City of Buffalo

Report on the 2018-19 Adopted Budget and 2019-2022 Financial Plan

OVERVIEW OF THE 2018-19 ADOPTED BUDGET

Overview

The Mayor's adopted 2018-19 budget provides for General Fund expenditures of $513.6 million, representing an increase of $13.9 million, or 2.8 percent, over last year's adopted budget of $499.7 million. Total 2018-19 revenues are estimated at $509.6 million, an increase of $22.1 million, or 4.5 percent, above the prior year's estimated revenues of $487.5 million. The excess of budgeted appropriations over estimated revenues is funded with the use of fund balance restricted for capital outlay in the amount of $4.0 million. The City's fiscal year is from July 1 to June 30.

The following summary provides a high-level overview of the components of the City's budget and provides additional detail on key changes and differences from the prior year.

Budget Summary

Total budgeted appropriations of $513.6 million includes other financing uses (i.e., transfers out) of $99.1 million. This balance consists of three separate transfers: the annual transfer to the Buffalo City School District (the "District") ($70.8 million), the transfer to the Debt Service Fund for the payment of principal and interest due in 2018-19 on outstanding debt ($27.9 million), and a transfer to the Capital Projects Fund ($0.4 million). Total budgeted appropriations for transfers out on a year-to-year basis represent a decrease of $100,000 and is attributed to an increase in the transfer to the Debt Service Fund for principal and interest on debt of $3.1 million which is offset by the elimination of the transfer to the Solid Waste and Recycling Fund of $3.2 million. In prior years, the City's General Fund subsidized the operations of the Solid Waste and Recycling Fund as fees were insufficient to fully support the operations. An increase to the fee structure is expected to result in the Solid Waste and Recycling Fund becoming self-sustaining.

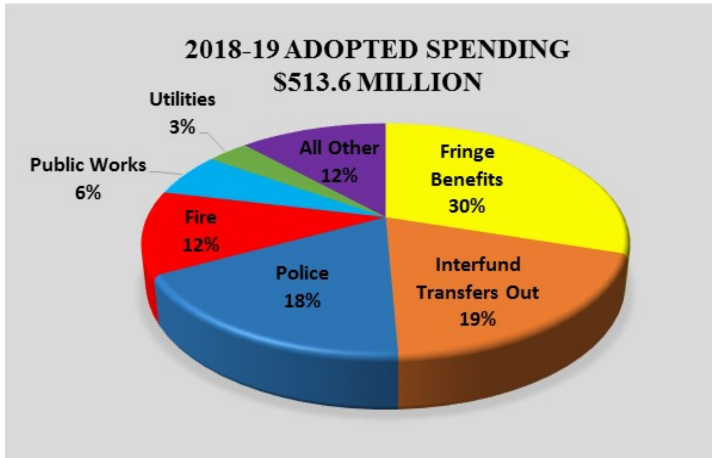
The largest transfer out is to the District in the amount of $70.8 million. In 2017-18, the City increased its contribution by $500,000 which is maintained in the 2018-19 budget. The District is a dependent school district, as established by New York State (the "State"), and cannot levy taxes; as such, it relies on an annual contribution from the City to partially fund operations.

The City's tax levy as adopted for 2018-19 is $145.3 million has increased compared to the prior year tax levy of $139.6 million. Prior to 2016-17, the City's tax levy had decreased annually from $144.3 million in fiscal year ("FY") 2011 to $137.0 million in FY 2016, representing a decrease of $7.3 million, or 5.1 percent, over a five-year period. The increase in 2016-17 was directly related to properties that were previously making payments under Payments-In-Lieu-of-Taxes ("PILOT") agreements, which had expired resulting in such properties having moved to taxable status and becoming part of the full tax levy. The adopted property tax increase for

2018-19 of $5.7 million, or 4.1 percent, is the first time the City has increased property taxes in over twelve-years.

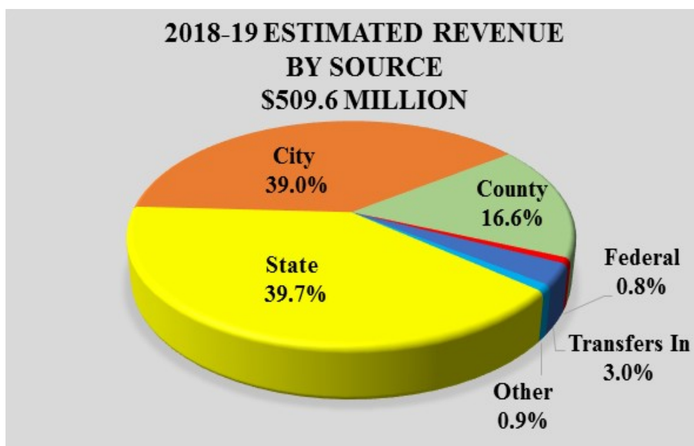
The remaining operating budget, excluding transfers, provides a clearer picture of the amounts budgeted by the City for the general operations of the City and the provision of City-wide services. This remaining amount is $414.5 million, compared to $400.4 million in FY 2018, and has increased approximately $14.1 million, or 3.5 percent, on a year-to-year basis.

The following chart provides a summary of the budget with respect to categorizing the specific areas of spending:



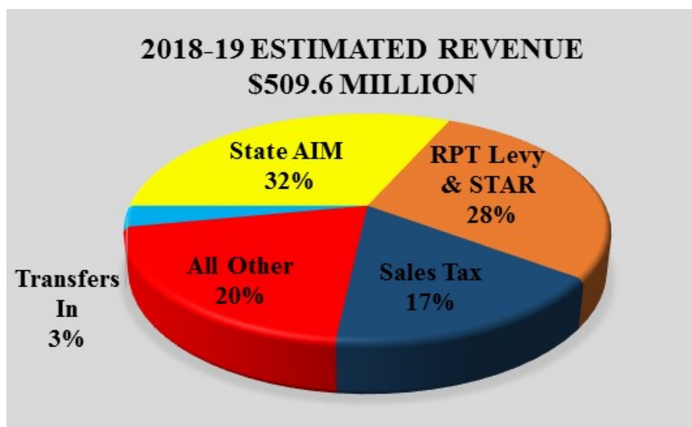
The largest components of the budget are as follows: fringe benefits (30 percent), which includes health insurance for both active employees and retirees, pension contributions, employer payroll taxes, injured-on-duty payments, and other similar commitments; transfers out (19 percent); police department (18 percent); and fire department (12 percent). These four areas combined constitute 79 percent of the total budget. Public works comprises an additional 6 percent of total budgeted appropriations and utilities represents another 3 percent. All remaining departments and general charges comprise the remaining 12 percent of expenditures. As a percentage of the total operating budget, the most notable expenditure changes on a year-to-year basis includes transfers out decreasing by 0.6 percent ($0.1 million), fringe benefits increasing by 0.4 percent ($6.5 million), and the fire department increasing by 0.2 percent ($2.5 million) as a percentage of the budget. Those three areas combined account for $8.8 million of the total year-to-year increase of $13.9 million, or 63.5 percent. These matters are discussed in more detail later in this report.

The following charts provide a summary of the adopted budget with respect to total revenues and sources of those revenues:



The first chart illustrates the main sources of estimated revenue of $509.6 million by summarizing the various revenues according to the originating source. The largest contributor of revenue to the City is the State which is budgeted to provide $202.4 million, or 39.7 percent to the City, an increase of $7.9 million from the prior year amount of $194.5 million. Total State Aid includes State Aid and Incentives to Municipalities ("State AIM"), Tribal State Compact ("TSC") revenue or casino revenue, School Tax Relief ("STAR") program revenue, grants and program specific funding. The second largest revenue source is the City itself, 39.0 percent, at $198.7 million, which is an increase of $14.3 million from last year's budgeted amount of $184.4 million. City revenue includes taxes (including property taxes), fines, licenses and permits, sale of land/assets, and various other miscellaneous revenue categories. The third largest revenue contributor is Erie County (the "County") at 16.6 percent, with the most significant revenue source being sales tax, providing for $84.4 million. Other revenues to the City bring the total contributed amount from the County to $84.5 million. Total County revenue is estimated to be flat with a slight decrease of $46,250, or 0.05 percent, in the adopted 2018-19 budget as compared to the prior year. Transfers in from the Enterprise Funds of $15.4 million, or 3.0 percent of total revenues, includes transfers from the Parking Fund ($7.8 million), the Water Fund ($6.9 million), and the Solid Waste and Recycling Fund ($0.7 million). Transfers in are budgeted to decrease by $0.8 million, or of 5.0 percent, over the prior year. There are two items that result in the year-to-year decrease: $1.2 million decrease in the transfer from the Parking Fund, and $400,000 increase in the transfer from the Water Fund. Federal revenue ($4.0 million) and other revenue ($4.6 million) each represent 1.0 percent of total estimated revenue for fiscal year 2018-19; other revenue of $4.6 million represents service charges from other government entities.

The next chart demonstrates the main categories of total estimated revenue of $509.6 million.



The largest categories are State AIM, City revenues consisting of the real property tax levy and STAR program revenue, and County sales tax. The City's real property tax levy and STAR revenue accounts for 28 percent of total estimated revenues, State AIM accounts for 32 percent and sales tax provided by the County accounts for 17 percent of the total estimated revenues. These three revenue sources compose 77 percent of the City's estimated revenues. The categories individually have not fluctuated significantly from last year. However, as a percentage of total revenue both State AIM and the property tax levy and STAR have each decreased by 1 percent each, and the all other category has increased by 2 percent. The increase in the all other category is the result of increased City revenues, primarily in service charges, for the sale of capital assets and for a budgeted increase in casino revenue. These items will be discussed in further detail under the revenue section of this report.

In addition to the $509.6 million in estimated revenues, the City has budgeted the use of $4.0 million of fund balance restricted for capital outlay.

The adopted budget increases the City's property tax levy, including STAR, to $145.3 in 2018-19 from $139.6 million in 2017-18, an increase of $5.7 million, or 4.1 percent. The City's property tax levy has been lowered or maintained annually since 2007-08 when the property tax levy was $146.3 million. The Mayor had made a commitment to maintain a policy of controlling taxes, providing tax certainty for commercial businesses and homeowners, in an effort to attract more business and residents to the City of Buffalo, resulting in the maintenance or reduction of property taxes for the last twelve years. The City's available property tax margin is $67.1 million, representing an increase from the prior year's amount of $61.5 million of $5.6 million, or 8.3 percent. Within the Adopted budget, the City provides 48.7 percent of the tax levy to the District. The District's debt service is equivalent to 7.2 percent of the tax levy, while 19.2 percent of the tax levy is assessed for the City's debt service. From an operational standpoint, the City utilizes 32.1 percent of the levy while the District uses 41.6 percent of the tax levy for operations.

The Adopted budget will utilize 60.1 percent of the City's constitutional taxing capacity, a decrease from the 61.0 percent utilized last year. The City is in the process of conducting a City-wide property reassessment which will be effective beginning in 2019-20.

Excluding the use of other resources, which includes restricted fund balance for capital outlay, revenues are projected to increase $22.1 million, or 4.5 percent, on a year-to-year basis; these increases are discussed within the "Estimated Revenues" section of this report.

The City is not using unassigned fund balance in the 2018-19 budget, which is the result of fund balance no longer being available for operations. For the year ended June 30, 2017, the City reported a deficit and reduction in fund balance of $34.5 million, resulting in unassigned fund balance of $6.5 million. The City included the use of $12.2 million of fund balance in the 2017-18 budget. In previous years the City has utilized fund balance as a resource to close budgetary deficits. It is noted that the Rainy Day Fund does remain intact, which was $38.8 million at June 30, 2017; a formal Rainy Day Policy related to the use of these funds has not been adopted.

