



BUFFALO FISCAL STABILITY AUTHORITY

Annual Report of the Buffalo Fiscal Stability Authority
Fiscal Year Ended June 30, 2009

September 30, 2009

Annual Report of the Buffalo Fiscal Stability Authority

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Introduction

This is the sixth annual report of the Buffalo Fiscal Stability Authority (the “BFSA” or the “Authority”), known locally as the City Control Board. It covers the sixth fiscal year in which the City of Buffalo (the City or Buffalo) and its covered organizations (as defined below) operated under the requirements of the Buffalo Fiscal Stability Authority Act. This report focuses mainly on the period from July 1, 2008 through June 30, 2009, adding to the actions, accomplishments and progress cited in BFSA’s first five annual reports.

The combined efforts of the City and its covered organizations, in cooperation with the BFSA, have contributed greatly to Buffalo’s fiscal improvement to date. Since BFSA was created in 2003, the City of Buffalo and its taxpayers have saved more than \$237 million. These essential savings were brought about through the exercise of extraordinary powers granted to BFSA by New York State (the “State”), and through the cooperation of the City of Buffalo and its covered organizations. This has contributed to multiple upgrades in the City’s credit rating as follows: “improved outlook” from Standard & Poor’s (2003); “improved outlook” from Moody’s (2006); improved rating to BBB-stable from Standard & Poor’s (2006); improved rating to Baa2 from Moody’s (2007), BBB+ stable outlook from Standard & Poor’s (2008), and A- stable outlook from Standard & Poor’s (2009).

Background

The Buffalo Fiscal Stability Authority Act was adopted in 2003 in response to a State Comptroller’s report on the City of Buffalo’s financial condition, and a determination by the New York State Legislature that the City was faced with a severe fiscal crisis that could not be resolved without State assistance. Declaring the maintenance of a balanced budget by the City of Buffalo a matter of “overwhelming State concern,” the Legislature passed, and Governor George E. Pataki signed, Chapter 122 of the Laws of 2003 – the Buffalo Fiscal Stability Authority Act.

According to the BFSA Act and resolution of the BFSA Board, the City of Buffalo is understood to include certain “covered organizations,” currently including the City’s fiscally dependent School District, the Buffalo Urban Renewal Agency (BURA), the Buffalo Municipal Housing Authority (BMHA) and the Joint Schools Construction Board (JSCB).

The BFSA Act, adopted with unanimous bipartisan support in the State Legislature, included the following provisions to return the City of Buffalo to fiscal stability:

- Established BFSA as a fiscal control agency over the City and its covered organizations;
- Required the annual development of a four-year financial plan for the City and its covered organizations, and vested BFSA with the power to ensure compliance with that plan;
- Granted BFSA the power to provide deficit financing assistance to the City and its covered organizations over a four-year period, provided that recurring actions were taken to close increasing percentages of the structural budget gap each year;
- Established the legal basis for creation of a highly rated borrowing structure to reduce City borrowing costs and provide short-term budgetary assistance; and
- Empowered BFSA to impose financial control mechanisms if the City and its covered organizations are unable to adopt a balanced financial plan and / or operate in accordance therewith.

Under the BFSA Act, the BFSA began its existence during a “control period,” which means that the BFSA commenced operation with its maximum authorized complement of financial control and oversight powers. During such a control period, BFSA retains significant powers to protect the integrity of the City’s financial condition. Among them are the power to review and approve or disapprove contracts, including collective bargaining agreements entered into by the City or any covered organization; to approve or disapprove the terms of borrowings by the City and covered organizations; to approve, disapprove or modify the City’s financial plans and take any action necessary in order to implement the financial plan; to impose a wage or hiring freeze, or both, with respect to employees of the City or any covered organization; and to review the operation, management, efficiency and productivity of the City and any covered organization.

The BFSA Act provides that the Authority shall have different financial control and oversight powers depending upon whether the City’s financial condition causes it to be in a “control period” or an “advisory period.” In BFSA’s view, the control period would end no earlier than the City’s fiscal year ending June 30, 2011. During such an advisory period, BFSA is empowered, among other things: to review the operation, management, efficiency and productivity of City operations and of any covered organization’s operations, and to make reports and recommendations thereon; to review and comment on the provisions of the

budget and four-year plan and any financial plan modification; to audit compliance with the City's financial plans; to review and comment on the terms of any proposed borrowing, including the prudence of each proposed issuance of bonds or notes by the City; to assess the impact of any collective bargaining agreement that in the judgment of the Authority may have a significant impact on the City's long-term fiscal condition, and to reimpose a control period if the City's finances meet certain statutorily defined conditions.

Governance

BFSA is governed by a nine-member Board of Directors. Seven are appointed by the Governor, one of which is upon the recommendation of the State Comptroller and another of which is upon the joint recommendation of the leaders of the State Assembly and the State Senate. The Mayor of the City of Buffalo and the Erie County Executive serve on the Board in *ex officio* capacities. The Governor designates the Chair and Vice Chair.

As of June 30, 2009, the following individuals served on BFSA's Board of Directors:

- **Paul J. Kolkmeier, Chair**
President and CEO of Priam Enterprises, LLC

- **Alair Townsend, Vice Chair**
Columnist of Crain's New York Business

- **George K. Arthur, Secretary**
Former President, Buffalo Common Council

- **John J. Giardino**
Partner at Lippes Mathias Wexler Friedman LLP

- **Gail E. Johnstone**
Former President and CEO of the Community Foundation for Greater Buffalo

- **Wayne W. Mertz**
President and Owner of Goergen-Mackwirth Co., Inc.

- **Frank B. Messiah**
President of the Buffalo Chapter of the NAACP and former Regional Administrator with the NYS Department of Labor

- **Byron W. Brown (ex officio)**
Mayor, City of Buffalo
- **Chris Collins (ex officio)**
County Executive, Erie County

At June 30, 2009, BFSA had the following staff members:

- **Jeanette M. Mongold, C.P.A. (Executive Director)**
Former Deputy Comptroller with the City of Buffalo and former Senior Manager with Deloitte and Touche, Buffalo, New York.
- **Michael P. Kelly, M.P.A. (Treasurer/Principal Analyst)**
Former community planning specialist and presidential management fellow for the Community Planning and Development Division, U.S. Department of Housing and Urban Development, Washington, D.C.
- **Margreta D. Mobley, M.B.A. (Comptroller)**
Former BFSA principal analyst and former finance manager, accounting policies and procedures and Sarbanes-Oxley implementation, Controller's Staff, General Motors Corporation and treasurer of the General Motors Foundation.
- **Bryce E. Link, M.P.A. (Principal Analyst/Media Contact)**
Former BFSA analyst, senior analyst and former budget fellow and examiner with the State Division of the Budget's Expenditure Debt Unit.
- **Nathan D. Miller, B.S. (Manager of Administration and Technology)**
Former BFSA executive assistant / office manager and former administrative assistant with Child and Family Services.

Summary of Accomplishments in 2008-09

In its sixth fiscal year of operation, BFSA continued to assist the City and its covered organizations on the road to long-term fiscal stability. Tangible evidence of the City's progress continued to emerge in the 2008-09 fiscal year, including the following:

- Moody's Investors Service maintained the City's credit rating at Baa2 with a stable outlook. In 2007, when Moody's upgraded the City's rating from Baa3 to Baa2, the rating agency issued the following statement "improvement of the city's financial reserve and liquidity positions following augmentation of reserves in each of the last five years and a trend of

structurally balanced operations that is expected to continue in fiscal 2008...”

- Standard & Poor’s upgraded the City credit rating from BBB+ to A-, reflecting “the city’s improved financial profile, stronger financial management controls, and continued advisement provided by the Buffalo Fiscal Stability Authority. The outlook is stable.” S&P also cited the ongoing relationship between the city and BFSA, which together have worked to achieve structurally sound operations for three consecutive years, as well as a four-year financial plan that clearly identifies out-year operating gaps and gap-closing measures, City management’s willingness and proactive approach in adopting many of the BFSA control mechanisms into its own charter, adding long-term stability to the credit, and structurally sound general fund operating surpluses achieved in each of the past three fiscal years, resulting in strong accumulated general fund reserves.

- The City’s unreserved, undesignated fund balance decreased from \$76.02 million at June 30, 2007 to \$58.93 million at June 30, 2008, but reflects the establishment of a “rainy day” fund of \$30.18 million. The City’s total unreserved fund balance increased from \$105.42 at June 30, 2007 to \$113.48 million at June 30, 2008. The School District’s unreserved, undesignated fund balance increased from \$16.40 million at June 30, 2007 to \$33.80 million at June 30, 2008. The School District’s total unreserved fund balance at June 30, 2008 of \$99.15 million increased from its levels at June 30, 2007 of \$52.82 million.

The significant financial oversight, monitoring and control actions taken by BFSA, the City and its covered organizations in the sixth year of BFSA’s responsibilities fall into the following categories:

Multi-Year Financial Planning

The multi-year financial planning process represents the core of BFSA’s financial oversight, and is one of the most critical components to Buffalo’s fiscal stability. With BFSA’s assistance, the City and covered organizations have developed and maintained a comprehensive financial planning process that has helped to address structural budget gaps as well as to recognize and prepare for future fiscal challenges.

In 2008-09, BFSA monitored implementation of the sixth four-year financial plan for the City and its covered organizations. That plan covered fiscal years ending 2009 through 2012, and contained no gap-closing actions for the City. The School District’s four-year financial plan did contain deficits in fiscal years 2010, 2011 and 2012, which together totaled \$40 million. The District included gap-closing actions as part of their four-year plan (this was the City’s second four-

year plan that did not project budget gaps and did not need actions to close the gaps).

BFSA also approved the seventh four-year financial plan for the City and its covered organizations in June 2009, covering fiscal years ending 2010 through 2013. The new financial plan was the third consecutive plan since 2003-04 that did not rely on the savings of a wage freeze, continuing the progress made to date in addressing Buffalo's fiscal condition.

Monitoring Fiscal Health

Regular and aggressive monitoring of spending, budgetary processes and cost-savings initiatives are essential to ensuring that Buffalo continues its progress towards fiscal stability. Under BFSA, the City and covered organizations have developed a reliable reporting process for revenues, expenditures, cash flow, workforce size and the status of gap-closing measures. This process has yielded a more disciplined approach to fiscal monitoring, and enabled immediate budget modifications as needed during the fiscal year.

In 2008-09, BFSA continued the regular quarterly reporting process by the City and its covered organizations to review financials and determine if modifications were required. The following summarizes many, but not all, actions BFSA took in 2008-09:

- BFSA approved four City budget modifications during the fiscal year. In August 2008, the Board approved a budget modification utilizing 07-08 AIM funds for demolitions and asbestos abatement work to continue the City's comprehensive demolition strategy of vacant and dangerous structures for City-wide demolitions and asbestos abatement. In March 2009 the Board approved two budget modifications. The first utilized 07-08 AIM funds to assist the start up of the Bethesda CDC Business Incubator to foster economic development in the City, while the second budget modification approved the use of 08-09 NYS "Spin Up" monies for further demolitions and asbestos abatement work to prepare shovel ready sites, stabilize neighborhoods and assist economic development efforts. Additionally, in May 2009 the Board approved a budget modification to transfer unreserved, designated funds to the City's general fund to pay for various judgments and claims.
- BFSA approved the City's \$23.63 million capital improvement budget in February 2009. The plan met the requirements contained in BFSA's prior-year approval that the City develop a full five-year capital improvement program. BFSA's approval was conditioned on the City "continu(ing) to reduce its use of capital borrowing for short-term operating expenses that are not supported by a long-term physical asset with the goal of

eliminating the practice...” and “continu(ing) to rescind authorized but unissued debt whenever possible.”

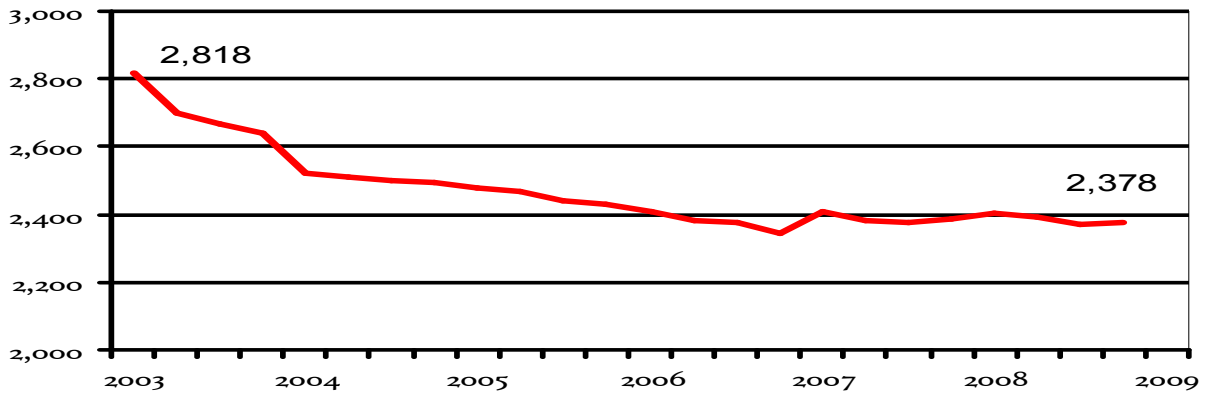
- Recognizing the improved financial situation of the City, BFSA authorized the City in June 2009 to borrow approximately \$25.03 million in the public markets to finance capital projects for itself and its dependent school district. BFSA staff monitored the process and pricing of the issue.
- BFSA approved the Buffalo Municipal Housing Authority’s \$10.1 million capital budget in May 2009, as well as \$14.5 million in United States Federal Government Economic Stimulus program funds for improvements and redevelopment of BMHA housing stock.
- BFSA reviewed and approved 218 City contracts and obligations totaling \$81.9 million; 159 School District contracts and obligations totaling \$67.1 million; 28 BMHA contracts and obligations totaling \$16.7 million and 16 BURA contracts and obligations totaling \$13.0 million.

Workforce Summary and Trends

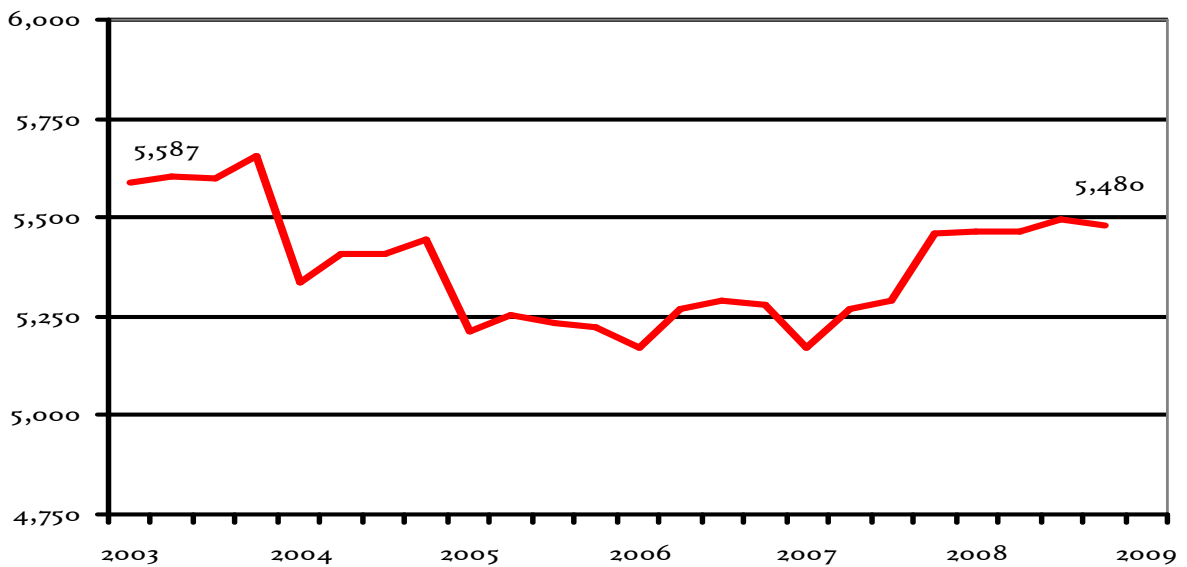
Workforce costs represent the single largest expenditure category in the City and its covered organizations. In the City in 2008-09, the costs of employee salaries, pensions, health insurance (for active and retired employees) and other benefits accounted for 81 percent of budgeted spending. In the School District, it represented 59 percent. In addition, workforce costs are among the fastest-growing budget categories due to significant increases in fringe benefits, especially health insurance. The City’s liability for its retiree health insurance costs, representing its Other Postemployment Benefit (OPEB) liability, was required to be recorded at June 30, 2008, according to the Governmental Accounting Standards Board (GASB). The City’s OPEB obligation at June 30, 2008 was estimated at \$945 million, while the schools’ obligation was estimated at \$1.2 billion. The City’s long-term fiscal stability remains directly tied to its ability to manage the size and cost of its workforce.

In 2008-09, while the City increased its budgeted workforce by 83 net positions, filled positions actually decreased by 10 to 2,378, and BMHA’s workforce decreased to 229 filled positions. The School District added 89 positions while filled positions increased by 21, but staffing level still remain below 2003-04 levels. BURA did not reduce its workforce size in 2008-09, but its staffing levels remain significantly below the 2003-04 levels when BFSA was created.

**City Workforce Size
(number of FTEs)**



**School District Workforce Size
(number of FTEs)**





Providing a More Cost-Effective Financing Framework

Over four years, from 2004 through 2007, BFSA reduced the City’s capital and cash flow debt costs; refunded existing City debt at more beneficial interest rates; and provided short-term budgetary relief through deficit financing (although the statutory power to undertake deficit financing expired at the end of the 2006-07 fiscal year). This was possible due to BFSA’s highly-rated credit (Aa2/AA from Moody’s and Fitch, respectively) which enabled savings for the City upon issuance of its Declaration of Need.

In addition, BFSA’s own credit rating has been upgraded by rating agencies. In 2006-07, Fitch Ratings upgraded BFSA from AA-minus to AA to reflect “the demonstrated effectiveness of the Buffalo Fiscal Stability Authority in assisting the recent improvement of the city of Buffalo’s fiscal condition.” This followed a rating upgrade, from Aa3 to Aa2, by Moody’s Investors Service in late 2005-06. These upgrades further enhanced financing savings BFSA has been able to produce for the City.

Pursuant to the BFSA Act, all of the City’s State aid, along with both the City and School District’s portions of the local sales tax, are legally revenues of BFSA. The first call on those revenues is to pay any debt service, so BFSA is able to achieve a rating superior to the City’s (AA/Aa2 compared to A-/Baa2). BFSA has therefore been able to issue debt more cost effectively than the City itself, producing savings.

The following table illustrates credit rating comparisons between BFSA and the City of Buffalo:

| | Moody’s | Fitch / S&P |
|---|-------------------------------|-------------------------------|
| | <u>Aaa</u> | <u>AAA</u> |
| | Highest Investment Grade | Highest Investment Grade |
| BFSA’s Rating | | |
|  | <u>Aa2</u> | <u>AA</u> |
| | High Investment Grade | High Investment Grade |
| | <u>A</u> | <u>A</u> |
| | Good Investment Grade | Good Investment Grade |
| City’s Rating - S&P | | |
|  | <u>A2</u> | <u>A-</u> |
| | Upper Medium Grade | Upper Medium Grade |
| | <u>Baa2</u> | <u>BBB+</u> |
| City’s Rating - Moody’s | Satisfactory Investment Grade | Satisfactory Investment Grade |
| | <u>Ba</u> | <u>BB</u> |
| | Speculative | Speculative |

For the year ended June 30, 2009, the BFSA earned or accrued a total of \$511,890 in investment earnings from funds held in various bond related accounts, from state funds held on behalf of the City and from funds in its own operating accounts.

