500	-	-	-
Justice Assistance Grant (JAG)	34,218	-	-	-
General Fund Revenues	617,900	568,400	538,400	523,400
Total Revenue	\$ 13,106,689	\$ 12,700,247	\$ 12,380,251	\$ 12,248,857
Expenditures				
HOME Program Costs	\$ 3,590,708	\$ 3,541,474	\$ 3,305,830	\$ 3,324,397
CDBG Emergency Loan Program Costs	3,344,800	3,309,584	3,281,616	3,365,712
CDBG Program Delivery	1,216,000	1,256,000	1,291,000	1,216,000
HOME Community Housing Development Organization	488,292	478,526	464,170	445,603
CDBG Crime Prevention	239,200	234,416	227,384	218,288
Evans Fund Program Costs	140,000	-	-	-
Local Initiatives Support Corporation Program Costs	87,500	-	-	-
HOME Program Delivery	75,000	100,000	150,000	150,000
Total Program Costs	\$ 9,181,500	\$ 8,920,000	\$ 8,720,000	\$ 8,720,000
Administrative & Planning Costs				
CDBG Admin @ 20% cap (on total CDBG Award) including Program Income	\$ 2,935,543	\$ 2,880,830	\$ 2,800,405	\$ 2,696,389
HOME Admin Costs @ 10% cap including Program Income	337,528	331,017	321,446	309,068
Justice Assistance Grant Costs (Salary and Fringe)	34,218	-	-	-
General Fund Costs	617,900	568,400	538,400	523,400
Subtotal Administrative & Planning Costs	\$ 3,925,189	\$ 3,780,247	\$ 3,660,251	\$ 3,528,857
Total Expenditures	\$ 13,106,689	\$ 12,700,247	\$ 12,380,251	\$ 12,248,857

Over the four years of the Financial Plan as presented, total grant revenues and expenditures are projected to decrease by \$0.9 million, or 6.5 percent. The estimated decrease in grant revenues over the three out-years of the Financial Plan is reflective of conservative budget preparation due to the uncertainty facing BURA with respect to future federal grant awards. After the initial estimated increase in 2018-19, BURA has reduced each subsequent year over the Financial Plan by 2, 3 and 4 percent respectively. In addition to the estimated reduction in future entitlement awards, BURA continues to spend down available funds from prior awards; this amount is reduced over the Financial Plan as these funds are expended. As BURA spends the remaining balances of prior year allocations, the resource is no longer available, and eventually all remaining balances will be fully disbursed. As the prior year allotments are reduced, new entitlement funds become the primary funding source for BURA and will limit the programmatic spending that can be performed.

The revenue categories and related projections over the financial plan are as follows:

- Community Development Block Grant (“CDBG”) – CDBG funds represent the most significant revenue source to BURA and includes the current year award and an estimate of prior year grant awards to be expended during 2018-19 for a total estimated revenue balance of \$6.7 million; combined it comprises 51.4 percent in 2018-19 and increases to 53.0 percent of total grant revenue in 2021-22. As previously noted, current year entitlement CDBG funding is increasing by \$1.2 million (9.6 percent) in 2018-19 as compared to the prior year, and has been reduced in each of the three out years of the Financial Plan by an additional 2, 3, or 4 percent annually for a total estimated reduction of \$184,441. In total, CDBG funding is projected to decrease by \$239,154, or 3.6 percent. This will impact the program delivery within the City of Buffalo as funding will be unavailable for various programs, as well as impact the available funding for administrative and planning costs.

Administrative costs are limited to a maximum allowable percentage of each grant award and the total amount that could be spent on such costs is impacted by reductions to such grants awards. Prior year amounts are estimated to be \$4.0 million at June 30, 2018.

- Housing Opportunities Made Equal (“HOME”) Program Funds – The annual award of this amount is estimated to increase by 41.1 percent in 2018-19 to \$3.3 million as compared to the prior year amount of \$2.3 million, an increase of \$1.0 million. BURA has also included both a current year allotment in addition to an amount for the use of prior year HOME Funds, which are combined as a single amount in the budget and financial plan. The combined budgeted amount for both current year and prior year HOME funds is approximately \$4.0 million for 2018-19. HOME funding is projected to be fairly stable over the Financial Plan as the total amount of available funding is estimated to increase to \$4.3 million in 2019-20 and then be reduced to \$4.1 million in 2020-21 and 2021-22.

This funding source has been reduced consistently over the past seven years; the increase of approximately \$1.0 million in 2018-19 is the first significant increase since 2009-10 when the HOME award was \$5.0 million. HOME funds are projected to increase over the Financial Plan by approximately \$100,000. This increase is attributed to the use of prior year funds since new allocations of HUD entitlement funds are reduced in the three out-years of the Financial Plan. HOME funds represent 31 to 34 percent of total BURA revenue over the course of the Financial Plan. Prior year amounts are estimated to be \$6.0 million at June 30, 2018.