Spending Levels Compared to 2017-18

Compared to the 2017-18 adopted budget, the 2018-19 adopted City spending is increasing by $13.9 million, or 2.8 percent, over the prior year adopted budget. Of that increase, $5.6 million is attributed to departmental costs, primarily in personal service costs, and $8.3 million to general charges.

Three departments are driving the annual increase in departmental expenditures, being the fire, police and public works departments, which combined account for $5.5 million of the $5.6 million increase. The remaining twelve departments account for a net increase of $100,000. It is noted that the Common Council modified the adopted budget by $2.2 million, with no changes to the total amount budgeted for expenditures. The single largest modification was the establishment of a freeze account in the amount of $1.6 million under general charges, which is funded with $1.0 million from Debt Service and $621,548 from various departmental lines. The proposed budget included $1.5 million for the sale of a revenue anticipation note in 2018-19 which was reduced by the Common Council to $500,000. The $1.6 million freeze account may be used as needed for the original purpose of the budgeted funds. To release the funds a transfer request signed by the Mayor and Comptroller would need to be approved by the Common Council.

In addition to the establishment of the freeze account, a Memorandum of Understanding ("MOU") was agreed upon between the Common Council and the Mayor's Administration. The intent of the MOU is to enhance communication between the Mayor, the Department of Administration and Finance and the Common Council in regards to the City's cash flow. On a monthly basis the aforementioned parties agree to review the current balance of cash on hand to the same period of the prior-year. If available cash on hand falls below sixty-six percent of the prior-year balance for the same month then a meeting of Council leadership, the Mayor and the Commissioner of Administration and Finance will occur. The focus of the meeting will be a discussion on budget contingency measures to be undertaken in the event of a persistent negative cash flow or in the likelihood of an increased deficit and the use of unassigned fund balance.

The following schedule compares the 2018-19 adopted budget to the prior year, and includes actual amounts reported for the year ended June 30, 2017.

	Fiscal Year Ended June 30, 2017 Actual	2017 - 18 Adopted Budget	2018-19 Adopted Budget	Increase (Decrease) over Prior Year Budget
	($ in millions)			
Departments				
Common Council	$ 2.2	$ 2.3	$ 2.4	$ 0.1
City Clerk	2.5	2.7	2.7	-
Mayor & Executive	4.0	5.3	5.1	(0.2)
Audit & Control	2.8	3.5	3.5	-
Law	3.5	3.8	3.6	(0.2)
Assessment	2.7	2.6	2.7	0.1
MIS	3.7	5.4	5.3	(0.1)
Administration & Finance	7.3	9.5	9.4	(0.1)
Parking	2.8	2.9	3.1	0.2
Police	92.2	89.5	91.4	1.9
Fire	62.9	57.2	59.7	2.5
Human Resources	4.9	5.5	5.7	0.2
Public Works	29.8	30.1	31.2	1.1
Community Services	4.0	4.4	4.5	0.1
Permits & Inspections	5.7	5.8	5.8	-
TOTAL DEPARTMENTS	**231.1**	**230.5**	**236.1**	**5.6**
GENERAL CHARGES				
Grants In Aid	0.4	0.9	0.9	-
Utilities	16.9	17.2	17.3	0.1
Services	1.5	1.6	1.4	(0.2)
Capital Outlay	-	-	-	-
Other	8.9	2.5	2.5	-
Freeze Account	-	-	1.6	1.6
Fringe Personal Services	5.4	5.2	5.4	0.2
Fringe Benefits:				
Active Employee Health Insurance	36.0	37.4	39.6	2.2
Retiree Health Insurance	33.0	37.1	39.4	2.3
FICA & Medicare Payroll Taxes	14.3	14.0	14.4	0.4
Employment Retirement System	8.1	11.6	12.0	0.4
Police & Fire Retirement System	31.2	33.5	32.8	(0.7)
All Other Fringe Benefits	7.6	8.8	10.5	1.7
Debt Service	0.3	0.1	0.6	0.5
Subtotal General Charges	**163.6**	**169.9**	**178.4**	**8.5**
Interfund Transfers Out - Education	70.3	70.8	70.8	-
Interfund Transfers Out - Other	31.5	28.5	28.3	(0.2)
Subtotal Transfers Out	**101.8**	**99.3**	**99.1**	**(0.2)**
TOTAL GENERAL CHARGES AND TRANSFERS OUT	**265.4**	**269.2**	**277.5**	**8.3**
TOTAL BUDGET	**$ 496.5**	**$ 499.7**	**$ 513.6**	**$ 13.9**

The adopted 2018-19 budget includes the following special initiatives to help improve the quality of life across the City of Buffalo, as follows:

- An additional $200,000 has been budgeted for the Summer Youth Employment Program bringing the total budgeted amount to $1.8 million;
- A total of $1.4 million has been budgeted to the Buffalo Olmsted Parks Conservancy;
- $860,000 for Grants in Aid:
    - $350,000 cultural and anti-violence grant,
    - $250,000 allocated for Community Centers to offset their gas and electric costs, and
    - Additional cultural investments;
- $500,000 to fund the Police Body Camera program;
- $500,000 for Say Yes to Education Initiative (current year contribution would bring total commitment since FY 2011 to $2.3 million);
- $400,000 investment in a new fire alarm dispatch service;
- $216,000 for workforce development programs and services at the Beverly Gray Business Exchange Center and outreach activities sponsored by the Buffalo Employment Center;
- $201,000 to Buffalo Place to assist with maintenance of Rotary Rink and downtown corridors;
- $192,000 for various historical and cultural venues across Buffalo including: Buffalo Zoo, Buffalo Place, Kleinhans Music Hall, Buffalo Historical Society, and the Dr. Lords Library;
- $150,000 in continued funding for Buffalo Peacemakers;
- $100,000 for the Police Athletic League to expand recreational activities;
- $65,000 investment in new technology to assist at crime scenes and accident scenes;
- $35,000 to continue supporting AmeriCorps members in Buffalo;
- $20,000 to continue the mentoring program sponsored by Game Changers; and
- Thirty-one clean sweep initiatives planned.

Departmental Budgeted Expenditures

At the departmental level, total Adopted budgeted appropriations are $236.1 million, an increase of $5.6 million over last year's adopted budget of $230.5 million, representing an increase of 2.4 percent. Total actual departmental spending in 2016-17 was $231.1 million; the adopted 2018-19 budget of $236.1 million reflects an increase of $5.0 million, or 2.1 percent.

The budget reflects the additional labor costs associated with the various collective bargaining agreements ("CBAs") settled over the past several years. These increased costs associated with salary increases are offset with lower starting salaries for new employees. All contracts are settled through at least the end of FY 2018-19 except for the Firefighters Local 282 which expired on June 30, 2017. Four additional CBAs will expire by June 30, 2019 including the Police Benevolent Association (Police Officers), Local 264 (Blue Collar), Local 650 (White Collar), and Crossing Guards. An additional two CBAs will expire by June 30, 2020, including Local 2651 (Building Inspectors) and Local 17 (Operating Engineers).

There are three departments with significant budgeted increases that total $5.5 million including the fire department which is increasing by $2.5 million (4.4 percent), the police department which is increasing by $1.9 million (2.1 percent), and public works which is increasing by $1.1 million (3.7 percent). The increase within each of the departments is driven by personal service costs which on a combined basis account for $4.5 million of the $5.5 million increase within these three departments. Five additional departments are increasing on a year-to-year basis in the cumulative amount of $0.7 million and includes an increase of $0.2 million for both human resources (5.5 percent) and parking (6.9 percent), and an increase of $0.1 million for common council (4.3 percent), assessment (3.8 percent) and community services (1.4 percent).

The city clerk, permits and inspections, and audit and control departments are remaining flat year-to-year.

Comparing the 2018-19 adopted budget to actual results for the year ended June 30, 2017, budgeted departmental costs exceed actual expenditures in all categories except for the police and fire departments. Actual expenditures for the police department were $92.2 million and were $62.9 million for the fire department. Budgeted appropriations for the police department are $91.4 million, representing a difference of $0.8 million. Budgeted appropriations for the fire department are $59.7 million, representing a difference of $3.2 million. The actual expenditures in the police and fire departments for 2016-17 were high due to the large number of recruits in that year; the City has estimated the impact from the hiring and training initiatives will reduce overtime and personal service costs as those individuals are now assigned to on-duty service. This is a budget area that continues to require monitoring due to the past practice of exceeding budget and the minimum manning requirements of both departments. The police and fire department continue to exceed the amount budgeted for overtime, a trend that has been ongoing back to at least 2005-06.

There are four departments budgeted with a decrease in the combined amount of $600,000, including the mayor and executive department of $200,000 (3.8 percent), the law department of $200,000 (5.3 percent), the administration and finance department of $100,000 (1.1 percent) and management information systems ("MIS") of $100,000 (1.9 percent).

The City has incorporated various management tools into the CBA's to improve efficiencies and to control expenditures. Some examples of these management tools include a residency requirement for all new police and fire personnel, elimination of health insurance in retirement for new hires, and requiring employee contributions for health insurance. In addition, all contracts have moved beyond the previously typical five steps before an employee reaches their top salary step with all new hires now on an extended schedule that requires at least seven years of service prior to an employee reaching the top step, resulting in lower initial salaries for new hires. It is noted the hiring of new recruits in the police and fire departments are expected to reduce overall personal service costs with respect to both salaries and overtime. However, these expenditures have exceeded budget over at least the last thirteen years. Even with the new management tools in place, employees continue to have substantial time-off allotted to them which contributes to overtime needs.

General Charges

Total General Charges, excluding transfers out, are budgeted at $178.4 million for 2018-19, an increase of $8.5 million, or 5.0 percent, from the prior year budget of $169.9 million. General charges include fringe benefits, utilities, grants, interdepartmental services, and debt service. General charges in 2016-17 totaled $163.6 million, with the current adopted budget amount of $178.4 million representing a difference of $14.8 million, or 9.0 percent. It is noted that the freeze account in the amount of $1.6 million is budgeted under General Charges.

The most significant increase is in fringe benefits which are budgeted at $148.7 million, an increase of $6.3 million, or 4.4 percent, over the prior year budget amount of $142.4 million. The increase is driven by several items with the most significant increase reflected within retiree health insurance of $2.3 million followed by an increase in active employee health insurance of $2.2 million. The City has also increased the amount budgeted for the salary adjustment line, which provides a set aside of resources for contract negotiations, and has increased $1.1 million. There is an increase in the amount for compensatory time off of $0.6 million. There is a budgeted increase of $400,000 in both employer payroll taxes and employer retirement system contributions. These increases are offset by a budgeted decrease of $0.7 million for police and fire pension contributions.

The City has budgeted a total of $79.0 million in 2018-19 for health insurance, consisting of $39.6 million for active employees and $39.4 million for retirees. Compared to the 2017-18 budget that is an increase of $4.5 million. The medical portion of the self-insured plan is estimated to increase by 5.0 percent, and the pharmaceutical component is estimated to increase by 10.0 percent, for an aggregate increase of 6.6 percent over the prior year costs. The premium equivalent cost is estimated to increase between 5.0 percent and 7.9 percent.

The salary adjustment line has been budgeted at $2.4 million, an increase from the $1.3 million budgeted last year. This budgeted amount is for the expired fire contract.