During the year under review, at the request of the City and in recognition of the improvements in the financial condition of the City, the BFSA authorized the City to borrow \$25,030,000 on its own for City and school district capital needs. BFSA monitored the transaction process and the pricing. BFSA also approved a cash flow borrowing by the City as a private placement. It was later determined that the City would have sufficient resources and would not need to borrow.

Since BFSA was created in 2003, the City's credit rating has improved from BBB-minus with negative outlook, to A- stable from Standard & Poor's, and from Baa with negative outlook, to Baa2 stable from Moody's Investors Service. In its rating upgrade report, S&P states that the upgrade reflects "the city's improving financial profile, good financial management, and continued oversight provided by BFSA."

The following table contains a listing of all BFSA debt transactions since the Authority was created, as well as amounts outstanding as of June 30, 2009:

| BFSA Debt Table, as of 6/30/09 (\$ in thousands) | Issue Date | Bond Par Issued | Note (BAN) Par Issued | Bond Par Outstanding | Note Par Outstanding |
|--|-----------------------|----------------------------|--|---------------------------------|---------------------------------|
| Sales Tax and State Aid Secured Bonds (Series 2004A) | Jun- 04 | \$25,745 | | \$17,000 | |
| Bond Anticipation Notes (Series 2004A-1) | Sep- 04 | | \$84,000 | \$0 | |
| Sales Tax and State Aid Secured Bonds (Series 2005A) | Jun- 05 | \$28,030 | | \$23,440 | |
| Sales Tax and State Aid Secured Bonds – Refunding (Series 2005B&C) | Jul- 05 | \$47,065 | | \$40,040 | |

| BFSA Debt Table, as of 6/30/09 (\$ in thousands) | Issue Date | Bond Par Issued | Note (BAN) Par Issued | Bond Par Outstanding | Note Par Outstanding |
|---|-----------------------|----------------------------|--|---------------------------------|---------------------------------|
| Bond Anticipation Notes (Series 2005A-1) | Jul- 05 | | \$90,000 | \$0 | |
| Sales Tax and State Aid Secured Bonds (Series 2006A) | Apr- 06 | \$27,270 | | \$24,830 | |
| Bond Anticipation Notes (Series 2006A-1) | Sep- 06 | | \$60,000 | \$0 | |
| Sales Tax and State Aid Secured Bonds (Series 2007A) | Apr- 07 | \$28,470 | | \$27,540 | |
| Total | | \$156,580 | \$234,000 | \$132,850 | \$0 |

Structural Reform and Savings Opportunities

The identification and implementation of new cost-savings initiatives is critical to the long-term fiscal stability of the City and its covered organizations. By introducing new actions each year through the financial plan, the City has made strides in resolving its structural budgetary deficit.

Budgetary Control: In 2008-09, BFSA monitored financial plans in the School District, oversaw actions to reduce an accumulated prior years' deficit in BURA, and oversaw actions to control certain City expenditures to mitigate year-to-year budget growth. The School District implemented a financial plan which included a one-step salary increase, multiple health insurance carriers, increase of payments for charter schools and assumed increased State aid. BURA continues to close out prior year grant accounts. City savings were attributable to certain expenditures relating to various departments and services. The City also set aside a portion of its unreserved, undesignated fund balance in its "rainy day fund."

Collective Bargaining Agreements: In July 2008, BFSA approved a collective bargaining agreement (“CBA”) for union employees as proposed by the City for its white-collar employees (AFSCME Local 650). As per the City’s Charter, the City’s exempt employees received similar increases as the white-collar employees. While this contract ultimately increased costs, the contract offered several important concessions from workers including moving employees to a lower cost health insurance program, less paid time off for current and future employees and new employees contributing for their health care coverage. Additionally, it was determined that the contract was affordable and in compliance with the City’s financial plan. Secondly, BFSA approved a contract for the Summer Food Service Workers (Local 264) with the Buffalo Public Schools. The District’s summer lunch program is federally funded and is not a significant financial burden on the District. The Summer Food Service Workers’ contract increased overall costs, while the workers gave up their perfect attendance incentive with the new CBA. The contract fit within the District’s four-year financial plan.

In September 2008, BFSA approved a labor agreement between the Buffalo Public School and the Buffalo Educational Support Team (BEST), which represents teacher aides, assistants and health aides. The CBA increased costs slightly over the life of the District’s financial plan, but included a number of concessions from workers moving to a lower cost health plan to increased contributions for certain employees in retirement for health-care coverage. It was determined that the contract was both affordable and within the parameters of the District’s financial plan.

In November 2008, BFSA approved a contract between the BPS and Local 264, which includes the District’s cooks and food service workers. This contract increased costs for the District. Unlike others contracts, this particular item came with minimal concessions due to the nature of the workforce and the existing CBA. The contract was determined to be affordable and fit within the district’s financial plan.

In December 2008, BFSA approved a contract between the City and its blue-collar employees (AFSCME Local 264). The contract contained a number of concessions including less paid time-off for current and future employees, a switch to a lower cost health insurance plan, no more paid wash-up time and various levels of contributions for employee health insurance in retirement based upon tenure and when an employee retires. The contract results in a net savings for the City, before a potential contingent arbitration decision is factored in, which would make the contract a net cost driver for the City if the ruling was against the City.

In January 2009, the BFSA approved a CBA between the BPS and the Transportation Aides of Buffalo (TAB), which represents the District’s bus aides. The contract increases overall costs to the District with minimal concessions due

to the nature of the workforce and the existing CBA. With the passage of the contract the union did withdraw from a lawsuit against the district in connection to salary step litigation tied to the BFSA-imposed wage freeze from 2004 to 2007. Withdrawing from this lawsuit potentially saves the District future costs had the District received an unfavorable ruling.

In March of 2009, the BFSA approved a contract between the City and Local 2651 (the City's Building Inspectors). While the contract ultimately increased costs, it came with a number of concessions including less paid time-off for current and future employees, a switch to a lower cost health insurance plan, elimination of a tool allowance for affected employees, decreased longevity payments and new employee contributions for health care.

Lastly, in May 2009, the BFSA disapproved a proposed labor contract between the Buffalo Municipal Housing Authority (BMHA) and Local 264, which represents BMHA's managerial, white-collar and blue-collar employees. BMHA's exempt non-represented employees were also affected by this proposed CBA, as BMHA's Board of Commissioners approved similar increases for these employees as BMHA's white-collar employees. BFSA rejected the proposed contract over a number of concerns stemming from speculative savings, to the contract's effects on BMHA's operating budget, the length of the CBA, the disparity in salaries in comparison to other organizations and the precedent the proposed CBA could have established.

Efficiency Funding: In August 2008, the City submitted a plan to utilize \$5.5 million in State funds earmarked specifically for investments in efficiency cost-containment to BFSA for approval. Previously, the State had informed BFSA that \$11.75 million in 2007-08 Efficiency Incentives Grants would be available for City use. BFSA found that the City's spending proposal included reasonable initiatives to "achieve recurring savings through innovations and reengineering." BFSA approved the following efficiency initiatives as proposed by the City: Citywide surveillance cameras (\$2.0 million), demolitions (\$1.0 million), City Hall generator (\$1.0 million), rock salt storage facility (\$.6 million), MUNIS financial software upgrade (\$.5 million) and a vacant/distressed property support system (\$.4 million).

In June 2009, BFSA approved the re-designation of \$.73 million in 2006-07 Efficiency Incentive Grants for two projects, which included \$.43 million in NYS TraCS Software for the Buffalo Police Department to help automate certain functions police officers carry out and \$.30 million for the Department of Public Works for GPS monitoring systems for departmental vehicles. BFSA found the re-designations reasonable initiatives toward achieving efficiencies, increasing revenues or enhancing the delivery of certain City services.

BFSA Recommendations: BFSA also contributed to the identification of opportunities for reform and savings through a number of projects and

presentations to the Board during the fiscal year. In particular, BFSA made presentations concerning other postemployment benefits liabilities and methodologies that could be implemented to reduce this staggering future cost. BFSA advised on the merits of health insurance contributions for both active and retired employees. BFSA closely monitored overtime usage, particularly with the fire and police departments. Additionally, the BFSA completed an in-depth benchmarking study comparing key metrics for the City and School District against other similar cities and school districts in the State and region.

Legal Matters

The adoption of the wage freeze by BFSA in April 2004 was the basis for a number of lawsuits as was the subsequent lifting of the wage freeze effective 2007. BFSA has successfully defended each case which has been concluded and is vigorously defending those cases not yet concluded. Pending cases involving the BFSA are briefly summarized below in the order of commencement:

- American Federation of State, County and Municipal Employees v. Tobe, et al. – This lawsuit was brought in the United States District Court for the Western District of New York by various unions challenging the wage freeze imposed by the Authority. Most of the issues were resolved in favor of the Authority by the Second Circuit in a case brought by the Buffalo Teachers Federation. Cross-Motions for Summary Judgment are pending before the District Court to have the remaining issues determined as a matter of law. The motions have been argued and are in the Court's hands for decision.
- Buffalo Professional Firefighters Association, Inc. (Local 282) This proceeding was brought by the Buffalo firefighters to compel the City of Buffalo to pay an arbitration award for wage increases earned prior to the wage freeze but not awarded by arbitration until after the freeze. The proceeding also seeks the determination that the wage freeze does not apply to the wage increases and that BFSA is without authority to freeze those wages. BFSA asked the assigned judge to recuse himself because he was endorsed for re-election by the plaintiff Buffalo Firefighters while the case was pending. The judge required a motion for that recusal and a preliminary motion was made to compel discovery regarding the circumstances of the endorsement. The Motions were denied and motions for summary judgment have been made but not scheduled
- Meegan v. Brown, et al.; Foley v. Brown, et al.; Buffalo Teachers Federation v. Buffalo Fiscal Stability Authority, et al. – These lawsuits were brought in the Supreme Court, County of Erie by various unions representing City police, firefighters, certain “white-collar” employees and teachers. The unions claim that the wage freeze should be deemed lifted retroactively to January 31, 2007 and challenged the

manner in which the wage freeze was lifted. The unions claim that contractually provided step increases and increments should have been deemed to accrue during the period of the freeze so that the employees' salary upon the lifting of the freeze would be the same as it would have had there been no freeze. The BFSA moved to dismiss the claims. The Court determined that the wage freeze was lifted effective July 1, 2007 but otherwise granted the union's motions and denied BFSA's motions to dismiss. The case was appealed to the Appellate Division and was affirmed. A Motion for Leave to the Court of Appeals is currently pending in the Fourth Department. If that Motion is denied, leave to appeal to the Court of Appeals will be made to the Court of Appeals.

- Gress v. City of Buffalo and BFSA - This lawsuit was brought by four Buffalo seasonal employees who claim that the wages paid to them by the City of Buffalo since July 2002 have violated the City of Buffalo's so called "Living Wage Ordinance." The action has been certified on behalf of all other similarly situated seasonal employees. BFSA was named as a party for a declaration that BFSA does not have the authority to freeze or control the wages of the Plaintiff or the class but BFSA is defending the lawsuit on all issues. Cross-Motions for summary judgment are pending in Supreme Court and have been argued but no decision has been made.

Public Meetings and Internal Controls

BFSA held twelve public meetings of the Board of Directors in 2008-09, fully complying with the Open Meetings Law. In addition, three public meetings of the Board's Governance Committee and four public meetings of the Audit, Finance and Budget Committee were convened. All meeting minutes and resolutions for every BFSA meeting are available on the Authority's website. As begun in May 2007, BFSA continues to offer video webcast files of its Board meetings via the Authority's website. Four Executive Sessions were held, and the minutes are also available via BFSA's website. Additionally, the Executive Director Search Committee met three times during the 2008-09 year with minutes and video available on the authority's website.

BFSA took a series of steps in 2008-09 to reinforce its system of internal controls and to promulgate new policies regarding records management, procurement and property:

- In August 2008, the Board affirmed and re-adopted by Resolution BFSA's Code of Ethics, stating the Authority's position on conflicts of interest, personal integrity, honesty, ethical conduct and public trust.
- In August 2008, the Board affirmed and re-adopted by Resolution its annual review of, and adopted by Resolution, Guidelines regarding

BFSA's Prompt Payment Policy, to comply with Section 2880 of the Public Authorities Law requiring public authorities to promulgate rules and regulations detailing its prompt payment policy and to periodically review such guidelines.

- In August 2008, the Board affirmed and re-adopted by Resolution its annual review of, and adopted by Resolution, Guidelines regarding Property Disposal for BFSA, in compliance with Section 2896 of the Public Authorities Law requiring public authorities to adopt comprehensive guidelines detailing the authority's operative policy on the disposal of personal property.
- In August 2008, the Board affirmed and re-adopted by Resolution a BFSA Whistleblower Policy, stating the Authority's position on whistleblowers who report illegal or unethical practices by the Authority, staff members or Directors, in accordance with the Public Authority Accountability Act of 2005.
- In August 2008, the Board affirmed and re-adopted by Resolution BFSA's Procurement Policies in compliance with State Law requiring the authority to adopt guidelines for the Use, Awarding, Monitoring and Reporting of Procurement Contracts.
- In August 2008, the Board affirmed and re-adopted by Resolution BFSA's Investment Guidelines in compliance with Section 2925 of the Public Authorities Law requiring public authorities to develop investment guidelines that establish a set of basic procedures to meet investment objectives and other specific criteria.
- In August 2008, the Board reviewed and affirmed BFSA's Internal Controls Framework, including a program handbook for internal controls. The purpose of the internal control program is designed to ensure that BFSA has a system of accountability for and oversight of its operations and to assist BFSA in achieving its goals and objectives with minimal risk to the organization's operations.

Regarding its own finances, BFSA received a clean, unqualified opinion from its independent outside auditor, Lumsden & McCormick LLP. That audit report was reviewed, accepted and approved by the Board at its September 30, 2009 meeting. The 2008-09 audit report along with all previous independent audit reports of BFSA's finances, are available on the Authority's website.

BFSA took several actions regarding its budget during the 2008-09 fiscal year:

- In March 2009, the Board's Audit, Finance and Budget Committee authorized by Resolution the posting of BFSA's proposed 2010-13 budget

and four-year plan in at least five locations, including City locations of the Buffalo and Erie County Public Library. This action complied with regulations of the Office of the State Comptroller that BFSA make available the proposed budget and financial plan for public inspection for at least 30 days before Board approval, and not less than 60 days before the commencement of the next fiscal year, and for a period of not less than 45 days. In addition, the proposed budget and financial plan was posted on BFSA's website to enhance public access.

- In June 2009, after the public review period had been completed, and two further reviews by the Audit, Finance and Budget committee, the Board adopted by Resolution BFSA's budget for 2008-09 and four-year plan for 2010-13.

BFSA procured one service vendor for the provision of outside services during fiscal year 2008-09:

- The Board approved by Resolution BFSA's engagement with Lumsden & McCormick LLP, to provide independent auditor services for the 2010-2011 fiscal year.

One of BFSA's Principal Analysts served as the Authority's Internal Controls Officer for 2008-09. The Internal Controls Officer reviews internal control policies and procedures on a quarterly basis (or more often if required) and regularly meets with BFSA staff to ensure internal control performance standards are being met and recommendations are being executed. An Internal Management Committee consisting of the Executive Director, Comptroller and Principal Analyst provide accountability for internal control and operations. In addition, the Executive Director works closely with BFSA's independent outside auditor, which also ensures that internal control and operational responsibilities are being carefully reviewed by BFSA, and addressed as necessary.

BFSA annually files with the State Division of the Budget an Internal Control Summary and Internal Control Certification as required by Budget Policy and Reporting Manual (BPRM) Item B-350.

BFSA follows the Internal Controls Manual, which describes internal control standards and contains information on procurement guidelines, investment guidelines, purchasing and reimbursement policies, operational policies for financial transactions, the travel and purchase card reimbursement policy and a copy of BFSA's office technology and facilities management handbook. BFSA is satisfied that this structure and these procedures are sufficiently effective in monitoring the Authority's internal controls.

In March 2009 the BFSA Board of Directors formed a temporary "Search Committee" to identify a new permanent Executive Director of the BFSA by way

of resolution. BFSA's Executive Director at the time, Bertha H. Mitchell had previously informed the BFSA Board of Directors of her intention to retire by the end of June 2009. The committee developed a professional search process to advertise and attract high caliber candidates for the Executive Director position. Meeting in both April and May and recommending Jeanette M. Mongold, CPA at a May meeting, the committee undertook a rigorous highly ethical process to ensure the integrity of the BFSA. After Jeanette M. Mongold accepted the position, the committee was dissolved by way of resolution at the June 2009 BFSA Board of Director meeting.

Pursuant to Section 2800,2(a)(5) of the NYS Public Authorities Law, the following compensation information is provided: In 2008-09 BFSA was managed by Bertha H. Mitchell, Executive Director, from July 2008 until June 2009, when Jeanette M. Mongold took over as Executive Director. Both Executive Directors' received an annual salary of \$102,000 as part of their compensation. For Bertha Mitchell's health benefits through NYSHIP, \$10,835 was paid by BFSA; while Bertha Mitchell's pension contribution (to New York State and Local Retirement System) was \$7,140. In Jeanette Mongold's case, as she was only with the Authority for less than one month of the 2008-09 fiscal year, health benefits through NYSHIP, \$478 was paid by BFSA; while Jeanette Mongold's pension contribution (to New York State and Local Retirement System) was \$595 by BFSA.

Cumulative Financial impact of BFSA and the BFSA Act
(Table 1)

BFSA Actions

| | |
|---|-----------------------|
| Deficit Borrowing | \$26.9 million |
| Wage Freeze Savings | \$57.8 million |
| Savings on Debt Issuance Costs | \$5.0 million |
| Participation in JSCB Phase II Bond Pricing | \$1.0 million |
| Refinancing of City Debt | \$1.8 million |
| Subtotal | \$92.5 million |

City and Covered Organization Actions

Fiscal Year 2003-04

| | |
|--|----------------|
| City Financial Plan Actions in 2003-04 | \$2.9 million |
| SD Financial Plan Actions in 2003-04 | \$37.4 million |
| BURA Financial Plan Actions in 2003-04 | \$2.4 million |

Fiscal Year 2004-05

| | |
|---|----------------|
| City Financial Plan Actions in 2004-05 | \$22.9 million |
| SD Financial Plan Actions in 2004-05 | \$19.7 million |
| BMHA Financial Plan Actions in 2004-05 | \$1.0 million |
| Reduction of Proposed Capital Bond Sale | \$6.7 million |

Fiscal Year 2005-06

| | |
|--|----------------|
| City Financial Plan Actions in 2005-06 | \$4.9 million |
| SD Financial Plan Actions in 2005-06 | \$21.6 million |
| BMHA Financial Plan Actions in 2005-06 | \$4.0 million |

Fiscal Year 2006-07

| | |
|--|----------------|
| City Financial Plan Actions in 2006-07 | \$5.1 million |
| SD Financial Plan Actions in 2006-07 | \$16.2 million |

| | |
|-----------------|------------------------|
| Subtotal | \$144.8 million |
|-----------------|------------------------|

| | |
|-----------------------------|------------------------|
| Total Impact to Date | \$237.3 million |
|-----------------------------|------------------------|

Cumulative Financial impact of BFSA and the BFSA Act (Table 2)

Other Actions

Credit Related:

Improved City credit rating to A- stable from S&P (2009)
Improved City credit rating to BBB+ stable from S&P (2008)
Improved BFSA credit rating to AA from Fitch (2007)
Improved City credit rating to Baa2 from Moody's (2007)
Improved City credit rating to BBB-stable from S&P (2006)
Improved BFSA credit rating to Aa2 from Moody's (2006)
Improved outlook on City debt from Moody's (2006)
Improved outlook on City debt from Standard & Poor's (2003)

:

Debt Related

Reduced authorized-unissued City debt by \$27.7 million (2005)

Labor Related:

Implemented new labor contract with the City's Building Inspectors (2009)
Implemented new labor contract with Transportation Aides of Buffalo and the Buffalo School System (2009)
Implemented new labor contract with the City's Blue-Collar workers (2009)
Implemented new labor contract with cooks and food service workers and the Buffalo School System (2008)
Implemented new labor contract with the Buffalo Educational Support Team and the Buffalo School System (2008)
Implemented new labor agreement with the City's White-Collar workers (2008)
Implemented new labor agreement with the Summer Food Service Workers and the Buffalo School System (2008)
Implemented new labor contract with Buffalo Crossing Guards, Inc. (2008)

Fund Balance Related: (as of 6/30/08)

Decrease in City unreserved, undesignated reserves to \$58.9 million due to the creation of a "rainy day" fund; overall unreserved fund balance increased by \$8.06 million
Increased SD unreserved, undesignated reserves to \$33.8 million
Established Rainy Day Reserve Fund for City of \$30.2 million

Review of the Approved Four-Year Financial Plan for Fiscal Years Ending 2010-2013

Introduction

On June 10, 2009, by Resolution No. 09-20, BFSA approved a new financial plan for the City of Buffalo and its covered organizations as being complete and compliant with the standards set forth in Sections 3857 and 3858 of the Buffalo Fiscal Stability Authority Act and certified the revenue estimates in that plan. The plan contains projected revenue and spending levels for fiscal years 2009-10 through 2012-13.

