BUFFALO FISCAL STABILITY AUTHORITY

Annual Report of the Buffalo Fiscal Stability Authority
Fiscal Year Ended June 30, 2010

September 30, 2010

Annual Report of the Buffalo Fiscal Stability Authority

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Annual Report of the Buffalo Fiscal Stability Authority

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Introduction

This is the seventh annual report of the Buffalo Fiscal Stability Authority (the "BFSA" or the "Authority"), known locally as the City Control Board. It covers the seventh 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, 2009 through June 30, 2010, adding to the actions, accomplishments and progress cited in BFSA's six prior 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), A- stable outlook from Standard & Poor's (2009).

Most recently during 2010, the rating agencies recalibrated their ratings. Moody's rated the City at the A2 level with a positive outlook. Fitch Ratings rated the City for the first time at the A+ rating level with a stable outlook. Although the ratings of the City rose, the rating agencies stress that market participants not view the recalibrations of municipal ratings as ratings upgrades, but rather as a recalibration of the ratings to a different rating scale. The recalibration does not reflect an improvement in credit quality or a change in credit opinion.

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 or 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 upon receipt of the audited financial statements from the covered organizations for the fiscal year ending June 30, 2010, and a joint certification from the City Comptroller and State Comptroller stating that securities were sold in the immediately preceding fiscal year in the general public market and that there is a substantial likelihood that the City will be able to sell such securities in the general public market during the next fiscal year. Upon receipt of these items, it is expected that BFSA will transition into an "advisory period." 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.

Mission Statement

The Buffalo Fiscal Stability Authority originally adopted its mission statement on September 24, 2007. The Authority's Mission Statement includes the following portions of Chapter 122 of the Laws of 2003:

> The city budget must be balanced and economic recovery enhanced. Actions should be undertaken which preserve essential services to city residents, while also ensuring that taxes remain affordable. It is hereby further found and declared that a control and advisory finance authority should be established to oversee the city's budget, financial and capital plans; to issue bonds, notes or other obligations to achieve budgetary savings through debt restructuring; to finance short-term cash flow or capital needs; and, if necessary, to develop financial plans on behalf of the city if the city is unwilling or unable to take the required steps toward fiscal stability.
>
> The legislature further finds and declares that maintenance of a balanced budget by the city of Buffalo is a matter of overriding state concern, requiring the legislature to intervene to provide a means whereby: the long-term fiscal stability of the city will be assured, the confidence of investors in the city's bonds and notes is preserved, and the economy of both the region and the state as a whole is protected.

BFSA's Board of Directors most recently reapproved the Authority's Mission

Statement on July 21, 2010.

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, 2010, the following individuals served on BFSA's Board of Directors:

- **R. Nils Olsen, Jr., Chair**
  Former Dean of the University at Buffalo Law School and current Professor of Law at the UB School of Law

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

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

- **John J. Giardino**
  Special Counsel with Phillips Lytle LLP and Managing Partner with Artemis Capital Partners

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

- **Frederick G. Floss, Ph.D.**
  Professor of Economics and Finance, Buffalo State College

- **Frank B. Mesiah**
  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

BFSA maintains two standing committees, the first of which is the Audit, Finance and Budget Committee. This committee is chaired by R. Nils Olsen and Directors Alair Townsend and Fred Floss constitute the remaining committee members.

The second committee is the Governance Committee and is chaired by R. Nils Olsen and Directors George Arthur and Gail Johnstone constitute the remaining members of the committee.

Attached to this report are BFSA's Charter, By-Laws and Audited Financial Statements for 2009-10.

At June 30, 2010, 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 and development 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, former finance manager of accounting policies and procedures and Sarbanes-Oxley implementation, General Motors; 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 2009-10

In its seventh fiscal year of operation, BFSA continued to assist the City and its covered organizations in attaining long-term fiscal stability. While there is tangible evidence of the City's progress emerging during the 2009-10 fiscal year, there are significant financial challenges that the City and the covered organizations are facing. Certain key indicators include the following:

- Moody's Investors Service, as part of its recalibration, affirmed the City's credit rating at A2 with a positive outlook citing the City's improved fiscal reserves and BFSA's continued oversight. In 2010, when Moody's recalibrated and affirmed the City's rating, 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 seven years and a trend of structurally balanced operations that is expected to continue in fiscal 2010…"

- Standard & Poor's affirmed the City's A- rating with a stable outlook for its general obligation long-term debt in the 2009-10 fiscal year citing the ongoing relationship between the City and BFSA, management's willingness to adopt many of BFSA's control mechanisms and general fund operating surpluses in each of the past five fiscal years. Previously (in 2009), S&P 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.

– Fitch Ratings assigned an 'A+' rating to the City's 2010 general obligation bonds with a stable outlook. In Fitch's first rating of the City the agency cited, "strong reserve levels, conservative policies and strong management, BFSA oversight, the City's diverse economic base and stable revenues." Fitch's rating occurred approximately during the rating agencies' recalibrations that occurred in 2010.

– The City's total General Fund fund balance increased from $133.3 million at June 30, 2008 to $138.6 million at June 30, 2009. However, the City's unreserved, undesignated fund balance decreased from $58.93 million at

June 30, 2008 to $48.20 million at June 30, 2009. Total unreserved fund balance, which includes the Rainy Day Fund, decreased from $113.5 million to $101.0 million. The City's Rainy Day Fund, representing a minimum of 30 days of the prior year's general fund expenditures, which may be used for unforeseen capital or operating expenditures, increased from $30.18 million to $33.64 million during the 2008-09 fiscal year. The City's total unreserved, undesignated fund balance was $76.02 million at June 30, 2007. The City has not settled current labor contracts with its two largest unions, representing police and fire.

– The School District's total fund balance increased from $119.32 million at June 30, 2008 to $169.89 million at June 30, 2009. Total unreserved fund balance at June 30, 2009 of $138.25 million increased from its level at June 30, 2008 of $99.15 million. Unreserved, undesignated fund balance increased from $33.80 million at June 30, 2008 to $42.58 million at June 30, 2009. The District has not settled current labor contracts with its two largest unions, representing the teachers and the administrators.

The significant financial oversight, monitoring and control actions taken by BFSA, the City and its covered organizations in the seventh 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 2009-10, BFSA monitored implementation of the seventh four-year financial plan for the City and its covered organizations. That plan covered fiscal years ending 2010 through 2013, and contained budget balancing measures the City did not need to implement in recent years. For example, the City's four-year plan anticipated the use of $28.3 million in unreserved, undesignated fund balance, as well as the use of $20.2 million in restricted AIM to be able to balance the four-year financial plan. The School District included Programs to Eliminate the Gap (PEGs) in each year of its financial plan to balance its budget. The School District's four-year financial plan contained operating deficits each year for 2010 – 2013 which altogether totaled $142 million.

BFSA also approved the eighth four-year financial plan for the City and its covered organizations in June 2010, covering fiscal years ending 2011 through 2014. The new financial plan was the fourth consecutive plan since 2006-07 that did not rely on the savings of a wage freeze.

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 2009-10, 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 2009-10:

- BFSA approved seven City budget modifications during the fiscal year. In March 2010, the Board approved a budget modification utilizing $2 million of the City's general fund reserved fund balance for capital outlays for the acquisition of various vehicles and equipment for the Department of Parks and Recreation. In June 2010, the Board approved six budget modifications. The first utilized Justice Assistance Grant proceeds ($32,490) for wages tied to the hiring of five camera monitors in the police department for the remainder of the fiscal year. The second utilized funds from the reserved fund balance for emergency medical services ($200,000) previously received and budgeted from the Department of Homeland Security to the Buffalo Fire Department for a Mass Casualty Ambulance Bus. The third budget modification utilizes $300,000 from the City's general fund revenue to be transferred to the Olmsted Parks Conservancy for payroll costs. The fourth modification transfers $1,435,000 from Restore New York program funds for additional injured on-duty payments, additional VOIP telephones in the Department of Public Works, repairs to outside buildings and current year demolitions. The fifth budget modification transfers $1,374,820 from the City's unreserved, designated fund balance for various claims and litigation to cover costs resulting from an arbitrator ruling that the City must repay PBA members for health care contributions withheld by the City retroactive to July 1, 2004, while the final budget modification approved at the June BFSA meeting approved the transfer of $300,000 from the City's general fund to the Colored Musicians Club for various improvements to the club.

- BFSA approved the City's $22.7 million capital improvement budget in February 2010. 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 2010 to borrow approximately $27.6 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 2010 for improvements and redevelopment of BMHA's housing stock.

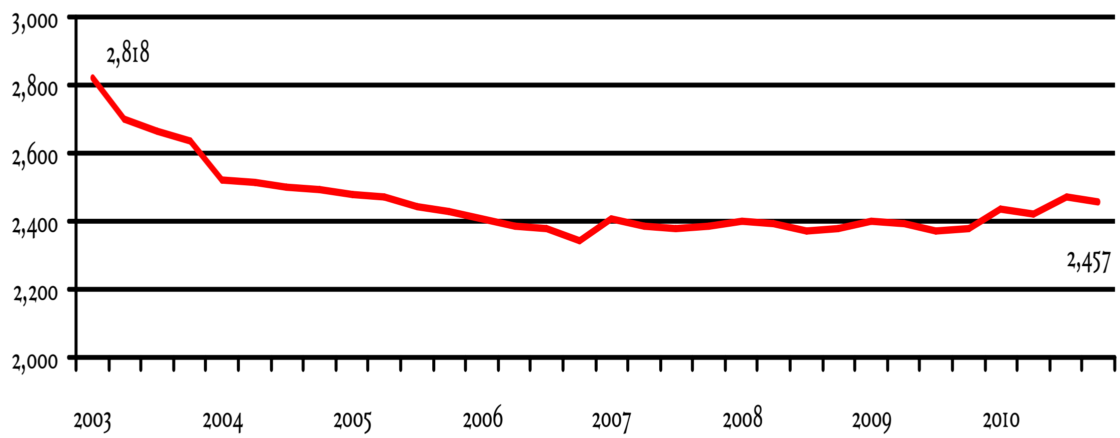
- BFSA reviewed and approved 187 City contracts and obligations totaling $65.4 million; 173 School District contracts and obligations totaling $201.5 million; 29 BMHA contracts and obligations totaling $20.2 million and 53 BURA contracts and obligations totaling $22.1 million.

Workforce Summary and Trends

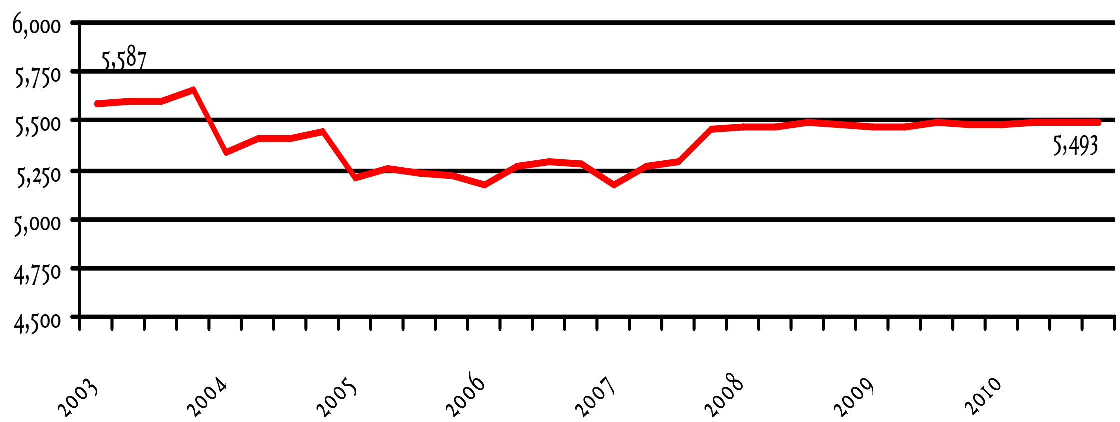
Workforce costs represent the single largest expenditure category in the City and its covered organizations. In the City in 2009-10, the costs of employee salaries, pensions, health insurance (for active and retired employees) and other benefits accounted for 82 percent of budgeted spending. In the School District, it represented 60 percent (i.e., for the general fund). In addition, workforce costs are among the fastest-growing budget categories due to significant increases in fringe benefits, in particular health insurance and most recently an increase in pension contributions. 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). This estimate is required to be updated every two years. The City's OPEB obligation at June 30, 2009 was estimated at $1.2 billion, while the School District's obligation was also 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 2009-10, while the City decreased its budgeted workforce by a net 13 positions, filled positions actually increased by 79 to 2,457. BMHA's workforce was essentially static, decreasing one position to a total of 228 filled positions. The School District's budget reduced employment levels by 4 positions, while filled positions increased by 13 positions to 5,493; it is noted that staff levels remain below 2003-04 levels. BURA had 54 positions both budgeted and filled at the conclusion of the 2009-10 fiscal year. BURA's workforce size remains significantly below 2003-04 levels when BFSA was created. Additionally, BURA fully funds 5 positions in the City's Office of Strategic Planning. The following charts detail both the City and School District's staff levels since 2003.

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 as compared to the City's bond ratings, which enabled savings for the City upon issuance of its Declaration of Need.

BFSA's own credit rating has been upgraded by rating agencies. In 2007, Fitch Ratings upgraded BFSA to AA from 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 Moody's Investors Service in 2006 to Aa2 from Aa3. These upgrades further enhanced financing savings BFSA was able to produce for the City. When Moody's recalibrated ratings in 2010, BFSA was rated at the Aa1 level, while Fitch rated BFSA at the AA+ level after the recalibration occurred.

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, which allows BFSA to achieve a rating superior to the City's (for 2010 the City's ratings were A- from Standards & Poor's, A2 from Moody's and A+ from Fitch).

Since BFSA was created in 2003, the City's credit rating has improved from BBB- with negative outlook to A- stable from Standard & Poor's, and from Baa with negative outlook to A2 positive outlook from Moody's Investors Service (after the recent recalibration). In its rating upgrade report, Moody's states that the upgrade reflects "improvement of the city's financial reserve and liquidity positions following augmentation of reserves in each of the last seven years and a trend of structurally balanced operations that is expected to continue in 2010." Moody's further cited BFSA continued oversight role. 2010 was the initial year in which Fitch Ratings rated the City of Buffalo. It is noted that currently the rating outlook from all three rating agencies is stable.