Pension payments are not budgeted to change significantly from last year and include a decrease year-to-year of $0.3 million, or 0.8 percent, on net a basis. New York State Employee Retirement System ("ERS") contributions are projected to increase by $0.4 million from $11.6 million to $12.0 million and the New York State Police and Fire Retirement System ("PFRS") is budgeted at a decrease of $0.7 million, from $33.5 million to $32.8 million. The increase of the ERS contribution is related to the increases to employees' salaries, while the decrease in PFRS is reflective of lower pension tier employees retiring and being replaced by tier six employees which have a lower contribution rate.

Total fringe benefit costs in 2016-17 were $130.2 million, which is $18.5 million less than the adopted budget amount of $148.7 million, which is a difference of 14.2 percent. Significant differences in fringe benefits between 2016-17 and the adopted 2018-19 budget are as follows: $6.4 million for retiree health insurance, $3.9 million for ERS contributions, $3.6 million for active employee health insurance, $2.4 million for the salary adjustment line, $1.6 million for PFRS contributions, and $0.6 million for payout on unused sick days.

All other general charges (excluding transfers out) are projected to increase by $2.2 million, or 8.0 percent. The largest component of the increase is related to the establishment of the freeze account in the amount of $1.6 million. The proposed budget originally included $1.5 million for debt service which has been reduced to $0.5 million. The City may need to issue a revenue anticipation note ("RAN") in the estimated amount of $70 to $100 million which would be the first time a RAN was necessary since 2004. If it is determined that a RAN is necessary, funding for it would come from debt service as well as the freeze account with the proper approvals. The spend down of fund balance and the uncertainty regarding the timing of receipts of certain revenues has resulted in this potential cash flow need. Fringe personal services, representing payments to injured-on-duty public safety personal, is budgeted to increase $150,000. Utilities are held consistent with a minor budgeted increase of $95,000. These increases are offset with minimal decreases in services in the amount of $175,000 and other miscellaneous and grants in aid both decreasing by $35,000.

For comparison purposes, all other general charges (excluding transfers out) totaled $33.4 million for the year ended June 30, 2017, with a difference of $3.7 million when compared to the 2018-19 adopted budget amount of $29.7 million. Increases include $1.6 million for the freeze account, $0.5 million for grants in aid, $0.4 million for utilities, and $0.3 million for debt service. These increases are offset by decreases in the other general charges category of $6.4 million, which is attributed to a one-time judgment against the City that was expended in 2016-17 and a decrease in services in the amount of $0.1 million.

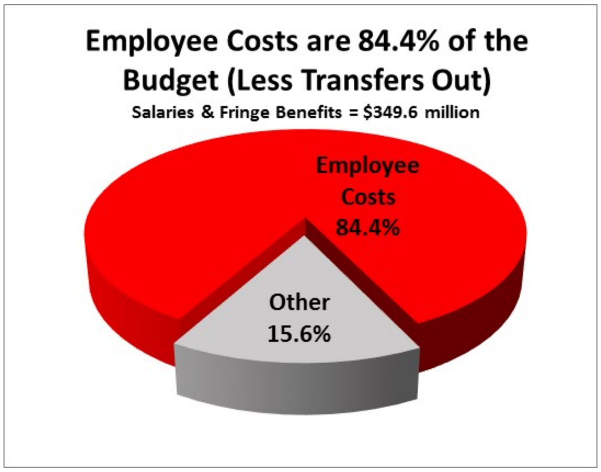
Other Financing Uses

As previously noted, Transfers Out have decreased by $0.1 million on a year-to-year basis due to an increase of $3.1 million for principal and interest due on outstanding debt and a decrease of $3.2 million for the transfer to the Solid Waste and Recycling Fund. Compared to the 2016-17 transfers out in the amount of $101.8 million, the 2018-19 transfers out decreased by $2.7 million to $99.1 million; the decrease between those two years is the net impact of two actions. The first one is the reduction of $3.2 million that was used to subsidize the Solid Waste and Recycling Fund in the 2018-19 adopted budget and the second item was the increase of $0.5 million for the District in 2017-18. The City's adopted budget includes increases for fees on all trash totes to generate additional revenue for the fund to be self-sustaining. With the increase in rates, the City has determined that the Solid Waste and Recycling Fund will no longer need to be subsidized by the General Fund; however, if the increased fees do not generate enough revenue, the General Fund would be liable to make up the difference.

Employee-Related Costs

The majority of expenditures in the City budget are employee-related costs. Direct employee salaries and wages, coupled with fringe benefits such as health insurance, dental insurance, life insurance and pension, represent 84.4 percent of the City's General Fund expenditures exclusive of transfers. The City's historic employee-related costs average between 84-87% of total operational costs annually. The 2018-19 adopted budget includes $349.6 million in direct salary and fringe benefit costs, which are in total increasing by $11.8 million, or 3.5 percent, over the amount budgeted in 2017-18 of $337.8 million. The increase is reflective of several items, leading to the overall net increase. Personal services representing salaries and wages, including injured-on-duty salary payments, are increasing $5.5 million to $200.8 million from the 2017-18 budget amount of $195.3 million, which represents an increase of 2.8 percent. The City has included increases in all departments for personnel service costs, even beyond the expiration of contracts in the out-years of the financial plan. The increases are approximately 2.0 percent annually, except for the fire department which is increased by 1.8 percent in 2018-19 and 2 percent in the remaining out-years.

The following chart demonstrates the percentage of the total budget less transfers out that is comprised of employee costs:



The adopted budget includes a decrease of forty-two full time equivalent positions ("FTEs") as compared to the 2018 adopted budget, which will be further discussed in detail in the staffing section of this report.

With respect to public safety, personal service ("PS") costs for the police department are projected to increased $1.5 million (1.8 percent) on a net basis; it is noted these costs are primarily for the uniformed officers but also include the civilians that work within the department. Annual salary is projected to increase by $3.4 million and the field training officer line is funded at $115,000. In addition, overtime is projected to decrease by $1.8 million, seasonal salary is reduced by $97,000, acting time is reduced by $71,000 and court time is reduced by $50,000. All other salary lines within the police department are increasing by $39,000 on a net basis.

The City is planning to bring up to an additional sixty recruits to the police academy during the 2018-19 fiscal year. The City is tentatively planning on running two academy classes during the fiscal year of approximately 30 recruits each, with the first class schedule to begin in August 2018 and the second class to begin in January 2019.

The City has budgeted $9.1 million for police overtime for 2018-19. Overtime was budgeted at $11.0 million for the 2017-18 fiscal year and is projected to be $11.7 million for the year ending June 30, 2018. Overtime has historically been under budgeted and has been funded largely through departmental vacancies and fund balance. Due to the significant number of recruits that have been hired in 2017-18, those vacancies that were once used to offset excess overtime are not available.

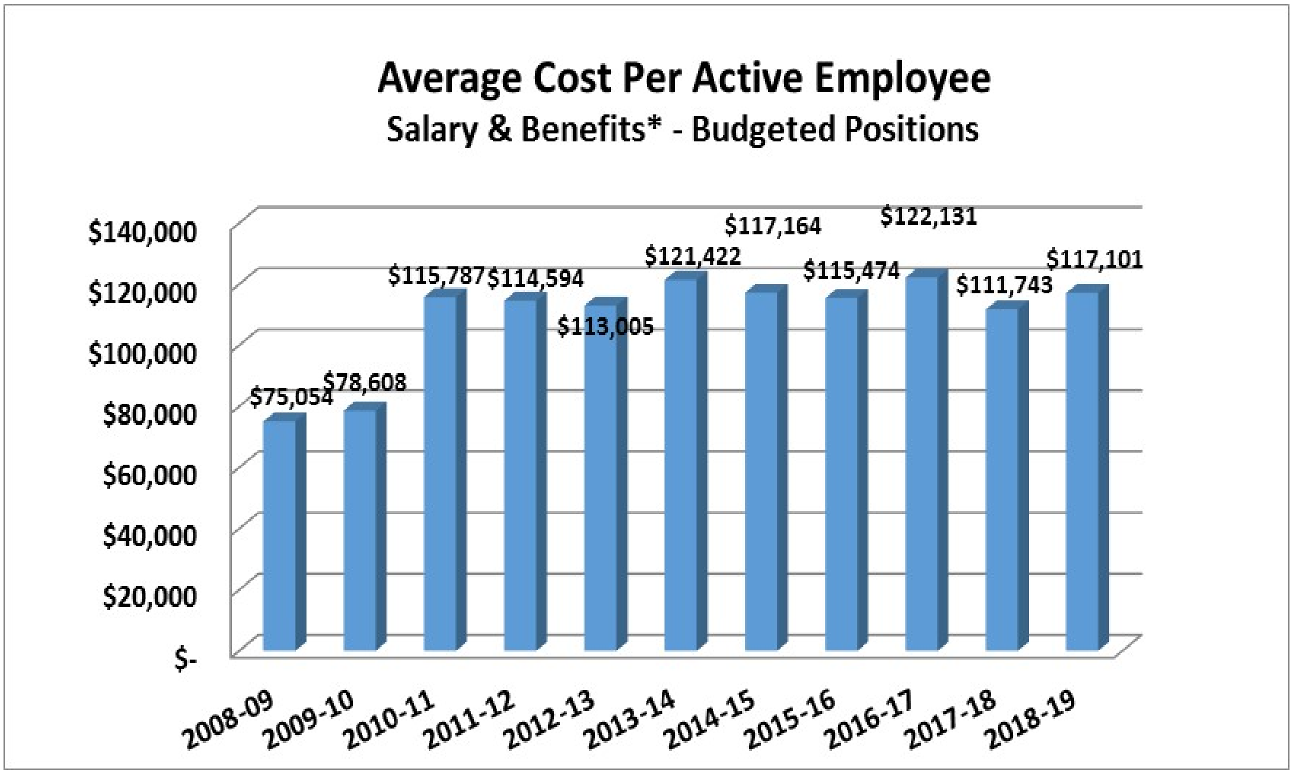
The fire department's personal service costs, which includes both firefighters and civilian workforce, are increasing in the amount of $1.9 million. The fire department currently has forty-two vacant positions and are planning on adding up to 60 new fire trainees in 2018-19, through two classes. The City offered the most recent firefighters civil service exam in May 2018, and plans on beginning the vetting process during the summer of 2018 with the goal of starting a new fire academy class in September 2018. A second class would be scheduled to begin in January 2019. Annual salaries are increasing by $2.9 million and overtime is decreasing by $0.7 million. All other personnel service costs for the fire department are decreasing on a net basis by $300,000.

Policies for controlling overtime and sick leave use have been implemented and have thus far proven insufficient in reducing related expenditures, as overtime costs for the fire department are $8.8 million as of March 31, 2018 and are projected to be $11.4 million at year-end which will exceed budget by $6.1 million by June 30, 2018; the amount budgeted for overtime was $5.4 million for 2017-18. The City had assumed that overtime costs could be more effectively managed through changes to the labor agreement which provides direction for changes in how staffing shortages are addressed. However, those changes have not translated to a decrease in overtime. Similar to the police department, the fire department would use vacancy savings to cover any overages in overtime, unfortunately with the increase in fire trainees, the vacancies were not available to be used to cover the overage.

On a year-to-year basis (FY 2018 to FY 2019), the City is decreasing budgeted overtime for the police department in the amount of $1.8 million and decreasing for the fire department by $0.7 million, for a total of $9.1 million and $4.7 million, respectively. Overtime continues to be an area of concern as it appears to be under-budgeted.