- BURA generates program income from the CDBG and HOME programs which must be used for program eligible expenditures. In addition to program-generated revenue such as the repayment of loans, program income also includes transactions such as the sale of real estate. BURA management has projected program income based on expectations of receipts as well as other transactions including the sale of real estate.

CDBG program income is budgeted at \$725,000 in 2018-19 and is held flat at that amount over the Financial Plan. CDBG interest/rental income is also projected to remain flat over the Financial Plan at \$275,000, for a total of \$1.0 million each year.

HOME program income is budgeted at \$454,000 in 2018-19 and is reduced to \$120,000 in the three remaining years of the Financial Plan. Estimated program income for 2018-19 is higher than subsequent years as the result of a HUD recommendation that current year HOME program income be used in the subsequent year and BURA is receiving a one-time loan payment in the amount of \$300,000 from Frederick Douglass Housing. BURA estimates the year-end HOME program income for 2017-18 to be \$454,000 which is budgeted for 2018-19.

- Other revenues include General Fund revenues, the Justice Assistance Grant, the Evans Fund grant, and the Local Initiatives Support Corporation (“LISC”). General fund revenues represent property rentals, parking and other smaller revenues, and are budgeted at approximately \$617,000 in 2018-19 and are projected to decrease to \$568,400 in 2019-20, \$538,400 in 2020-21 and \$523,400 in 2021-22.

This is the final year for the Justice Assistance Grant and it is budgeted at \$34,218 in 2018-19 as the remaining balance of funds is disbursed and is reduced to \$0 in the three out-years of the Financial Plan. The program is scheduled to conclude at the end of 2018-19.

The remaining balance of the Evans Fund grant is being utilized in 2018-19; the initial award amount of \$457,500 was received over the past two-years, but due to timing BURA was unable to disburse all of the funds. The remaining balance of \$140,000 is budgeted for in 2018-19. Evans Bank had committed the funds to be used for various programs including programs such as weatherization assistance, homebuyer education workshops, and a down-payment closing cost assistance program.

In addition, BURA has been awarded a grant from the Local Initiatives Support Corporation, which is dedicated to assisting nonprofit community development organizations transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. The original award amount from LISC was \$175,000 and BURA has planned to use the remaining balance of \$87,500 to fund an initiative to improve data management of various distressed properties

across the City in order to provide information related to land use and rezoning, property sales, building permits, and code violations.

- As was previously mentioned, beginning in 2017-18, Housing Opportunities for Persons with AIDS (“HOPWA”) and Emergency Solutions Grants (“ESG”) are no longer administered by BURA and are administered by the City. HOPWA funding increased by \$84,413 and ESG funding was reduced by \$5,729 for a net increase of \$78,864. This revenue represents pass-through dollars provided directly to subrecipients. It is noted that the City has also estimated these funds will be reduced in the three out-years by 2, 3 and 4 percent respectively over the City’s 2019-2022 Financial Plan.

Unlike previous budgets and financial plans submitted by BURA, the 2019-2022 Financial Plan is fairly stable over the four-years, being reduced by \$0.9 million, or 6.5 percent. Historically BURA has been under budget at year-end when compared to the Adopted Budget.

As of March 31, 2018, 45 percent of budgeted expenditures for 2017-18 had been disbursed, and any funds not utilized will be rolled to future years. There likely will be additional proceeds available for future years, but as previously indicated such funding is non-recurring as it reflects all prior year available dollars. It is anticipated that amounts not expended from the 2017-18 budget will roll forward into the 2018-19 Adopted Budget as the use of these funds have been planned.

Management at BURA is continuously attempting to identify potential new revenues. Previous reductions in entitlement funds placed constraints on BURA that were previously discussed. Future entitlement fund allocations are unknown at this time, however if there are reductions in entitlement funds the organization will need to construct an approach to program delivery within the confines of the available revenues at that time.

Expenditures include both program costs and the administrative and planning costs incurred in implementing these programs. Administrative and Planning costs are capped at various levels as predetermined and communicated by the authorizing body. The cap for CDBG is 20 percent of the total grant, with a 15 percent cap on the public service cost, plus any program income generated; the cap for the HOME program is 10 percent of the grant award plus any program income that is collected. If BURA does not spend resources up to the cap amount, those resources may be utilized for future administrative costs but are still constrained by the cap limits. Administrative costs as included in the Financial Plan are limited to these amounts. The Financial Plan includes thirty-eight funded positions with salaries of approximately \$2.2 million increasing to \$2.4 million over the course of the Financial Plan. This number of positions is held constant over the Financial Plan.