The following table illustrates credit rating comparisons between BFSA and the City of Buffalo in 2010:

	Moody's	S&P / Fitch
	Aaa Highest Investment Grade / Minimal Risk	AAA Highest Investment Grade
BFSA's Rating	Aa1 High Investment Grade / Very Low Risk	AA+ High Investment Grade
	A Good Investment Grade	A Good Investment Grade
City's Rating - Moody's / S&P	A2 Upper Medium Grade / Low Risk	A- Upper Medium Grade
City's Rating - Fitch		A+ Upper Medium Grade
	Baa Moderate Risk	BBB Moderate Risk
	Ba Speculative / Substantial Risk	BB Speculative

For the year ended June 30, 2010, the BFSA earned or accrued a total of $734,706 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 $27,600,000 on its own for City and School District capital needs. BFSA monitored the transaction process and the pricing. Unlike 2008-09, BFSA did not approve a cash flow borrowing by the City as a private placement. In 2008-09 it was later determined that the City would have sufficient resources and did not need to borrow.

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, 2010:

BFSA Debt Table at June 30, 2010 ($ 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		$14,525	
Bond Anticipation Notes (Series 2004A-1)	Sep-04		$84,000		$0
Sales Tax and State Aid Secured Bonds (Series 2005A)	Jun-05	$28,030		$20,465	
Sales Tax and State Aid Secured Bonds – Refunding (Series 2005B&C)	Jul-05	$47,065		$36,655	
Bond Anticipation Notes (Series 2005A-1)	Jul-05		$90,000		$0
Sales Tax and State Aid Secured Bonds (Series 2006A)	Apr-06	$27,270		$23,315	
Bond Anticipation Notes (Series 2006A-1)	Sep-06		$60,000		$0
Sales Tax and State Aid Secured Bonds (Series 2007A)	Apr-07	$28,470		$26,160	
Total		**$156,580**	**$234,000**	**$121,120**	**$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 2009-10, BFSA monitored financial plans of the City and covered organizations, monitored BURA's repayment of an accumulated prior years deficit (although it is noted that no repayment contribution was actually made in 2010), monitored the continuance of pay down of Section 108 Loans in default, and oversaw actions to control certain City expenditures to mitigate year-to-year budget growth.

The School District implemented a four-year financial plan which included the three step wage freeze litigation retroactive to July 1, 2007, multiple health insurance carriers, a single step salary increase, increased payments for charter schools and assumed flat State aid at 08-09 levels.

Further, BURA continues to close out prior year grant accounts and reprogram available funds for eligible uses.

City savings were attributable to certain expenditures relating to various departments and services. However, as previously noted, total unreserved fund balance and unreserved, undesignated fund balance decreased from 2008 to 2009; the BFSA continues to monitor this situation.

Collective Bargaining Agreements: In July 2009, BFSA approved a collective bargaining agreement ("CBA") for union employees as proposed by the School District for its substitute teachers (Substitute United Of Buffalo NEA/NY, known as SU/B). This contract as approved is ultimately expected to decrease overall costs for the School District, as the contract included several important concessions from workers. Such concessions include the elimination of continuous service pay, and also eliminates one of the pay categories which defines pay levels based upon an employee's level of education and whether the employee is certified to teach.

Secondly, BFSA approved a contract for BMHA's blue-collar, white-collar and managerial class employees in December 2009. The initial proposed contract presented to the BFSA for approval in May 2009 was not approved by the BFSA. This CBA covers the majority of BMHA's employees who are represented by members of AFSCME Local 264. This CBA ultimately increased BMHA costs above what it was previously paying these employees and provided employees annual 3 percent raises, as well as across the board $2,000 salary upgrades and additional salary upgrades for certain categories of covered workers over the life of the CBA. The CBA also included certain concessions that began to reform some of the costly CBA provisions from previously agreements. Some of the concessions included reduced vacation accrual for new employees, the elimination of one personal day for all employees, switching to a lower cost health insurance plan for all employees, small contributions towards health insurance premiums for new employees, adding two salary steps for new employees, increased job responsibilities, health insurance contributions in retirement for some employees depending on their length of service, and the withdrawal of lawsuits against BMHA and BFSA. The increased costs of the contract fit within BMHA's budget and four-year financial plan.

In June 2010, BFSA approved a labor agreement between the Buffalo Public Schools and their Summer Food Service Workers AFSCME Local 264, which represents workers who provide lunches to school children for approximately seven to eight weeks during the summer months when school is in recess. The two year Memorandum of Agreement provides workers with a 3 percent salary increase on July 1, 2010 and a 2 percent salary increase on July 1, 2011 during this employment period. In March 2009, the Buffalo Board of Education passed a resolution mandating that the District pay wages consistent with the City's Living Wage by 2011-12. Unlike others contracts, this particular item came with minimal concessions due to the nature of the workforce and the existing MOU. This agreement increases the District's costs by approximately $15,700 over the two year MOU period. The District plans to use additional Federal Food Service Funds to pay for the 2010 and 2011 increases, which they have already budgeted for. It was determined that the contract was both affordable and within the parameters of the District's financial plan.

In May 2010, BFSA approved a wage and benefit package increase for BMHA's Exempt Non-Represented employees. While not technically a CBA, as it is a financial obligation of the BMHA it was determined to be subject to BFSA approval. The agreement covers BMHA's non-unionized senior level employees, with the exception of three positions including the executive director, deputy executive director and general counsel. The agreement provided employees with 3 percent increases in each year from July 1, 2007 through July 1, 2010, as well as a $2,000 salary upgrade effective on July 1, 2008. The agreement did come with some cost savings concessions including switching to the lower cost health insurance plan, less vacation time for new employees, one less personal day for employees, increases in the number of salary steps, and health care contributions in retirement for new employees. Overall this agreement increases costs for the BMHA. The agreement was determined to be affordable and fit within the BMHA's financial plan.

Efficiency Funding: In 2009-10 the City did not draw upon any of its State funds earmarked specifically for investments in efficiency cost-containment to BFSA for approval. The enacted 2010-11 New York State budget reduced efficiency incentive grant appropriations by 50 percent of all uncommitted grant funds effective December 1, 2009. This reduction negatively affected Buffalo's remaining balance of efficiency funds to "achieve recurring savings through innovations and reengineering." After the 50 percent reduction in uncommitted efficiency incentive grant funds, Buffalo was left with $4.6 million available for use on efficiency projects. Previous to the December 2009 reduction, Buffalo had $9.2 million available for use on efficiency projects.

BFSA Recommendations: BFSA 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. In conjunction with this the BFSA invited the executive director from the University of Buffalo's Regional Institute to make a presentation on governmental OPEB costs and potential solutions to this serious situation.

BFSA presented and advised on the historical significance and the financial history (comparing costs) of the intermunicipal cooperation agreement between the City and Erie County for the operation and management of its parks system. Further, BFSA solicited public input concerning the City's plan to retake management of its parks system from Erie County.

BFSA also performed and presented a benchmarking study related to fiscal management of various housing authorities. The presentation compared employee benefits for similar sized housing authorities and presented methods for costs to be controlled, as well as other key operating metrics.

BFSA presented on the Deficit Reduction Plan included within the Governor's proposed 2010-11 budget, which had a financial impact on the City's 2009-10 budget.

BFSA closely monitored overtime usage, particularly with the fire and police departments. Additionally, BFSA made presentations on the budgetary growth of both the City and School District since BFSA's inception.

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 in 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. Three of the unions have agreed to withdraw their claims as a part of new collective bargaining agreements. The International Union of Operating Engineers Local 17 has entered into a proposed collective bargaining agreement under which their claim would be settled as well. The approval of the agreement is pending before the before the BFSA. The remaining Plaintiff is Teamsters Local 264. 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. The arbitration award which is the subject matter of this lawsuit was found to invalid by the Court of Appeals and the matter is again being arbitrated. This lawsuit is being discontinued but the stipulation has not been filed by the union.

- 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 to challenge 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 was granted and the case will be heard by the Court of Appeals in early 2011.

- 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. The trial court granted a Motion for Summary Judgment by the Plaintiff dismissing the BFSA from the case and denying the City's Motion for Summary Judgment based upon a question of fact. Both the City and the Authority appealed that decision and the matter will be heard in January 2011.

Public Meetings and Internal Controls

BFSA held ten public meetings of the Board of Directors in 2009-10, fully complying with the Open Meetings Law. In addition, two public meetings of the Board's Governance Committee and two 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. BFSA had the required quorum present at all of its public meetings in 2009-10.

BFSA took a series of steps in 2009-10 to reinforce its system of internal controls and to promulgate new policies regarding records management, procurement and property:

- In July 2009, 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 July 2009, 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 July 2009, 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 July 2009, 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 July 2009, 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 July 2009, 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 July 2009, the Board reviewed and affirmed the components of BFSA's Internal Controls Framework. In March 2010, the Board received an update on the Authority's internal controls work, including testing that has occurred and plans for future testing. BFSA submitted its required Internal Controls Summary and Certification to New York State by the April 30, 2010 deadline. 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 29, 2010 meeting. The 2009-10 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 2009-10 fiscal year:

- In March 2010, the Board's Audit, Finance and Budget Committee authorized by Resolution the posting of BFSA's proposed 2011-14 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 2010, 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 2010-11 and four-year plan for 2011-14.

BFSA did not procure new or additional services with any outside service vendors during fiscal year 2009-10. However, BFSA did enter into one contract of note:

- The Authority entered into a contract with the Buffalo Economic Renaissance Corporation (BERC) for a one-year lease extension for its office space.

One of BFSA's Principal Analysts served as the Authority's Internal Controls Officer for 2009-10. 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. The certification is due annually by April 30 and as previously noted BFSA submitted the certification before the submission deadline.

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.

Unlike 2008-09, BFSA did not establish or hold meetings for any "Ad-Hoc" committees in 2009-10 for purposes not typically covered by the Authority's standing committees.

Pursuant to Section 2800,2(a)(5) of the NYS Public Authorities Law, the following compensation information is provided: In 2009-10 BFSA was managed by Jeanette M. Mongold, Executive Director, from July 2009 until through June 2010. The Executive Director's annual salary of $102,000 was part of her compensation. For Jeanette Mongold's health insurance benefits through NYSHIP, $5,591 was paid by BFSA; while Jeanette Mongold's pension contribution (to New York State and Local Retirement System) was $7,140.

BFSA does not provide Board Members with compensation, but does reimburse members for their travel expenses to attend Authority meetings, and for other Authority related matters.

In 2009-10, BFSA offered the following employee benefit plans through the New York State Health Insurance Program: Empire Plan, Independent Health, Blue Cross Blue Shield and Univera. However, Univera was subsequently dropped as a health insurance option as of December 31, 2009.

Leases

BFSA is current party to a one-year lease with the Buffalo Economic Renaissance Corporation for its offices in the Market Arcade Building located at 617 Main Street, Suite 400, Buffalo, New York, 14203. The terms of the lease run from June 1, 2010 through May 31, 2011 at a cost of $40,950, payable in equal monthly installments.

Performance Measurement

Regular and aggressive monitoring of spending, budgetary processes and cost-saving initiatives are essential to ensuring that the City and Covered Organizations continue progress towards fiscal stability. In meeting these performance goals, certain procedures are followed by the BFSA, including:

• The review and approval of the City's and covered organization's budgets and four year financial plans (completed June 2010);
• The review of the City's and covered organization's quarterly financial plans (completed on a quarterly basis throughout the fiscal year);
•The review and the approval or disapproval of budget modifications during the year (completed throughout the 2009-10 fiscal year);
• The review and approval or disapproval of the annual capital budget (approved 2010 Capital Plan on February 10, 2010 for City and May 12, 2010 for BMHA);
• The review and approval or disapproval of capital borrowing (approved June 9, 2010);
• The review and approval or disapproval of contracts entered into that exceed $50,000 (approved throughout the fiscal year);
• The review and approval or disapproval of all proposed collective bargaining agreements, regardless of dollar value (as previously noted approved throughout fiscal year as presented to 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
District 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
District 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
District 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:

Recalibrated BFSA credit rating to Aa1 stable from Moody’s (2010)
Recalibrated BFSA credit rating to AA+ stable from Fitch (2010)
Affirmed City credit rating at A- stable from S&P (2010)
Rated City credit rating at A+ stable level from Fitch (2010)
Recalibrated City credit rating to A2 stable from Moody’s (2010)
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 stable from Fitch (2007)
Improved City credit rating to Baa2 stable from Moody’s (2007)
Improved City credit rating to BBB-stable from S&P (2006)
Improved BFSA credit rating to Aa2 stable 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 wage and benefit package with BMHA’s Exempt Non-Represented employees (2010)
Implemented new labor contract with the Buffalo Public School System’s Summer Food Service Workers (2010 and 2008)
Implemented new labor contract with the Buffalo Public School System’s Substitute Teachers, known as SU/B (2009)
Implemented new labor contract with BMHA’s Blue, White and Managerial class employees, Local 264 (2009)
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 contract with Buffalo Crossing Guards, Inc. (2008)

City of Buffalo and Covered Organizations

Reports on the 2010-11 Budgets and Related 2011-14 Four-Year Financial Plans

Overview

On June 10, 2010, by Resolution No. 10-17, 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 2010-11 through 2013-14.

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 4, 2010, in accordance with the requirements of the BFSA Act. This report summarizes that plan, the eighth such financial plan approved since BFSA was created by New York State in 2003 and the fourth since 2003-04 to not rely on the savings of a wage freeze. The City's Common Council made minor revisions and approved the budget on May 21, 2010.

The City's budget for FY 2010-11 is balanced with the planned use of $12.20 million of unreserved, undesignated fund balance. Totaling $460.6 million, the FY 2011 budget is $11.5 million greater than the FY 2010 budget. Revenue growth is relatively flat over the course of the four-year financial plan. Overall, State assistance is expected to decrease $3.4 million in 2010-11 as compared to budgeted amounts in 2009-10, and remain unchanged over the life of the financial plan. County sales tax receipts are anticipated to decrease approximately $3.9 million from the 2010 adopted budget. Property tax revenues are expected to increase slightly by $.8 million from 2010 levels. New York State did not finalize its budget for 2010-11 until August 3, despite the April 1st deadline. Aid levels for Buffalo were the same as in the Governor's proposed budget and this report reflects the expected aid levels, as adopted by New York State.

Expenditures for 2010-11 are budgeted at $460.6. Expenditure growth is attributed primarily to increases for City employees' fringe benefits which are projected to increase by $11.9 million over the prior year. Additionally, a significant portion of the increase pertains to City pension contributions, which are based on contribution rates established by the New York State Comptroller's Office. The City has budgeted an increase of $10.1 million for the increase in pension contributions. Health insurance for both active and retired employees is expected to increase approximately $2.1 million from 2009-10 levels. Most other expenditure areas are budgeted relatively flat from 2009-10 levels.