This section summarizes the financial plan of the City of Buffalo and its covered organizations: the Buffalo School District, Buffalo Urban Renewal Agency (BURA), Buffalo Municipal Housing Authority (BMHA) and Joint Schools Construction Board (JSCB).

The proposed budget and financial plan was submitted by the Mayor to BFSA on May 1, 2009, in accordance with the requirements of the BFSA Act. This report summarizes that modified plan, the seventh such financial plan approved since BFSA was created by New York State in 2003 and the third since 2003-04 to not rely on the savings of a wage freeze.

While the approved financial plan is balanced, outstanding lawsuits challenging the timing and specific-employee impact of the lifting of the wage freeze could, if successful, have a significant negative impact on the City and School District and require dramatic financial plan modifications. Additionally, the economic turmoil in New York State could lead to mid-year budget cuts, potentially negatively affecting both the City and the school district.

Based on BFSA's preliminary staff review of the proposed budget and financial plan, the City agreed to develop a modified financial plan which took out the red light camera revenues, which were considered speculative and replaced it with casino revenue, which had not been included in the budget, as well as small increases in investment earnings and parking meter revenue.

The budget for FY 2009-10 is balanced. Totaling \$449.1 million, the FY 2010 budget is \$14.1 million larger than the FY 2009 budget. Revenue growth is due mainly to increases in State and County revenue. Overall, State assistance increases \$13.4 million, while County revenue grows by \$1.6 million as sales taxes are budgeted to show some modest growth. Expenditure growth is tied to increased costs for parks maintenance (\$4.2 million year over year growth), increased fringe benefit costs (\$2.3 million year over year), increased transfers

(\$2.0 million year over year), as well as increased costs for the new labor contracts across various departments.

The economic downturn that is greatly impacting the state and nation does have an impact on the city for the upcoming fiscal year, as well as during the out-years of its financial plan. While revenue collections are forecasted to increase for the upcoming 2010 fiscal year, the out year revenues weaken compared to recent years at the same time that spending is projected to increase.

To balance its budget, the city has taken some steps it might not have needed to take in recent years. The 2010 budget calls for a small cut in property taxes, but the city has tapped restricted State AIM funds both in the budget and in the out years to plug budget gaps. For the 2010 fiscal year, the city plans to use nearly \$3.5 million in restricted AIM to avoid tax increases and in fact lower taxes by \$1.2 million, while in 2011 the use of AIM allows them to avoid tax increases and maintain the current tax levels by using nearly \$8.3 million and nearly \$8.4 million in 2012 for the same purpose. Additionally, the City plans to utilize a total of \$28.3 million in unreserved fund balance in 2012 and 2013, more than 48 percent of its current unreserved undesignated fund balance, to cover the gaps in its financial plan.

While the city has presented a balanced budget and four-year financial plan, BFSA's analysis indicates that there are risks in the budget that are magnified in the out years of the financial plan. Such risks are manageable in the budget year particularly because it anticipates receiving the same amount in state aid that it received in the past year as unrestricted aid, as well as the availability of a healthy fund balance. The City's unreserved undesignated fund balance currently totals \$58.9 million, with an additional \$30.2 million rainy day fund.

BFSA's analysis found that the budget and plan face some significant risks and include a few opportunities. The risks are:

(1) Aggressive budgeting of police and fire overtime given recent historical trends (fire overtime is budgeted to decrease 16 percent, while police overtime is expected to grow by only \$.4 million in 2010). By contrast, actual overtime in 2009 grew by \$.9 million (11%) for fire and \$2.3 million (35.4%) for police. For police, overtime in 2011 will increase by \$31,341 from 2010 levels and remain flat through 2013, while fire overtime in 2011 will increase \$14,069 from 2010 levels and remain flat through 2013.

(2) Reliance on non-recurring revenues and use of reserves to cover what otherwise would be budget gaps.

(3) Major cuts in budgets for capital outlays, supplies and other areas such as travel over the life of the financial plan. It is highly improbable that City services

can be maintained without some other resources being devoted to these budgetary lines.

(4) There are no provisions for salary increases for the two major unions, police and fire, which have been out of contract for some time. Both unions can revert to binding arbitration, and in fact the police have already filed. Increases in salaries to both of these unions will have a major impact on the financial health of the City, especially if they come without major concessions.

(5) The city has a parks agreement in place until December 31, 2009, but it is uncertain what will happen with the parks after that date, or if costs will increase further. The parks agreement is discussed in further detail below.

On July 1, 2004, the City entered into an inter-municipal agreement with the County in which the operations, maintenance and management of the City parks system would be performed by the County. This agreement was signed for the period July 1, 2004 – June 30, 2019 (15 years) at a cost to the City of \$1.8 million annually; additionally under this agreement all revenues generated from the City parks system (e.g., golf course fees, park fees, etc...) would be revenue of the County. Furthermore, the parties agreed that the Olmstead Conservancy would operate, maintain and manage the City's Olmstead Parks (consisting of six major parks); the County negotiated a separate agreement with the Olmstead Conservancy.

A revision to the parks agreement in May 2009 provided for additional payment to the County, as the annual payment of \$1.8 million was deemed insufficient to cover actual expenditures incurred by the City. The agreed upon amount for the period July 1, 2009 through December 31, 2009 is \$3.5 million. At June 30, 2009, there was uncertainty related to what will occur with the parks agreement and/or future costs related to this agreement.

(6) No significant steps to address the threat to the long-term fiscal health of the city related to Other Postemployment Benefits (OPEB). Currently, this liability is estimated at \$945 million and has the potential for significant growth. Given few options, the city has two possible ways, within its control, that it can begin addressing the issue. One is to further reduce healthcare costs for future retirees through collective bargaining and second at some point to begin funding the liability. Currently there is no explicit authority that allows funding through a trust in NYS, but the City needs to begin planning to deal with this burden soon.

There are some opportunities within the budget and financial plan, which include:

(1) For the first time, the City's budget includes revenues generated from the Seneca Creek Casino, which had been held by the State until the issue of how to distribute the revenues was settled. The City also has the potential to realize new revenues from red-light cameras, which may be installed for the 2010 fiscal

year. While these new revenue sources are a positive, the numbers are relatively small in relation to the needs of the City.

(2) The budget and financial plan carry a significant number of staff vacancies (9% as of 6/30/09) which, if unfilled will generate surpluses both from unspent salaries and overstated benefits that may deflect unexpected cost increases.

(3) The City has some opportunity to raise grant funds that may help it provide services that have not otherwise been provided for in the budget. For example, it will probably obtain some DASNY funds to continue with its demolitions projects. Also, through CDBG stimulus funding it will be able to tap funds for streets and sidewalks and for energy conservation in some buildings.

BFSA recommends approval of the budget and four-year plan, with the caveat that staff will closely monitor the plan during the 2010 fiscal year. What follows, is BFSA's complete analysis and review of the City's budget and four-year plan.

Review of the Approved Four-Year Financial Plan for Fiscal Years Ending 2010-2013

City of Buffalo Four-Year Financial Plan

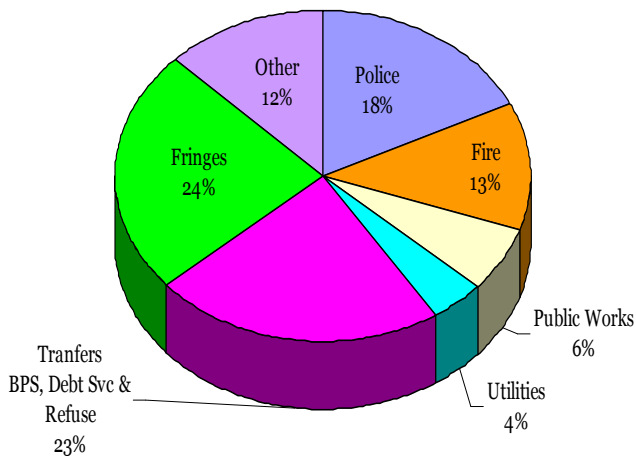
The City's four-year plan provides for spending of \$449.1 million in 2009-10, growing to \$471.7 million in 2012-13, an increase of five percent over four years. The financial plan is balanced throughout the four years. However, it is worth noting that due to the financial problems at the State level which preclude increases in State Aid, the City will utilize both fund balance and restricted state AIM to plug projected gaps over the life of the financial plan to show a balanced plan. The use of these funds is indicative of the structural imbalances facing the City and its continuing dependency on State aid to cover increases in expenditures. For example: In the 2010 fiscal year the City uses nearly \$3.6 million in restricted AIM funds to lower the real property tax burden, but in fact property taxes are only decreasing by about \$1.2 million.

Summary of 2009-10 Budget

The 2009-10 budget provides for \$449.1 million in spending. This total includes \$103.1 million in transfers to the School District (\$70.3 million), the Capital Debt Reserve (\$30.3 million) and Refuse Fund (\$2.5 million), all three of which are funded out of the property tax levy. The \$449.1 million figure represents a 3.4 percent increase over the 2008-09 adopted budget of \$435.0 million and less than 1% growth over the current year forecast, which includes budget modifications approved throughout the 2008-09 fiscal year. The following charts show a breakdown of the City's total 2009-10 budget by major spending and revenue category:

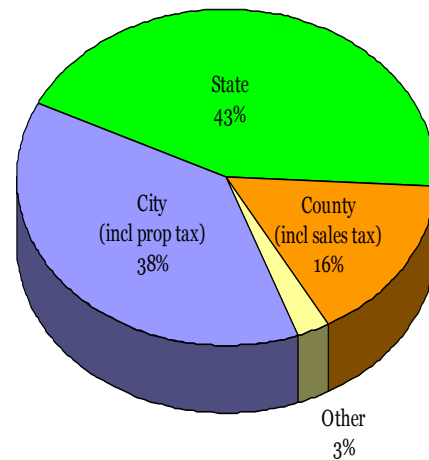
City 2009/10 Proposed Spending

Total Spending = \$449.1 million (w/ transfers)



City 2009/10 Proposed Revenue

Total Budget = \$449.1 million (before transfers)



When transfers are excluded from the total, the City's spending on its own General Fund services is nearly \$346 million, an increase of 3.6 percent over the previous year. While this report focuses on the "all funds" City budget including transfers, it is noteworthy to point out the significant role that State aid plays in funding the City's own services. Of the nearly \$346 million figure, \$194.9 million is attributable to State revenues, including \$169.0 million in unrestricted State aid. In other words, unrestricted State aid will fund 48.8 percent (up from \$155.1 m and 46.5% in 2008-09) of the City's own services in 2009-10.

| City Revenues (\$ in million) | FYE 2004 Actual | FYE 2005 Actual | FYE 2006 Actual | FYE 2007 Actual | FYE 2008 Actual | FYE 2009 Budget | FYE 2010 Budget |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| State | 126.6 | 143.2 | 146.8 | 157.4 | 183.2 | 181.5 | 194.9 |
| City | 173.8 | 174.8 | 177.5 | 178.4 | 181.4 | 171.4 | 170.1 |
| County | 60.5 | 58.6 | 59.9 | 69.3 | 72.6 | 70.7 | 72.3 |
| Federal | 6.9 | 1.8 | 1 | 0.6 | 0.9 | 2.3 | 1.6 |
| Other | 3.7 | 3.5 | 3.7 | 3.8 | 3.8 | 3.4 | 3.6 |
| Deficit | 7.8 | 19.1 | 0 | 0 | 0 | 0 | 0 |
| Borrowing/Fund Bal | | | | | | | |
| Transfers In | 5.5 | 6.9 | 5.8 | 5.8 | 5.8 | 5.8 | 6.6 |
| Total | 384.8 | 407.9 | 394.7 | 415.3 | 447.7 | 435.0 | 449.1 |

The \$169.0 million in unrestricted aid budgeted for 2009-10 is 64.6 percent higher than the \$102.7 million the City received in 2003-04, the year BFSA was created. Below, the table shows the amount of annual AIM that the City received each year since the inception of BFSA.

| Total AIM (\$ in millions) | FYE 2004 Actual | FYE 2005 Actual | FYE 2006 Actual | FYE 2007 Actual | FYE 2008 Actual | FYE 2009 Budget | FYE 2010 Budget |
|-----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| AIM | 102.7 | 102.7 | 115.9 | 129.5 | 147.3 | 155.1 | 169.0 |
| BFSA Held | 0 | 0 | 0 | 12.7 | 12.8 | 16.6 | 0 |
| Total | 102.7 | 102.7 | 115.9 | 142.2 | 160.1 | 171.7 | 169.0 |

The City's 2009-10 budget does not include several other sources of funding that could potentially be available during the budget year and could provide additional resources: \$9.20 million in Efficiency Incentive Grants, and a total of \$9.45 million in red light camera revenue that could be generated over the life of the financial plan, should this initiative get off the ground and produce the projected revenues. Additionally, there is \$15 million made available by the New York State Dormitory Authority and the City has submitted an application that includes \$5 million for demolitions as part of the City's effort to secure these funds. The Empire State Development Corporation administers a City-by-City funding program with a \$15 million appropriation and the City is working on proposals to utilize a portion of these funds. Based on the current economic downturn the City has not budgeted continued growth in state aid over the four years of its financial plan. One new revenue source for 2009-10 is tied to the Seneca Casino and currently held by NYS. The City has budgeted \$2.4 million in casino revenue for 2009-10, and \$1.8 million in each of the out years (totaling \$7.8 m in the financial plan).

For the second consecutive year the City's property tax levy is being lowered. Sales tax revenue has been slow as a result of the economic downturn since last fall, and the City budgeted a modest \$.3 million increase for FYE 2010, with some additional growth forecast over the life of the four year financial plan. Sales tax revenue growth for 2010 has been budgeted at 0.4 percent over 2008-09 levels. Current year projections forecast \$67.1 million for 2009, so for 2010 sales tax revenues would increase by \$.5 million over expectations for the current fiscal year. The following chart details the City's sales tax revenue over the life of the financial plan:

| Sales Tax Revenue (\$ in millions) | FYE 2009 Budget | FYE 2010 Budget | FYE 2011 Financial Plan | FYE 2012 Financial Plan | FYE 2013 Financial Plan |
|---|------------------------|------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 68.3 | 68.6 | 70.1 | 70.1 | 71.5 |
| Percent Change | - | 0.4% | 2.2% | 0.0% | 2.0% |

The budget lowers the City's property tax levy to \$142.4 from \$143.6 million. The levy is split between the City (\$72.1 million) and the School District (\$70.3 million). Modest growth in assessed values has increased the City's constitutional property taxing margin to \$33.1 million, up from a low of \$12.4 million in 2003-04. At present, the City is using 81 percent of its constitutional taxing capacity and taxes are down 0.8 percent from last fiscal year. While the

City has used a portion of restricted AIM funds to lower the real property tax burden, it is in fact covering a budget gap in fiscal year 2009-10 with some of this revenue source. While taxes are being reduced by \$1.2 million, the City avoids a potential tax increase by using nearly \$3.6 million in AIM for this purpose.

On the expenditure side, transfers remain the largest category, aside from fringe benefits. This year \$107.1 million is budgeted for fringes, which is an increase of \$2.3 million over the 2008-09 budget and \$10 million over 2009 forecast, with health insurance premiums driving the cost increases year-over-year. Health insurance costs for both active employees and retirees are budgeted at \$62.7 million, an increase of \$2.5 million from the prior year's adopted budget, while pension payments total \$23 million and the remaining \$21.4 million is comprised of items such as FICA, Medicare, workers compensation and dental insurance. It is important to note that fringes are calculated on the number of budgeted positions, and are overstated as long as the large number of vacancies remain throughout the City's fiscal year.

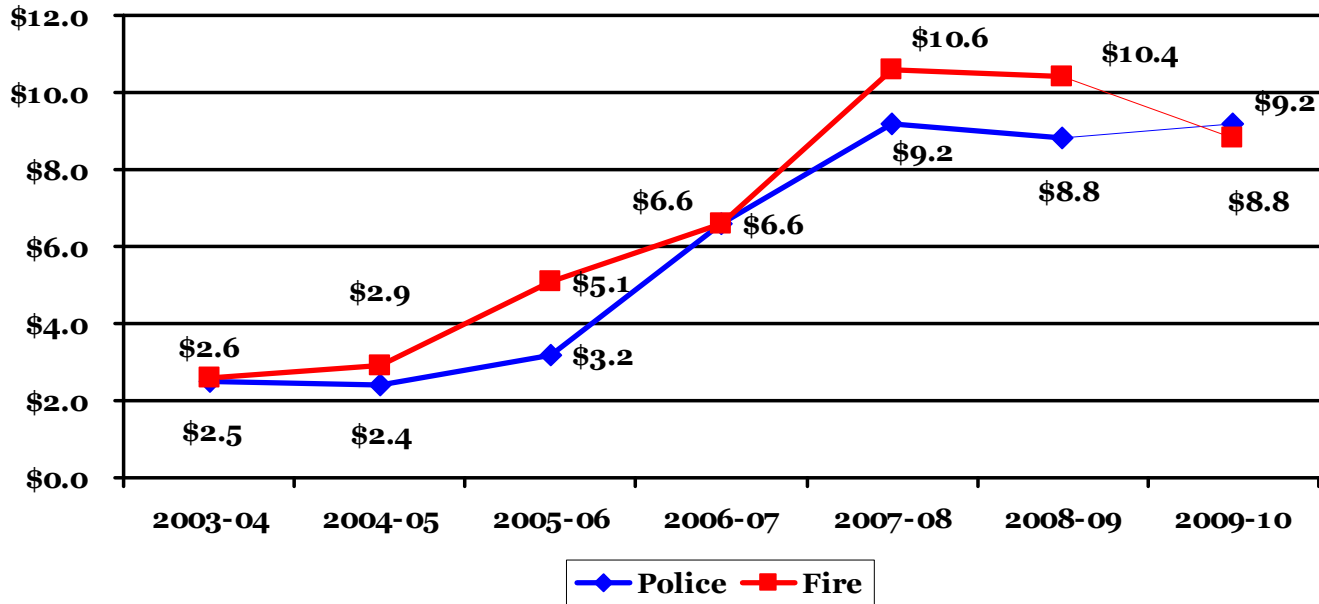
| City Expenditures (\$ in million) | FYE 2004 Actual | FYE 2005 Actual | FYE 2006 Actual | FYE 2007 Actual | FYE 2008 Actual | FYE 2009 Adopted | FYE 2010 Budget |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
| Fringe Benefits | 82.4 | 85.1 | 87.8 | 90.3 | 100.6 | 104.8 | 107.1 |
| Police | 69.8 | 64.4 | 64.1 | 66.9 | 71.4 | 77.3 | 80.1 |
| Fire | 53 | 50.9 | 51.3 | 50.3 | 56 | 54.8 | 56.2 |
| Public Works | 21.8 | 17.8 | 17.4 | 22.4 | 22.4 | 23.2 | 27.7 |
| Utilities | 12.3 | 13.7 | 15.1 | 19.3 | 17 | 18.9 | 18.7 |
| Transfers Out (Schools/Debt/Refuse) | 99.1 | 107.5 | 100.7 | 102.1 | 98.5 | 101.1 | 103.1 |
| All Other | 39.5 | 45.8 | 41 | 42.3 | 65.7 | 54.9 | 56.3 |
| Total | 377.9 | 385.2 | 377.4 | 393.6 | 431.6 | 435.0 | 449.1 |

The budget for police is increased by \$2.8 million over the previous year, to reflect a minimal increase in overtime as well as additional personal service costs, tied to a final 3.4 percent salary increase as part of a previous CBA, which was frozen during the BFSA imposed wage-freeze. The police department expects to add 20 officers in 2009-10, but these positions will only fill positions left vacant through attrition. While the overall police budget is increasing by \$2.8 million, personal services is increasing \$4.0 million, reflecting the 3.4 percent salary increase and the \$.4 increase in overtime costs. Capital outlays are set to decrease by approximately \$1.5 million, while supplies will decrease over \$56,000. Decreases in departmental expenditures for capital outlays and supplies are a common occurrence throughout the City's 2009-10 budget.