From 2013-14 to 2016-17, BURA had 43 funded positions. The number of funded positions was reduced to 41 positions in the 2017-18 budget and further reduced to 38 in 2018-19. That is a reduction of five funded positions over the last three fiscal years. The decrease in the number of positions is largely reflective of reduced federal funding combined with management’s decision not to fill a position when such position became vacant. There are no projected savings from not filling vacancies as funds are only drawn down and utilized if the position is filled.

BURA's employees are covered by one collective bargaining unit, the Civil Service Employees Association, Local 815. The current labor agreement was ratified and approved by BURA management in April 2018 and expires June 30, 2020. In addition to the covered employees, BURA management has historically provided the same collective bargaining agreement ("CBA") provisions to exempt employees, including health insurance benefits. There are thirty budgeted classified employees and eight exempt employees within the 2019-2022 Financial Plan. The budget and financial plan as it is presented includes estimated increases in the two out-years with the final year held flat due to the expiration of the labor agreement.

The current financial plan provided by BURA has demonstrated that it has adequate resources available to pay for projected salary and related fringe benefit increases. However, if there are reductions to future entitlement grants BURA may not have available resources to fund the current projected administrative costs. BURA has acknowledged that it may be challenged in maintaining the current staffing level as grant awards only permit a certain amount of administrative costs to be paid for with grant dollars. Future allocations of entitlement funds will determine how much funding will be available within the administrative caps. BURA anticipates some attrition through retirement and will reevaluate filling any open positions at that time; attrition is not reflected in the budget at this time.

As previously noted there are three positions located in the City Comptroller's Office Department of Audit and Control which are responsible for the financial transactions of the CDBG, HOPWA and ESG funds. These positions are not included in BURA's staffing plan, but are accounted for in regards to staying within the administrative cost cap restrictions.

BURA has identified the following allotments in regard to CDBG and HOME program funding.

CDBG has been budgeted in the amount of \$7.7 million as follows:

- \$4.8 million allocated to CDBG program delivery
 - \$3.3 million for emergency loan program
 - \$1.2 million for program delivery costs (personnel service costs) for employees working on housing rehabilitation, demolitions and capital improvements or repairs at public facilities including parks, street repair and community centers
 - \$0.2 million for crime prevention program delivery
- \$2.9 million for administrative costs

HOME has been budgeted in the amount of \$4.5 million as follows:

- \$4.2 million is allocated for HOME program delivery and housing activities
 - \$3.6 million for rehabilitation and new construction
 - \$0.5 million for community housing development organizations
 - \$0.1 million for HOME program delivery
- \$0.3 million for administrative costs

Other notable items include:

- BURA does not participate in the City of Buffalo's self-funding of health insurance and continues to maintain coverage through Blue Cross Blue Shield. BURA has included an annual increase of 5 percent over the Financial Plan for health insurance costs.
- BURA management has indicated that it intends to continue in its efforts to strategically assess the real property portfolio and sell properties to reduce overall maintenance and management costs. BURA holds approximately 73 properties valued at approximately \$3.6 million which are held for redevelopment in accordance with grant regulations.
- In an effort to address housing needs with broad community support, the Division of Community Planning will implement the affordable housing plan to include the neighborhood framework. The framework will allow multiple stakeholders to coordinate with each other to meet agreed-upon housing goals and objectives.

Conclusion:

BURA has submitted a balanced 2019-2022 Financial Plan. The level of grant funding will be monitored by BURA and City personnel on an ongoing basis. BFSA recommends that the Budget and Financial Plan be monitored as future revenue decreases would place additional pressure on BURA and may require budget reductions. As expenditures are limited to revenues, BURA management will need to monitor future entitlement awards and plan for the potential reduction of said awards prioritizing projects and staffing needs based on the available funding. The 2019-2022 Financial Plan is conservative in that it reflects the increased award amounts in 2018-19 and includes modest reductions in the out-years due to the uncertainty of future federal awards. BURA will closely monitor employee compensation in relation to the various administrative caps associated with the appropriate entitlement funds. If total revenues are reduced in future years BURA may be required to decrease the number of employees and corresponding fringe benefits to meet the administration caps in order to remain within the allotted budget amount.

Due to previous delays in the release of entitlement funds experienced by the City, we once again recommend BURA consider developing a cash flow statement to ensure that adequate cash is available to pay for the various program and administrative expenditures.

It is also recommended that BURA provide additional detail in future quarterly reports, detailing projects and programs that funds were disbursed for and reflective of the priorities established in BURA's Annual Action Plans.

Over the course of the Financial Plan, there are decreases in revenue projections. The decreases are reflective of the spend-down of prior year entitlement funds as well as projected reductions to new entitlement funds in the out-years. The current plan provides adequate resources for BURA to provide current services; however, once all the prior year allotments are fully expended, BURA will only have the new annual entitlement fund allotments to draw from. As those resources are reduced BURA's ability to complete its mission may be compromised. The larger social and city-wide issues are challenging, and are driven by policy as implemented by BURA's Board of Directors.