The economic recession continues to impact the City in the upcoming fiscal year, as well as during the out-years of its financial plan. In order to balance the 2010-11 budget, the City found it necessary to utilize fund balance. The four-year financial plan has a total budget deficit in excess of $57.74 million. The 2010-11 budget includes a small increase in property taxes overall , and as previously noted the City has utilized $12.2 million of unreserved, undesignated fund balance to balance the upcoming budget. The City plans on utilizing fund balance in each year of its financial plan. The planned use of fund balance within the 2011-2014 Four-Year Financial Plan is $37.0 million, which accounts for approximately 77% percent of the current unreserved, undesignated fund balance. In addition, it was necessary for the City to incorporate a series of Programs to Eliminate the Gap (PEGs) in 2011-12, 2012-13 and 2013-14 for a total deficit reduction plan of $20.8 million. The City also plans to use $2.3 million of restricted AIM in 2011-12, 2012-13 and 2013-14 (for a total of $6.9 million).

The City has presented a balanced budget and four-year financial plan which does draw relatively heavy on fund balance, uses PEGs and also utilizes restricted AIM funds. BFSA's analysis indicates that there are areas of financial concern that require strong operational and fiscal management by the City in order to mitigate such risks. It is noted that these risks, outlined below, are manageable in the upcoming budget year particularly because of the use of fund balance. The City's unreserved, undesignated fund balance was $48.2 million at June 30, 2009, as per the most recent audited financial statements, with an additional $33.6 million rainy day fund, which carries some restrictions.

BFSA's analysis noted that the budget and plan face some significant risks the City must effectively manage, and includes a few opportunities:

(1) Aggressive budgeting of police and fire overtime given historical trends:

- Fire overtime is budgeted at the same level as in 2009-10, $8.8 million;
- Police overtime is expected to decrease by $.4 million from 2009-10 levels, to $9.2 million;
- Over the remaining three years of the four-year financial plan, police and fire overtime growth is minimal. Police overtime grows by $30,273 for 2011-12 and remains flat thereafter and fire department overtime grows by $14,041 in 2011-12 and is also flat thereafter.

As overtime is a significant expenditure to the City, and represents a normal recurring type of expenditure, over-expended amounts would have a negative impact on operating results if additional revenue sources or available budget appropriations were unavailable.

(2) Reliance on non-recurring revenues and use of reserves to fund operating deficits:

	BUDGET YEAR (in millions)			
	2011	2012	2013	2014
	$	$	$	$
Use of Fund Balance	12.2	9.1	7.9	7.8
Use of Restricted AIM		2.3	2.3	2.3
Total Nonrecurring Revenue/Other Sources	12.2	11.4	10.2	10.1
Total Budgeted Appropriations	460.6	469.3	475.5	481.8
% of Nonrecurring Revenues/Other Sources to Budgeted Appropriations	2.6%	2.4%	2.2%	2.1%

(3) The City continues to maintain a tight budget over capital outlays, supplies and other areas, such as travel, over the life of the financial plan. It will be challenging for the City to continue to maintain services in an environment where economic resources may not be available to meet the needs of its citizens.

(4) There are no provisions for salary increases for employees/members of the two largest City unions, which includes police officers and firefighters. Both unions can revert to binding arbitration. Increased salaries for both of these unions will have an extremely significant impact on the results of operations and the financial health of the City, especially if they do not include significant concessions.

(5) Current litigation involving salary steps frozen during the wage freeze is expected to conclude during the fall of 2010. If the City were to lose this case, the City would be faced with a significant payout putting additional budgetary pressure on the City.

(6) The City is currently managing its parks system for the first time in several years and has hired 62 total workers to operate its parklands. Spending for fiscal year 2009-10 is estimated to total $6.5 million. Total spending for 2010-11 is budgeted at $6.4 million, but costs could easily exceed expectations should gas prices increase significantly or some other unforeseen circumstance arise. The City reached an agreement with the Olmsted Conservancy to manage the City's Olmsted Parks at an expected cost of $1.2 million annually.

(7) The City has not set aside any funds for future other postemployment benefits (OPEB) to be paid out, other than budgeting annually on a pay-as-you-go basis. Currently, the long-term liability for OPEB (to be paid over a 30 year period) is estimated at $1.2 billion. The City's annual required contribution (ARC) was $83.7 million for the year ended June 30, 2009. The City is currently unable to fund this liability, along with all municipalities in the State, until the State resolves certain legal matters relating to the creation of trusts for OPEB. BFSA continues to encourage the City to reduce healthcare costs for future retirees through collective bargaining.

(8) The State adopted its 2010-11 fiscal year budget late, officially on August 3, 2010. The City's budget and financial plan includes a $3.4 million decrease in AIM as compared to the prior year budget. In 2009-10 the City received $169.0 million in AIM from NYS, while in 2010-11 the City has budgeted for $165.7 million (as well as in the out years). With the State facing a current projected budgeted deficit of $9.2 billion for its current fiscal year, the potential for further cuts exists. Further cuts during the fiscal year would add to the difficulties facing the City and could force Buffalo to make additional cuts and/or challenging decisions after completing it budget and financial plan.

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

(1) The City also has the potential to realize new revenues from red-light cameras, which may be installed for the 2010-11 fiscal year. However, the potential revenue to be generated is not significant when considering the budget taken as a whole.

(2) The budget and four-year financial plan includes staff vacancies which, if unfilled, would result in favorable budgetary variances for both the unspent salaries and employee benefits. Such budgetary savings could be applied towards unexpected cost increases.

(3) The City has opportunities to obtain grant funding to assist in providing services beyond what has been provided for in the budget. For example, the City is awaiting approval for a NYS Restore 3 contract. The contract would provide approximately $10 million for demolitions and rehabilitation work if it is approved.

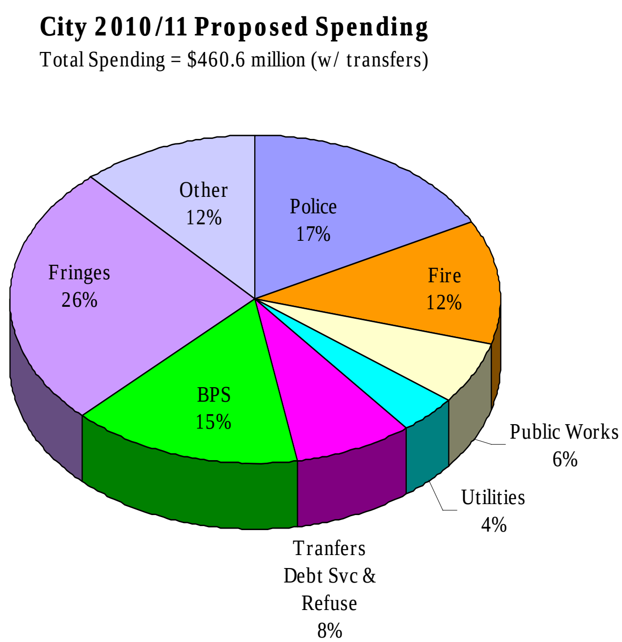
The following is BFSA's complete analysis and review of the City's 2010-11 Budget and Four-Year Financial Plan.

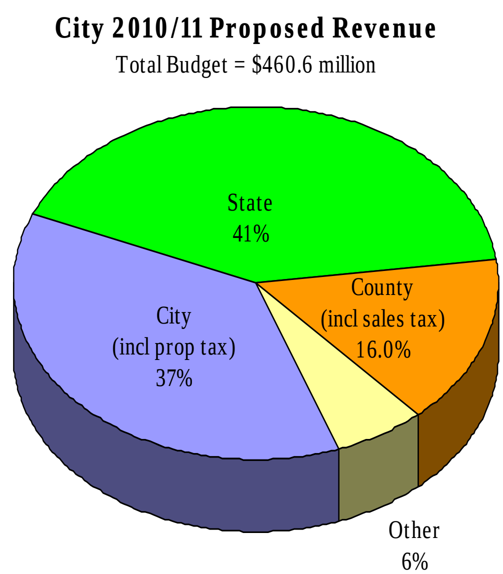
City of Buffalo's Budget and Four-Year Financial Plan

The City's four-year financial plan provides for spending of $460.6 million in 2010-11, increasing to $481.8 million in 2013-14, an increase of 4.6% over the four-year period. With the use of reserves, the implementation of PEGs, and the drawdown of restricted AIM held by the BFSA, the financial plan is balanced throughout the four years. The use of these funds is indicative of the structural imbalance facing the City and its continuing dependency on annual increases in State aid to address increasing expenditures.

Summary of 2010-11 Budget

The 2010-11 budget provides for $460.6 million in spending. This total includes $105.3 million in transfers including the School District ($70.3 million), the Capital Debt Reserve ($31.8 million) and Refuse Fund ($3.2 million), all three of which are funded out of the property tax levy. The $460.6 million figure represents a 2.6% increase over the 2009-10 adopted budget of $449.1 million and is approximately $10 million less than projected expenditures for the current year. The following charts show a breakdown of the City's total 2010-11 budget by major spending and revenue category:





When transfers are excluded from total budgeted appropriations, the City's spending on its own General Fund services is $355.2 million, an increase of $9.2 million or 2.7% over the prior year's budget. 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 services. Of the $355.2 million figure, $190.0 million is attributable to State revenues, including $165.7 million in unrestricted State aid. In other words, unrestricted State aid will fund 46.6% (a decrease from $169.0 million, or 48.9%, in 2009-10) of the City's own services in 2010-11.

City Revenues ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Actual	FYE 2009 Actual	FYE 2010 Budget	**FYE 2011 Budget**
State	126.6	143.2	146.8	157.4	183.2	196.4	194.9	**190.0**
City	173.8	174.8	177.5	178.4	181.4	175.8	170.1	**170.8**
County	60.5	58.6	59.9	69.3	72.6	70.8	72.3	**71.5**
Federal	6.9	1.8	1	0.6	0.9	0.0	1.6	**1.7**
Other	3.7	3.5	3.7	3.8	3.8	3.8	3.6	**4.8**
Deficit Borrowing/Fund Bal	7.8	19.1	0	0	0	0	0	**12.2**
Transfers In	5.5	6.9	5.8	5.8	5.8	5.8	6.6	**9.5**
Total	384.8	407.9	394.7	415.3	447.7	452.6	449.1	**460.5**

The $165.7 million in unrestricted aid budgeted for 2010-11 is 61.3% 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 Actual**	**FYE 2010 Budget**	**FYE 2011 Budget**
AIM	102.7	102.7	115.9	129.5	147.3	165.6	169.0	165.7
BFSA Held	0	0	0	12.7	12.8	16.6	0	0
Total	**102.7**	**102.7**	**115.9**	**142.2**	**160.1**	**182.2**	**169.0**	**165.7**

The City's 2010-11 budget does not include several other sources of funding that could potentially be available during the budget year and could provide additional resources including: $3.2 million in Efficiency Incentive Grants and an undetermined amount of red light camera revenue that could be generated over the life of the financial plan, should this initiative get off the ground and produce revenues.

For the first time in three years the City's property tax levy is being increased to $144.3 from $142.4 million. The property tax levy is split between the City ($73.9 million) and the School District ($70.3 million). Modest growth in assessed values has increased the City's constitutional property taxing margin to $35.6 million, up from a low of $12.4 million in 2003-04. At present, the City is using 80 percent of its constitutional taxing capacity and while the City's tax rate (homestead) is down slightly, the property tax levy itself has increased 1.4 percent from last fiscal year.

While sales tax revenues have generally been down as a result of the economic recession, the City is budgeting for a $1.3 million increase in 2010-11, with annual increases of approximately 3 percent over the out years of the four-year financial plan. This sales tax revenue forecast does not factor in BFSA expenses nor does it factor in debt service, which was discussed previously in the report. The sales tax figures discussed in this section deal exclusively with the City sales tax revenue after BFSA expenses and debt service payments are removed. Sales tax revenue growth for 2011 is budgeted at 1.9 percent more than the budgeted amount for 2009-10. Current year projections forecast $73.8 million for 2010, but this figure includes $.9 million for BFSA operations and $3.4 million for debt payments tied to BFSA's debt issuance on behalf of the City. The true actual sales tax revenue retained by the City will be net of BFSA operations and BFSA debt service, estimated to be $69.5 million. The following chart details the City's sales tax revenue over the life of the financial plan:

Sales Tax Revenue ($ in millions)	**FYE 2010 Adopted**	**FYE 2011 Budget**	**FYE 2012 Financial Plan**	**FYE 2013 Financial Plan**	**FYE 2014 Financial Plan**
	68.6	69.9	72.0	74.2	76.4
Percent Change		1.9%	3.0%	3.1%	3.0%

On the expenditure side, fringe benefits comprise the largest category of expenditures, while transfers remain the second largest category. This year $119.0 million is budgeted for fringe benefits, increasing $11.9 million over the 2009-10 budget and $13.7 million over 2010 forecasted actual expenditures, primarily due to increased pension costs and health insurance premiums. Health insurance costs for both active and retired employees are budgeted at $64.6 million, an increase of $1.9 million from the prior year's adopted budget, while pension payments total $33.2 million (increase from $23.0 million). The remaining $21.2 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 may be overstated in the instance the City maintains vacancies during the fiscal year.

City Expenditures ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Actual	FYE 2009 Actual	FYE 2010 Budget	FYE 2011 Budget
Fringe Benefits	82.4	85.1	87.8	90.3	100.6	104.4	107.1	119
Police	69.8	64.4	64.1	66.9	71.4	76.7	80.1	79.5
Fire	53	50.9	51.3	50.3	56	55.0	56.2	56.2
Public Works	21.8	17.8	17.4	22.4	22.4	22.1	27.7	27.5
Utilities	12.3	13.7	15.1	19.3	17	17.5	18.7	18.8
Transfers Out (Schools/Debt/Refuse)	99.1	107.5	100.7	102.1	98.5	105.4	103.1	105.3
All Other	39.5	45.8	41	42.3	65.7	66.2	56.3	54.3
Total	**377.9**	**385.2**	**377.4**	**393.6**	**431.6**	**435.0**	**449.1**	**460.6**

The budget for police has decreased by $.6 million over the previous year, which reflects no change in overtime costs and the elimination of 43 vacant positions. The police department expects to add 45 officers, but not until 2011-12, which may only offset vacancies created through attrition. For police, personal services are only expected to increase by $14,475 in 2010-11 as compared to 2009-10 budgeted levels, while supplies, services and capital outlays are seeing decreases ranging from $31,260 to $647,792. Decreases in departmental expenditures for capital outlays, services and supplies are fairly common throughout the City's 2010-11 budget.