In the police budget the personal service line is 95.5 percent of the budget (up from 93.7% and the remaining 4.5 percent is for supplies, vehicles, services,

capital outlay and a couple of other minor expense lines); overtime makes up 11.5 percent of the total proposed police budget.

Police and Fire Overtime (In \$ millions)



Police overtime is a concern. Unaudited police overtime for FYE 2009 currently stands at \$8.6 million, which is \$1.5 million more than what was originally budgeted. Since 2004-05 police overtime has experienced an average annual increase of 36.1%, while the 2009-10 budget only increases police overtime spending by 4.6%. Police overtime is budgeted at \$9.2 million and expected to finish the 2009 year at \$8.6 million, an increase of \$.6 million over the unaudited 2009 FYE. It is interesting to note, that patrol overtime compared to last fiscal year through the first week of April is down by 12,000 hours. The addition of new patrol officers has decreased patrol OT, but other areas, namely detective services have increased the amount of OT worked.

The budget for fire is up nearly \$1.5 million from the prior year adopted budget. The City's revised budget increased fire spending by \$.13 million, primarily tied to increased spending for fire services (and decreases in supplies), while savings in vacancies and other areas limit the year to year impact. Personnel are expected to increase as the City is planning on a new fire class of 55 in September of 2009, with another 20 expected in January 2010 to back fill current vacancies and new retirements.

As with the police department, it appears that the City is being very aggressive in budgeting fire overtime. Per unaudited 2009 FYE numbers, overtime in the fire

department has exceeded the adopted budget amount by nearly \$2.7 million, \$7.9 million up to \$10.5 million. In the 2009-10 budget the City projects fire department overtime at approximately \$8.8 million which is \$1.7 million less (a decrease of 16 percent) than current year-end projections. The stated reason for the drop in budgeted overtime is the increases in personnel mentioned earlier. New fire personnel may impact the overtime expenditures but the uncertainty of the timing of new classes make the current projections speculative and should be monitored closely. Compared to last fiscal year the amount of OT worked has increased by 11,300 hours through the first week of April.

Public works, spending is up \$4.4 million over the previous year's budget and is primarily tied to increased costs for the inter-municipal agreement for parks management between Erie County and the City, as well as increased personnel costs from the new collective bargaining agreements. In the past the City has paid the County \$1.8 million annually for parks management based on the existing agreement, but after renegotiating the contract with the County, the City will now pay the County \$3.5 million from July 1, 2009 to December 31, 2009 (an increase of \$2.6 million for this period). Furthermore, the City budgeted an additional \$2.5 million for parks management expenses from January 1, 2010 to June 30, 2010 (an increase of \$1.6 million for this period). The newly renegotiated contract only runs through December 31, 2009, and it is expected that the City and County will continue to work on an agreement from January 1, 2010 going forward. Costs for parks management are held flat over the life of the financial plan.

While overall spending is up in public works, several budgetary lines across the department have been slashed. For example, capital outlays were budgeted at \$2.5 million for fiscal year 2008-09, and are forecasted around \$2.2 million for the 09 FYE. For 2009-10 the City budgets \$.9 million, down \$1.6 million from last year's budget. Capital outlays are generally held flat over the course of the four year financial plan. Spending on supplies is also down, from \$2.1 million in 08-09, to \$1.9 million in 09-10. The ability of the City to keep pay-go capital outlays at \$900 thousand for one year is doubtful, and keeping them at the same level for four years is even more so.

Utility costs (\$18.7 m for 09-10) are down from the 08-09 adopted budget (\$18.9 m), but up from the City's revised budget (\$17.9 m). Transfers (\$103.1 million) are up by nearly \$2.0 million to reflect higher capital debt service payments for the City (\$1.5 million), while the School District transfer remained unchanged (\$70.3 million) and there is an increase to the Enterprise Refuse Fund (\$.5 million).

Staffing levels are down slightly in the new budget. Whereas in 2008-09 the City budgeted 2,604 positions and ran a high number of vacancies (232 as of the third quarter), the 2009-10 budget provides for a total of 2,591 positions (a decrease of 13 budgeted positions) as shown in the following table:

| | 2008-09 Budget | 2009-10 Proposed | Change |
|--------------------------------|----------------|------------------|------------|
| Police (Non-Uniform) | 176 | 166 | -10 |
| Law | 31 | 31 | 0 |
| Mayor & Executive | 50 | 48 | -2 |
| Permits & Inspections | 97 | 97 | 0 |
| Audit & Control | 45 | 45 | 0 |
| Parking | 43 | 43 | 0 |
| Fire (Non-Uniform) | 44 | 44 | 0 |
| Engineering | 82 | 82 | 0 |
| Assessment & Taxation | 32 | 32 | 0 |
| MIS | 32 | 32 | 0 |
| Budget | 7 | 8 | 1 |
| Police (Uniform)* | 837 | 838 | 1 |
| Human Resources | 21 | 21 | 0 |
| Sanitation & Streets | 131 | 131 | 0 |
| City Council | 41 | 39 | -2 |
| City Clerk | 17 | 17 | 0 |
| Administrative Adjudication | 4 | 4 | 0 |
| Treasury | 12 | 12 | 0 |
| Collections | 7 | 6 | -1 |
| Purchase | 36 | 36 | 0 |
| Public Works (Gen Office) | 2 | 3 | 1 |
| Division of Buildings | 63 | 62 | -1 |
| Telecommunications | 3 | 3 | 0 |
| Animal Control & Shelter | 15 | 15 | 0 |
| Community Services | 57 | 57 | 0 |
| Fire (Uniform)** | 719 | 719 | 0 |
| Total | 2,604 | 2,591 | -13 |

* **Uniformed police** positions are budgeted at 838, a net increase of one position from the 2008-09 budget. While 837 positions were budgeted in 2008-09, current-year attrition left the uniform force at 784 at the end of the year. Additionally, the new budget includes 20 additional uniformed police personnel for the 2009-10 fiscal year, with a loss of 25 to 35 uniformed police to retirement.

**** Uniformed fire** positions are budgeted at 719, held flat from the 2008-09 budget. While the City had 719 positions budgeted in 2008-09, attrition have reduced the size of the force to 662 at the end of the year. The 2009-10 budget assumes 25 to 30 retirements during the 2009-10 fiscal year, and the hiring of 55 new uniformed fire personnel in September of 2009-10. On a net basis, uniform personnel in fire are not expected to increase year-to-year.

Summary of Financial Plan through 2012-13

The City's financial plan for fiscal years 2010-11, 2011-12 and 2012-13 shows no projected budget gaps.

| City Financial Plan (\$ in million) | FYE 2010 Budget | FYE 2011 Projected | FYE 2012 Projected | FYE 2013 Projected | 2010-13 Change |
|--|-----------------------|--------------------------|--------------------------|--------------------------|-------------------|
| Revenues | 449.08 | 457.46 | 464.77 | 471.68 | 5.03% |
| Expenditures | 449.08 | 457.46 | 464.77 | 471.68 | 5.03% |
| Surplus / (Deficit) | 0.00 | 0.00 | 0.00 | 0.00 | |

Revenues growth averages about 2 percent annually over the life of the financial plan, down from last year's projected revenue forecasts. Over the life of the plan, revenues are projected to grow by \$22.6 million or 5 percent (including the use of fund balance and restricted State AIM).

| City Revenues (\$ in million) | FYE 2010 Budget | FYE 2011 Projected | FYE 2012 Projected | FYE 2013 Projected | 2010-13 Change |
|--|----------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------|
| State | \$190.96 | \$196.29 | \$196.37 | \$188.01 | -1.5% |
| Real Property Taxes | \$136.72 | \$136.72 | \$136.72 | \$136.72 | - |
| Local & Other | \$69.10 | \$70.56 | \$70.54 | \$72.02 | 4.2% |
| Other Taxes | \$13.61 | \$13.61 | \$13.61 | \$13.61 | - |
| Service Charges | \$11.08 | \$12.63 | \$12.63 | \$12.63 | 13.99% |
| Miscellaneous | \$9.19 | \$9.19 | \$9.19 | \$9.19 | - |
| Fines | \$7.04 | \$7.05 | \$7.05 | \$7.05 | - |
| Licenses & Permits | \$3.31 | \$3.33 | \$3.30 | \$3.30 | - |
| Interest | \$1.10 | \$1.10 | \$1.10 | \$1.10 | - |
| Federal | \$0.37 | \$0.37 | \$0.37 | \$0.37 | |
| Transfers In | \$6.59 | \$6.60 | \$6.59 | \$6.60 | - |
| Other Sources | - | - | \$7.30 | \$21.05 | 2105.00% |
| Total | \$449.07 | \$457.45 | \$464.77 | \$471.65 | 5.03% |

State revenues grow in the second year (by \$5.3 m) of the financial plan and hold steady in 2012 before falling back to 2009-10 levels in 2012-13, while service charges appear to be the largest areas of revenue growth over the life of the plan (service charges are expected to grow approximately \$1.5 million). Last year's financial plan forecasted \$33.7 million (or 7.7% growth) in revenue growth over the period of the City's financial plan. Based on this comparison, the City is now forecasting \$11.1 million less revenue over the life of its four year plan as compared to one year ago, primarily driven from reductions in anticipated State Aid.

Average net sales tax receipts are projected to grow at a rate of 1.58 percent per year. Average state aid revenues are projected to decline slightly on an annual basis by -.8 percent. The City plans to use more than \$3.6 million in restricted AIM funds for the 2009-10 fiscal year, as a way to assist in their efforts to lower taxes. The City also plans to use \$8.3 million in restricted AIM funds in 2010-11 and nearly \$8.4 million in 2011-12 to close what otherwise would be gaps in the plan. All other revenue categories are assumed flat.

Since BFSA's creation the City of Buffalo has conservatively projected its State aid in its financial plan. In the last few years, the growth in State aid, which during its first year is restricted as to its use, were lagged by one year, meaning that pledged aid increases to the City were underestimated in each fiscal year of the financial plan. This restricted AIM funding has been held by BFSA in the last three years and disbursed as its use is determined by the City and approved by BFSA. However, based on the current economic downturn, the City is not forecasting increases in state aid during their 2009-10 budget and four year financial plan, and therefore the 2009 increase is the last built into the City's financial plan. In reviewing the chart below, the \$169.03 budgeted every year of

the financial plan is previous year state aid and considered unrestricted. Currently BFSA is holding \$22.7 million in prior years' AIM, the City's 2010 to 2013 financial plan relies on the use of \$20.2 million of these restricted AIM funds. These funds would be used to lower or maintain property taxes (which complies with the restrictive use language). After the use of the \$20.2 million in restricted AIM funds, the City will have a balance of approximately \$2.5 million held by BFSA for other uses.

| Unrestricted State Aid (\$ in million) | FYE 2010 | FYE 2011 | FYE 2012 | FYE 2013 |
|---|-----------------|-----------------|-----------------|-----------------|
| Amount in City Financial Plan | 169.03 | 169.03 | 169.03 | 169.03 |
| Use of prior year(s) restricted AIM | 3.55 | 8.29 | 8.36 | 0.00 |
| Projected Aid to be Provided | 172.58 | 177.32 | 177.39 | 169.03 |
| BFSA Held | 3.55 | 8.29 | 8.36 | 0.00 |

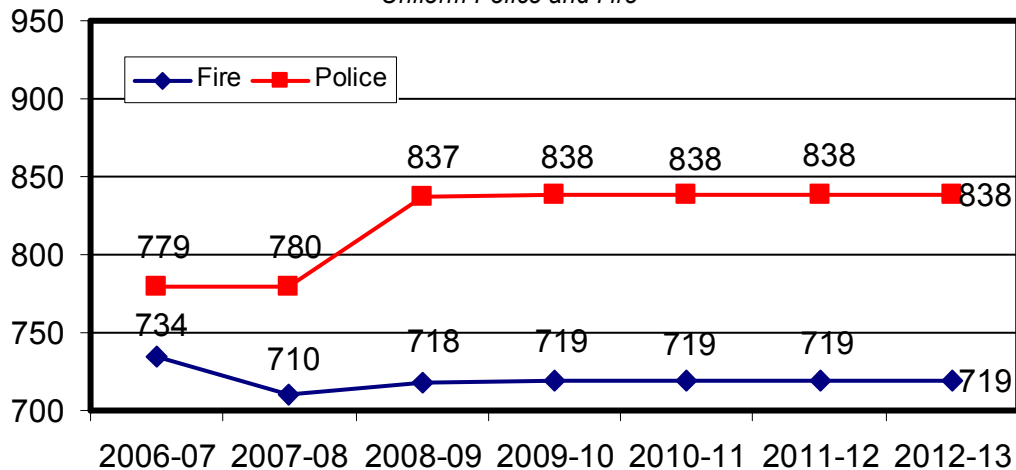
On the expenditure side of the ledger, the City is projecting 3.4 percent growth in 2009-10, 1.9 percent in 2010-11, 1.6 percent in 2011-12 and 1.5 percent in 2012-13. The largest growth over the period continues to be concentrated in fringe benefits, which are projected to increase from \$107.1 million to \$123.6 million over the four years of the plan (15.4 percent). Utilities are projected to grow by 6.4 percent over the four years, reflecting trends in natural gas and electricity prices. Over the course of the financial plan, the City has budgeted expenditure growth at about 5 percent total.

| City Expenditures (\$ in million) | FYE 2010 Budget | FYE 2011 Projected | FYE 2012 Projected | FYE 2013 Projected | 2009-13 Change |
|--|------------------------|---------------------------|---------------------------|---------------------------|-----------------------|
| Fringe Benefits | 107.1 | 112.7 | 118 | 123.6 | 15.41% |
| Police | 80.1 | 81.5 | 82.5 | 82.9 | 3.50% |
| Fire | 56.3 | 56.3 | 56.4 | 56.4 | 0.18% |
| Public Works | 27.7 | 27.5 | 27.6 | 27.7 | 0.00% |
| Utilities | 18.7 | 19.1 | 19.2 | 19.9 | 6.42% |
| Transfers Out (Schools/Debt) | 103.1 | 103.1 | 103.1 | 103.1 | — |
| All Other | 56.1 | 57.3 | 58 | 58.1 | 3.57% |
| Total | 449.1 | 457.5 | 464.8 | 471.7 | 5.03% |

Most departmental budgets are projected to remain flat, except for police. The Police Department budget is projected to grow from \$80.1 million in 2009-10 to \$82.9 million in 2012-13. The increases for police include one additional salary increase of 3.4 percent in 2009-2010. While police and fire both plan to add staff in 2009-10, most of the new personnel will only replace vacant positions lost through attrition and no additional salary increases are built into either department's budgets (aside from the 09-10 3.4% raise for police). The Department of Administration and Finance is budgeted to grow \$.79 million over the City's financial plan, while Economic Development, Permits and Inspection Services is budgeted to grow approximately \$.24 million over the life of the financial plan. Spending on capital outlays department wide has been slashed and is one reason for the small growth in departmental spending over the City's four year financial plan. As mentioned earlier, BFSA questions whether the cuts in capital outlays are sustainable over the four year plan.

Budgeted Staffing Levels

Uniform Police and Fire



Note: Budgeted staffing levels in 2008-09 do not reflect the actual size of the force at the end of the 2008-09 fiscal year. Due to retirements, the City was running vacancies in both the Police and Fire Departments. At the end of the 2009 fiscal year, there were 784 filled positions (reflecting additional uniform personnel added during FY) in uniformed police (i.e. 53 vacancies) and 662 in uniformed fire (i.e. 57 vacancies). The financial plan again adds police officers and firefighters in 2009-10. The budgeted numbers for police and fire include IOD personnel, which typically average approximately 75 for fire and 100 for police at any given time.

While the financial plan calls for new hires in police and fire in 2009-10, the budgeted numbers of uniform police and fire are not expected to increase throughout the financial plan. Additionally, staffing levels in every other City department will remain flat (at the 2009-10 level) throughout the financial plan. Total staffing in the City's General Fund will be 2,591 in 2009-10 and remain at that level in each of the following years, 2010-11, 2011-12 and in 2012-13. This staffing plan is fundamentally different from last year's, in that staffing was expected to increase in each year of the financial plan, and police and fire were

both expected to increase their ranks over the four year period from 2008-09 to 2011-12.

Risks

Any multi-year financial plan contains some risk and opportunities, and the City's is no different. While the plan is balanced, it does contain risks that could affect actual results in the following areas:

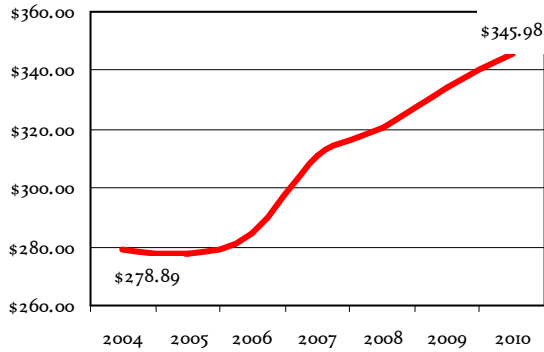
- \$20.2 million in restricted AIM funds being used to close financial plan requirements and avoid property tax increases. The City is planning to use restricted AIM funds to, in essence, plug budget gaps which otherwise would have to be filled by increases in property taxes or use of fund balance. Given the state of the economy in NYS, the possibility of further reductions in the City's State Aid package remain a real threat at a time when the City will have limited ability to raise other revenues.
- The City plans to utilize \$28.4 million in unreserved fund balance in the final two out years of this financial plan. The use of fund balance to plug recurring general fund expenses reflects the lack of structural balance as the growth in revenues is insufficient to cover growth in expenditures without large increases in State aid. The use of \$28.4 million of unreserved fund balance in the last two years of the financial plan equals 48.1% of City's current unreserved fund balance.
- Since 2004-05 fire overtime has experienced an average annual increase of 42.1%, while the 2009-10 budget lowers overtime spending by 16%. Increased staffing is anticipated but constraints in the hiring process will make it difficult to implement on a timely basis.
- Since 2004-05 police overtime has experienced an average annual increase of 36.1%, while the 2009-10 budget only increases police overtime spending by 4.6%.
- Although the City has settled new agreements with several bargaining units, the budget and financial plan does not include potential costs of new contracts or of binding arbitration decisions for either of its largest unions, police or fire. BFSAs understand police has already filed for binding arbitration and fire is considering the same. It appears the City could not afford new collective bargaining agreements with bargaining units still out of contract especially if they come without major concessions. Staff costs continue to rise and now encumber 82% of the City's budget, up from 81% a year ago. Other than the cushion afforded by vacancies, the City has limited ability to withstand significant salary increases. Moreover, the City is contracting all other budgeted lines as staffing costs continue to rise rapidly.