All other expenditures including services, supplies, capital outlay and travel comprise the remaining 15.6 percent of the budget, or $64.8 million.

The following chart provides historical context in regards to the City's personnel costs over the past ten-years. Employee costs for active employees, excluding retire health insurance costs, have increased annually with personnel service costs increasing significantly by $99.6 million and fringe benefits increasing by $35.9 million. Personnel service costs have increased as a result of the settlement of employee contracts over the past decade. Fringe benefit costs increases are largely a result of health insurance premium increases, and to a lesser extent pension contributions and employer payroll taxes. In FY 2009, actual employee costs totaled $174.8 million compared to the Mayor's adopted 2018-19 budget of $310.2 million, representing an increase of $135.4 million (77.5 percent) over the ten-year period. More specifically, employees' salaries and compensation have increased from $101.3 million to $200.9 million, or $99.6 million (98.3 percent) over this period, while fringe benefits have increased from $73.5 million to $109.4 million or $35.9 million (48.8 percent). On an annual basis, employee compensation is increasing by $5.5 million and fringe benefits are increasing by $4.0 million, with active employee health insurance increasing by $2.2 million, the salary adjustment line increasing by $1.1 million, and unused sick days/vacation days increasing by $0.6 million. All other fringe benefits are increasing by $0.1 million on a net basis, excluding retiree health insurance.



*Eliminates retiree health insurance from total PS costs.

In 2008-09 the average actual cost per employee was $75,054, which included salary and fringe benefits (excluding retiree health insurance). For the upcoming 2018-19 fiscal year, the average budgeted cost per City employee is $117,101, an increase of $42,047 or 56 percent, since 2008-09. The figures above exclude retiree health insurance costs to reflect the total cost per active employee.

The budgeted amount in 2018-19 for health insurance for retirees is $39.4 million, an increase of $2.3 million (6.2 percent) from the prior year. The chart below provides a ten-year history of health insurance costs incurred by the General Fund of the City as compared to the budgeted amounts for both 2017-18 and 2018-19. Health insurance is budgeted to increase by $19.9 million (33.6 percent) over the actual levels in 2008-09. The actual increase from 2009 to 2017 was $9.5 million, or 16.0 percent. It is noted that the City, by being completely self-insured for health insurance and prescription drug coverage, has purchased a stop-loss insurance policy to mitigate the exposure to the City for unpredictable and high cost claims.

Health Insurance											
	ACTUAL									Proj.	
FYE	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Active	$ 28.2	$ 30.1	$ 29.2	$ 29.7	$ 28.4	$ 28.6	$ 28.8	$ 29.7	$ 35.6	$ 37.4	$ 39.6
Retiree	$ 30.9	$ 33.0	$ 31.8	$ 36.7	$ 38.0	$ 41.2	$ 42.1	$ 38.4	$ 33.0	$ 37.1	$ 39.4
Total	**$ 59.1**	**$ 63.1**	**$ 61.0**	**$ 66.4**	**$ 66.4**	**$ 69.8**	**$ 70.9**	**$ 68.1**	**$ 68.6**	**$ 74.5**	**$ 79.0**

Staffing Levels

The 2018-19 budget includes a net decrease of forty-two positions from the 2017-18 budget. The following table shows budgeted staff changes within the various departments from the adopted 2017-18 budget to the adopted 2018-19 spending plan:

	2017-18 Adopted	2018-19 Adopted	Change	2017-18 3rd Quarter Filled	Variance to Proposed 2018-19 Budget
Animal Control & Shelter	16	15	(1)	15	0
Assessment & Taxation	33	34	1	29	(5)
Audit & Control	49	49	0	41	(8)
Budget & Urban Affairs	9	11	2	7	(4)
City Clerk	19	20	1	19	(1)
City Council	39	39	0	38	(1)
Community Services	37	33	(4)	30	(3)
Division of Buildings	64	60	(4)	57	(3)
Engineering	77	67	(10)	66	(1)
Fire (Non-Uniform)	50	43	(7)	37	(6)
Fire (Uniform)**	717	742	25	672	(70)
Forestry	6	6	0	5	(1)
Human Resources	21	19	(2)	18	(1)
Law	38	33	(5)	30	(3)
Mayor & Executive	79	75	(4)	69	(6)
MIS	32	29	(3)	27	(2)
Parking	44	39	(5)	34	(5)
Parks	35	35	0	32	(3)
Parks Admin.	3	3	0	3	0
Permits & Inspections	93	95	2	84	(11)
Police (Non-Uniform)	215	204	(11)	186	(18)
Police (Uniform)*	801	804	3	786	(18)
Public Works (Gen Office)	5	5	0	5	0
Purchase	31	25	(6)	25	0
Recreation	20	20	0	18	(2)
Sanitation & Streets	137	126	(11)	126	0
Telecommunications	5	5	0	5	0
Treasury & Collections	16	13	(3)	11	(2)
Total	**2,691**	**2,649**	**(42)**	**2,475**	**(174)**

* **Uniformed Police** positions are budgeted at 804 and are increased by three FTE's compared to the 2017-18 budget. The increase of three positions is related to a grievance that three individuals filed against the police department in regard to the detective sergeant exam. They were successful in their grievance and the City was required to promote the three individuals to detective sergeants. The Adopted staffing number reflects the net effect of different actions.

First, while 801 positions were budgeted in 2017-18, current-year attrition was offset by two academy classes which left the uniform police with 786 filled positions as of the end of the current year's third quarter, which is a net increase of 4 FTE's compared to the FY 2017 third quarter count of 782 FTE's. The City expects this number to decline further through the remainder of the current year due to retirements. Additionally, the City intends to hire up to sixty police recruits during 2018-19, with two recruit classes planned, with one scheduled to begin in August 2018 and a second one for the spring of 2019. The City has included an attrition rate of 35 sworn police officers due to retirement next fiscal year. There are currently 51 sworn police officers that are at least 55 years old and have 30 years of service and are currently eligible to retire. Taken together, it is therefore improbable the City will staff 804 uniformed Police positions in 2018-19 with a more realistic expectation of 750-780 uniformed police officers on the force by the end of FY 2018-19.

** **Uniformed Fire** positions were budgeted at 717 in the 2017-18 fiscal year and are budgeted to increase by twenty-five firefighter positions in 2018-19 to a total of 742 uniformed firefighters. Current year attrition offset by current recruit classes has decreased the size of the force to 672 compared to 678 as of the end of the 2016-17 third quarter, which is a net decrease of 6 FTE's. The City is estimating an additional 20 retirements during the 2018-19 fiscal year and is planning on bringing up to an additional 60 fire recruits in 2018-19. The fire department recently held a firefighter exam, and plans on beginning the first of two classes in August 2018 and the second class in January 2019. It is therefore unlikely the City will staff the full number of budgeted uniformed Fire positions in 2018-19 and will most likely end the 2019 fiscal year with between 650-680 uniformed firefighters depending on the number of recruit classes the City will be able to move through the fire academy next year and bring online to fill the vacancies throughout the department. If the Administration is aggressive in the number of academy classes, it could potentially have the fire department up to its full complement by the end of 2019 as they did at the beginning of 2015-16. There are currently 24 firefighters that are at least 55 years old and have at least 30 years of service and are currently eligible to retire

On a year-to-year basis, the total number of employees is decreasing by forty-two FTEs. The most significant change is the increase of twenty-five uniformed firefighter positions which is offset by the elimination of eleven civilian positions in the police department, eleven positions in streets and sanitation, ten positions in engineering, seven civilian positions in the fire department, six positions in purchase, five positions in both the law and parking departments, four positions in each community services, mayor and executive, and division of buildings, three positions in both treasury and collections and MIS, with the remaining net increase of six positions reflective of all other department needs. The City intends to avoid lay-offs, and is targeting to eliminate current vacant positions, however, the City does recognize that they may need to use lay-offs to bring actual employment levels in line with the budgeted positions.

The following schedule provides a summary of the composition of the fire and police forces as of May 1, 2018, summarized by membership in pension tier and including the average age, average years of service, median age and median years of service by tier. As noted below, the largest pension tier membership remains Tier 2 with a combined 824 FTEs which has decreased on a year-to-year basis by 118 employees compared to 942 in 2016-17. As a reference, 2015-16 had 1,005 FTEs in Tier 2, which is a decrease of 181 over the last two years. On average, most protective service employees retire after 25-30 years of service.

Fire	# FTE's	Average Years of Service	Average Age	Median Age	Median Years of Service	Tier as Percent
Tier 1	-	-	-	-	-	-
Tier 2	362	21.0	49.4	50.5	21.5	54.4%
Tier 3	17	8.5	38.3	36.2	8.6	2.6%
Tier 4	-	-	-	-	-	-
Tier 5	56	7.0	38.3	36.7	7.0	8.4%
Tier 6	230	2.4	32.6	31.7	2.9	34.6%
Total Count	**665**	**13.0**	**42.3**	**42.4**	**13.4**	**100.0%**

Police	# FTE's	Average Years of Service	Average Age	Median Age	Median Years of Service	Tier as Percent
Tier 1	2	39.7	64.0	64.0	39.7	0.3%
Tier 2	462	20.3	48.0	49.3	20.7	59.5%
Tier 3	6	8.6	41.2	41.2	8.7	0.8%
Tier 4	1	8.7	51.1	51.1	8.7	0.1%
Tier 5	48	5.9	33.5	33.0	6.2	6.2%
Tier 6	257	2.3	30.1	29.4	1.4	33.1%
Total Count	**776**	**13.4**	**41.2**	**41.7**	**13.4**	**100.0%**

Estimated Revenues

The adopted budget includes total estimated revenues and other financing sources of $509.6 million, representing an increase of $22.1 million, or 4.5 percent, over the 2017-18 budget. The following table shows the differences by major category and year-end actual revenue as of June 30, 2017 for a reference:

	Fiscal Year Ended June 30, 2017 Actual	2017 - 18 Adopted Budget	2018-19 Adopted Budget	Increase (Decrease) over Prior Year Budget
	($ in millions)			
Revenue				
Taxes	$ 149.8	$ 150.8	$ 157.1	$ 6.3
Non-Property Taxes	11.7	12.3	12.1	(0.2)
Licenses and Permits	5.0	5.3	6.1	0.8
Intergovernmental	251.6	258.8	268.9	10.1
Service Charges	13.2	14.8	15.9	1.1
Fines	10.8	14.2	15.2	1.0
Interest	0.6	0.7	0.6	(0.1)
Miscellaneous	6.2	14.4	18.3	3.9
TOTAL REVENUE	**448.9**	**471.3**	**494.2**	**22.9**
Resources				
Transfers In	13.1	16.2	15.4	(0.8)
TOTAL OTHER RESOURCES	**13.1**	**16.2**	**15.4**	**(0.8)**
TOTAL REVENUE & RESOURCES	**$ 462.0**	**$ 487.5**	**$ 509.6**	**$ 22.1**

Revenues, excluding transfers in, are projected to increase $22.9 million, or 4.5 percent and transfers in are projected to decrease by $0.8 million, or 31.7 percent, for a net increase of $22.1 million, or 2.8 percent, year-to-year. Total revenue in 2016-17 was $462.0 million, which included $448.9 million of departmental revenue and $13.1 million from transfers in. It is noted that certain revenues, specifically grants within the miscellaneous category, are adjusted at year-end as an offset to expenditures. The annual year-end accounting adjustment utilizes grant revenue as an offset to specific departmental expenditures. This offset reduces both actual grant dollars reported and corresponding departmental expenditures; this adjustment is reflected in both revenues and expenditures reported for fiscal year ended June 30, 2017. The grant revenue is included as a budgeted amount in miscellaneous revenue in both fiscal year 2017-18 and 2018-19. When comparing year-end actuals to budgeted amounts, this adjustment was equal to $1.7 million. The reported amount of total expenditures for 2016-17 was $496.5 million, which resulted in a deficit and corresponding reduction to fund balance of $34.5 million. The City had originally planned to use $10.6 million in fund balance which was subsequently modified to $26.8 million, an increase of $16.2 million. The additional use of fund balance was unplanned.