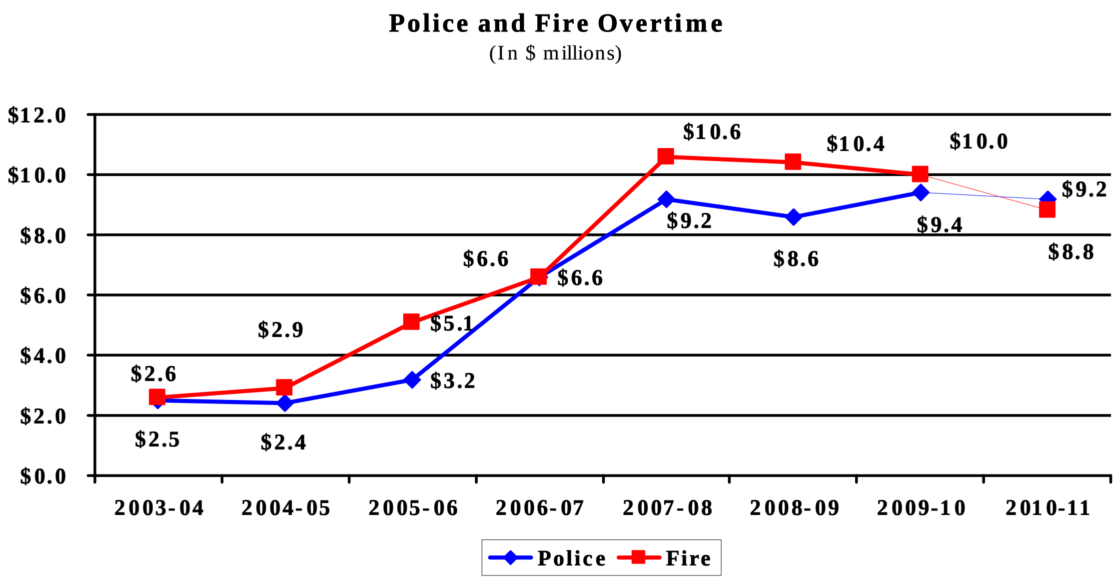
In the proposed police budget the personal service line is 96.2 percent of the budget (up from 95.5%) and the remaining 3.8 percent is for supplies, vehicles, services, capital outlay and other minor expense lines; overtime comprises 11.6 percent of the total proposed police budget.

Police overtime is a concern. Current unaudited police overtime totals $9.4 million for the year ending June 30, 2010, which is $.2 million above what was originally budgeted. For 2010-11, police overtime is budgeted at $9.2 million, which is also below expectations for 2009-10. Since 2004-05 police overtime has grown by a net $7.1 million dollars for an annual increase that averages approximately $1.2 million.

The budget for Fire has remained consistent with the prior year budget. Personnel are expected to remain unchanged at 719 uniform firefighters, and the City does plan to add firefighters to replace those lost through attrition over the life of the financial plan.

As with the police department, it appears that the City is being aggressive in budgeting fire overtime. Current unaudited overtime in the Fire Department totals $10.0 million for the year ending June 30, 2010, which is $1.2 million higher than what was originally budgeted at $8.8 million. In the 2010-11 budget the City projects fire department overtime at approximately $8.8 million which is consistent with last year's budget but is $1.8 million less (20.4 percent) than current year-end projections. The stated reason for overtime remaining flat is new policies concerning the use of sick time and overtime use, as well as allowing the fire department to manage the injured-on-duty process. Since 2004-05 fire department overtime has increased by a net $8.0 million, which is an average annual increase of approximately $1.3 million.

The chart below shows historical actuals as well as the current projections for FYE 2010 and budgeted amounts for FYE 2011.



With respect to Public Works, budgeted amounts have decreased by $0.2 million over the previous year's budget. The upcoming fiscal year will be the first full year since 2004 in which the City has managed its park system. The City has hired 62 people to work in its Parks Department and has also contracted with the Olmsted Parks Conservancy to manage its historic Olmsted Parks and Parkways. Overall, costs for parks management are held relatively flat over the life of the financial plan at approximately $6.4 million, which includes $1.2 million for the Olmsted Conservancy. Growth in the parks budget over the life of the financial plan is approximately 1 percent annually and does not include any growth in the $1.2 million payment to Olmsted. It is noted that the contract with Olmsted includes a clause that partially matches private fund raising efforts.

While overall budgeted costs have decreased for Public Works, several major changes to budgetary lines across the department have taken place since last year. Personal services is budgeted to increase $5.4 million, which is primarily attributed to the additional 62 parks workers, as well as contractual increases tied to union agreements. Capital outlays were budgeted at $.9 million for fiscal year 2009-10, and are increased to $2.2 million for the upcoming 2010-11 fiscal year, due to anticipated cost increases for streets and parks equipment. Contractual Services in the Department of Public Works have been reduced from $9.1 million in 2009-10 to $3.1 million in 2010-11, a decrease of approximately $6 million, resulting from the cancelation of the agreement with the County to manage the City's parks. Utilities were budgeted at $740,000 for the current fiscal year, yet for 2010-11 utility spending in the DPW has been practically eliminated and budgeted at $23,500. The City has moved telephone charges for this department to the general charges budget line.

Utility costs have increased slightly to $18.8 million from last year's budgeted amount of $18.6 million, but is a decrease from the City's revised 2010 budget of $19.2 million. Interfund transfers out ($105.3 million) have increased by $2.2 million, to reflect higher debt service payments of $1.5 million, and an increase of the transfer to the Enterprise Refuse Fund (up $.7 million). The School District transfer remains unchanged ($70.3 million) over the life of the four-year financial plan.

Staffing levels remain consistent with 2596 positions budgeted for 2011, which represents a net increase of 4 budgeted positions, as shown in the following table:

	2009-10 Budget	2010-11 Proposed	Change
Police (Non-Uniform)	166	165	-1
Law	31	32	1
Mayor & Executive	48	47	-1
Permits & Inspections	97	94	-3
Audit & Control	45	45	0
Parking	43	42	-1
Fire (Non-Uniform)	44	44	0
Engineering	82	79	-3
Assessment & Taxation	32	31	-1
MIS	32	34	2
Budget	8	8	0
Police (Uniform)*	838	795	-43
Human Resources	21	20	-1
Sanitation & Streets	131	140	9
City Council	39	39	0
City Clerk	17	17	0
Administrative Adjudication	4	2	-2
Treasury	12	12	0
Parks	0	32	32
Parks Admin.	0	3	3
Recreation	0	20	20
Collections	6	6	0

Purchase	37	31	-6
Public Works (Gen Office)	3	3	0
Care and Planting of Trees	0	5	5
Division of Buildings	62	62	0
Telecommunications	3	2	-1
Animal Control & Shelter	15	14	-1
Community Services	57	53	-4
Fire (Uniform)**	719	719	0
Total	**2,592**	**2,596**	4

* Uniformed police positions are budgeted at 795, a net decrease of 43 positions from the 2009-10 budget. The proposed staffing number reflects the net effect of a couple of different things. First, while 838 positions were budgeted in 2009-10, current-year attrition has left the uniformed police with 777 filled positions as of June 30, 2010. The City expects this number to decline further through the remainder of the current year due to retirements. The four-year financial plan takes into consideration the intent to hire 45 additional uniformed police personnel during the 2011-12 fiscal year (year 2 of the financial plan), with an expected workforce reduction of 25 to 35 uniformed police due to retirement.

Due to these matters, it is reasonable to conclude there will be budgetary savings for personnel related to unfilled uniformed police positions in 2010-11.

** Uniformed fire positions were budgeted at 719 in the 2009-10 fiscal year and remain flat in 2010-11. Current year attrition has reduced the size of the force to 704 as of June 30, 2010. The proposed spending plan assumes 25 to 30 retirements during the 2010-11 fiscal year. Additionally, the City intends to hire additional firefighters over the life of the financial plan to offset the losses through attrition. Similar to the City's police department, it may be difficult for the fire department to maintain budgeted levels in actual filled positions during 2010-11.

Summary of Financial Plan through 2013-14

The City's financial plan for fiscal years 2011-12, 2012-13 and 2013-14 reveals budget gaps, which are closed through the use of fund balance and the implementation of Programs to Eliminate the Gaps (PEGs). Below, a high level overview of the four-year financial plan is included, which includes the use of fund balance (included as a revenue), but does not take the use of PEGs into account.

City Financial Plan ($ in million)	FYE 2011 Budget	FYE 2012 Projected	FYE 2013 Projected	FYE 2014 Projected	2011-14 Change
Revenues	448.36	455.43	460.29	465.32	3.78%
Expenditures	460.56	469.27	475.46	481.83	4.62%
Use of Fund Balance	12.20	9.09	7.93	7.77	

Revenues growth averages about .9 percent annually over the life of the financial plan, which is a decrease from last year's projected revenue forecasts. Over the life of the plan, revenues are projected to grow by $17.0 million or 3.8 percent, which does not include the use of fund balance, but does factor in the use of restricted State AIM, as presented in the chart above.

Expenditure growth averages about 1.8 percent annually over the life of the financial plan. Over the life of the plan, expenditures are projected to grow by $21.3 million or 4.6 percent.

The following chart provides a more detailed account of the financial plan:

City of Buffalo Four-Year Financial Plan						
	2009-10 Adopted		2010-11 Proposed	2011-12 Proposed	2012-13 Proposed	2013-14 Proposed
Total Revenues, Resources, and Interfund Transfers In	$449.08		$460.56	$464.52	$468.22	$473.09
Total Appropriations/Expenditures and Interfund Transfers Out	$449.08		$460.56	$469.27	$475.46	$481.83
Surplus/(Deficit)	**$0.00**		**$0.00**	**($4.75)**	**($7.25)**	**($8.75)**
Gap Closing Measures						
Fund Balance			$12.20	$9.09	$7.93	$7.77
Service and Workforce Reengineering				$2.00	$3.00	$3.50
Offsite Time & Attendance				$1.00	$2.00	$2.50
Asset & Property Management Plan				$1.75	$2.25	$2.75
Total			**$12.20**	**$13.84**	**$15.18**	**$16.52**

When fund balance and the remaining differences between revenues and expenditures are summed up over the life of the financial plan, a total budgetary gap of $57.74 million exists. As previously noted, the City intends to utilize $2.3 million of restricted AIM funds annually from 2012 – 2014 (a total of $6.9 million) to further balance its financial plan over the next four years. In looking at the above chart the structural imbalance between revenues and expenditures is apparent. Over the life of the financial plan, recurring expenditures continue to outpace revenues.

The City employs a series of Programs to Eliminate the Gap over the course of the financial plan. It's important to note that these are currently proposed and the details behind the financial savings require certain actions to be taken by the City. A summary of such PEGs is as follows:

- Service and workforce reengineering initiatives totaling $8.5 million
- Offsite time and attendance initiatives totaling $5.5 million over the life of the financial plan. These gap closing measures intend to automate time and attendance and other personnel managing systems for off-site locations and are expected to lower costs, improve efficiencies, and improve the accuracy of both compensation and benefits.
- Asset and property management plan initiative, which totals $6.7 million in savings over the life of the financial plan. Under this initiative, efficiency funding is set aside to retain engineering consultants to develop a comprehensive evaluation and action plan for City properties and assets.

The assessment will include repairs, capital investment, staffing needs, as well as a risk assessment. A bar coding and scanning system will also be put in place to track City assets, including equipment and vehicles. Additionally, a keyless fuel master system will be incorporated into this new system.

City Revenues ($ in million)	FYE 2011 Budget	FYE 2012 Projected	FYE 2013 Projected	FYE 2014 Projected	2011-14 Change
State	186.23	188.53	188.54	188.54	1.2%
Real Property Taxes	139.36	141.92	144.53	$147.20	5.6%
Local & Other	$70.46	72.56	74.72	76.94	9.2%
Other Taxes	12.35	12.35	12.35	12.35	0.0%
Service Charges	$11.20	$11.21	$11.20	$11.21	0.1%
Miscellaneous	$7.00	$7.00	$7.00	$7.00	0.0%
Fines	$6.83	$6.83	$6.83	$6.83	0.0%
Licenses & Permits	$3.32	$3.32	$3.29	$3.32	0.0%
Interest	$1.30	$1.40	$1.50	$1.60	23.1%
Federal	$0.77	$0.77	$0.77	$0.77	0.0%
Transfers In	$9.55	$9.55	$9.55	$9.55	0.0%
Use of Fund Balance	12.19	9.09	7.93	7.77	-36.3%
Total Revenues and Transfers In	21.74	18.63	17.47	17.31	-20.4%
Total Revenues, Transfers In, and Fund Balance	**$460.56**	**$464.52**	**$468.21**	**$473.08**	**2.7%**

State revenues increase slightly in the second year ($2.3 million) of the financial plan and remain consistent in 2013 and 2014, while real property taxes represent the most significant growth, with respect to total dollars, over the life of the plan (property taxes are planned to increase by $7.8 million). Last year's financial plan forecasted a total revenue increase of $22.6 million (or 5 percent) over its four years. Based on this comparison, the City is now forecasting $12.5 million in revenue growth over the life of its four year plan, primarily driven from reductions in anticipated State Aid.

Average net sales tax receipts are projected to increase at a rate of 3.0 percent per year. State aid revenues grow by 1.2 percent from 2010-11 to 2011-12, but remain static on an annual basis thereafter through 2014. The City plans to use $6.9 million in restricted AIM funds over the four-year financial plan to help balance its financial plan. The City also plans to use $12.20 million in unrestricted undesignated fund balance in 2010-11, $9.08 million in 2011-12, $7.93 million in 2012-13 and $7.77 million in 2013-14 towards balancing its budget. Fund balance use declines somewhat in each year of the financial plan. Property tax revenue is expected to grow annually and by 5.6 percent in total over the life of the four-year plan. Interest revenue grows by $.1 million in each year of the financial 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 recent years, the growth in State aid, which during its first year is restricted as to its use, lagged by one year, meaning that pledged aid increases to the City were intentionally 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 conditions facing state and local governments, the City for the second year in a row is not forecasting increases in State Aid. In reviewing the chart below, the $165.66 million budgeted every year of the financial plan is previous year State Aid and considered unrestricted. Currently, BFSA is holding $17.7 million in prior years AIM, the City's 2011 to 2014 financial plan relies on the use of $6.9 million of these restricted AIM funds. The City plans to use these funds to balance its financial plan, as reported in their four-year plan document. Last fiscal year, the City's financial plan intended to use restricted AIM funds to hold the line on property taxes. After the use of the $6.9 million in restricted AIM funds, the City will have a balance of approximately $10.8 million held by BFSA for other uses.