- The City's planned use of restricted AIM funds (\$20.2 m over 4 yrs.) to keep property taxes in check will limit use of these funds for initiatives that might assist in economic development and or that might lead to efficiencies. In the past the City has funded major components of its demolition program with restricted AIM funds, and the City will need to find other funds to carry on the Mayor's 5 in 5 demolition program.
- In order to afford salary increases tied to CBA's ratified in 2008-09, the City has severely cut spending on capital outlays, supplies and areas like travel. It is difficult to believe that the City can provide the necessary services with such limited resources for ongoing capital outlays, supplies and services.
- The financial plan assumes that \$5.9 million in additional sales tax sharing, first provided in January 2008, will continue each year. This revenue is subject to State legislative action to continue Erie County's one-cent additional sales tax, from which the \$5.9 million is provided. We understand that the County has budgeted a continuation of the penny share. While this revenue is not a question for the 2010 budget, this legislation expires on 11/30/2010 and this could pose concerns about revenues in the out-years of the financial plan.
- The City has an agreement in place for Erie County to continue management of City parks until December 31, 2009. The newly renegotiated arrangement with the County has increased costs for the first half of the 2009-10 fiscal year by \$2.6 million (from \$.9 m to \$3.5 m). While the City has budgeted \$2.5 million in the second half of the fiscal year for parks expenditures, no arrangement is in place beyond the 2009 calendar year for parks management. Overall, the City has budgeted \$6 million for parks in the 2009-10 fiscal year, a \$4.2 million increase year-over-year (from \$1.8 m to \$6.0 m). The financial plan keeps funding at this level over its life. If the City were to take back the management of its parks, cost increases could be substantial, as new equipment, staff and a whole new parks management department would need to be created.
- Since the wage freeze was lifted, outstanding lawsuits challenging the legality of limiting step and wage increases to one step are still ongoing. Legal issues, especially as they relate to the police, could drive the City's wage obligation higher than what is currently contained in the financial plan.
- OPEB liabilities, estimated at about \$945 million for the City, with an annual contribution of \$58 million (as of last year) will need consideration going forward. Despite the fact that funding is currently not required, its

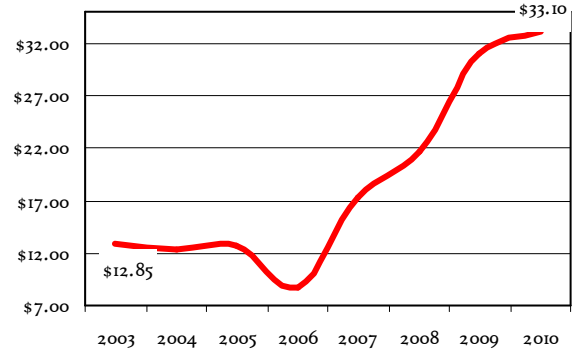
impact will start to be felt in the next few years and a course of action to deal with this issue will need to be contemplated.

These risks notwithstanding, the City's conservative budgeting practices and record fund balance (since BFSA's creation in 2003) have positioned Buffalo to weather a short term economic downturn. The 2009-10 fiscal year presents new challenges above and beyond what the City has faced in recent years, with significant annual increases in state aid. If the state and national economy do not improve before the development of 2010-11 budgets and financial plans, the City could face severe challenges in upcoming budget cycles.

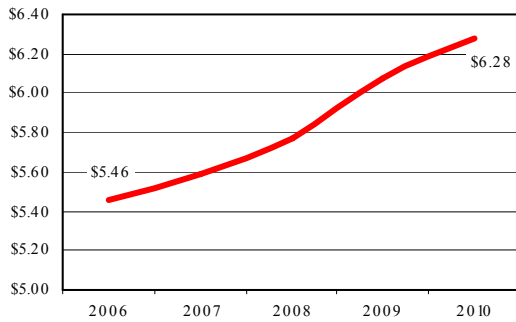
City Budget Size - Excl. Transfers
(millions of \$)



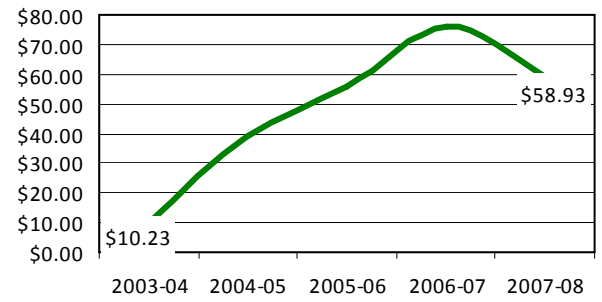
City Property Tax Margin
(millions of \$)



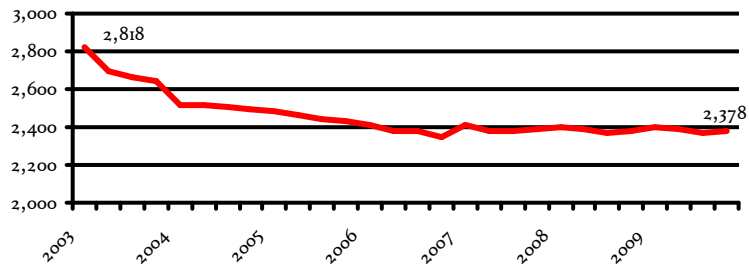
City Five-Year Avg Property Valuation
(billions of \$)



City Unreserved, Undesignated Fund Balance
(millions of \$)



City Workforce Size
(number of FTEs)



Buffalo Public Schools Four-Year Financial Plan

Overview

The School District adopted the 2009-10 Budget and Financial Plan on April 27, 2009 and the BFSA Board of Directors approved the Budget on June 5th, 2009. The adopted budget is a refined version of the original budget received by BFSA, and minimally increases overall revenues and expenditures by nearly \$.6 million. There is no singular action that increases the budget, but a series of revised estimates that have a net increase of \$.6 million.

The Revised financial plan provides for spending of \$915.4 million in 2009-10, growing to \$963.7 million in 2012-13, an increase of \$48.4 million or 5.3 percent over four-years. As a comparison, last year's growth over the four-year financial plan was 15.2 percent. The School District's financial plan grapples with baseline budget gaps in the General Fund and the Food Service Fund. The gaps are as follows:

| Financial Plan Year: | Gap: |
|-----------------------------|-------------------------|
| 2009-2010 | \$5.50 million |
| 2010-2011 | \$33.67 million |
| 2011-2012 | \$46.42 million |
| 2012-2013 | \$56.56 million |
| Total: | \$142.15 million |

The budget gap of \$142.2 million for the current financial plan has increased significantly, compared to prior year's base line gap of \$57.4 million—over 3 years. The yearly gaps have increased compared to the 2008-2009 financial plan, an increase of approximately \$85 million or 148 percent; and reflect both State aid held relatively flat as well as the impact that a loss in the steps litigation would have on the plan. District management has taken steps to limit cost increases within the budget; however the District has certain operating costs that increase by approximately \$30 million annually and they have no immediate control over those structural cost increases. Those costs include guaranteed step increases, health insurance premiums, pension contributions and charter school payments.

The District is able to address the budget gaps to an extent; they are able to draw-down the reserve that they have built, but that would only address roughly 20 percent of the gap. The remaining portion of the gap would have to be closed by taking actions that could devastate the academic success that the District has recently achieved. Plans to close the out-year gaps call for forced-layoffs, closing of facilities, elimination of athletics, arts and music programs, advanced academic courses, and other programs that have focused on student

development and achievement. The District would be forced to offer a 'bare-bones' curriculum.

The financial plan includes a reserve for a potential loss of the steps litigation. In addition to the steps litigation, the District is faced with moving all hourly employees in-line with the City's Living Wage Ordinance (LWO) over the next three years. The Board of Education passed a resolution in March 2009 that provided for the living wage to be implemented by 2011-12. The average annual cost of implementing the LWO is \$964,359 per year, and is slated to increase at the same rate as the CPI in 2013 and forward. This group of employees is made up of substitute teacher aides, bus aides, food service workers, school lunch cooks and substitute workers, totaling approximately 1,125 employees and comprising 20 percent of the workforce. The district will have to bring all hourly employees up from their prevailing wages, which average \$8.33/hour. As of 1/1/09 the living wage rate is \$10.31/hour for employees that have health insurance and \$11.57/hour for those who do not have health insurance.

The District is dependent on the State for 80 percent of all of its revenue; as a Dependent School District it does not have the ability to raise additional tax revenue. Without increases in State Aid, the District's revenues are fairly static, yet their expenditures will continue to grow annually due to various obligations including step increases, health insurance premiums, and charter payments. The expenditures will continue to outpace their revenues.

OPEB liability is an issue that will continue to grow year after year, and it is currently projected at \$1.2 billion. This is a major liability for the District, as well as the City since the Buffalo Public School District is a Dependent School, the District is an integral part of the City. At the end of the day, the District's OPEB liability is tied to the same City taxpayer and if not addressed will eventually impact the City's credit rating.

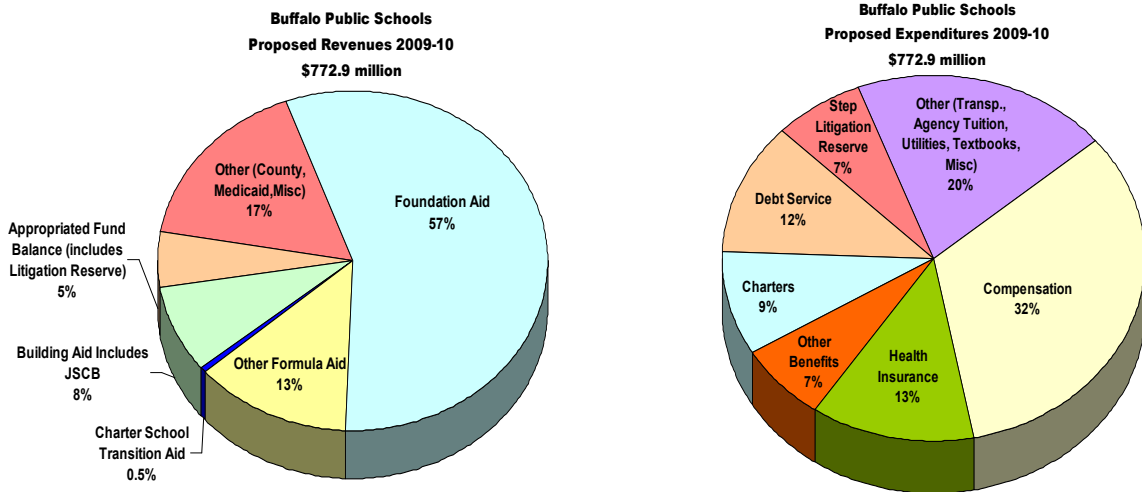
The situation for the District is dire, and the only relief for them (outside of additional State aid) is to work with the unions to restructure their current contracts. This may not provide the District with many short-term benefits, but if done correctly the District might be able to address some long-term systemic issues that they have been grappling with, including health insurance costs for current and new employees and current and future retirees; paid time off as well as issues surrounding the length of the school year and school day. The District has no obvious resources to fund salary increases, but if the unions were willing to work with the District, progress could be made.

Summary of 2009-10 Budget

The School District's 2009-10 budget contains \$915.37 million in spending: \$772.9 million in the General Fund, \$118.9 million in the Special Projects/Grants Fund and \$23.6 million in the Food Service Fund. The overall District budget is

4.85 percent or \$42.3 million greater than the 2008-09 *adopted* budget. The largest year-to-year increase is in the General Fund which represents a 3 percent increase or \$22.7 million, followed by Grants which increases by \$17.7 million or 17.5 percent

The following charts show a breakdown of the School District's total 2009-10 General Fund budget by major spending and revenue category:



State aid to the District is being held relatively flat (an increase of \$5.2 million) compared to last year; the vast majority of the total revenue increase over the previous year is funded by Federal Stimulus funding totaling approximately \$34 million. Federal Stimulus funds have increased the grants budget by \$18.1 million, and accounts for approximately \$16 million of Foundation Aid. New York State had enacted a deficit reduction assessment on all school districts, and rather than cut aid, the State was able to utilize portions of the Federal Stimulus funds to maintain State Aid at prior year levels. An additional \$42.5 million is being drawn down from fund balance as a set aside reserve for the potential pay-out of back steps to District employees (\$37 million) and to close a projected 2010 budget gap of \$5.5 million. It is worth noting that Charter School Transition Aid represents .5 percent of all General Fund revenues or \$3.6 million compared to the annual payment to Charter Schools from the District which represents 9 percent of all General Fund expenditures, or \$71.7 million. These costs are fixed and the District has no control over them. Unfortunately, the District is typically not able to consolidate classrooms in a timely manner that would allow them to capture immediate savings from the students moving from the public school system to a charter school.

| School District Revenues (\$ in million) | FYE 2004 Actual | FYE 2005 Actual | FYE 2006 Actual | FYE 2007 Actual | FYE 2008 Actual | FYE 2009 Budget | FYE 2010 Budget |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Local Sources | | | | | | | |
| Property Tax | 68.7 | 68.8 | 68.7 | 70.8 | 70.3 | 70.3 | 70.3 |
| Sales Tax | 30.1 | 31.1 | 32.1 | 33.2 | 34.4 | 34.8 | 33.1 |
| Subtotal | 98.8 | 99.9 | 100.8 | 104.0 | 104.7 | 105.1 | 103.4 |
| State Aid (Gen Fund) | 342.7 | 382.7 | 408.7 | 456.7 | 551.5 | 601.7 | 606.9 |
| Other General Fund | 12.6 | 7.8 | 10.7 | 14.0 | 14.5 | 15.6 | 17.3 |
| Federal Medicaid | 6.2 | 5.7 | 5.3 | 1.4 | 3.9 | 2.0 | 2.0 |
| General Fund Subtotal | 460.3 | 496.1 | 525.8 | 576.1 | 674.6 | 724.4 | 729.6 |
| Grants | 155.7 | 154.5 | 153.5 | 157.2 | 96.9 | 101.2 | 118.9 |
| Food Service | 19.3 | 19.8 | 20.5 | 20.7 | 21.3 | 21.7 | 21.3 |
| Fund Balance | - | - | - | - | | 25.8 | 45.6 |
| Total | 635.3 | 670.4 | 699.5 | 754.0 | 792.8 | 873.1 | 915.4 |

Aside from Grants, all other major revenue sources in the District's budget are expected to be relatively flat. The City's property tax contribution is unchanged at \$70.3 million for the 2009-10 fiscal year. Sales tax is reduced by \$1.7 million (4.9 percent) from the prior budget reflecting current year trends of lower tax receipts. The out-years are modest in their projections and are below the historical growth rates of 2 percent and reflect the decrease in consumer spending. Federal Medicaid reimbursements are held flat year-to-year at \$2.0 million, as well as over the course of the financial plan. Other General Fund revenues – including interest earnings, tuition and local share contributions for the Joint Schools Construction Board – are budgeted to increase by a combined \$1.7 million. The Food Service Fund and Grants show growth and are increased by \$2.6 million and \$17.7 million respectively, on a year-to-year basis. The District plans include resorting to the use of \$37 million in Fund Balance if they lose current litigation concerning step-increases for teachers tied to the BFSA imposed wage-freeze from 2004 to 2007, as well as an additional \$7.8 million of fund balance (\$5.5 million in the General Fund and \$2.3 million in the Food Service line allocated to close projected current year gaps).

| School District Expenditures (\$ in million) | FYE 2004 Actual | FYE 2005 Actual | FYE 2006 Actual | FYE 2007 Actual | FYE 2008 Actual | FYE 2009 Budget | FYE 2010 Budget |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <i>General Fund</i> | | | | | | | |
| Employee Compensation* | 206.5 | 193.3 | 185.8 | 188.7 | 240.5 | 256.8 | 255.7 |
| Fringe Benefits* | 87.6 | 107.3 | 101.9 | 106.5 | 124.8 | 149.2 | 149.4 |
| Debt Service (incl JSCB) | 28.7 | 37.6 | 47.8 | 59.1 | 60.8 | 81.6 | 89.1 |
| Charter Schools | 26.4 | 40.1 | 50.2 | 56.6 | 61.2 | 71.7 | 71.7 |
| Transportation | 28.6 | 31.9 | 34.1 | 35.4 | 38.9 | 41.4 | 43.8 |
| Tuition | 22 | 24.2 | 24.6 | 26.8 | 26 | 29.5 | 31 |
| Custodial Contracts | 15.3 | 15.5 | 15.7 | 16.1 | 15.5 | 17 | 17.0 |
| Utilities | 10.7 | 12.1 | 18.2 | 14.3 | 14.1 | 18.8 | 14.7 |
| Other | 32.8 | 31.6 | 34.8 | 41.2 | 47 | 47.2 | 45.0 |
| Step Increases | 0 | 0 | 0 | 0 | 0 | 37 | 55.5 |
| Subtotal | 458.6 | 493.6 | 513.1 | 544.7 | 628.8 | 750.2 | 772.9 |
| <i>Special Projects/Grant Fund</i> | 155.7 | 154.5 | 153.5 | 157.2 | 96.8 | 102.2 | 118.9 |
| <i>Food Service Fund</i> | 19.3 | 19.2 | 19.4 | 20.7 | 20.3 | 20.7 | 23.6 |
| Total | 633.6 | 667.3 | 686 | 722.6 | 745.9 | 873.1 | 915.4 |

*Employee Compensation & Fringe Benefits does not include an additional \$55.5 million of potential additional costs related to ongoing litigation concerning the wage-freeze and lost steps during the time of the wage-freeze.

On the expenditure side there is a year-to-year increase of \$42.3 million, which is approximately a 4.8 percent increase over the 2008 adopted budget. This increase is being driven mainly by two factors, the step-increases (\$18.5 million) and expenditures tied to additional Federal funds for the Special Projects/Grant Fund (\$17.7 million). This increase reflects a net impact, and is mainly attributed to the addition of \$18.8 million in Federal Stimulus funds, and a reduction of \$9 million in State Funds. Most other categories are remaining relatively flat or decreasing with an increase in General Fund Debt Service, a \$7.5 million increase attributed to Phase III of the JSCB project. The fourth largest area of growth is the Food Service Fund, increasing by \$2.9 million followed by Transportation costs, up \$2.4 million.

Fringe benefits are being held flat at \$149.4 million as are charter school payments at \$71.7 million and custodial contracts for \$17 million. Fringe benefits are increasing by only \$200,000. They will benefit from a \$3.9 million reduction in pension rate contribution for the budget year which is offsetting projected health insurance increases of \$3.9 million. The increase of \$200,000 is attributed to the increase contribution rate for Workers' Compensation. There are a few areas that are impacted by reductions including utilities, \$4.1 million, followed by a reduction in budgeted employee compensation, \$1.1 million, and all other categorical spending is reduced by \$2.2 million. The reduction in utilities is attributed to several factors including closing of facilities, higher energy efficient buildings/equipment, as well as the pooling and hedging of future utility costs.

In 2005-06, the District implemented a single carrier health insurance initiative to save significant dollars. Despite ongoing union challenges to the initiative, the District was able to reap financial benefits, with lower health insurance costs, in 2006-07 and 2007-08. The union has been successful in their challenges, and the District is required to return to the previous multiple-carrier plan, which is no longer available. The District implemented a self-insured plan, which mirrored the previous multiple-carrier plan, but the District is facing additional challenges from the Union on this action. The District is appealing the lower court's ruling, but is preparing to pay the additional costs associated with the multi-carrier plans, if required.