Significant fluctuations noted in the revenue categories, as demonstrated in the table above, are discussed below.

The largest year-to-year increase is in intergovernmental revenue which is increasing by $10.1 million (3.9 percent) from the prior-year budgeted amount of $258.8 million to the Adopted budget amount of $268.9 million. Intergovernmental revenues include all revenues received from other government entities, including federal, state and county governments. Several of the most significant revenues include State AIM, County Sales tax, and the Tribal State Compact casino revenue. The increase is driven by the inclusion of an additional $10.0 million for both prior-year Tribal State Compact casino revenue that has yet to be received and an estimate for 2018-19, for a total budgeted amount of $17.0 million. All other intergovernmental revenues are budgeted to increase by $0.1 million on a net basis. Once again, State AIM is being held flat at $161.3 million per the New York State budget. There are no other unusual or large fluctuations noted from the prior year. Actual intergovernmental revenue totaled $251.6 million in 2016-17, which is $17.3 million less than the 2018-19 budgeted amount. The $17.3 million difference is driven primarily by the increase in Tribal State Compact casino revenue in the amount of $13.6 million, which includes the outstanding amounts for 2016-17, 2017-18 and an amount budgeted in 2018-19. Sales tax is projected to increase by $2.6 million, and Medicare Part D reimbursement is increasing by $0.9 million.

Taxes consist of the real property tax levy, interest and penalties, mortgage tax, the STAR program, and PILOTs. Taxes, in total, are projected to increase by $6.3 million, or 4.2 percent, year-to-year. The real property tax levy is increasing by $5.7 million to $145.3 million. PILOT revenues are estimated to increase by $0.7 million. No other significant variations were noted.

Service charges are projected to increase by $1.1 million, or 7.4 percent, with multiple service lines projecting increases. Compared to 2016-17 that is an increase of $2.7 million, or 20.5 percent, with the projected increase resulting from increases in various fees and service charges. The public utility inspection line is budgeted to increase by $1.0 million due to settlement of an outstanding dispute, and multiple special event lines on a net basis are increasing by $0.5 million. All other remaining service charge lines are budgeted to decrease by $0.4 million on a net basis.

Miscellaneous revenue includes various items of which the most significant includes rental income, gifts and donations, entertainment ticket surcharge, grant reimbursement, court facility aid and the sale of property and capital assets. The Administration has included a new ticket surcharge for multiple entertainment venues in the City; the surcharge is budgeted to provide $2.0 million. The purpose of the surcharge is to help defray the costs of providing City services, including traffic control, police patrols, and maintenance at these venues. The Administration has cited the fact that City residents have subsidized these services at venues that draw attendees from outside of the City and it was determined to be an equitable way of sharing the costs for the additional City services. In total, miscellaneous revenue is budgeted to increase $3.9 million, or 27.1 percent, from $14.4 million to $18.3 million. The assumption is that the sale of capital assets and land will increase on a budgetary basis in the amount of $2.9 million, which is offset by in rem sales which are budgeted to decrease by $2.1 million. Miscellaneous revenue totaled $6.2 million in 2016-17 and is projected to increase by $12.1 million in the adopted budget. The three revenue sources driving this increase include $7.1 million increase for the sale of capital assets and property, increase of $2.0 million in gifts and donations, and an increase of $2.0 million for an entertainment ticket surcharge. As previously discussed, $1.7 million of grant revenue was reclassified as a reduction to expenditures for 2016-17. Taking this adjustment into consideration, grant revenues are projected to be reduced by $300,000 in 2018-19 when compared to 2016-17. The increases in miscellaneous revenue is offset by a decrease of $0.4 million, attributed to reductions in the deposit of unclaimed funds, reduced by $100,000 and multiple miscellaneous revenue lines in the amount of $300,000.

Gifts and donations, budgeted at $2.0 million, is in response to the changing of the federal tax code to limit deductions for state and local income taxes to $10,000 annually. The State has responded by enacting a law permitting taxpayers to donate to a non-profit established by the host municipality, which would be eligible for a tax credit and could be reported as a charitable donation on federal taxes. The Common Council adopted a local ordinance and amended the City Charter to allow donors to the charitable gifts reserve fund to receive a credit of ninety-five percent for taxes paid against their real property tax liability. This represents a new revenue source and should be monitored, as there are normally delays in implementing any new program and estimates are difficult to make. The district heat program is reduced by $0.4 million, and all other miscellaneous items are decreasing by $0.5 million on a net basis. The City is going to be more active in pursuing grant opportunities and have hired staff who will focus on various federal and state grants for community services, police and audit and control.

Fines are budgeted to increase on a year-to-year basis by $1.0 million, or 7.0 percent, to $15.2 million and represent an area that should be monitored closely. The budget is $4.4 million higher than the actual revenue for the year ended June 30, 2017. The City is projecting a FY 2017-18 budget shortfall in this category of $2.3 million. If revenue from fines remain flat year-to-year this would represent a $3.3 million negative variance by the end of 2018-19. Increases include an additional $1.0 million for parking tickets, a decrease of $0.2 million for traffic adjudication and all other fines are budgeted to increase by $0.2 million. The City has declared there will be a ticket amnesty program in 2018-19 which will allow offenders to pay old, outstanding parking tickets and certain tickets for violations and avoid the interest and penalties as assessed; the City has included $2.0 million of revenue associated with this program which will be a one-year revenue. Due to the wide year-to-year variance, we recommend this area be closely monitored and adjustments made to the budget as necessary.

Licenses and permits are projected to increase by $0.8 million, or 15.1 percent, to $6.1 million. The increase is due to projected increase in the volume of building permits being issued as well as some increases in the cost of the permits themselves in the amount of $0.6 million and home improvement licenses in the amount of $0.4 million. All other lines are estimated to be reduced by $0.2 million. Compared to 2016-17 which reported $5.0 million in revenue in this category, the budget represents an increase of $1.1 million, with significant increases under home improvement permits of $400,000 and building permits of $600,000.

Two revenue categories that are budgeted to decrease include non-property taxes which is projected to decrease by $0.2 million and is attributed to a decrease in the Class II Utility collection, and interest revenue which is projected to decrease by $0.1 million. These areas have not fluctuated considerably from 2017 actual reported revenues.

Transfers in are budgeted at $15.4 million, a decrease of $0.8 million from the prior year budget. The reduction reflects a decrease in the budgeted transfer from the Parking Fund of $1.1 million and offset by an increase in the transfer from the Water Fund of $0.3 million.

Fund Balance

The City's adopted 2018-19 budget is operationally balanced and does not rely on unassigned fund balance. The City has allocated $4.0 million of restricted fund balance for capital outlay which is earmarked for such expenditures only. Based on the final 2017 results of operations, total unassigned fund balance of $6.5 million was reported at June 30, 2017. This balance could be diminished in the event current year operating results are unfavorable to what has been projected; the City has projected using an additional $1.4 million of unassigned fund balance in 2017-18. The City's Rainy Day Fund of $38.8 million remains intact.

The City is no longer able to budget unassigned fund balance to fund budget deficits. Fund balance can only be replenished with surpluses, which are not projected over the Financial Plan. It is imperative the City remain structurally balanced as further draws on fund balance would further weaken the City's financial position.

Enterprise Funds

In addition to the general fund revenues and expenditures that were discussed, it is important to include the City's Enterprise Funds when discussing the health of the City's finances. An Enterprise Fund by definition is a fund that provides services to the public for which fees are collected and are intended to fund a significant portion of operations. The City has three major enterprise funds which include the Parking Fund, Solid Waste and Recycling Fund and the Water Fund.

The Solid Waste and Recycling Fund has continued to incur an annual operating deficit that the City's General Fund is ultimately liable for. Up until this current budget, the City would budget a transfer of $3.2 million to the Solid Waste and Recycling Fund to assist in the support of its operations. The cumulative deficit in the fund is $35.0 million; of this amount, $18.4 million represents a long-term loan from the General Fund and is reported as nonspendable fund balance within the General Fund. The adopted budget includes increases to fees on all trash totes to generate additional revenue for the fund to be self-sustaining. In the event deficits continue to be reported, the General Fund will be required to fund such deficits either through a transfer or a cash loan. The intent is for any surplus generated by the Solid Waste and Recycling Fund be used towards repaying the General Fund, and will continue to be monitored.

The Parking Fund is in good fiscal standing and continues to subsidize General Fund operations. The budgeted transfer for 2018-19 is $7.8 million which is a decrease of $1.1 million compared to 2017-18 amount of $8.9 million. The Water Fund is budgeted to increase its transfer from $6.6 million to $6.9 million, an increase of $0.3 million.

To provide a more accurate review of the Enterprise Funds, it is recommended that the City include an FTE schedule similar to the one that is prepared for the General Fund. The City has included additional detail for the current year in regards to assumptions such as staff count and has discretely broken out payroll and fringe benefits, but does not provide the details for subsequent projected years.

2018-19 Budget Summary

In total, the City has budgeted appropriations of $513.6 million for FY 2018-19, representing a budgetary increase of $13.9 million, or 2.8 percent, over the prior year. Of this total, departmental spending is budgeted to increase $5.6 million and general charges is budgeted to increase $8.3 million. Significant increases under general charges include health insurance for active employees ($2.2 million) and retirees ($2.3 million), the establishment of the freeze account ($1.6 million) and an increase for the salary accrual/adjustment line for the settlement of labor agreements ($1.1 million). The increase in budgeted departmental costs are due to increases in the fire department ($2.5 million), police department ($1.9 million), and in public works ($1.1 million). In addition, debt service is increasing by $0.5 million, resulting from the City's estimated cash shortage in 2018-19 and the possible need to borrow short-term to fund the cash shortage. All other expenditures are increasing by $0.7 million. The City has historically underbudgeted overtime and the adopted 2018-19 budget is indicative that this area may again be underbudgeted. A combination of savings from vacancies and fund balance have funded overtime overages in the past. Fund balance is no longer available, and the budget has tightened to where vacancy savings are not to be relied upon. We recommend this area be closely monitored as such costs can quickly escalate, especially with both departments bringing on new recruits.

It is furthermore noted that total departmental costs are increasing by $13.9 million while staffing is reduced by forty-two full-time positions. This is indicative of increasing employee costs, which includes compensation under existing labor contracts and estimates for the unsettled fire contract and health insurance increases for both retirees and active employees.