Unrestricted State Aid ($ in million)	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Amount in City Financial Plan	165.66	165.66	165.66	165.66
Use of prior year(s) AIM	-	2.30	2.30	2.30
Actual Aid to be Provided	165.66	167.96	167.96	167.96
BFSA Held	**15.10**	**12.80**	**10.50**	**8.20**

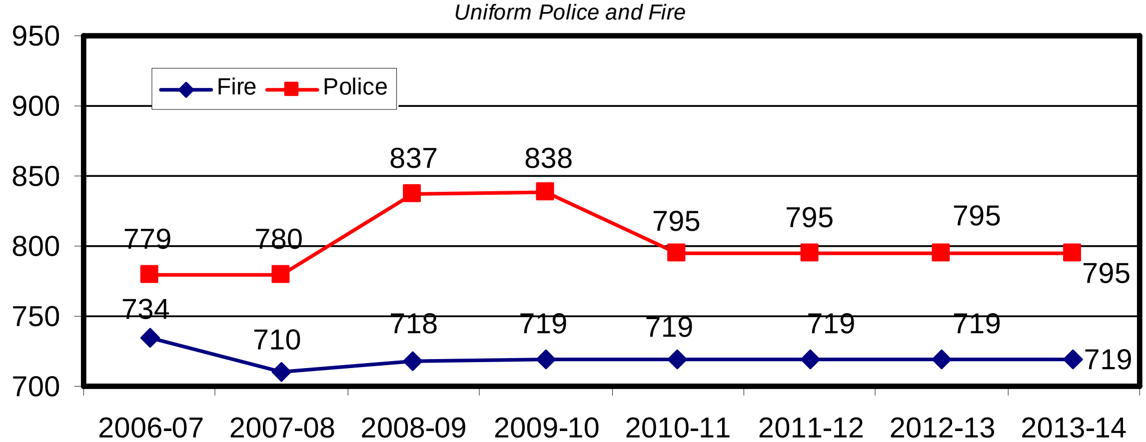
With respect to expenditures, overall the City is budgeting for 2.5 percent growth in 2010-11, 1.9 percent in 2011-12, 1.3 percent in 2012-13 and 1.3 percent in 2013-14. The largest growth over the period continues to be concentrated in fringe benefits, which are projected to increase from $119.0 million to $135.7 million over the four years of the plan (14.0 percent). Utilities are projected to grow by nearly 5.9 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 of 4.6 percent in total.

City Expenditures ($ in million)	FYE 2011 Budget	FYE 2012 Projected	FYE 2013 Projected	FYE 2014 Projected	2011-14 Change
Fringe Benefits	119.0	124.5	130.1	135.7	14.0%
Police	79.5	80.5	80.5	80.5	1.3%
Fire	56.2	56.2	56.2	56.3	0.2%
Public Works	27.5	28.0	28.0	28.0	1.8%
Utilities	18.8	19.1	19.5	19.9	5.8%
Transfers Out (Schools/Debt)	105.3	105.3	105.3	105.3	–
All Other	54.3	55.7	55.8	56.1	3.3%
Total	460.6	469.3	475.4	481.8	4.6%

Most departmental budgets are projected to remain consistent with prior years. A few minor exceptions include the Department of Administration and Finance, with an increase of nearly $0.5 million over the four year period, Police which will increase $1.0 million and Public Works which is budgeted to increase $0.6 million. Budgeting and related spending for capital outlays has been reduced or remains flat over the four years of the financial plan with the exception of public works, which is increasing by $1.3 million from 2009-10 levels, and is a reflection of the change in taking back park management. This represents the second year in a row that departmental capital spending has been reduced or held flat and BFSA continues to question if the reduction to capital outlays are sustainable over the four-year plan (for a total of five years).

Budgeted Staffing Levels

Uniform Police and Fire



Note: Budgeted staffing levels in 2009-10 do not reflect the actual size of the force as of the end of the 2009-10 fiscal year. Due to retirements, the City is running vacancies in both the Police and Fire Departments. As of March 31, 2010, there were 785 filled positions (reflecting additional uniform personnel added during the FY) in uniformed police (i.e. 53 vacancies) and 713 in uniformed fire (i.e.6 vacancies). The financial plan would again add police officers and firefighters, but police would not add personnel until 2011-12 and fire would add personnel as necessary to offset loses due to attrition. 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.

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:

- Overall, the City is using fund balance and restricted AIM, a nonrecurring revenue source, to fund recurring expenditures. Furthermore, it is noted that total budgeted expenditures are increasing at a rate that exceeds total estimated revenues over next four years. This structural deficit is not sustainable long-term.

- The City has forecasted a budget gap each year of the four year plan, totaling $57.8 million. The City plans to utilize reserves, a series of PEGs, spending cuts and the use of restricted AIM over the next four years to balance its budget. Questions remain about the viability of the PEGs to translate into the anticipated savings to balance the budget over the next four years.

- $6.9 million in restricted AIM funds are being used to close financial plan requirements during 2012-2014. 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. Furthermore, the City's planned use of restricted AIM funds does limit use of these funds for initiatives that are also permitted to be used for economic development and efficiency-generating initiatives. A portion of AIM over the past few years was allocated for demolitions; the City will need to find additional funds to carry on the Mayor's 5 in 5 demolition program, such as grant funds (which the City is currently applying for).

- Considering the current economic conditions for the State, the possibility of further reductions to the City's State Aid remains a threat.

- The City plans to utilize $37 million in unreserved, undesignated fund balance over the life of the financial plan, which is an increase from last year's plan which anticipated using $28.4 million. As noted above, the use of fund balance towards annual recurring general fund expenditures 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 $37 million of unreserved fund balance in the financial plan equals nearly 77% of City's current unreserved undesignated fund balance.

- The City may be slightly aggressive in budgeting sales tax growth in the out-years of the financial plan. Annual growth in sales taxes in budgeted at 3 percent in the final three years of the financial plan. Historically, sales tax growth has been in the 2 percent range annually. If sales tax revenue does not come in as expected, it could potentially widen the City's four-year financial plan gap.

- Since 2004-05, when Fire Department overtime was $2.9 million, overtime spending in this department has increased reaching a high balance of $10.6 million in 2007-08 and expected to be approximately $10.0 million for the year ending June 30, 2010. The City has budgeted overtime at $8.8 million for 2010-11 and given historical trends, it may not be realistic for the City to finish the 2010-11 fiscal year at the budgeted level of overtime spending.

- Since 2004-05 police overtime has also significantly increased with an average annual increase of approximately $1.2 million. The 2010-11 budget does not include any increase for police overtime costs and decreases overtime spending by $0.2 million from current year ending projections.

- 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 and Fire. It appears the City could not afford new collective bargaining agreements with bargaining units still out of contract especially if they come without any major concessions. Staff costs continue to rise and now represent 85% of the City's operating budget (excluding transfers), an increase from 82% one year ago. Other than the budgetary savings provided through vacancies, which are decreasing in 2010-11 compared with recent years, the City has limited ability to withstand significant salary increases or arbitration rulings. Moreover, the City is contracting most other budgeted lines as staffing costs continue to rise rapidly.

- 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 such as travel. However, considering all other expenditures outside of budgeted salaries and benefits comprise only 15% of total City operating costs, such cuts are limited. It would be prudent for the City to continue evaluating the potential impact on both long-term costs and the provision of services resulting from continued reduction in these areas.

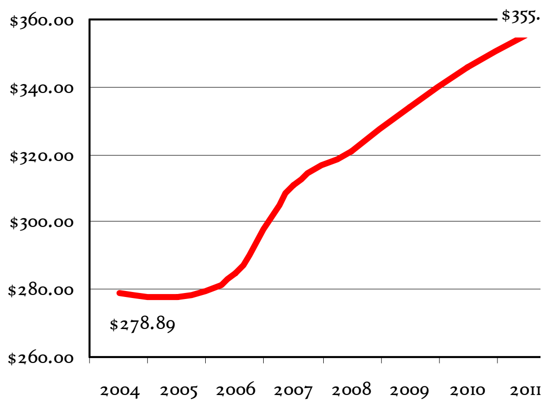
- In 2009-10 the City originally budgeted $6 million for parks operations and expects to finish the current fiscal year at $6.5 million. For 2010-11 the City has budgeted approximately $6.4 million for parks, but spending could increase if there are other unforeseen circumstances, for example if gas prices increased drastically. Also, the start up of the Parks Department resulted in 62 additional employees, which will see increased salaries and benefit costs going forward. At the time of the City's takeover of the parks, the City believed it would be able to operate its parks system for $6 million annually. As costs are already exceeding that initial expectation, this remains an area of risk.

- 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 Police and Fire, would increase the amount of payments to be made for wages as compared to what is currently contained in the financial plan. If such litigation is lost, the City's budget and financial plan would face severe pressure above the currently projected deficit.

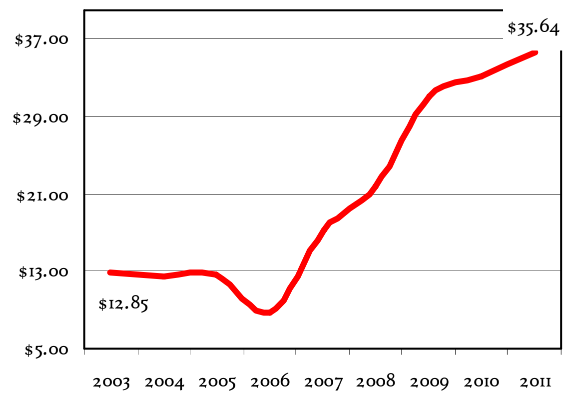
- OPEB liabilities, estimated at about $1.2 billion for the City, with an annual required contribution of $83.7 million, will need consideration going forward. Despite the fact that funding is currently not required nor permitted to be funded in a trust, the impact is already starting to be felt as healthcare costs continue to rise at rates that exceed inflation.

These risks notwithstanding, the City's conservative budgeting practices and the ability to utilize accumulated fund balance has positioned Buffalo to weather a short-term economic downturn. The 2010-11 fiscal year presents new challenges above and beyond what the City has faced in recent years, without any increase in State Aid and in fact receiving a reduction to AIM. If the overall economy does not improve before the development of 2011-12 budget and financial plan, the City could face even greater challenges in upcoming budget cycles.

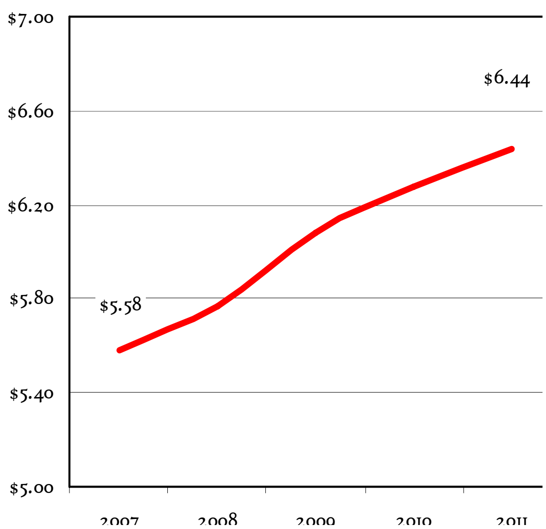
City Budget Size - Excl. Transfers
(millions of $)



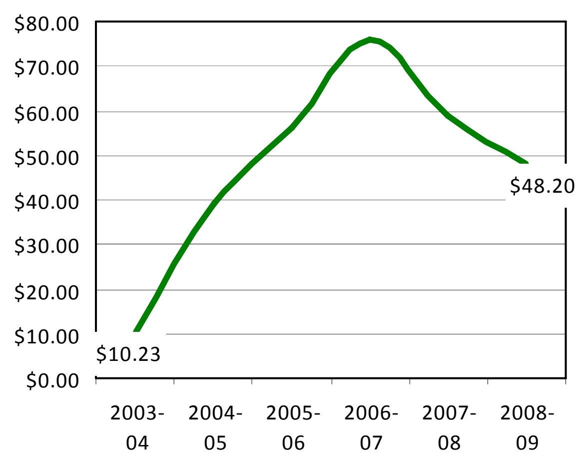
City Property Tax Margin
(millions of $)



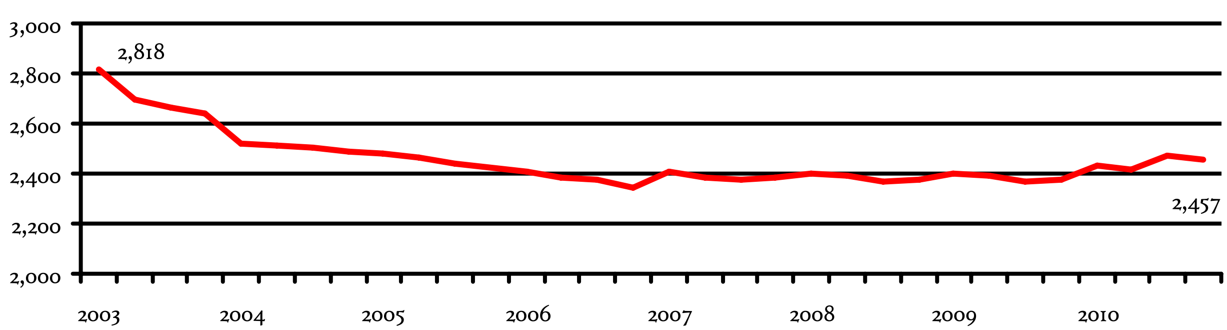
City Five-Year Avg Property Valuation
(billions of $)



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 2010-11 Budget and Financial Plan on June 16, 2010. The Board of Education originally planned on passing the budget at its June 9, 2010 board meeting, but moved budget proceedings to a special meeting held on June 16, 2010. It is unusual for the District to delay the adoption of its budget to June; however the lack of an adopted state budget at the time, the District felt compelled to wait as long as possible. The following is a summary of the adopted budget and financial plan, which highlights fairly significant changes compared to what was originally proposed in May to BFSA.