On an all funds basis staffing levels are down slightly in the 2009-10 District budget. A total of 5,609 positions are provided for across all funds (4,618 in the General Fund, 928 in the Grants Fund and 63 in the Food Service Fund), an increase of 2 positions over the previous year's budget. Staffing levels in the adopted budget represent an increase of 129 FTE's over year-end actual FTE's.

| School District Workforce Size | FYE 2009 Budget | FYE 2010 Budget | Yr-to-Yr Change | FYE 2009 YE Actual | FYE 2010 Budget | Yr-to-Yr Change |
|---------------------------------------|------------------------|------------------------|------------------------|---------------------------|------------------------|------------------------|
| Teachers | 3,585 | 3,586 | 1 | 3,537 | 3,586 | 49 |
| Administrators | 202 | 208 | 6 | 203 | 208 | 5 |
| White Collar / Clerical | 553 | 543 | -10 | 497 | 543 | 46 |
| Teacher Aides | 964 | 964 | 0 | 944 | 964 | 20 |
| Trades | 48 | 48 | 0 | 49 | 48 | -1 |
| Blue Collar | 154 | 155 | 1 | 152 | 155 | 3 |
| Engineers | 68 | 68 | 0 | 63 | 68 | 5 |
| Exempt / Board | 33 | 37 | 4 | 35 | 37 | 2 |
| Total | 5,607 | 5,609 | 2 | 5,480 | 5,609 | 129 |

Summary of Financial Plan through 2012-13

The District's financial plan, while balanced in 2009-10 (with the use of \$5.5 million of unreserved/undesignated Fund Balance), shows baseline budget gaps for fiscal years 2010-11, 2011-12 and 2012-13. Compared to prior years, projected gaps have not been seen of this magnitude since early in this decade. Over the four-years of the financial plan, gaps are projected to be \$142 million; that is more than double the 2009 financial plan gap projection of \$57.4 million, an increase of \$84.8 million in a single year's time.

The gaps in the financial plan illustrate how dependent the District is on State Aid—which is being held flat compared to the prior year, and they are projecting a \$5.5 million gap, which increases to \$33.7 million in 2010-11—for a combined gap total of \$49.2 million in the next two years. Structural costs are out-pacing

revenue growth, and if these structural issues are not addressed soon, they will further exacerbate the tenuous financial situation they are currently facing.

Should there be any reductions in State aid in the current year or at any point of the Financial Plan, the District is not in any position to cover any loss in projected revenue. Their only course of action would be a painful reduction in expenditures.

| School District Financial Plan (\$ in million) | FYE 2010 Budget | FYE 2011 Projected | FYE 2012 Projected | FYE 2013 Projected | 2010-13 Change |
|---|--------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------|
| Revenues | 772.9 | 733.7 | 751.8 | 780.8 | 1.02% |
| Expenditures | 772.9 | 767.3 | 798.2 | 837.3 | 8.3% |
| Surplus / (Deficit) | - | (33.7) | (46.4) | (56.5) | (136.5) |

With the four-year cost of steps included in its projections, the increase to the living wage and the elimination of savings from the single-carrier health insurance, the financial plan shows baseline budget shortfalls for the District of \$33.7 million in 2010-11, \$46.4 million in 2011-12 and \$56.6 million in 2012-13. In order to achieve annual budget balance, the financial plan identifies specific but painful gap-closing actions the District would implement in each of those years. Such actions include downsizing staff, closing school buildings and reducing certain vendor contract payments, supplies and programs. The District is also relying on its available fund balance to ensure budgetary balance through the financial plan.

Compared to recent financial plans, the gaps have grown exponentially in the out-years, with the primary reason being the District's dependence on state aid. Last year's state budget had allocated large increases over the course of the financial plan to implement the Contract for Excellence—this program is currently on hold and will not see a projected increase until 2013. The District is now faced with trying to keep current services in place, with no sizeable increase of State aid on the horizon or any other sources of additional revenue.

| School District Revenues (\$ in million) | FYE 2010 Budget | FYE 2011 Projected | FYE 2012 Projected | FYE 2013 Projected | 2010-13 Change |
|--|-----------------------|--------------------------|--------------------------|--------------------------|-------------------|
| Local Sources | | | | | |
| Property Tax | 70.3 | 70.3 | 70.3 | 70.3 | 0.00% |
| Sales Tax | 33.1 | 33.1 | 33.7 | 34.4 | 4.05% |
| Subtotal | 103.4 | 103.4 | 104.0 | 104.7 | 2.00% |
| State Aid (Gen Fund) | 606.9 | 610.5 | 627.9 | 656.2 | 8.12% |
| Federal Medicaid | 2 | 2 | 2 | 2 | 0.00% |
| Other General Fund | 17.3 | 5.1 | 10.3 | 15.8 | -8.88% |
| Fund Balance | 43.3 | 12.7 | 7.6 | 2.1 | -95.15% |
| Grants | 118.9 | 118.9 | 100.8 | 100.8 | -15.22% |
| Food Service* | 23.6 | 24 | 24.8 | 25.5 | 8.05% |
| Total | 915.4 | 876.6 | 877.4 | 907.1 | -0.91% |

*Includes use of \$6.5M in reserves over 4-Years of FP

Total revenues are projected to grow 1 percent over the entire financial plan compared to projected revenue growth in the range of 4.7 to 5.5 percent in last year's financial plan. Natural growth in the county sales tax is projected at 2 percent in the final two years of the financial plan, which is about equal to historical trends. Sales tax revenue is being held flat at the current year value for the 2010 and 2011 budgets. The City's contribution to the District from the property tax levy is projected flat at \$70.3 million throughout the financial plan. Revenues in the Grant Fund are flat at \$118.9 million in 2010 and 2011 (due to the Federal Stimulus funds) dropping down to \$100.8 million in 2012 and 2013 when the Federal Stimulus funds will no longer be available. Food Service Fund revenues are projected to grow on average by 2 percent each year, but that is largely attributed to the use of fund balance in each year of the plan. The use of fund balance is necessary as the District is in the process of bringing all hourly employees up to the living wage rate—with Food Service Workers and Cooks being impacted by these increases.

| School District Expenditures (\$ in million) | FYE 2010 Budget | FYE 2011 Projected | FYE 2012 Projected | FYE 2013 Projected | 2010-13 Change |
|--|-----------------------|--------------------------|--------------------------|--------------------------|-------------------|
| General Fund | | | | | |
| Employee Compensation* | 255.7 | 263.7 | 270.4 | 276.3 | 8.06% |
| Fringe Benefits | 149.4 | 169.5 | 185.7 | 202.8 | 35.74% |
| Debt Service (incl JSCB) | 88.9 | 89.4 | 89.4 | 89.5 | 0.67% |
| Charter Schools | 71.7 | 74.6 | 78.8 | 86.8 | 21.06% |
| Transportation | 43.8 | 44.8 | 45.7 | 46.6 | 6.39% |
| Tuition | 31 | 32.6 | 34.2 | 35.9 | 15.81% |
| Custodial Contracts | 17 | 17 | 17 | 17 | 0.00% |
| Utilities | 14.7 | 15.2 | 15.9 | 16.7 | 13.61% |
| Other | 45.2 | 42.1 | 42.6 | 47.3 | 4.65% |
| Step Increases | 55.5 | 18.5 | 18.5 | 18.5 | -66.67% |
| <i>General Fund Subtotal</i> | <i>772.9</i> | <i>767.4</i> | <i>798.2</i> | <i>837.4</i> | <i>8.35%</i> |
| Special Projects/ Grant Fund | 118.9 | 118.9 | 100.8 | 100.8 | -15.22% |
| Food Service Fund | 23.6 | 24 | 24.8 | 25.5 | 8.05% |
| Total | 915.4 | 910.3 | 923.8 | 963.7 | 5.28% |

The School District's baseline expenditures, including the potential step increases, before gap-closing actions are implemented, project an average growth of 1.75 percent over the course of the financial plan. That represents an approximately \$48 million increase in baseline spending from 2009-10 to 2012-13, with the largest component being employee and retiree health insurance premiums (estimated to be up by \$38.6 million or 40 percent over the period and 51 percent over year-end projections for fiscal year 2009). Employee compensation is projected to increase by \$20.6 million primarily from steps and the adoption of the living wage, and All Other fringe benefits which include retirement will increase by \$14.7 million. Pass throughs to charter schools are also expected to grow in the amount of \$15.1 million over the period, from \$71.7 million in 2009-10 to \$86.8 million in 2012-13, in part reflecting the lifting of the statewide cap on the number of charter schools and the enrollment expansion of current operating charters. Other notable areas of increase are in tuition payments at \$4.9 million, followed by transportation costs increasing by \$2.8 million, utilities at \$2 million, while debt payments associated with JSCB projects are projected to increase by \$.6 million.

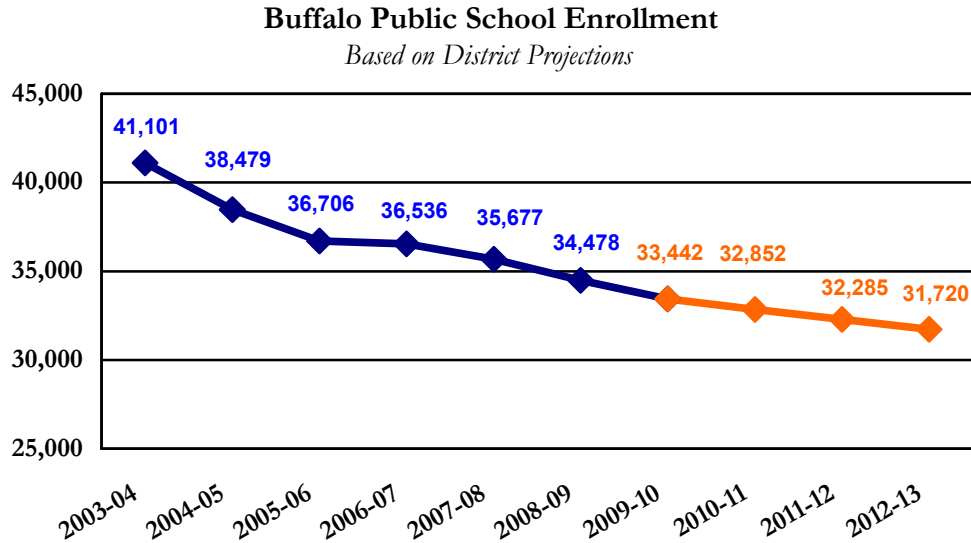
In order to close its projected out-year budget shortfalls (\$33.6 million in 2010-11, \$46.4 million in 2011-12 and \$56.5 million in 2012-13), the District's financial plan contains a series of gap-closing measures:

| Gap-Closing Actions | FYE 2011 | FYE 2012 | FYE 2013 |
|--|------------------|----------|----------|
| Projected Gap: | (33.6) | (46.4) | (56.5) |
| | (\$ in millions) | | |
| Eliminate Staff | | | |
| <i>Recurring savings produced through elimination of 100 positions in each out-year 2010-11 & 2012-13, and 100 positions in 2011-12</i> | 5 | 10 | 15 |
| School Closings | | | |
| <i>Recurring saving produced through closing of 1 swing school in 2010-11 and 3 in 2013</i> | .2 | .2 | .7 |
| Other Reductions to Close the Gap: | | | |
| <i>Options include additional staff reductions, program reductions including extra curricular activities, optional courses, contracted services and additional aid</i> | 15.8 | 28.8 | 38.8 |
| Revised GAP after Recurring Savings | (12.7) | (7.5) | (2.1) |
| Use of Fund Balance-- <i>(\$33.8M is the total unreserved, undesignated as of 6/30/08)</i> | 12.7 | 7.5 | 2.1 |
| Total Savings | 20.9 | 39 | 54.5 |
| Gap After Savings | 0 | 0 | 0 |

The District's staffing level is projected to decrease in 2010-11, when it begins implementing staff cuts to balance its budget. With the continuing decline in enrollment and natural attrition through retirements, the elimination of 100 positions per year should be possible without forced layoffs. A total of 5,609 staff (including 3,586 teachers) is included in the financial plan for 2009-10. With the out-year staff reductions, total personnel will fall to 5,509 in 2010-11, 5,378 in 2011-12 and 5,278 in 2012-13, for a total overall reduction of 331 All Funds positions. Additional staff cuts and program elimination of the magnitude contemplated in the above table would devastate the District's curriculum and the academic success that it has recently achieved.

District enrollment in the 2008-09 academic year was down by 3.4 percent to 34,478. This was the third lowest year-to-year drop in enrollment the District has experienced since 1998. In fact, the enrollment decline had worsened in recent years, with an average yearly decline of 3.5 percent in the five preceding years. However, the lifting of the statewide cap for the number of charter schools has the potential to result in additional educational outlets in Buffalo, thereby further reducing the District's enrollment. The financial plan is based on the assumption that enrollment will decline by approximately 690 students per year, reaching

31,720 in 2012-13. Charter school enrollment is projected to grow at approximately 265 students a year, or approximately 4 percent annually, from 6,526 in 2009-10 to 7,166 in 2012-13.



Risks

The District's financial plan, while balanced, is subject to several major risks, which make its financial health extremely fragile:

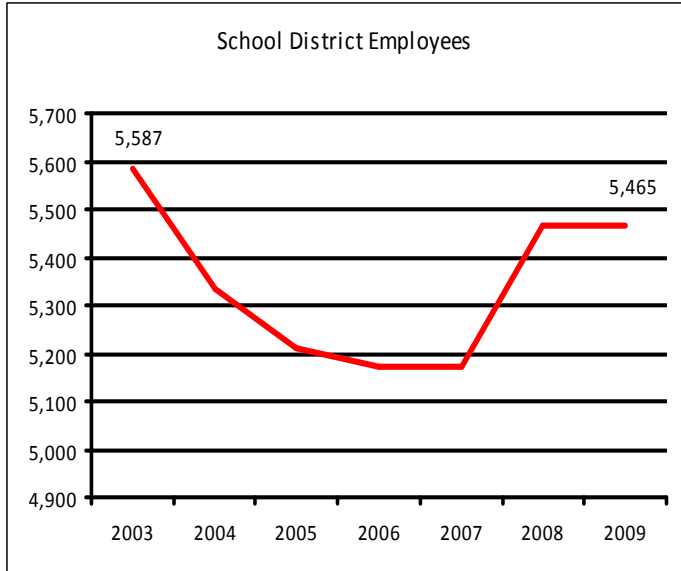
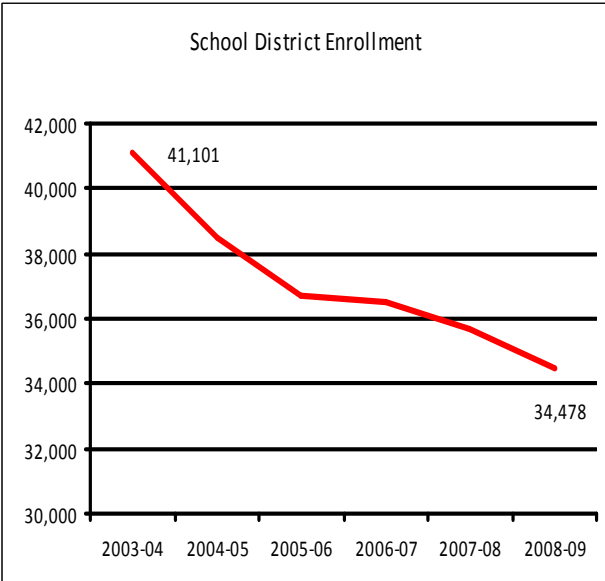
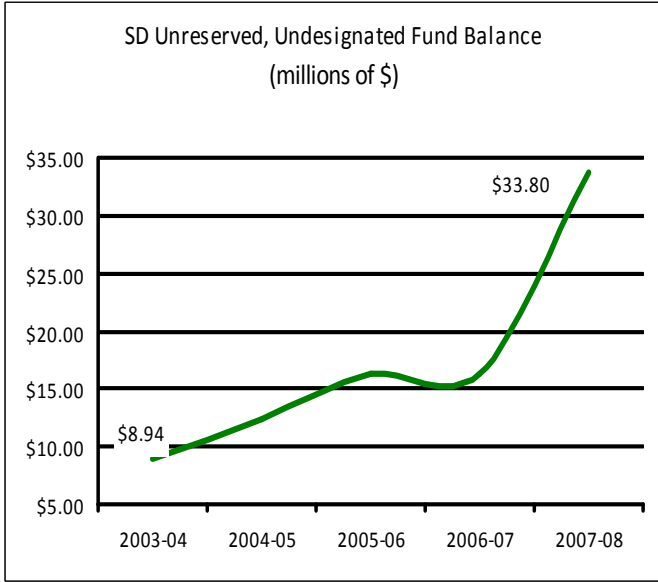
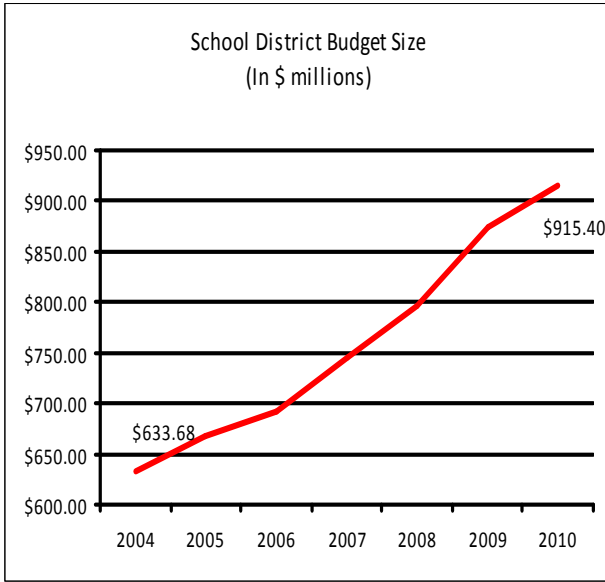
- The four-year plan is balanced contingent not only on maintenance of State aid, but some annual growth. Although the State has provided for minimum multi-year Foundation Aid targets, State aid continues to be the District's only growth revenue of note. If the State has to reduce any projected aid, the District would not be able to respond to the reductions without taking severe actions.

Outstanding lawsuits challenging the lifting of the wage freeze would, if successful, have a significant negative impact on the District. If the District were forced to pay multiple step increases to its employees, the first-year costs of this decision would be \$55.5 million, or 7.2 percent of expenditures and over the life of the financial plan District costs would grow by an additional \$55.5 million, for a total increase of \$111 million. Absent offsetting additional State aid, the result would be massive cuts which would dramatically undercut an already challenged financial health of the School District and its improving academic performance. The District is currently projecting to pay the first \$55.5 million in 2010, followed by an additional \$18.5 million per year thereafter.

- In order to close its projected out-year budget gaps, the District would exhaust nearly all of its accumulated reserves, leaving it with virtually no

unreserved fund balance to guard against budgetary uncertainty. Under the current financial plan, the District would draw down \$37 million in unreserved, undesignated Fund Balance in 2009-10 to address the potential loss of litigation concerning frozen-step increases. The District is on track to finish the year with a surplus of \$15.9 million in the current fiscal year, and when added to the previous year's fund balance would leave a balance of \$43.4 million to fund any contingency. The District is also planning to draw down additional unreserved, undesignated funds to close the potential funding gap in the out-years, a weak source of funding since it continues to deplete its reserves.

- As charter school enrollment continues to increase, the District's monetary transfers to charter schools located in Buffalo continue to grow, stretching District resources further.
- Living Wage Ordinance—The Board of Education passed a resolution to adopt the City of Buffalo's Living Wage Ordinance. The resolution calls for a three-year implementation to bring all hourly employees up to the living wage rate, and the yearly impact would be an increase in salaries in the financial plan of \$.96 million.
- OPEB – Liabilities will loom large over the period. Current assessments put the OPEB liability at \$1.2 billion, with an expected yearly charge of \$110.5 million. Although currently there is no requirement to fund this liability, its impact on the district over time (and eventually on the City of Buffalo) cannot be ignored as the costs are very significant and grow annually.



Buffalo Urban Renewal Agency

The Buffalo Urban Renewal Agency (BURA) is a Public Benefit Corporation working within the City of Buffalo (COB) on planning, rehabilitation, remediation and redevelopment of both residential and commercial real property. BURA administers grant revenues awarded to the COB based on funding received from federal allocations. In addition to funding changes appropriated by the U.S. Congress, population is another determining factor, which largely influences

federal revenues awarded to BURA. Typically, population changes are only factored into grant formulas after each decennial census, the next of which is set to occur in 2010.