The City has estimated revenues of $509.6 million for 2018-19, which is an increase of $22.1 million, or 4.5 percent, over the prior year budgeted amount of $487.5 million. State AIM is held flat over the prior year at $161.3 million; State AIM has not increased since 2010-11. Casino revenue generated as per the terms of the Tribal State Compact is increasing by $10.0 million. New York State has verbally assured the City of Buffalo that it will make payment to the City of Buffalo in the event the legal matter is not settled during the next fiscal year; the City has budgeted $17.0 million in casino revenue. Other significant increases year-to-year include property taxes which are budgeted to increase $5.7 million over 2017-18, $2.0 million in parking and violations ticket revenue from the amnesty program, $2.0 million in gifts and donations from the new tax program, $2.0 in event surcharge fees, and an additional $0.5 million in new grant revenue. Approximately $6.5 million of the aforementioned revenue is new for the City and may not materialize at the estimated amounts. All of these lines should be closely monitored as the City begins implementing the programs and collecting revenue.

Fines are projected to increase by $1.0 million due to increased volume for parking tags. Service charges are projected to increase by $1.1 million due to the increase in the public utility inspection fee of $1.0 million for 2018-19. Miscellaneous revenue is budgeted to increase by $3.9 million, which is attributed primarily to the new adopted service fee on entertainment tickets in the total estimated amount of $2.0 million and an increase of $2.0 million for gifts and donations. The new service fee is in the early stages of implementation and there may be delays in implementation, as is the new program for donating to the City for tax relief. Both programs should be monitored closely since they are new programs.

As of the third quarter ended March 31, 2018, the City was projecting that current year revenues would total $469.9 million and be under budget by $17.6 million when compared to the adopted budget amount of $487.5 million. Actual revenue reported for the year ended June 30, 2017 was $462.0 million. Compared to the 2018-19 budgeted amount, the City has budgeted an increase of $47.6 million, or 10.3 percent. There is a risk the revenue estimates are optimistic and any significant shortfall would result in the weakening of the City’s financial position. We recommend the City closely monitor the revenues during the year and modify the budget timely, as necessary.

OVERVIEW OF THE ADOPTED 2019-2022 FINANCIAL PLAN

The following is the analysis of the City of Buffalo's 2019-2022 Four-Year Financial Plan ("Financial Plan"). The Mayor submitted the City of Buffalo's 2019-2022 Financial Plan to Common Council and the Buffalo Fiscal Stability Authority ("BFSA" or "Authority") on May 1, 2018. This section of the report provides a review of the Financial Plan and discusses the key assumptions underlying the Financial Plan.

The following is the summary of estimated revenues, projected expenditures, and projected use of fund balance:

2019-2022 Financial Plan

	2018-19	2019-20	2020-21	2021-22	Total
Total Revenues	$ 509.6	$ 512.4	$ 520.4	$ 530.6	$ 2,073.0
Total Expenditures	$ 513.6	$ 512.4	$ 520.4	$ 530.6	$ 2,077.0
Baseline Deficit	$ (4.0)	$ -	$ -	$ -	$ (4.0)
Use of Fund Balance	$ 4.0	$ -	$ -	$ -	$ 4.0
Remaining Budgetary Gap	$ 0.0	$ -	$ -	$ -	$ 0.0

The City's 2019-2022 Financial Plan includes a deficit of $4.0 million in 2018-19, intended to be funded with fund balance restricted for capital outlay. It is considered to be operationally balanced due to the released restriction on the fund balance being used, and the remaining three-years of the Financial Plan are also operationally balanced. At June 30, 2017, available fund balance for use in general operations was $6.5 million. There is insufficient fund balance available to address any significant operating needs over the Financial Plan, with the remaining $6.5 million most likely to be used to close any increases to the current year deficit and to adjust the Emergency Stabilization Fund (i.e., Rainy Day Fund) as needed. The Financial Plan does not include a provision for replenishment of fund balance.

The Rainy Day Fund comprises a 30-day set-aside of current year general fund expenditures, excluding transfers, and totaled $38.8 million at June 30, 2017. Such funds are committed by action of the Common Council and can be used in the event the City has extraordinary operating or capital needs that could not be anticipated and cannot be funded with current budget resources. If the City was to draw on the Rainy Day Fund, a replenishment plan would need to be established.

The City has relied on the use of fund balance in the development of a balanced financial plan for many years. Unassigned fund balance of $6.5 million at June 30, 2017 represents 1.2 percent of total 2018-19 budgeted appropriations. Unassigned, assigned and committed fund balance combined total $80.5 million and represent 15.7 percent of the total 2018-19 budget. Financial results that are unfavorable could substantially weaken the City's financial position.

Revenues:

Total revenues are estimated to increase $21.0 million over the four years of the Financial Plan, or 4.1 percent. Revenues are projected to fluctuate annually, increasing in the 2018-19 budget by 4.5 percent, increasing by 0.6 percent in 2019-20, and increasing in the two-remaining out-years by 1.6 percent and 2.0 percent, respectively.

Revenues, excluding transfers in, are estimated to increase $19.9 million over the four years of the Financial Plan, representing a total increase of 4.0 percent. The reasons for such fluctuations are addressed below. The following table provides a summary of the City's projected revenue over the course of the Financial Plan.

	2018-19 Adopted Budget	2019-2020 Projection	2020-21 Projection	2021-22 Projection	Four-Year Increase/(Decrease)	
REVENUE	**Financial Plan**				**$**	**%**
Taxes	$157,116,824	$ 162,054,753	$ 165,595,732	$ 168,742,466	$ 11,625,642	7.4%
Non Property Taxes	12,110,000	12,124,000	12,138,280	12,124,000	14,000	0.1%
Licenses and Permits	6,146,880	6,768,996	6,903,408	6,669,783	522,903	8.5%
Intergovernmental	268,918,233	264,886,338	269,953,285	275,090,463	6,172,230	2.3%
Service Charges	15,881,861	15,831,781	15,848,705	15,865,858	(16,003)	-0.1%
Fines	15,153,000	16,871,100	17,102,962	19,338,755	4,185,755	27.6%
Interest	605,000	605,000	605,000	605,000	-	0.0%
Miscellaneous	18,289,428	17,566,273	16,146,320	15,729,718	(2,559,710)	-14.0%
Subtotal	**494,221,226**	**496,708,241**	**504,293,692**	**514,166,043**	**19,944,817**	**4.0%**
Transfers In	15,376,008	15,721,154	16,083,559	16,464,083	1,088,075	7.1%
TOTAL	**$509,597,234**	**$ 512,429,395**	**$ 520,377,251**	**$ 530,630,126**	**$ 21,032,892**	**4.1%**

Key baseline assumptions and significant changes over the Financial Plan are addressed below.

Intergovernmental revenue is the largest revenue category and is projected to increase by $6.2 million, or 2.3 percent, over the Financial Plan. Included within this category is New York State Aid and Incentives to Municipalities ("State AIM"), which is estimated at $161.3 million for 2018-2019 and increases to $171.2 million in 2021-22, representing an increase of $9.9 million, or 6.1 percent. The City budgeted State AIM in 2018-19 in an amount consistent with the New York State budget and has estimated a 2 percent growth in 2019-20 and an additional 2.0 percent in each of the following two fiscal years. New York State (the "State") has not included any increases in the State's financial plan over the same time period. As a result, this revenue is considered speculative. City management has taken the position that it is unlikely the State will be able to continue to hold State AIM at a flat level due to the economic challenges faced by municipalities, and has therefore projected annual increases. The State has not increased State AIM to the City since 2010-11.

Sales tax is also included within Intergovernmental revenue. Sales tax revenue is budgeted flat at $84.4 million in 2018-19 as compared to the 2017-18 budgeted amount, and is reflective of current estimates. The City has included projected sales tax increases of 2.0 percent annually over the remaining three-years of the Financial Plan, increasing to $89.6 million by FY 2021-22. The actual increases for the last two reported years, 2016 and 2017, were 1.7% and 1.4%, respectively. The four-year increase for sales tax is projected to be $5.2 million, or 6.1 percent. The projected increase should be monitored against actual results for 2018 and projections for 2019.

The intergovernmental revenue category includes casino revenue pursuant to the Tribal State Compact. As previously discussed, this amount is budgeted at $17.0 million in 2018-19 and includes not only the estimated receipt for 2019, but also back payments from 2017 and 2018. The terms of the agreement are currently being litigated; the Seneca Nation has not made a payment since December 2016. The City has included the casino revenue in the 2018-19 budget based on a verbal discussion that the State would make such payment if a settlement is not reached during the year. The casino revenue is projected to decrease to $8.0 million in 2019-20 and is maintained at $8.0 million through the end of the Financial Plan.

Taxes represents the second largest revenue category; on a combined basis, intergovernmental revenue and taxes represent approximately 83 to 84 percent of the budget annually over the Financial Plan. Taxes are projected to increase $11.6 million, or 7.4 percent, over the Financial Plan from $157.1 million to $168.7 million. The increase in this category relates to the real property tax levy which increases by $12.0 million. Beginning in fiscal year 2018-19, the real property tax levy combined with the STAR program revenue is projected to increase from $145.3 million to $156.3 million in FY 2021-22. The increase in the real property tax levy is not projected to exceed the real property tax cap as established by New York State. It is further noted that the full City-wide tax reassessment is scheduled to take effect in 2019-20.

Fines are projected to increase $4.2 million over the course of the Financial Plan, which represents a substantial increase of 27.6 percent. The projected growth is largely driven by the City's ability to adjudicate traffic violations locally which allows the City to retain revenue from fines as City revenue as opposed to remitting the collections to the State and the corresponding expectation that such revenue will continue to increase. The estimated revenue from the traffic adjudication process is $6.0 million for 2018-19, increasing to $7.1 million in 2019-20 and 2020-21, and further increasing to $9.2 million in 2021-22; this represents an increase of $3.2 million, or 21.1 percent, over the Financial Plan. The other notable increases under fines is an increase of the parking tags fines and penalties and school camera fines, which are each increasing $0.5 million over the Financial Plan; this increase is driven by an increase in the cost of fines assessed for parking violations and a new revenue source. The City is proposing legislation that would allow them to install red light cameras around school facilities to target drivers that do not adhere to posted speed limits and traffic controls, the revenue is expected beginning in 2019-20 and the remaining out-years of the Financial Plan. Legislation authorizing the installation and use of the red-light cameras around school facilities passed the New York State Assembly during the current session; however, the corresponding legislation in the New York State Senate is currently stalled in committee. There is currently no time line in regards to moving this legislation forward.

Non-property taxes, consisting of utility taxes, foreign fire insurance, and cable franchise fees are projected to remain flat over the four-year period at $12.1 million. The Class I Utility Tax is projected at $8.5 million annually. In past years, the City has over estimated this revenue. The cause of the decline in this revenue is attributed to more customers moving away from a traditional land-line telephone to cell phone usage. The City does not have a utility tax in place on cellphones similar to one that it does on landlines, and has requested legislation be proposed in Albany to include cellphones, but it is unlikely to materialize in the near future. We recommend the City monitor the receipt of this revenue.

Service charges are budgeted at $15.9 million for 2018-19 and are projected to remain flat, decreasing by $16,000 over the Financial Plan. The increase of $1.0 million in 2018-19 for the public utility inspection fees is maintained over the Financial Plan; the total estimated revenue is $1.7 million annually. The Mayor has committed to limit increases on other user and resident fees. The service fee received from the Buffalo Municipal Housing Authority (the "BMHA") for the provision of police services at the BMHA's properties has been maintained at a flat rate of $650,000 annually in the Financial Plan.

Licenses and Permits are projected to increase $0.5 million over the life of the Financial Plan, increasing from $6.1 million in 2018-19 to $6.7 million in 2021-22. The projected revenue for 2017-18 is $5.0 million as compared to the budgeted amount of $5.3 million. The shortfall is attributed to a lower volume of building permits and vehicle permits which were both less than originally budgeted for. We recommend the City continue to monitor this revenue source and adjust the budget and/or Financial Plan on a timely basis, as necessary.