The proposed financial plan provides for spending of $945.6 million in 2010-11, which increases to $964.6 million in 2013-14, an increase of $19 million or 2 percent over four-years. As a comparison, last year's growth over the four-year financial plan was projected at 5.3 percent. The District's financial plan results in baseline budgetary gaps in both the General Fund and the Food Service Fund. Below are two charts that identify the value of the gap in each year of the financial plan for the general fund and the food service fund. The first table is prior to the use of reserves, while the second table demonstrates the impact of utilizing reserves to close the projected gaps. The gaps are as follows:

Financial Plan Year:	**General Fund GAP**	**Food Service GAP**
2010-2011	$ 72.4 million	$ 1.5 million
2011-2012	$ 33.6 million	$ 1.9 million
2012-2013	$ 52.8 million	$ 2.2 million
2013-2014	$ 65.3 million	$ 1.5 million
Total:	**$224.1 million**	**$ 7.1 million**

***Deficit prior to the use of reserves.**

Financial Plan Year:	**General Fund GAP**	**Food Service GAP**
2010-2011	$ 0.0 million	$ 0.0 million
2011-2012	$ 23.0 million	$ 1.3 million
2012-2013	$ 43.9 million	$ 1.3 million
2013-2014	$ 57.2 million	$ 1.4 million
Total:	**$124.1 million**	**$ 4.0 million**

***Deficit after the use of reserves.**

By utilizing reserves the District is able to reduce the projected four-year gap by $103 million on an all funds basis. Even with the recommended reductions and utilization of reserves the District is faced with a projected gap of $124 million in the general fund and $4 million in the food service program.

In May 2010, the District provided BFSA with a financial plan that projected a four-year gap of $245 million. The original budget and financial plan was based on a current services model which would have provided the current level of services as provided in FY 2010 (such as maintaining current staffing levels, provision of Advance Placement (AP) courses, maintaining current athletic programs, etc…). The District subsequently recognized that maintaining current services without additional revenue created a deficit of significant magnitude. The District, therefore, revised the four-year financial plan and has submitted a modified budget that reduces staffing as well as program offerings to reduce the overall operating deficit. The revised gap of $124 million over the four-year financial plan is a reduction of $121 million compared to the original projected gap in May 2010; the reduction is largely attributed to a series of actions in the upcoming fiscal year that creates a base reduction of $24.8 million per year, which are discussed in more detail below.

The budget gap of $124 million for the current financial plan has remained relatively consistent compared to the four-year gap projected under the 2009-10 financial plan; when compared to the 2008-09 four-year financial plan baseline gap of $57.4 million— it represents a significant increase. The yearly gaps have increased compared to the 2008-2009 financial plan and reflect both State Aid held relatively flat as well as the impact that a loss in the steps litigation would have on the financial plan.

- Projected Four-Year Gap 2008-09-- $57 million
- Projected Four-Year Gap 2009-10-- $142 million
- Projected Four-Year Gap 2010-11 (May 1, 2010)-- $245 million
- Revised Projected Four-Year Gap 2010-11 (June 16, 2010)-- $124 million

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 which they are unable to control. Such structural cost increases include guaranteed step increases, health insurance premiums, pension contributions and charter school payments.

The District is able to address the budget gaps to a limited extent. The Districts plans to fully utilize $43.6 million of its unreserved, undesignated fund balance over the four-year period, which addresses approximately 30 percent of the baseline budgetary gap. It is recommended that local municipalities maintain a ”rainy day fund” balance equal to 10-15 percent of the total operating expenses. Under these guidelines, the reserves for the District’s general fund should be between $77 and $115 million, based on the District’s projected operating expenditures for the year ending June 30, 2010. The District currently has $43.6 million as unreserved, undesignated. Furthermore, the District is planning on using its unreserved, undesignated fund balance in each year of the financial plan until there is a complete depletion of unreserved, undesignated fund balance by June 30, 2014.

The District has included recurring reductions of $24.8 million in the upcoming fiscal year, which continue through the remaining three years of the financial plan. In addition, the District has increased its estimate for revenues. The table below presents a financial summary of the actions taken to achieve the recurring savings. The baseline deficit, or gap, is $44.9 million. The District is planning on utilizing $16 million of fund balance for FY 2011 in addition to the minimal increase in revenue, and to obtain savings through a combination of reductions to expenditures and staffing.

Actions to Eliminate the GAP:

Adjusted 2010-11 Budget Deficit	(44.9)
Use of Reserves	16.0
Revised deficit after use of reserves	(28.9)
Increase in revenues	4.1
	(24.8)
Staff Reductions	16.3
Expenditures	8.5
Revised Deficit	**0.0**

The change in the revenue estimate of $4.1 million is reflective of the following:

- Increase in Medicaid reimbursements of $1.8 million. This increase is the result of a recent settlement between New York State and the Federal Government concerning service charges. Per the settlement the District will be reimbursed at the higher set rate. This change is reflected in each year of the four-year financial plan.

- The inclusion of a one-time revenue source (i.e., included in the 2010-11 budget only) for $2.3 million of Reinsurance Investment Act. As part of the recent Federal Health Care Act the District is receiving a subsidy from the Federal Government to fund a portion of retiree health insurance for early retirees—those between the age of 55-65.

Expenditures are budgeted to be $24.8 million less than what was provided in the originally submitted budget document for the reasons outlined as follows:

- Expenditures are being reduced across the board and those reductions reflect a net savings of $3.3 million

- Projected savings in health insurance of $3.3 million; health insurance rates did not increase as much as was originally estimated

- A reduction in budgeted transportation costs of $0.8 million, resulting from the elimination of yellow bus services to the Parent Center

- A re-allocation of $1.1 million of Contract for Excellence (CFE) Funds — originally these funds were to be directed to CFE initiatives, but due to the current economic situation the State has reallocated some funds for general obligations for the general fund.

Total staffing adjustments reflect a reduction of $16.3 million. The reductions include elimination of currently filled positions, elimination of vacant positions, and the re-classification of certain positions to the Special Projects Fund to be paid for by either Federal or State funded programs. This reclassification is only possible due to the allocation of new grant funds that target Persistently Low Achieving Schools. The staffing reductions total approximately 455 positions and will be achieved as follows:

- 278 filled positions are to be eliminated—including 136 teacher aides, 23 blue collar/tradesmen positions, 6 white collar, 9 administrators and 104 teachers

- 125 vacant positions will be eliminated—including 100 bus aides, 6 blue collar/trades, and 19 white collar positions

- 52 positions are being reclassified from the General Fund into the Special Projects Fund—including 3 white collar, 8 administrators and 41 teachers.

The elimination and reclassification of 455 FTE's represents approximately 9.8% of the total 2010 budgeted General Fund workforce of 4,631 full-time equivalents (FTE's), per the revised budget.

The remaining portion of the baseline gap in the remaining three years of the financial plan 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 require additional forced layoffs, the closing of facilities, and the elimination of programs including athletics, arts, music, advanced academic courses, and other programs that have focused on student development and achievement. The District could be forced to offer a "bare-bones" curriculum which could undercut the progress that it has achieved to date. In addition, such actions would be detrimental to the students that are struggling, since many programs that are dependent on specialized reading coaches or teaching assistants are usually the first to be reduced.

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 authority to raise additional tax revenue. Without increases in State Aid, the District's revenues are fairly static, yet expenditures continue to grow annually due to various obligations including step increases, health insurance premiums, pension contributions and charter school payments. The District's expenditures are projected to continue to outpace revenues.

The other postemployment liability (OPEB) liability, representing health insurance costs for current and past employees during retirement, is a significant issue facing the District. The OPEB liability is estimated to be $1.2 billion at June 30, 2009 and continues to grow. This liability is currently funded on a pay-as-you-go basis, and the trend for retiree healthcare over the four-year financial plan is projected to increase by 10 percent annually. Retiree health insurance cost the District $45.9 million in FY 2009 and it is projected to increase to $84.7 million by FY 2014. This represents an increase of $39 million or 85 percent increase over 5 years. This is a major liability for the District, as well as the City since the District is a dependent school, and as such the District is an integral part of the City. Ultimately, the District's OPEB liability is tied to the same City taxpayer and if not addressed will eventually impact the City's credit rating.

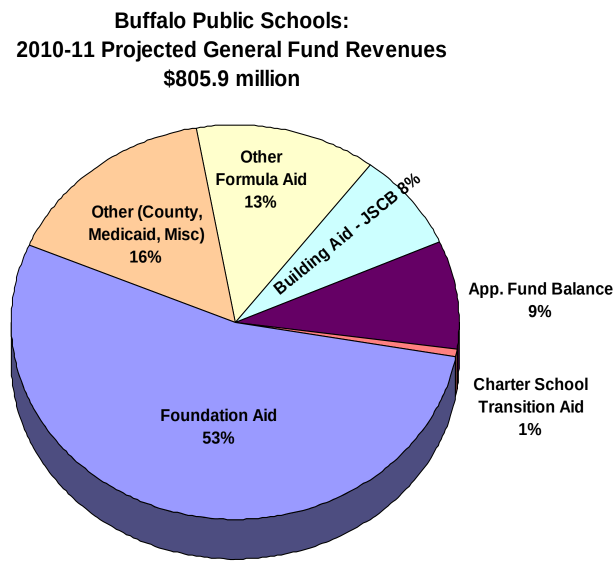
The situation for the District is dire. Potential financial relief, outside of additional State Aid, is to restructure current contracts which will involve negotiations with union leaders. While restructured contracts may not provide the District with significant short-term benefits, the long-term impact could be significant if the process is done correctly and addresses the long-term systemic issues that the District has been grappling with, including: health insurance costs for new hires, current employees, and retirees; paid time-off; and 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 2010-11 Budget

The School District's 2010-11 proposed budget contains $945.6 million in spending consisting of: $806 million in the General Fund; $116.2 million in the Special Projects/Grants Fund; and $23.4 million in the Food Service Fund. The overall District budget is .95 percent or $8.9 million greater than the 2009-10 *adopted* budget. There is a year-to-year increase in the General Fund of 4.3 percent, or $33.1 million. The Special Project/Grants Fund is budgeted to decrease by $24.1 million and the Food Service Fund is budgeted to decrease by $100,000 for a combined $24.2 million. The reduction in Special Project / Grant Funds is attributed to the reduction of Federal ARRA funds that were a one-year increase for fiscal year 2010.

The following charts show a breakdown of the School District's total 2010-11 General Fund budget by major revenue and expenditure categories.

Revenues:



On a year-to-year basis, State Aid to the District is being budgeted at flat amounts as compared to previous years. Total revenues, however, are projected to have a net increase of $33.1 million over 2010 budgeted amounts. This increase is largely attributed to the appropriated use of fund balance. Further on in this document is a table that highlights the main revenue sources over the past 8-years for the District.

The single significant revenue increase is the use of fund balance, which is being used to finance the potential costs associated with the outstanding "steps litigation". All sources of reoccurring revenue are projected to be relatively flat year-to-year and include minimal increases in the out-years of the financial plan, reflective of the current economic climate. The amount of fund balance used increases from $43.3 million in FY 2010 to $72.4 million in FY 2011, representing an increase of $29.1 million. Various other changes contribute to the net increase by providing an additional $2.1 million in revenue compared to the prior fiscal year.

The Governor's Executive Budget proposes a deficit reduction assessment on all public school districts. The proposed reduction to the District is $18.4 million of Foundation Aid. The decrease to the District's Foundation Aid revenue is alleviated through the provision of additional State funds for Building Aid related to Phase IV of the JSCB project. The use of the Building Aid funds are restricted for costs associated with the joint schools construction project, specifically Phase IV, and the District is unable to use the increase in the General Fund to meet their operating expenses. On a year to year basis non-dedicated operational State Aid is reduced by $15.3 million.

During the year ending June 30, 2010, the State was able to utilize Federal Stimulus funds to maintain State Aid at prior year levels. These Federal Stimulus funds are no longer available to the State; the State has indicated that they are attempting to secure additional Federal funds for the upcoming year. At this time, it is too early to speculate or assume any additional aid will be available outside of what has already been included in the Governor's Executive Budget.

School District Revenues ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Actual	FYE 2009 Actual	FYE 2010 Budget	FYE 2011 Budget
Local Sources								
Property Tax	68.7	68.8	68.7	70.8	70.3	70.3	70.3	70.3
Sales Tax	30.1	31.1	32.1	33.2	34.4	32.1	33.1	33.5
Subtotal	*98.8*	*99.9*	*100.8*	*104*	*104.7*	*102.4*	*103.4*	*103.8*
State Aid (Gen Fund)	342.7	382.7	408.7	456.7	551.5	602.6	606.9	606.3
Other General Fund	12.6	7.8	10.7	14	14.5	14.8	17.3	19.6
Federal Medicaid	6.2	5.7	5.3	1.4	3.9	1.4	2	3.8
General Fund Subtotal	*460.3*	*496.1*	*525.8*	*576.1*	*674.6*	*721.2*	*729.6*	*733.6*
Grants	155.7	154.5	153.5	157.2	96.9	101.8	140.3	116.2
Food Service	19.3	19.8	20.5	20.7	21.3	21.6	23.5	23.4
Fund Balance	**-**	**-**	**-**	**-**	**-**	**-**	**43.3**	**72.4**
Total	**635.3**	**670.4**	**699.5**	**754**	**792.8**	**844.6**	**936.7**	**945.6**

For the fiscal year ending June 30, 2011, the District has budget the use of $71.3 in fund balance. Of this, $15.8 million is to be used for FY 2011 expenditures. The remaining $55.5 million is essentially set-aside for the potential payment attributed to the outstanding steps litigation.

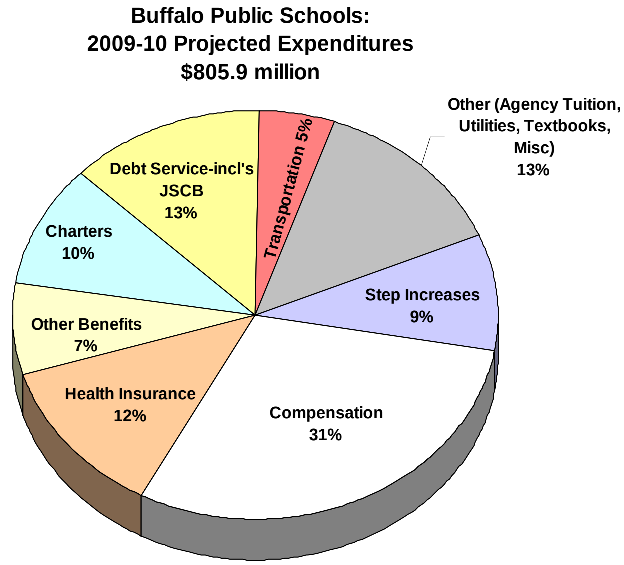
It is noted that Charter School Transition Aid represents 0.6 percent of all General Fund revenues, or $4.7 million, compared to the annual payment to Charter Schools from the District which represents 9.7 percent of all General Fund expenditures, or $78.2 million. These costs are fixed and established by the State; as such the District has no control over them. The District is typically unable 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.

Aside from the increase in the use of fund balance, as discussed above, all other major revenue sources in the District's budget are expected to remain consistent, with the exception of Grants revenue, which has decreased $24.1 million as compared to the FY 2010 budgeted amount. The reduction is due to additional Federal Grants in FY 2010 via the ARRA program; last year, the budgeted amount increased $38.5 million over the actual 2008 revenue.