The Buffalo Urban Renewal Agency's (BURA) four-year plan provides for funding of approximately \$29.2 million in FY 2009-10, decreasing to approximately \$25.5 million in FY 2012-13, a nearly 13 percent decrease. The Community Development Block Grant (CDBG), HOME, Emergency Shelter Grants (ESG) and Housing Opportunities for Persons With Aids (HOPWA) programs are restricted in nature, meaning BURA recognizes revenue only upon expenditure on eligible activities. Funding for reserves is generally prohibited by grant regulations, and as such, BURA does not budget reserves in forecasts provided to BFSa.

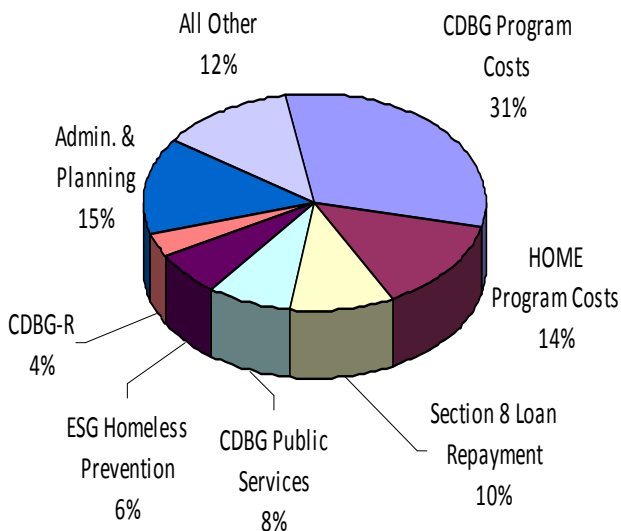
One lingering issue for BURA continues to be the utilization of funding to alleviate deficits occurring prior to 2003, at a time when federal dollars have continued to decrease. BURA's older deficits remain, as a result of poor management practices, where more funding was expended on grant programs than budgeted by the agency in prior years. Progress to retire prior budget shortfalls is expected to continue going forward until the remaining \$250,000 (as of March 31, 2009) is retired. Under this plan, dollars are recovered through a reduction in future grant expenditures without impacting BURA's ability to meet annual budget requirements.

Summary of 2009-10 Budget

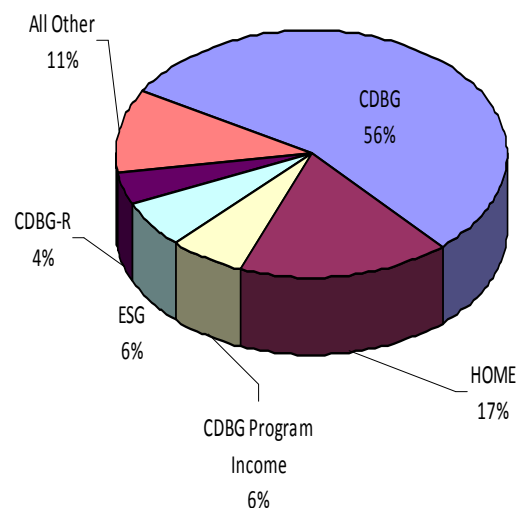
Of the \$29.2 million in budgeted spending, \$24.9 million is actually used for direct program related costs, while \$4.2 million is used for administration and planning costs (14.5%). Of the \$24.9 million, the six largest expenditure categories include: CDBG program costs (37%), HOME program costs (16%), Section 108 Loan repayments (11%), CDBG Public Service costs (10%) and ESG Homeless Prevention (7%), while a variety of other programs and related costs make up the balance of BURA spending (15%).

BURA's revenues are comprised of mostly federal grant programs awarded to the City of Buffalo and passed through to BURA for administration. The City's Office of Strategic Planning (OSP) is responsible for the administration of BURA's grant funds. The six largest revenue categories for BURA include: CDBG, HOME, CDBG program income, ESG, CDBG-R, while other smaller pots of monies round out BURA's revenue. The following charts show a breakdown of BURA's total 2009-10 Expenditures (\$29.2 m) and Revenues (\$29.2 m) by major categories:

BURA Expenditures for 2009-10



BURA Revenues for 2009-10



While BURA is now on fairly solid financial footing, one factor hanging in the balance continues to be the use of funds to pay off debts created by poor financial management prior to 2003 and the precarious nature of federal funding. In reviewing the table below, one will see that there is an overall downward trend in revenue, but funding levels have in fact fluctuated in recent years. Only one revenue source is down from the prior year, which is the ESG program (\$4,455), while the Lead Grant and American Dream Downpayment Initiative programs were not explicitly funded for 2009-10.

In the out-years of the 4-year financial plan, BURA forecasts an increase in funding for 2010-11 (\$.75 m), with a decrease in funding in 2011-12 (-\$1.2 m) and another decrease in 2012-13 (-\$3.3 m), the final year of the financial plan. Federal stimulus funds largely account for the up-tick in revenues in the beginning years of BURA's financial plan. It is worth noting that over the 2003-09 period, CDBG funding was down more than 20 percent and HOME funding was down more than 13 percent. However, with the increases in funding for FY 2009-10 and the general upward trend over the life of the financial plan compared to recent program years, BURA for the first time in several years faces the challenges of administering revenue increases instead of revenue decreases.

| BURA Revenues (\$ in million) | FY 08-09 Budget | FY 09-10 Budget | Change 08-09 to 09-10 |
|-------------------------------|-----------------|-----------------|-----------------------|
| CDBG | 15.9 | 16.1 | 0.20 |
| CDBG-R | - | 1.2 | - |
| HOME | 4.6 | 5.1 | 0.50 |

| | | | |
|--|--------------|--------------|-------------|
| American Dream Down payment Initiative | 0.02 | 0 | (0.02) |
| Lead Grant | 0.4 | 0 | (0.40) |
| ESG | 0.7 | 0.7 | 0.00 |
| ESG for Homeless Prevention | - | 1.8 | - |
| HOPWA | 0.5 | 0.5 | 0.00 |
| NYS Block by Block | - | 0.78 | - |
| Neighborhood Stabilization Program | - | 0.66 | - |
| CDBG Program Income | 1.7 | 1.9 | 0.20 |
| Additional loan recovery and sales of assets | 0.1 | 0.2 | 0.10 |
| HOME program income | 0.3 | 0.3 | 0.00 |
| TOTAL | 24.22 | 29.24 | 5.02 |

As mentioned above, in looking at BURA expenditures there are two distinct categories, grant expenditures, which are program related costs, and administrative and planning, which are sometimes referred to as soft costs. The first chart below details grant expenditures, while the second chart looks at administrative and planning costs. The recent fluctuations experienced in revenues have also been experienced on the expenditure side of BURA operations. Overall, expenditures are expected to increase \$5.0 million in 09-10 from 08-09 levels. The increase can be largely attributed to a few differences, the first being an increase in historical revenue categories and when revenues increase, expenditure increases typically follow, secondly with the influx of Federal Stimulus grants BURA has several new grants with which to push out projects and services which further drives expenditures. The CDBG-R program which is funded at \$1.2 m for 2009-10, the ESG for Homeless Prevention is funded at \$1.8 m for 2009-10, the NYS Block by Block grant program is funded at \$.78 m for 2009-10 and the Neighborhood Stabilization Program is funded at \$.67 m for 2009-10 are all part of the Federal Stimulus effort to help stimulate the economy.

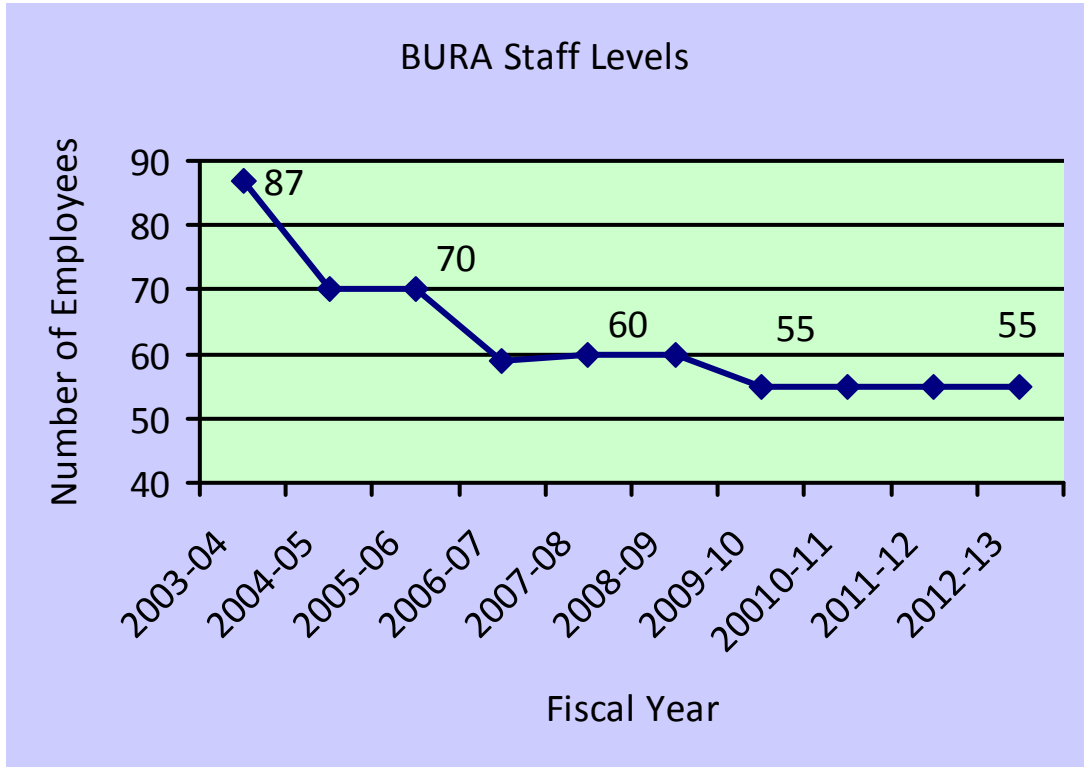
One cautionary note should be pointed out: BURA continues to use nearly \$2.9 million yearly, of its CDBG allocation to pay off prior Section 108 Loan Guarantees, some of which resulted from developers defaulting on their loans. A look at successful Section 108 Loan Guarantee projects from other communities across the country reveals that these types of loan programs can produce sufficient program income to pay off loans made for development activities, allowing the municipality to concentrate scarce resources on additional development activities. In Buffalo's case, CDBG funds that could potentially be used for additional brick and mortar type projects or other development activities are being used to pay off prior Section 108 loans, taking away resources that could ultimately benefit the community.

| BURA Expenditures (\$ in million) | FY 08-09 Budget | FY 09-10 Budget | Change 08-09 to 09-10 |
|--|----------------------------|----------------------------|--------------------------------------|
| CDBG public service costs | 2.4 | 2.4 | 0 |
| Section 108 Loan repayments | 2.9 | 2.8 | -0.1 |
| Fannie Mae Loan repayments | 1.3 | - | - |
| CDBG payroll reimbursement to COB | - | - | - |
| CDBG program costs | 7.6 | 9.2 | 1.6 |
| CDBG-R program costs | - | 1.1 | - |
| HOME CHDO set aside | 0.69 | 0.8 | 0.11 |
| HOME program costs | 3.7 | 4 | 0.3 |
| American Dream Downpayment Initiative | 0.02 | - | - |
| Lead Grant | 0.38 | - | - |
| ESG program costs | 0.68 | 0.7 | 0.02 |
| ESG for Homeless Prevention | - | 1.8 | - |
| HOPWA program costs | 0.5 | 0.5 | 0 |
| NYS Block by Block | - | 0.8 | - |
| Neighborhood Stabilization Program | - | 0.66 | - |
| Non-Federal Grant Expenditures | - | 0.2 | - |
| TOTAL PROGRAM COSTS | 20.17 | 24.96 | 4.79 |

| BURA Expenditures (\$ in million) | FY 08-09 Budget | FY 09-10 Budget | Change 08-09 to 09-10 |
|--|----------------------------|----------------------------|--------------------------------------|
| CDBG indirect cost reimbursement to COB | 0.1 | - | - |
| CDBG admin costs | 3.4 | 3.6 | 0.2 |
| CDBG-R admin costs | - | 0.1 | - |
| HOME admin costs | 0.5 | 0.5 | 0 |
| ESG admin costs | 0.04 | 0.04 | 0 |
| HOPWA admin costs | 0.01 | 0.01 | 0 |
| Lead Grant | 0.02 | - | - |
| TOTAL ADMIN AND PLANNING COSTS | 4.07 | 4.25 | 0.18 |
| TOTAL OVERALL EXPENDITURES | 24.24 | 29.21 | 4.97 |

On the spending side, spending for employee salaries is expected to increase to over \$2.9 million yearly, from just under \$2.8 million, but salaries are budgeted flat over the course of the four-year plan. Employment levels are expected to drop off from 2008-09 levels when BURA had 60 full time positions down to 55 for 2009-10. Historically speaking, BURA staff levels are down considerably. In the 2003-04 FY, BURA maintained 87 full time employees, and carried a low of 59 employees in 2006-07, so the 55 for 2009-10 will bring BURA employment levels down below any recent operating years. Fringe benefit costs are expected to increase slightly from 2008-09 levels and increase more than 10 percent or \$180,421 over the life of the financial plan. Health insurance was previously consolidated under a single plan for all City and covered organization personnel

and remains so for the 09-10 fiscal year. BURA's employee contract expired at the end of the 2003-04 FY, and a new contract has yet to be negotiated with bargaining units representing BURA's employees. Pension costs are calculated according to the NYS Comptroller's final rates for the NYS Employee's Retirement System. BURA reports that pension related costs have slightly decreased for the 2009-10 FY, but have been conservatively budgeted at the previous level. The following graph displays both historical and expected future staffing levels for BURA:



BURA Facilities

BURA holds title to the Market Arcade Building on Main Street, which houses BFSA's offices, and also owns the William Street Industrial Park, both of which are available on a rental basis. Income generated from these two properties is included with program income reported in BURA's four-year plan. Additionally, BURA owns a plethora of parcels of land, which are held for redevelopment purposes. The land parcels were acquired using grant funds and any rental or sale income from these properties is also recorded as program income and reported as budgeted income.

Summary of Financial Plan through 2012-13

BURA's financial plan for fiscal years 2010-11, 2011-12 and 2012-13 reveals declines of nearly 13 percent in revenues and expenditures. BURA's Operating

Budget increases slightly on a year to year basis, over the life of the financial plan. As noted earlier fringe benefit costs are expected to grow annual at approximately 3.5 percent, and yearly increases are built into the budget reflecting this cost increase over the years the financial plan covers, and as part of the overall fringe benefit cost growth, health insurance and pension costs are assumed to grow by over 40 percent over the life of the financial plan. Staff levels will remain stable at about 55 full time employees over the four-year plan period, which is down roughly 37 percent since the 2003-04 FY.

Risks

As all multi-year financial plans contain a certain degree of risk, BURA's is no different. While the plan appears sound, there may be some risk in the following areas:

- Given the large increases in funding, BURA will be faced with increased management and reporting requirements to account for the additional programs and funding. This area continues to be a weakness for BURA and requires management attention.
- The budget and four-year plan does not include any salary increases. If BURA were to come to a labor agreement with the union representing its employees, new funding sources may have to be identified or funds may have to be shifted between budget lines.
- HUD's recent monitoring of Buffalo's CDBG program resulted in a number of findings and concerns. BURA is potentially faced with the prospect of repaying HUD over \$390,000. The report detailed a number of management issues that need improvement. BURA is responding to HUD's program monitoring.
- CDBG program income declined nearly 57 percent from 2004-05 levels to 2007-08 budgeted levels and HOME program income declined nearly 52 percent over the same period, but BURA has projected consistent levels of program income for both CDBG and HOME over the life of the financial plan.
- Another risk factor for BURA includes the practice of using current CDBG funds to pay off past Section 108 Loan Guarantee projects, taking funding away from other more effective uses for CDBG, such as community development or public services.
- A financial issue for BURA remains the utilization of funding to alleviate deficits occurring prior to 2003. Poor management practices prior to 2003 led to a situation where funding in excess of what was available was expended on grant programs. Progress to retire prior budget shortfalls is

expected to continue going forward until the remaining \$250,000 (As of March 31, 2009) is retired. While BURA has managed this situation effectively thus far, it remains a concern.

- The U.S. Department of Housing and Urban Development has expressed some concerns with BURA's Consolidated Annual Plan for fiscal year 2009-10 and going forward. HUD rejected BURA's initial Annual Action plan for 2009-10 based on a variety of reasons including failure to follow the proper Citizen Participation Plan procedures. BURA submitted a revised Annual Action Plan that was eventually approved by HUD. Careful monitoring of this situation will be essential for BURA's short and long term outlook.

BURA's recent conservative budgeting practices along with management changes have improved its financial outlook, providing assurances against potential risks. However, individual program management practices remain an area of concern and will need careful attention to prevent problems from affecting overall BURA operations. Conservative budgeting practices will serve BURA well and position the agency to further strengthen itself for the future, as it works to develop City neighborhoods and commercial districts helping the City continue improving as a place to live, work and play.

Buffalo Municipal Housing Authority

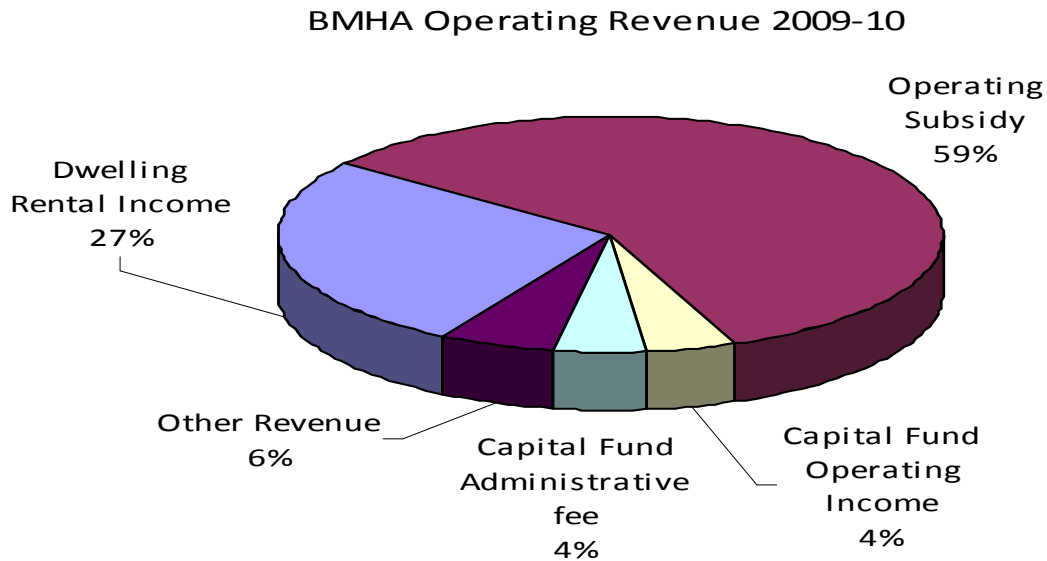
The Buffalo Municipal Housing Authority (BMHA), established in 1934 by resolution of the City's Common Council, is responsible for the construction, rehabilitation and modernization of all low-income public housing within the City of Buffalo. It is governed by a seven-member board comprised of five mayoral appointees and two representatives elected by the tenant population. BMHA was named a "covered organization" in Section 3851 of Act that created the Buffalo Fiscal Stability Authority.