Miscellaneous revenue is projected to decrease by $2.6 million from $18.3 million to $15.7 million over the course of the Financial Plan, which is a 14.0 percent reduction. The annual amount of revenue varies based on estimates that affect the year being projected. The decrease in estimated revenue is attributed to the decrease in projected sales of real estate and capital assets which is budgeted at $8.0 million for 2018-19, $3.2 million for 2019-20, and $1.2 million in both 2020-21 and 2021-22. The City's budgeted revenue from the sale of property has been overestimated in previous years due to difficulties in projecting the timing of closing such sales. This is an area to be monitored and adjusted as circumstances warrant. Approximately $1.9 million of sales are currently pending and will be completed in 2017-18, and any properties that are not sold will be targeted for sale in the out-years of the Financial Plan. An offset to the decreases in capital asset sales, the new entertainment ticket fee, which is initially budgeted at $2.0 million in 2018-19 and then increases to $5.0 million in the three out-years, is projected to bring in close to $17.5 million over the Financial Plan.

Most other revenue lines within the miscellaneous category are held flat, except for gifts and donations which is budgeted at $2.0 million in 2018-19 and increases by $1.0 million to $3.0 million in each out-year of the Financial Plan. The federal tax code has been altered to limit deductions for state and local income taxes to $10,000 annually. The State has responded by enacting a law permitting taxpayers to donate to a non-profit established by the host municipality, which would be eligible for a tax credit and could be reported as a charitable donation on federal taxes. The City has taken the necessary steps to implement the new program by passing a local ordinance creating a charitable gifts reserve fund and modifying the City Charter. It was determined that a ninety-five percent tax credit will be provided to those who donate to the charitable gifts reserve fund as a credit toward their real property taxes. This is a new revenue source and should be monitored, as there are normally delays in implementing any new program and estimates are difficult to make.

Interest revenue is flat over the life of the Financial Plan at $605,000, and is decreased by $75,000 compared to the amount budgeted for in 2017-18 of $675,000. This amount is not significant to the overall Financial Plan.

The City has budgeted an increase in transfers in over the course of the Financial Plan which are budgeted at $15.4 million in 2018-19 and increases to $15.7 million for 2019-20, $16.1 million for 2020-21, and $16.5 million in 2021-22. The City budgeted the transfer from the Parking Fund at $7.8 million for 2018-19, which is maintained over the remainder of the Financial Plan. The City maintains a reliance on the operating surplus generated by the Parking Fund to fund general City operations. The transfer of surpluses from the Parking Enterprise Fund to the General Fund was a significant change in policy that began in the fiscal year ending June 30, 2013.

Additional transfers in include funds from the Water Fund, increasing from $6.9 million in 2018-19 to $8.0 million in 2021-22, representing an increase of $1.1 million, or 15.8 percent. The transfer from the Solid Waste and Recycling Fund is held flat at $673,100 over the Financial Plan.

Expenditures:

Overall, expenditures are projected to increase from $513.6 million in 2018-19 to $530.6 million in 2021-22, for a total increase of $17.0 million, or 3.3 percent.

Expenditures are broken down into three major categories for purposes of the City's four-year Financial Plan and include departmental spending, general charges, and transfers out.

	2018-2019 Adopted Budget	2019-20 Projection	2020-21 Projection	2021-22 Projection	Increase/(Decrease) Four-Year	
DEPARTMENTS	$	$	$	$	$	%
Common Council	2,376,216	2,416,335	2,457,257	2,457,257	81,041	3.4%
City Clerk	2,682,510	2,703,569	2,725,032	2,726,927	44,417	1.7%
Mayor & Executive	5,110,364	4,521,329	4,602,433	4,726,200	(384,164)	-7.5%
Audit & Control	3,534,154	3,600,155	3,667,454	3,670,691	136,537	3.9%
Law	3,551,774	3,591,069	3,641,282	3,692,499	140,726	4.0%
Assessment	2,743,031	2,386,504	2,425,256	2,464,761	(278,270)	-10.1%
MIS	5,268,247	5,311,171	5,373,305	5,436,463	168,216	3.2%
Administration & Finance	9,352,502	9,470,557	9,569,858	9,670,670	318,168	3.4%
Parking	3,144,057	3,038,529	3,074,910	3,112,003	(32,054)	-1.0%
Police	91,355,867	92,173,628	93,603,959	95,041,149	3,685,282	4.0%
Fire	59,710,170	60,104,644	61,215,311	62,834,699	3,124,529	5.2%
Human Resources	5,740,688	5,562,777	5,638,588	5,695,648	(45,040)	-0.8%
Public Works	31,213,249	31,089,944	31,546,478	32,357,137	1,143,888	3.7%
Community Services	4,537,176	4,574,018	4,610,934	4,648,587	111,411	2.5%
Permits & Inspections	5,783,838	5,882,458	5,989,300	6,098,277	314,439	5.4%
TOTAL Departmental	**236,103,842**	**236,426,686**	**240,141,358**	**244,632,968**	**8,529,126**	**3.6%**
GENERAL CHARGES						
Grants In Aid	860,000	860,000	860,000	860,000	-	0.0%
Utilities	17,320,000	17,334,950	17,506,050	17,678,860	358,860	2.1%
Services	1,391,500	1,391,500	1,391,500	1,391,500	-	0.0%
Other	4,056,548	2,813,978	2,814,352	2,814,788	(1,241,760)	-30.6%
Fringe Personal Services	5,350,000	5,457,000	5,566,140	5,677,463	327,463	6.1%
Fringe Benefits	148,778,665	150,318,558	151,899,160	153,498,507	4,719,842	3.2%
Debt Service	592,000	92,000	92,000	92,000	(500,000)	-84.5%
TOTAL General Charges	178,348,713	178,267,986	180,129,202	182,013,118	3,664,404	2.1%
Interfund Transfers Out	**99,130,319**	**97,734,653**	**100,106,694**	**103,984,038**	**4,853,719**	**4.9%**
TOTAL BUDGET	**513,582,874**	**512,429,326**	**520,377,253**	**530,630,124**	**17,047,249**	**3.3%**

Total departmental expenditures are budgeted to increase from $236.1 million in 2018-19 to $244.6 million 2021-22, representing an increase of $8.5 million, or 3.6 percent. The increase of $8.5 million is driven by an increase of personal services in the amount of $10.2 million, or 5.2 percent, and is offset by decreases in services in the amount of $0.9 million and supplies of $0.8 million. The personal service increase over the Financial Plan is reflective of step increases and other contractual increases that are extended through the end of the Financial Plan and includes estimates for increased costs for settling expired labor contracts.

All City union contracts will expire by June 30, 2020, except for Local 264T (water caulkers) whose contract runs through June 30, 2022. The contract with Local 282 (firefighters) expired on June 30, 2017. Four unions, including (PBA, blue collar, white collar and the crossing guards), will expire on June 30, 2019. Two unions including building inspectors and operating engineers will expire June 30, 2020. In addition to the provision of estimated cost increases for the settlement of such contracts, the City has provided $2.4 million annually for labor negotiations, for a cumulative amount of $9.4 million over the Financial Plan.

Individually, significant fluctuations are noted within the police department, fire department, and the division of public works. The police department is projected to increase by $3.7 million or 4.0 percent. The fire department is projected to increase by $3.1 million, or 5.2 percent, through 2021-22. The increases in the police and fire department, compared to all other departments is being driven by the fact that both departments are maintaining full staff compliments and are responsible for providing adequate supplies, primarily uniforms and equipment to these officers. The division of public works is projected to increase by $1.1 million, or 3.7 percent, through 2021-22. The primary increase for all three departments is driven by employee compensation. The cumulative impact of these three departments is $8.0 million; the remaining twelve departments are projecting a net increase of $0.6 million over the Financial Plan. Departments with significant decreases include the mayor and executive which is decreasing by $0.4 million and assessment which is decreasing $0.3 million. . Decreases within these departments are related to the completion of service contracts or one-time equipment purchases being made in 2018-19.

General Charges are projected to increase from $178.8 million in 2018-19 to $182.0 million in 2021-22, representing an increase of $3.7 million, or 2.1 percent. The majority of these expenditures are held flat or have minor increases projected with the exception of fringe benefits which increases by $4.7 million, or 3.2 percent, over the Financial Plan. The increase in fringe benefits is attributed mainly to rising costs for health insurance: an increase of $1.2 million is projected for health insurance for retirees and $1.2 million is projected for active employees. Health insurance is budgeted to increase from $79.0 million in 2018-19 to $81.4 million in 2021-22, an increase of $2.4 million, or 3.0 percent over the Financial Plan. Health insurance is an area that should be monitored since actual annual increases have been higher than what is currently being estimated over the course of the Financial Plan. The budgeted increase in 2018-19 is 6.0 percent higher than the amount budgeted in 2017-18, increasing from $74.5 million to $79.0 million, an increase of $4.5 million. In addition, employer payroll taxes are projected to increase $0.8 million, or 5.6 percent, over the Financial Plan, which is reflective of the budgeted increases to compensation.

Currently, the City is self-insuring its health insurance program and prescription drug coverage. In connection with becoming fully self-insured for both medical and prescription drug coverage, the City has purchased stop-loss insurance to provide the City protection against catastrophic costs. The City has built in the costs for the stop-loss insurance coverage within its healthcare costs accordingly. The City utilized the stop-loss coverage within the past fiscal year in three different incidents where the individual’s costs reached the $300,000 threshold.

Pension costs are increasing over the Financial Plan by $1.3 million, or 2.9 percent. The Police and Fire Retirement System (the “PFRS”) is projected to increase $0.9 million and the Employee Retirement System (the “ERS”) is projected to increase by $0.4 million. Pension costs are budgeted at $44.8 million in 2018-19 and increase to $46.1 million in FY 2021-22, an increase of 2.9 percent. The City is expecting moderate pension growth going forward, largely related with the assumption that as lower tiered employees retire (Tiers 1-4), they will be replaced with new employees in Tier 6 which maintains a reduced employer contribution as compared to earlier pension tiers. The City's projections are consistent with the State Comptroller's projected employer contribution rates over the course of the Financial Plan. Due to the increase of Tier 6 employees, the City has had recent budgetary savings in these lines.

Utilities are projected to increase by $0.4 million from $17.3 million in 2018-19 to $17.7 million in 2021-22, or 2.1 percent. Utilities include natural gas for heating and cooling purposes, electricity for City facilities and street lights, and phone service. The ability to hold these costs flat is attributed to several factors including the decreased cost of natural gas which reduces the City's heating and cooling costs. In addition, electricity costs will be reduced as the City moves forward with various efficiency programs as well as reducing actual use in City facilities. As the City sells off capital assets, the City will no longer be responsible for those energy costs as well. Improved building efficiencies and upgrades that reduce energy waste are factors contributing to the minor increase in budgeted utilities costs, and include weatherization and insulation, conversion of light fixtures in buildings and street lights to Light Emitting Diodes (LED's).

Debt Service expenditures represents primarily capital lease expenditures as well as a revenue anticipation note ("RAN") in 2018-19 and are budgeted at $0.6 million in 2018-19, which decreases to $92,000 in the subsequent year and held flat each year thereafter. The Financial Plan assumes the cash flow need will be a one-year necessity and has not provided for costs associated with the issuance of a RAN after 2018-19. If circumstances continue to warrant a cash flow borrowing, these costs will need to be reflected in future years.