The City's property tax contribution is unchanged at $70.3 million for the 2010-11 fiscal year. Sales tax is projected to experience a modest increase of $400,000 (1.2 percent) from the prior budget, reflecting current year trends of increasing tax receipts. The out-years of the financial plan include modest increases in sales tax of 2 percent annually, which reflects the static trends in consumer spending. Federal Medicaid reimbursements are increasing year-to-year at $1.8 million, to $3.8 million per year 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 $2.3 million.

The Food Service Fund and Grants Funds both include reduced budgeted revenue in FY 2011 as compared to FY 2010 of $1.7 million and $24.1 million, respectively. The District has budgeted for the use of $1.5 million of reserves in the Food Service Fund to close the projected current year gap.

Expenditures:



General Fund

All Funds expenditures have increased $8.9 million, or 0.95 percent, over the 2010 adopted budget. The increase of $8.9 million is reflective of the following actions:

- An additional $18.5 million is budgeted for the potential FY 2011 impact of the payment for retroactive steps, as noted previously in this report

- Debt service expenditures are budgeted to increase $16.7 million primarily due to the addition of payments on Phase IV Bonds. As noted above (under the Revenues subsection), the District has budgeted an offsetting increase to Building Aid of $16.7 million

- Fringe benefits, including employer taxes, healthcare, and pension contributions, are budgeted to increase $10.5 million;

- Charter School payments are budgeted to increase $6.5 million, and are a reflection of projected increases in enrollment of students in the charter schools.

- Grants expenditures are budgeted to decrease by $24.1 million, reflecting the decrease in Federal grant revenues.

- Employee Compensation is projected to decrease $14.3 million. The reduction in employee compensation reflects the elimination of nearly 400 FTE's.

- An additional $4.8 million in various across the board cuts.

School District Expenditures ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Actual	FYE 2009 Actual	FYE 2010 Budget	FYE 2011 Budget
General Fund								
Employee Compensation*	206.5	193.3	185.8	188.7	240.5	246.4	255.7	241.4
Fringe Benefits*	87.6	107.3	101.9	106.5	124.8	132.7	149.4	159.9
Debt Service (incl JSCB)	28.7	37.6	47.8	59.1	60.8	81.8	88.9	105.6
Charter Schools	26.4	40.1	50.2	56.6	61.2	66.9	71.7	78.2
Transportation	28.6	31.9	34.1	35.4	38.9	39.7	43.8	39.3
Tuition	22	24.2	24.6	26.8	26	27.4	31.0	32.3
Custodial Contracts	15.3	15.5	15.7	16.1	15.5	16.8	17.0	18.0
Utilities	10.7	12.1	18.2	14.3	14.1	14	14.7	14.7
Other	32.8	31.6	34.8	41.2	47	45	45.2	42.6
Step Increases	**0**	**0**	**0**	**0**	**0**	**0**	**55.5**	**74**
Subtotal	458.6	493.6	513.1	544.7	628.8	670.7	772.9	805.97
Special Projects/Grant Fund	155.7	154.5	153.5	157.2	96.8	101.8	140.3	116.2
Food Service Fund	19.3	19.2	19.4	20.7	20.3	21.2	23.5	23.4
Total	**633.6**	**667.3**	**686**	**722.6**	**745.9**	**793.7**	**936.7**	**945.6**

*Employee Compensation & Fringe Benefits does not include the estimated $74 million of potential payments to teachers related to ongoing litigation concerning the freezing of steps during the time of the wage freeze. These costs are budgeted for on a separate line.

Fringe benefits are budgeted to increase by $10.5 million (7.0 percent) from FY 2010 to FY 2011, to $159.9 million, primarily due to increases in health insurance ($3.2 million) and pension contributions ($5.1 million). Charter School payments are also budgeted to increase, to $78.2 million which is an increase of $6.5 million (9.1 percent), due to estimated increases in enrollment. Custodial contracts are budgeted to increase $1.0 million (5.9 percent) to $18 million. Utilities are budgeted to remain consistent in FY 2011 as compared to the budgeted amount for FY 2010. This is attributed to several factors including closing of facilities, higher energy efficient buildings/equipment, and the pooling and related hedging of future utility costs. Transportation costs are projected to decrease by $4.5 million (10.3 percent) to $39.3 million, due to a new contract with the carrier which reduced bus routes and has provided for more efficient routes.

In 2005-06, the District implemented a single carrier health insurance initiative which was estimated would provide the District significant savings. Despite ongoing union challenges to this initiative, the District was able to attain financial benefits for lower health insurance costs, in 2006-07, 2007-08 and 2008-09. The teachers union was successful in its challenge, and the District is required to return to the previous multiple-carrier plan, however this plan is no longer available. As a result, the District implemented a self-insured plan which mirrors the previous multiple-carrier plan; however, the District is facing additional challenges from the teachers union on this action. The District is appealing the ruling, but would cover the additional costs associated with the multi-carrier plans, by drawing down reserves if required. The FY 2011 budget does not include an estimate for the higher-cost multi-carrier plans.

On an overall District basis, budgeted positions have decreased 446 positions from last year's revised budget. A total of 5,185 positions are provided for, including 4,262 in the General Fund, 861 in the Grants Fund, and 62 in the Food Service Fund. These staffing levels represent a decrease of 308 FTE's over the projected actual FTE's for the year ending June 30, 2010.

School District Workforce Size	FYE 2010 Budget	FYE 2011 Budget	Yr-to-Yr Change	FYE 2010 YE Actual	FYE 2011 Budget	Yr-to-Yr Change
Teachers	3,615	3,408	(207)	3,565	3,408	(157)
Administrators	213	191	(22)	207	191	(16)
White Collar / Clerical	552	507	(45)	500	507	7
Teacher Aides	943	802	(141)	931	802	(129)
Trades	48	40	(8)	48	40	(8)
Blue Collar	153	132	(21)	142	132	(10)
Engineers	68	67	(1)	64	67	3
Exempt / Board	39	38	(1)	36	38	2
Total	5,631	5,185	(446)	5,493	5,185	(308)

*Does not include Bus Aides who are hourly employees; 100 Bus Aide positions are being targeted for elimination through normal attrition.

Summary of the 2011 – 2014 Four-Year Financial Plan (i.e., through 2013-14)

The District's four-year financial plan is balanced in 2010 -11 due to the use of $16.0 million of unreserved, undesignated fund balance. The next three years of the financial plan indicate baseline budget gaps for each of the three years (i.e., 2011-12, 2012-13 and 2013-14).

The following chart summarizes estimated revenues, budgeted appropriations, and the resulting baselines gaps: This financial plan (2011-2014) is the second year in a row where the District is projecting a budgetary deficit (i.e., gap) of this at magnitude; on a year-to-year basis the gap has actually been reduced by $15.0 million. This reduction was only possible due to the base reduction of nearly $25 million in FY 2011. Prior to these reductions based on a current services model the initial gap projection was $245 million which would have been an increase of $100 million over the projected gap of the 2009-10 four-year financial plan. To put the current gap in perspective, the projected four-year gap in the 2009-2012 four-year financial plan was $57.4 million; the four-year budgetary deficit projected in the 2010-2013 four-year financial plan as of May 1, 2010 was $245.2 million; as noted above the four-year budget gap is now $124.1 million prior to the use of reserves. In the last two years, the four-year budgetary deficit has increased $63.7 million or 112 percent. The exacerbation of the gap is driven by the reduction in State Aid and the fixed increases to annual operating costs, which are approximately $31 million and represent those the District is contractually obligated to fund.

School District Financial Plan ($ in million)	FYE 2011 Budget	FYE 2012 Projected	FYE 2013 Projected	FYE 2014 Projected	2011-14 4-Year Impact
General Fund					
Revenues	789.9	748.7	759.7	775.4	-1.84%
Expenditures	805.9	782.3	812.5	840.7	4.32%
Baseline (Deficit)	**(16.0)**	**(33.6)**	**(52.8)**	**(65.3)**	**(167.7)**
Use of Fund Balance	16	10.6	8.9	8.1	**43.6**
Surplus / (Deficit)	**0.0**	**(23.0)**	**(43.9)**	**(57.2)**	**(124.1)**

The gaps in the financial plan illustrate how dependent the District is on State Aid. For the year ending June 30, 20011, the District has budgeted State Aid at an amount that is consistent overall with the prior year. This leaves a remaining budgetary gap of $16.0 million, which the District is balancing with the use of fund balance. The budgetary gap increases to $23 million in 2011-12, for a combined gap of $39 million over the next two years. This is reflective of a structural imbalance in the District's operations as recurring costs are outpacing revenue growth. Any future reduction in State Aid only contributes more to the budgetary deficits, as again the District is a dependent school district and as such is unable to generate revenues. The District is projecting modest increases in State Aid in the out-years of the current four-year financial plan. Any reductions in the current projections would lead the District to further painful reductions in expenditures.

With the four-year additional cost of steps included in the District's projections, the financial plan shows baseline budget shortfalls of $23 million in 2011-12, $43.9 million in 2012-13 and $57.2 million in 2013-14. In order to achieve annually balanced budgets, the financial plan identifies specific gap-closing actions the District would be forced to implement in each of those years. Such actions include downsizing staff, closing school buildings, and reducing certain expenditures such as vendor contracts, supplies and program expenditures; the projected deficits do include the use of reserves over the financial plan which would reduce the funds available to the District to manage any future revenue shortfalls and by the end of the plan it depletes the full $43.6 million of the unreserved undesignated fund balance. The District is also relying on available (designated) fund balance to be used towards balancing the financial plan.

As noted, compared to recent financial plans, the gaps have grown exponentially in the remaining three years of the four-year financial plans, with the primary reason being the District's dependence on State Aid and the lack of expected growth in this particular revenue source. Previous state budgets had allocated large increases over the course of the financial plan for the mandated implementation of the Contract for Excellence; however, this program is currently being held at status quo and is not projected to increase until 2013. The District is now faced with maintaining current services without any sizeable increase to State Aid in the near future. As a dependent school district, the District is unable to generate additional revenue from other sources.

School District Revenues ($ in million)	FYE 2011 Budget	FYE 2012 Projected	FYE 2013 Projected	FYE 2014 Projected	2011-14 Change
Local Sources					
Property Tax	70.3	70.3	70.3	70.3	0.00%
Sales Tax	33.5	34.2	34.8	35.6	6.27%
Subtotal	103.8	104.5	105.1	105.9	1.98%
State Aid: Gen Fund	606.3	631.9	640.5	654.7	7.98%
Federal Medicaid	3.8	3.8	3.8	3.8	0.00%
Other General Fund	19.7	6.7	8.5	9.2	-53.30%
GF: Fund Balance	72.4	10.6	8.9	8.1	-88.81%
Grants	116.2	98.2	98.2	98.2	-15.49%
Food Service*	23.4	23	23.7	24.4	4.27%
Total	945.6	878.7	888.7	904.3	-4.37%

*Includes use of $3.1M in reserves over 4-Years of FP

Total District-wide revenues are projected to *__decrease__* by 4.3 percent over the entire financial plan. As a comparison, in the last two financial plans submitted, District-wide revenue was projected to increase 4.7 to 5.5 percent. Growth in sales tax revenue is projected at 6 percent over the course of the financial plan, which reflects historical trends. The City's contribution to the District from the property tax levy is projected consistently at $70.3 million throughout the financial plan.

Revenues in the Grant Fund are budgeted at $116.2 million in 2011, due to the remaining Federal Stimulus funds, and decreases to $98.2 million over the remaining three years of the plan as Federal Stimulus funds will no longer be available. Note that there is a coinciding reduction in grants expenditures; as such expenditures are limited to the amount of available resources. The Food Service Fund's revenues are projected to grow on average by 2.0 percent each year, and if one was to include the use of reserves total revenue would increase by 2.6 percent on average. The District's expenditures are increasing as the District is currently implementing the City's Living Wage Ordinance which is increasing compensation costs and related fringe benefits.

School District Expenditures ($ in million)	FYE 2011 Budget	FYE 2012 Projected	FYE 2013 Projected	FYE 2014 Projected	2011-14 Change
General Fund					
Employee Compensation*	241.4	247.3	252.7	256.8	6.38%
Fringe Benefits	159.9	178.9	193.6	209.9	31.27%
Debt Service (incl JSCB)	105.6	113.2	113.3	112.1	6.16%
Charter Schools	78.2	81.7	88	93.4	19.44%
Transportation	39.3	40.8	41.6	42.4	7.89%
Tuition	32.3	33.7	35.4	37.2	15.17%
Custodial Contracts	18.0	18.2	18.2	18.2	1.11%
Utilities	14.7	15.4	16.2	17	15.65%
Other	42.6	34.6	35	35.2	-17.37%
Step Increases	**74**	**18.5**	**18.5**	**18.5**	-75.00%
General Fund Subtotal	*806*	*782.3*	*812.5*	*840.7*	*4.31%*
Special Projects/ Grant Fund	116.2	98.2	98.2	98.2	-15.49%
Food Service Fund	23.4	24.3	25	25.7	9.83%
Total	945.6	904.8	935.7	964.6	2.01%

*Employee Compensation & Fringe Benefits does not include additional costs of the potential payments related to ongoing litigation concerning the freezing of steps during the time of the wage freeze; those costs are budgeted for on their own discreet line.

The District's baseline expenditures District-wide, which include the potential step increases and are stated before gap-closing actions are implemented, project an average growth of less than one percent over the course of the financial plan. The growth in the General Fund is 4.3 percent; the Grants Fund is a decrease of 15.5 percent, and an increase of 9.8 percent in the Food Service Fund.

Overall, the increase is approximately $19 million in baseline spending from 2010-11 to 2013-14, with the largest component representing employee and retiree health insurance premiums which are to increase by $44.8 million, or 45 percent over the four-year financial plan and represents a 51 percent increase over projected actual expenditures for the year ending June 30, 2010. Employee compensation, excluding the amounts budgeted for separately for the potential steps from the period of the wage freeze, is projected to increase by $15.9 million primarily due to steps ($5.3 million annually) and the implementation of the City's Living Wage Ordinance ($0.4 million annually). Related fringe benefits, including contributions to the pension system, termination pay, and Social Security, are projected to increase $5.5 million. Payments to charter schools are budgeted to increase $15.2 million over the four year period, from $78.2 million in 2010-11 to $93.4 million in 2013-14, in part reflecting the lifting of the statewide cap on the number of charter schools and the increasing enrollment to current operating charter schools. Other notable areas of increases are in tuition payments of $4.9 million, followed by transportation costs increasing by $3.1million, utilities increasing by $2.3 million, while debt service payments associated with the Joint Schools Construction Board (JSCB) projects are projected to increase by $6.5 million.