BMHA's finances have faced sustained pressure in recent fiscal years, in the face of lingering questions regarding federal funding levels. However, BMHA's financial outlook looks somewhat brighter for 2009-10 when the recent federal stimulus funding is taken into account. BMHA's new financial plan, which was revised to reflect the disapproval of a proposed collective bargaining agreement, for its federal portfolio (as overseen by the U.S. Department of Housing and Urban Development) contains revenues of \$33.9 million in 2009-10 growing to \$35.8 million in 2012-13, an increase of 5.6 percent over four years. The financial plan is balanced in every year with annual surpluses ranging from a low of \$2.2 million in 2010 to a high of \$3.1 in 2012. It should be noted that these proposed surpluses do not consider the impact of any potential labor agreement with BMHA's employees, which if achieved could significantly change BMHA's

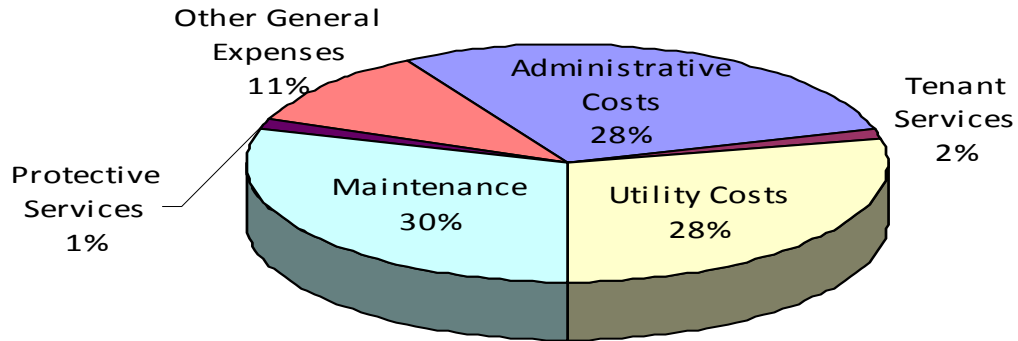
overall financial plan. It is essentially a “steady state” plan, with sustained services and minor annual growth.

Summary of 2009-10 Budget

The 2009-10 budget provides for revenues of \$33.9 million which represents an increase of 3.0% from the revised 2008-09 budget. The following charts show a breakdown of BMHA’s budget by major spending and revenue category. In addition to the HUD operating budget, BMHA is also expected to receive additional revenues of \$31.3 million in other grants outside of its operating revenue, of which the major components are HUD capital grants (for rehabilitation and upgrade of properties) budgeted at \$10.1 million, Section 8 grants totaling \$5.3 million, Federal stimulus grants totaling \$14.5 million and some smaller pots of money totaling \$1.4 million.



BMHA Expenditures 2009-10



Overall revenues are budgeted \$1.5 million below the revised budget for 2008-09. HUD's operating subsidy (\$19.9 million) makes up 58.7% of revenues, and is a significant increase from the \$18.2 million or 53.1% of overall originally budgeted revenues received in the prior year, but less than the 59% or \$20.7 million forecasted for the fiscal year ending 6/30/09. The increase in BMHA's subsidy results from general expectations that housing subsidies nationwide are on the uptick to a small degree, which is in contrast to recent trends.

Rental income, 27% of revenues, is expected to increase slightly over receipts for the past few years as BMHA is pushing for improved tenant retention rates and faster turnaround in vacancy preparations, thus lowering overall vacancy rates. For the most part other revenues are projecting down to a slight degree.

| BMHA Revenues (in \$ millions) | FY 2005 Actual | FY2006 Actual | FY2007 Actual | FY 2008 Actual | FY 2009 Revised Budget | FY 2010 Budget |
|---|---------------------------|--------------------------|--------------------------|---------------------------|---------------------------------------|---------------------------|
| HUD Subsidy | 18.1 | 20.2 | 22.5 | 21.2 | 19.2 | 19.9 |
| Rental Income | 11.5 | 9.1 | 8.8 | 8.9 | 9.0 | 9.1 |
| Capital Fund Op. Inc | | 1.7 | 1.0 | 3.1 | 2.2 | 1.5 |
| Investment Income | 0.2 | 0.6 | 0.7 | 0.8 | 0.9 | 0.07 |
| Other | | 0.3 | 1.6 | 3.0 | 4.1 | 3.2 |
| Total | 29.8 | 31.9 | 34.6 | 37.0 | 35.4 | 33.9 |

Note: As a result of the move to asset-based reporting fiscal years 2005 and 2006 are not totally comparable. Certain categories under asset-management were reported under grant revenues in the past.

On the expense side total expenses are down from the revised budget for last year to account for decreased salary expenses and maintenance costs within the administrative and maintenance categories. Key drivers of BMHA expenses are maintenance, utilities and administrative services, as well as benefits.

| BMHA Expenditures (in \$ millions) | FY 2005 Actual | FY 2006 Actual | FY 2007 Actual | FY 2008 Actual | FY 2009 Revised Budget | FY 2010 Budget |
|---|-------------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------------------|-------------------------------|
| Administrative | 3.1 | 2.0 | 2.4 | 5.5 | 6.4 | 5.4 |
| Tenant Services | 2.4 | 2.1 | 2 | 0.3 | 0.6 | 0.4 |
| Utilities | 8.9 | 12 | 9 | 8.6 | 7.2 | 8.4 |
| Maintenance | 7.6 | 7.0 | 6.7 | 5.9 | 8.1 | 6.9 |
| Protective Services | 1.6 | 0.1 | 0 | 0.02 | 0.39 | 0.37 |
| Insurance | 1.7 | 1.7 | 1.8 | 1.6 | 1.8 | 1.7 |
| Employee Benefits* | 5.7 | 5.4 | 5.1 | 5.3 | 5.8 | 6.4 |
| Interest Expense | 0 | 0 | 0.3 | 1.0 | 1.1 | 1.3 |
| Other General Exp. | 0.4 | 0.5 | 0.5 | 0.7 | 0.4 | 0.2 |
| Total | 31.4 | 30.8 | 27.8 | 28.9 | 31.9 | 31.0 |

*BMHA reports employee benefits as part of the various departments, but for purposes of analytical comparisons they have been separated and are reflected as one category.

The effect of the new asset-based reporting system can be seen in the rise in expenditures attributable to administrative functions and the decrease in those

attributed to tenant services. Administrative expenses now include much of what in earlier years was in tenant services as most of that staff is now part of the central administration and is charged out to the various asset groups. Additionally, as explained in the revenue section, much of the staffing which had been paid out of capital grants is now part of BMHA administration, and both revenues and expenses have been transferred to HUD operations.

One issue in the budget on the expenditure side is the 14.5% increase in budgeted utility expenditures. The major driver of the increased costs appears to be expenses for gas, which is expected to increase nearly \$1.0 million, or over 43 percent.

| BMHA Workforce Size | FY 2009 Budget | FYE 2009 | FY 2010 Budget | Yr-to-Yr Budget Change |
|-----------------------------|-----------------------|-----------------|-----------------------|-------------------------------|
| Audit | 5 | 5 | 5 | 0 |
| Executive | 16 | 20 | 15 | -1 |
| MIS | 5 | 5 | 5 | 0 |
| Finance & Budget | 13 | 14 | 12 | -1 |
| Personnel | 6 | 5 | 5 | -1 |
| Capital Imp and Development | 14 | 14 | 14 | 0 |
| Section 8 | 9 | 9 | 9 | 0 |
| Asset Management | 198 | 195 | 203 | 5 |
| Total | 266 | 267 | 268 | 2 |

BMHA is anticipating minimal staff increases during the 2010 fiscal year. Some staffing shifts are expected between departments and categories mainly attributed to the on-going shift to the asset-management model, which will allow the Authority to work properly and still provide overall control of operations. However, given that overall expenditures are budgeted lower, we anticipate that they will carry a relatively high number of vacancies throughout the year. At the end of the fiscal year BMHA had 267 budgeted positions with 38 vacancies.

Summary of Financial Plan through 2012-2013

BMHA is projecting modest surpluses for the budget year as well as for all the plan years. Because BMHA budgets on an accrual basis (except for depreciation, which is not included), the housing authority must generate sufficient funding after expenditures to pay principal payments of approximately \$1.6 million on the debt for the energy savings project undertaken over the last four years.

| BMHA Financial Plan (\$ in millions) | FY 2010 Budget | FY 2011 Projected | FY 2012 Projected | FY 2013 Projected | 2010-13 Change |
|---|---------------------------|------------------------------|------------------------------|------------------------------|---------------------------|
| Revenues | 33.9 | 34.7 | 35.6 | 35.8 | 5.60% |
| Expenditures | 31.0 | 31.2 | 31.8 | 32.2 | 4.21% |
| Surplus (Deficit) | 3.0 | 3.5 | 3.8 | 3.6 | |
| Other Grant Revenues | 31.3 | 16.7 | 16.7 | 16.9 | |

As noted in the above table BMHA's Capital Fund Grants (i.e. Other Grant Revenues) are a primary revenue source outside of the Authority's regular operating revenue. The capital budget includes \$14.5 million in Federal Stimulus funds for 2009-10, while actual capital funding is approximately \$10.1 million per year in each year of the financial plan. The HUD Capital Grant funds contain some funds considered replacement housing funds and will be used for redevelopment in combination with some of the stimulus funds. Other grant revenue included in the "other" category includes Ross grants and two Section 8 grant programs.

All revenue categories grow slowly over the period, with HUD's operating subsidy, the largest component going from \$19.9 million to \$21.1 million.

| BMHA Financial Plan (\$ in millions) | FY 2010 Budget | FY 2011 Projected | FY 2012 Projected | FY 2013 Projected | 2010-13 Change |
|---|---------------------------|------------------------------|------------------------------|------------------------------|---------------------------|
| HUD Subsidy | 19.9 | 20.3 | 20.7 | 21.1 | 6.03% |
| Rental Income | 9.1 | 9.5 | 9.8 | 10.2 | 12.09% |
| Capital Fund Op. Inc | 1.5 | 1.5 | 1.5 | 1.5 | |
| Investment Income | 0.1 | 0.1 | 0.1 | 0.1 | |
| Other | 3.3 | 3.3 | 3.5 | 2.9 | |
| Total | 33.9 | 34.7 | 35.6 | 35.8 | 5.61% |

The operating subsidy from HUD and dwelling rental income line items are the major contributors to revenue at 59% and 27% respectively. The capital fund operating income and capital fund administration fee line items are allocations from the capital fund budget and reflect a change in the budgeting process as a result of implementing the Asset Management Project model, as required by HUD. Capital fund operating income remains \$1.5 million throughout the 2010 – 2013 budget. The Capital fund administration fee (which is rolled into the "Other" category above) is approximately \$1.5 million in 2010 and 2011 but drops to \$1.0

million in 2013. Both of these funds usually run about 4% of total operating revenue.

| BMHA Financial Plan (\$ in millions) | FY 2010 Budget | FY 2011 Projected | FY 2012 Projected | FY 2013 Projected | 2010-13 Change |
|---|---------------------------|------------------------------|------------------------------|------------------------------|---------------------------|
| Administrative | 5.4 | 5.4 | 5.4 | 5.4 | |
| Tenant Services | 0.4 | 0.4 | 0.4 | 0.4 | |
| Utilities | 8.4 | 8.6 | 8.8 | 9.0 | 7.14% |
| Maintenance | 6.9 | 6.7 | 6.9 | 6.9 | |
| Protective Services | 0.4 | 0.4 | 0.4 | 0.4 | 7.50% |
| Insurance | 1.6 | 1.7 | 1.7 | 1.8 | 12.50% |
| Employee Benefits* | 6.4 | 6.3 | 6.5 | 6.6 | 2.50% |
| Interest Expense | 1.3 | 1.4 | 1.4 | 1.4 | |
| Other General Exp. | 0.2 | 0.2 | 0.2 | 0.3 | |
| Total | 31.0 | 31.2 | 31.8 | 32.2 | 4.00% |

On the expenditure side expenses are expected to grow more slowly than revenues over the life of the financial plan.

In the revised submission, BMHA's expenditures grow from \$31 million in 2010 to Approximately \$32.2 million in 2013. The major line items contributing to the increase in costs are:

- Administrative costs increase from \$8.8 million in 2010 to \$9.2 million in 2013.
- Utilities increase from \$8.7 million in 2010 to \$9.3 million in 2013.

Line items that total approximately 76% of expenditures are Ordinary Maintenance at 30% of 2010 budget, and Utilities and Administrative Costs both averaging 28% of budgetary expenses. These trends remain fairly stable across the four-year financial plan.

Staffing levels grow by 2 during the budget year and remain stable for the period of the plan.

Major Developments

BMHA is in the process of redeveloping A.D. Price Courts. Phase I of this project (55 units) which had previously been approved by HUD and BFSA with financing through a variety of sources, including a tax credit financing package has been in place and the first Phase is nearing completion. Tenants are currently moving in to the 55 units. Phase II of the A.D. Price redevelopment is currently in its early stages.

The Authority is also committed to redeveloping the State portfolio, Kensington Heights, and has secured a \$5 million demolition grant from the Dormitory Authority for demolition of the current structures and demolition work has begun. An ambitious energy improvement program is also set to get underway at the Marine Drive Development. Financing has been arranged through a bank for a municipal lease agreement over a twenty-year period in the amount of \$5.2 million. BMHA has also been awarded \$14.5 million in Federal stimulus funds for capital improvements across its housing portfolio as previously noted. Plans for investing these funds are currently being developed but the funds must be 100 percent obligated this year and fully spent within three years.

Budget and Financial Plan Risks

- BMHA has to be successful in maintaining Asset Based Project management in good standing to continue to receive the full HUD support going forward. They will need to go back to the negotiating table and come up with an acceptable labor contract so that success in maintaining Asset Based Project management continues to be achieved going forward.
- BMHA continues to experience problems in getting apartments ready for rental when a vacancy occurs and is trying to speed up this process by contracting out more of the work. Success in achieving this goal will influence their ability to meet their projected rental income.
- Utility costs have been budgeted aggressively and cost control measures continue to be implemented, but this area will continue to require close scrutiny to avoid major budget deterioration.
- The Federal Stimulus Program is expected to flow through to BMHA via increased subsidies from HUD for the next two years. BMHA must remain diligent in allocating and spending these funds so as not to increase overall structural costs which would be detrimental in the long run.
- BMHA is not yet ready to report Other Post Retirement Benefits (OPEB), a GASB 45 requirement for the fiscal year ending June 30, 2009. A consultant has been hired and is working on the project at this time. This extent of the cost impact of this liability is expected to be significant.

Joint Schools Construction Board

The Joint Schools Construction Board (JSCB) was created in 2000 by resolutions of the Buffalo Board of Education and City Common Council, and given special powers under State law to manage the acquisition, design, construction, reconstruction, renovation and financing of new public educational facilities in the

City of Buffalo, and to create, coordinate efforts to enable compliance with, monitor and report on a program-wide diversity plan as part of the reconstruction effort. The JSCB is comprised of the Mayor, the City Comptroller, the Buffalo Schools Superintendent, one designee of the Common Council, two designees of the Buffalo Board of Education and the State Regent for the Eighth District of the City (who serves in an ex officio capacity). JSCB was named a “covered organization” in Section 3851 of the Buffalo Fiscal Stability Authority Act.

By the end of the 2008-09 fiscal year, JSCB had completed improvements to nine schools from Phase I and was close to completion of all 13 Phase II projects at a cost of \$326.9 million. Of these costs, \$18.9 million were approved by SED as an adjustment to MCA subsequent to the Phase II financing and were included in the new money financing for Phase IIIA. All 13 schools are open. Only project still under way is the district wide technology upgrade.

Phase II Update

The following table summarizes progress as of June 30, 2009 for Phase II:

| Status of Phase II Projects* (\$ in million) | Project Cost | Spent as of 6/30/09 | Percent Completed |
|--|---------------------|----------------------------|--------------------------|
| School 6 | \$18.78 | \$18.78 | 100% |
| School 33 | \$13.63 | \$13.63 | 100% |
| School 37 | \$14.64 | \$14.64 | 100% |
| School 39 | \$20.03 | \$20.03 | 100% |
| School 69 | \$13.62 | \$13.62 | 100% |
| School 82 | \$10.66 | \$10.66 | 100% |
| School 90 | \$9.17 | \$9.17 | 100% |
| School 91 | \$14.10 | \$14.10 | 100% |
| School 94 | \$16.52 | \$16.52 | 100% |
| School 95 | \$27.65 | \$27.65 | 100% |
| School 192 | \$35.79 | \$35.79 | 100% |
| School 200 | \$36.66 | \$36.66 | 100% |
| School 394 | \$36.06 | \$36.06 | 100% |
| All High Stadium | \$6.62 | \$6.62 | 100% |
| Districtwide Technology | \$50.28 | \$47.94 | 95% |
| Energy Performance | \$9.25 | \$9.25 | 100% |
| Totals | \$326.89 | \$324.89 | 99% |

* Including additional approved MCA to be funded through Phase III financing

Phase III Update

Phase III consists of nine schools, as well as energy and technology components. The District divided the Phase III work into two sub-phases, due to insufficient maximum cost allowance having been approved by the State Education Department (SED) for several of the projects. Where the MCA levels

were adequate, the District commenced work on four schools, as well as the energy and technology components. This Phase IIIA will cost approximately \$162 million (i.e. the amount of project costs) and allowed contractors that completed Phase II schools to begin work on the next phase of the reconstruction project. Phase IIIB is projected to cost approximately \$188 million. Phases IIIA and B are under way and approximately 92 percent of the work has been completed to date; \$322 million out of the \$350 million in approved projects. Seven of the nine schools reconstructed in Phase III were ready and open for the commencement of the 2009-10 school year; the remaining two facilities under reconstruction are on track to be ready for occupation for the beginning of the 2010-11 school year.

| Status of Phase III A & IIIB Projects (\$ in million) | Project Cost | Spent as of 6/30/09 | Percent Completed |
|---|-----------------|---------------------|-------------------|
| School 27 | \$17.33 | \$17.33 | 100% |
| School 32 | \$28.49 | \$28.49 | 100% |
| School 206 | \$39.90 | \$39.90 | 100% |
| School 301 | \$38.08 | \$38.08 | 100% |
| School 43 | \$23.62 | \$23.42 | 99% |
| School 45 | \$27.96 | \$27.72 | 99% |
| School 76 | \$21.83 | \$21.70 | 99% |
| School 195 | \$42.20 | \$28.57 | 68% |
| School 205 | \$30.07 | \$24.96 | 83% |
| Districtwide Technology | \$66.34 | \$58.09 | 88% |
| Energy Performance | \$14.25 | \$13.72 | 96% |
| Totals | \$350.06 | \$321.97 | 92% |

Phase IV

Initial work is already beginning for Phase IV; the District and LP Ciminelli have entered into the Master Design and Construction Agreement, valued at \$10.2 million, for this phase. Borrowing to finance the project is expected to occur in the second quarter of the 2010 fiscal year, and total project costs are projected at \$293.3 million at this time. Phase IV is to include 10 schools, as well as additional district wide energy and technology enhancements. The 10 schools selected for Phase IV are as follows:

| Status of Phase IV Projects (\$ in million) | Project Cost | Spent as of 6/30/09 | Percent Completed |
|---|--------------|---------------------|-------------------|
| School 3 | \$12.84 | \$0 | 0% |
| School 17 | \$11.37 | \$0 | 0% |
| School 54 | \$11.00 | \$0 | 0% |
| School 72 | \$15.90 | \$0 | 0% |

| | | | |
|-------------------------|-----------------|------------|-----------|
| School 81 | \$14.37 | \$0 | 0% |
| School 84 | \$10.81 | \$0 | 0% |
| School 93 | \$27.51 | \$0 | 0% |
| School 197/306 | \$35.45 | \$0 | 0% |
| School 203 | \$33.59 | \$0 | 0% |
| School 305 | \$50.33 | \$0 | 0% |
| Districtwide Technology | \$54.01 | \$0 | 0% |
| Energy Performance | \$16.08 | \$0 | 0% |
| Totals | \$293.26 | \$0 | 0% |