Fringe Personal Services are increasing $0.3 million, or 6.1 percent over the Financial Plan. This expenditure represents salary and fringe benefits paid on behalf of firefighters and police officers that are out on injured-on-duty status but have not been moved to the New York State disability system. The projected increase is reflective of the salary increases for police provided for in the current labor contracts.

Grants in Aid as well as all other general charges are being held flat over the course of the Financial Plan.

Transfers out fluctuate over the Financial Plan, budgeted at $99.1 million in 2018-19, decreasing to $97.7 million in 2019-20, increasing to $100.1 million in 2020-21 and to $104.0 million in 2021-22. Components of transfers out include $70.8 million for the Buffalo School District annually. The City committed to an increase of $500,000 in 2017-18 to the contribution to the Buffalo City School District and that increase is maintained over the Financial Plan. A transfer to the debt service fund for the payment of principal and interest on debt is budgeted at $27.9 million for 2018-19 which increases to $32.8 million in 2021-22. The City has eliminated the subsidy to the Solid Waste and Recycling Fund of $3.2 million over the course of the Financial Plan. In the event the fee increases are insufficient to fund operations and the Solid Waste and Recycling Fund generates a deficit, the General Fund would be liable for such deficit. It is noted that the General Fund has reported a long-term receivable of $18.4 million from the Solid Waste and Recycling Fund as of June 30, 2017. A formal repayment plan has not been established; informally it has been discussed that any surpluses generated by the Solid Waste and Recycling Fund be used to repay the General Fund.

The following schedule summarizes expenditures by purpose to provide a different view of the changes to projected expenditures over the Financial Plan.

	2017-2018 Adopted Budget	2018-2019 Adopted Budget	2019-20	2020-21 Projection	2021-22	Increase/(Decrease) Four-Year	
Departmental Costs	$	$	$	$	$	$	%
Personal Services	190,134,708	195,480,541	198,473,826	201,866,328	205,705,794	10,225,253	5.2%
Utilities	340,636	217,086	222,094	224,305	226,540	9,454	4.4%
Travel	215,959	209,189	209,561	209,941	210,329	1,140	0.5%
Supplies	10,003,865	10,528,332	9,540,533	9,701,541	9,747,980	(780,352)	-7.4%
Services	25,044,517	25,893,455	24,658,507	24,811,306	24,948,500	(944,955)	-3.6%
Capital Outlay	4,739,915	3,775,239	3,322,167	3,327,940	3,793,828	18,589	0.5%
Subtotal	**230,479,600**	**236,103,842**	**236,426,688**	**240,141,361**	**244,632,971**	**8,529,129**	**3.6%**
General Charges							
Grant in Aid	895,000	860,000	860,000	860,000	860,000	-	0.0%
Utilities	17,225,000	17,320,000	17,334,950	17,506,050	17,678,860	358,860	2.1%
Services	1,566,500	1,391,500	1,391,500	1,391,500	1,391,500	-	0.0%
Other	2,470,000	4,056,548	2,813,979	2,814,351	2,814,788	(1,241,760)	-30.6%
Personal Service	5,200,000	5,350,000	5,457,000	5,566,140	5,677,463	327,463	6.1%
Salary Adjustment	1,262,991	2,350,000	2,350,000	2,350,000	2,350,000	-	-
Fringe Benefits	141,208,267	146,428,665	147,968,558	149,549,160	151,148,507	4,719,842	3.2%
Debt Service	92,000	592,000	92,000	92,000	92,000	(500,000)	-84.5%
Subtotal General Charges	**169,919,758**	**178,348,713**	**178,267,987**	**180,129,201**	**182,013,118**	**3,664,404**	**2.1%**
Interfund Transfers Out	**99,258,118**	**99,130,319**	**97,734,653**	**100,106,694**	**103,984,038**	**4,853,719**	**4.9%**
Total	**499,657,476**	**513,582,874**	**512,429,328**	**520,377,256**	**530,630,127**	**17,047,252**	**3.3%**

Per the above schedule, the single largest cost increase is related to personal services costs, increasing from $195.5 million to $205.7 million, or an increase of $10.2 million. As previously noted, this increase is attributed to negotiated employee salary steps and compensation increases, and estimated compensation increases for future settlement of labor contracts, over the Financial Plan. Additional resources for future labor costs associated with new labor contracts have been budgeted for within general charges as the salary adjustment line.

Expenditures for Services are projected to be reduced by $0.9 million over the Financial Plan. Services are outside contracts with private companies that provide the City with technical, engineering, and other services that the City does not have the capacity or expertise to provide. This reduction is reflective of multiple contracts being completed over the course of the Financial Plan. Examples of some of the more significant contracts that are expected to have reduced costs include deployment of body cameras for the Buffalo Police Department, which has an initial cost of $500,000 in 2018-19 that decreases over the Financial Plan. The cost of the body cameras includes the physical cameras themselves, as well as for the hardware and software to maintain storage of the videos after the cameras are deployed. A second project is the development of a new fire dispatch system in the amount of $400,000. This cost is a combination of hardware as well as the software and services required to develop a new call-center.

Departmental utilities, capital outlay and travel are each held relatively flat over the Financial Plan. Supplies are reduced by $0.8 million over the Financial Plan, decreasing from $10.5 million to $9.8 million.

Within the category of general charges, utilities are increasing by $0.4 million, or 2.1 percent over the life of the Financial Plan. Current year utilities are projected to be approximately $17.2 million. We recommend this area continues to be monitored due to the fluctuations that can occur in energy prices and related delivery charges.

Fringe Benefits, excluding the salary adjustment line, in total are increasing by $4.7 million over the Financial Plan, or 3.2 percent. As previously noted, the City moved to a self-insured health insurance program on January 1, 2016 and added prescription drug coverage on September 1, 2011. The self-insurance model was projected to initially achieve savings and in future years to not have as significant a growth as seen in the past.

As previously discussed, pension expenditures are projected to increase by $1.3 million.

All other fringe benefits are projected to increase $1.4 million, or 4.6 percent over the Financial Plan.

The Salary Adjustment line, which are funds set aside for estimated costs for the settlement of labor agreements, is budgeted at $2.4 million for 2018-19 and held flat over the remaining years of the Financial Plan.

Interfund transfers out are currently budgeted at $99.1 million in 2018-19 and are increased by $4.9 million, or 4.9 percent, over the Financial Plan.

Four-Year Plan Staff Levels

The following chart illustrates the Adopted staffing schedule over the life of the Financial Plan.

	2017-18 Adopted	**2018-19 Adopted**	**2019-20 Projected**	**2020-21 Projected**	**2020-21 Projected**
Police (uniform)	801	804	804	804	804
Fire (uniform)	717	742	742	742	742
Other	1,173	1,103	1,103	1,103	1,103
Citywide	2,691	2,649	2,649	2,649	2,649
Net Increase/(Decrease)	**10**	**(42)**	**0**	**0**	**0**

As shown in the schedule above, staffing levels are budgeted to decrease by forty-two FTEs in 2018-19 to 2,649 FTEs; staffing levels are projected to be stable over the course of the remaining Financial Plan. The decrease between fiscal year 2018 and fiscal year 2019 was discussed in the Staffing Levels section of the 2018-19 Budget Overview.

Budget and Four-Year Plan Summary

There are specific areas within the Financial Plan that will require monitoring. In the event that a key assumption is no longer appropriate, the City will be required to revise its Financial Plan. The following items summarize these areas:

- The inclusion of uncertain revenues in the amount of $9.9 million in the Financial Plan related to the projection of increases to State AIM in the three out years of the Financial Plan. State AIM has been projected to increase by 2 percent annually in the three out-years. The State's financial plan includes a zero percent increase to the Big Four Cities over this same time period. The State has not increased State AIM since FY 2011-12.

- There are various revenues that will require close monitoring due to the difficulty in estimating such revenue sources and the optimistic projections of such sources including fines, service charges and miscellaneous revenue. Specifically, within the miscellaneous revenue category is the sale of capital assets, which has not provided revenues consistent with estimated amounts over the past two years. In addition, there is a new gift and donations program and special events surcharge revenue that will need to be monitored due to the uniqueness and newness of the program.

- Class I Utility taxes within the category of Non-Property Taxes should also continue to be monitored as this revenue varies based on local usage. Historically this revenue source has been overstated and has been an underperforming area over the last several years.

- The City may be underestimating the police and fire overtime costs over the Financial Plan, the amount for which is based on multiple assumptions that may not materialize. Such fluctuations from the multiple assumptions include having more individuals retire than projected and an increase of individuals who are classified as injured-on-duty, or additional mandated training which could require the use of overtime to complete. The City continues to use vacancies to fund overtime overages, but as they get closer to having full complement of personnel the vacancy savings have diminished. Both departments are dealing with attrition, as well as the fact that both police and firefighters must go through an extensive vetting process with training requirements prior to deployment.

- The receipt of the Tribal State Compact casino revenue in the amount of $17.0 million is not guaranteed. The City has stated that New York State has verbally committed to provide the revenue to the City in the event the litigation remains unsettled this upcoming year; no commitment has been made in writing.

- Fines are continuing to increase although this revenue category has been underbudgeted in the last two years with respect to both traffic adjudication fines and parking fines. These amounts have been adjusted down in the current year budget, but are offset by estimated revenue of $2.0 million from the ticket amnesty program. We continue to recommend fines be monitored by the City and adjusted as necessary.

Other areas of significance as noted within the report are summarized below:

- Effectively there is no available fund balance to assist the City in closing projected deficits; the Financial Plan does not include the use of unassigned fund balance and is presented as being operationally balanced. The Rainy Day Fund is maintained intact over the Financial Plan. In order to replenish fund balance reserves, the City will need to generate a surplus which is not contemplated over this Financial Plan. Total committed, assigned and unassigned fund balance as reported at June 30, 2017 totals $80.5 million and constitutes 15.7 percent of total 2018-19 budgeted expenditures.

- There is a continued reliance from transfers in from the Parking Fund to fund the general operations of the City. The transfer is $7.8 million in 2018-19 and is held flat at that amount over the course of the Financial Plan.

- The City is maintaining its contribution to the Buffalo School District of $70.8 million annually over the life of the Financial Plan. There District continues to request additional funding.

- The Financial Plan eliminates the annual subsidy of $3.2 million to the Solid Waste and Recycling Fund in the Financial Plan, based on projected new rates to be implemented which are intended to make the Solid Waste and Recycling Fund self-sufficient. If there are insufficient resources to support operations, the General Fund is responsible for any deficit. The amount due from the Solid Waste and Recycling Fund to the General Fund was $18.4 million at June 30, 2017. No formal plan has been developed to address the outstanding receivable in the General Fund.

- Health insurance may be underestimated over the course of the Financial Plan. The City is self-insured for both health and prescription drug coverage, which did result in savings upon implementation. Health insurance was projected to increase 3 percent over the Financial Plan which may be insufficient.

- The adopted budget included the establishment of a freeze account in the amount of $1.6 million under general charges. The freeze account consists of $1.0 million originally included in Debt Service for short-term borrowing costs and $621,548 from various departmental lines. Funds within the freeze account may be drawn upon, if necessary, for the original purpose. To release the funds, a transfer request signed by both the Mayor and Comptroller would need to be approved by the Common Council.

  In addition to the establishment of the freeze account, a Memorandum of Understanding was agreed upon between the Common Council and the Mayor's Administration with the intent to enhance communication regarding the City's cash flow position and to develop an appropriate course of action as necessary.