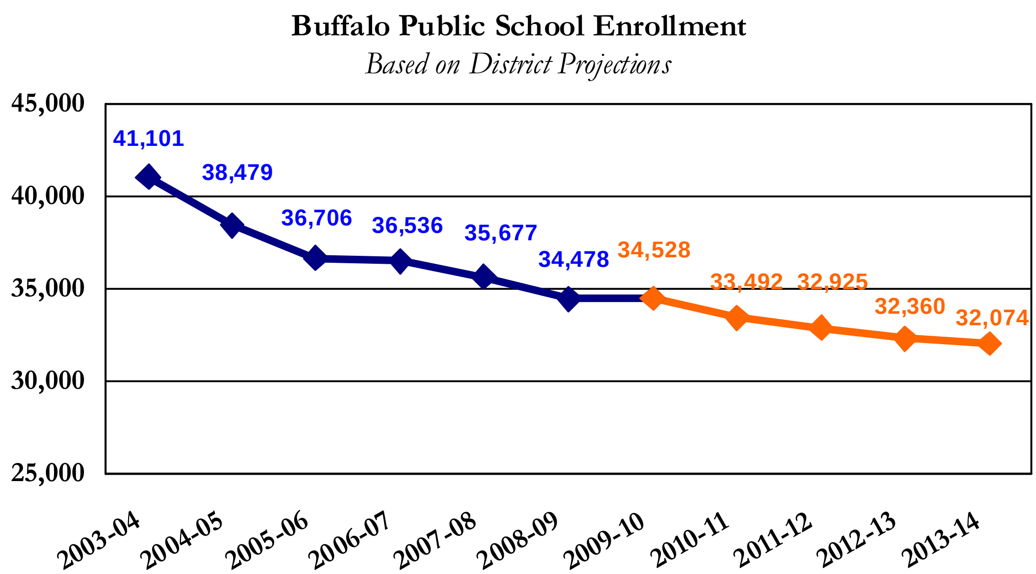
In order to close its projected out-year budget deficits ($23.0 million in 2011-12, $43.9 million in 2012-13 and $57.2 million in 2013-14), the District's financial plan contains a series of gap-closing measures:

Proposed Gap Closing Measures
($ in millions)

	Projected 2010-11	Projected 2011-12	Projected 2012-13	Projected 2013-14
Baseline GAP	44.9	49.6	70.5	83.8
Base Reductions-FY2011	(24.8)	(24.8)	(24.8)	(24.8)
Use of Reserves	(16.0)	(10.6)	(8.9)	(8.1)
Additional Revenue	(4.1)	(1.8)	(1.8)	(1.8)
Recurring PEG Savings				
Eliminate Staff:				
100 positions at $50,000		(5.0)	(5.0)	(5.0)
100 positions at $50,000			(5.0)	(5.0)
100 positions at $50,000				(5.0)
School Closings (only swing schools, facility costs only):				
1 in 2010-2011	0.0	(0.2)	(0.2)	(0.2)
3 in 2012-2013			(0.5)	(0.5)
Eliminate P/T Transp. Emp.	0.0	0.0	(6.0)	(6.0)
Eliminate Teacher Aides	0.0	(2.0)	(10.5)	(11.0)
Eliminate Bldg Administrators	0.0	(2.5)	(3.5)	(4.0)
Forced Staff Reductions	0.0	(3.0)	(4.0)	(12.0)
Forced Reductions through Program Eliminations			0	0
GAP	0	0	0	0

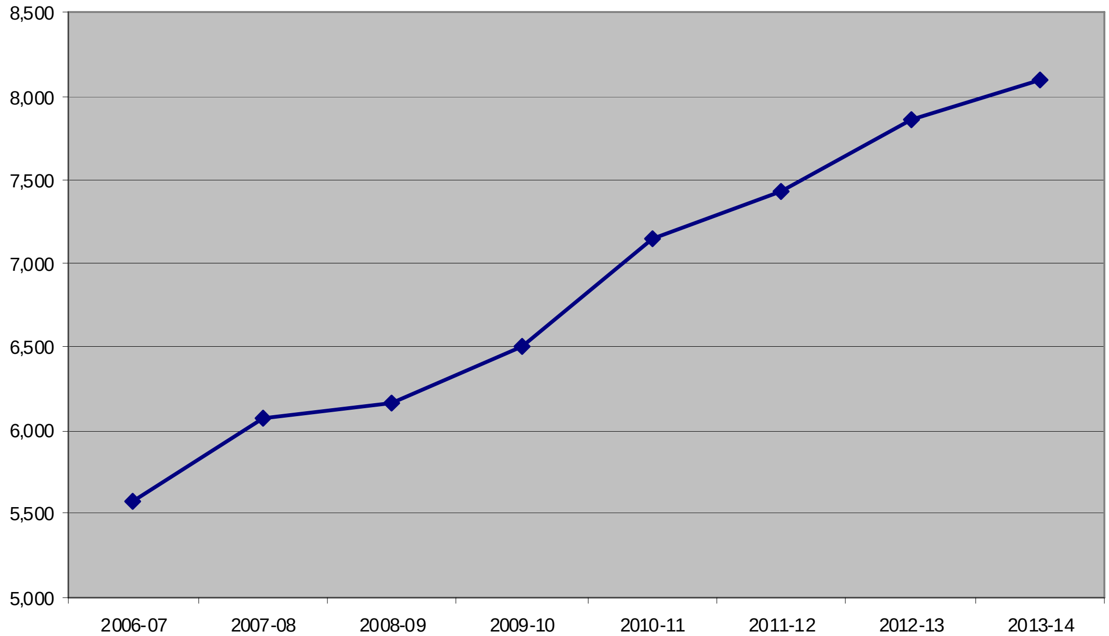
The District's staffing level is projected to decrease in 2010-11, when it begins implementing staff cuts to balance its budget. The District is proposing to eliminate approximately 400 total positions from the current service levels. This will be carried out through all years of the financial plan. 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.

The following chart shows the historical trends of the District's enrollment and the projected enrollment over the course of the four-year financial plan.



District enrollment in the 2009-10 academic year was relatively consistent as compared to the prior fiscal year. Significant enrollment decreases have declined with the student population showing signs of stabilizing. However, the lifting of the statewide cap for the number of charter schools has the potential to result in additional charter schools in the City, and most likely would further reduce the District's enrollment. The four-year financial plan is based on the assumption that enrollment will decline by approximately 215 students per year, reaching 32,074 in 2013-14. Charter school enrollment is projected to grow at approximately 320 students a year, or approximately 4.3 percent annually, from 7,149 in 2010-11 to 8,100 in 2013-14. See following chart:

Charter School Enrollment



Risks

The District's financial plan, while balanced, is subject to several major risks:

- The plan relies on State Aid which has been committed in prior and current state budgets. However, given the current state of the NY economy and the state's finances, reductions in current estimates of State Aid are a real threat, including mid-year cuts in FY2011. Per Chapter 313 of the Laws of 2010 all payments from non-exempt appropriations made after September 16, 2010 would be reduced by 1.1 percent—this action would reduce State Aid by an additional $6 million.

- The Buffalo Teachers Federation (BTF) continues to litigate the restoration of steps that were suspended during the period of the wage freeze. A loss in this lawsuit would result in a payment estimated to be $74 million, which would be retroactive back to July 1, 2007. The District would utilize a combination of fund balance ($55.5 million) and current year budgeted expenditures ($18.5 million). The District has recognized this financial risk and has accrued resources to set-aside funds for the potential payment in FY 2011, but in doing so it has tied up resources that could be better utilized for other purposes, such as classroom instruction.

- The potential loss of the Steps Litigation is a significant contributor to the District's projected four-year budget deficit. The financial impact of this lawsuit contributes an additional $18.5 million of budgeted expenditures in the remaining three years of the financial plan, for a total of $55.5 million. In order to continue to make payments under the wage step structure, if such litigation is lost, the District has stated they will need to reduce positions including teaching and non-teaching positions.

- In order to address the potential loss of the steps litigation and decrease the overall budget gap the District has taken several reoccurring actions that reduce operating costs. Those actions include the reduction of the workforce by over 400 FTE's valued at an annual cost of $16.3 million. Under the current scenario the District's compensation costs would continue to grow while there would be a reduction in staff and services for the students. It is troubling to think that the taxpayers will be receiving less value for their dollar including reduced services.

- The District has experience over recent years various educational successes with respect to improvement in student scores in English and Math proficiency. In addition, multiple schools have been removed from the State's "watch list" for poor student performance. A cut in positions that exceeds any structured plan could negatively impact the educational results of the District. Additionally, the District believes that students that would be disproportionately impacted would include those that need the additional assistance provided by reading coaches and teacher's aides.

- In order to close its projected out-year budget gaps, the District would exhaust all of its accumulated reserves, leaving it with no unreserved fund balance to guard against budgetary uncertainty.

- For the year ending June 30, 2010, the District is estimating that total fund balance will be $173.2 million (per the District's 2010 Third Quarter Report). Of this amount, $43.6 million is projected to be unreserved, undesignated. The four-year financial plan utilizes all of the remaining unreserved, undesignated fund balance over the four years of the financial plan, bringing the estimated total fund balance to $56.3 million at June 30, 2014, and estimated unreserved, undesignated fund balance to $0.

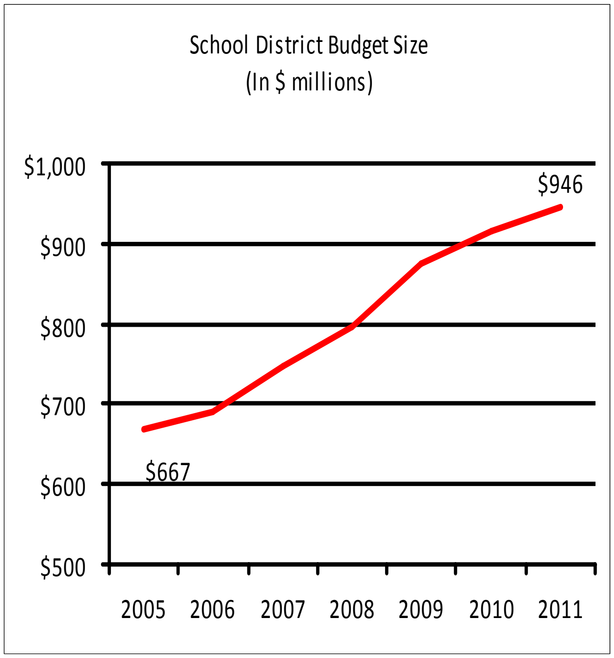
- As charter school enrollment continues to increase, the District's payments to charter schools increases. There is a disproportionate amount of funds that are paid to the charter schools, although it's challenging to clearly define what this amounts to. However, it is clear that the growth of charter schools and increased enrollment stretches the District's resources further.

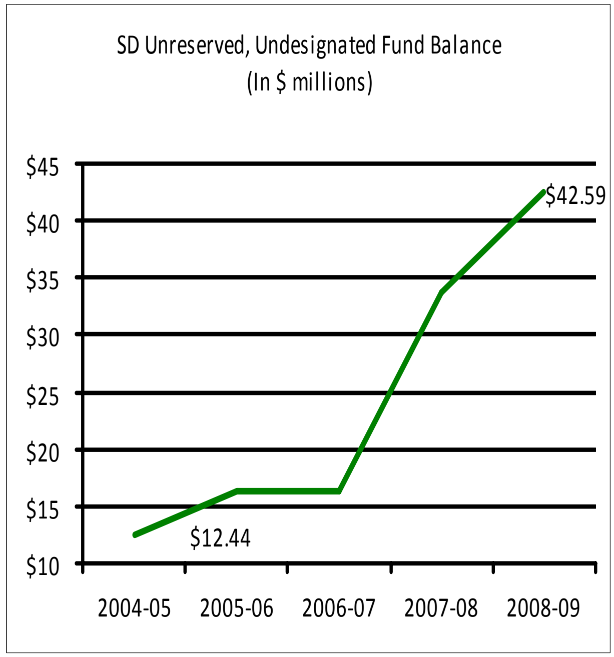
- The Board of Education passed a resolution to adopt the City of Buffalo's Living Wage Ordinance in fiscal year 2009. The resolution called for a three-year implementation to bring all hourly employees up to the City's living wage rate. The annual impact for salaries in the four-year financial plan is $0.4 million each year for an aggregate increase of $1.2 million over the course of the financial plan.

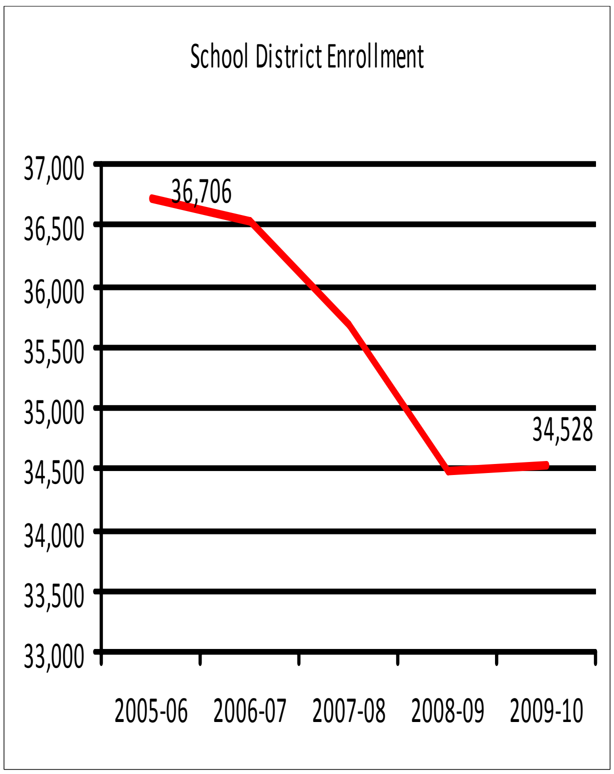
- Other postemployment liabilities (OPEB) liabilities continue to grow, as expected. The current OPEB liability, at June 30, 2009, is $1.2 billion, representing an increase of $100.0 million over the last two years. The annual required contribution is currently at $121 million, which is offset by current payments for retiree health benefits (i.e., "pay-as-you-go) of $58.1 million. There is no requirement to fund this liability, and there currently is no ability in New York State for any municipality to create a trust to fund this liability. The OPEB liability's impact on the District over time cannot be ignored as the costs are very significant; they will compound annually over the next 28 remaining years.

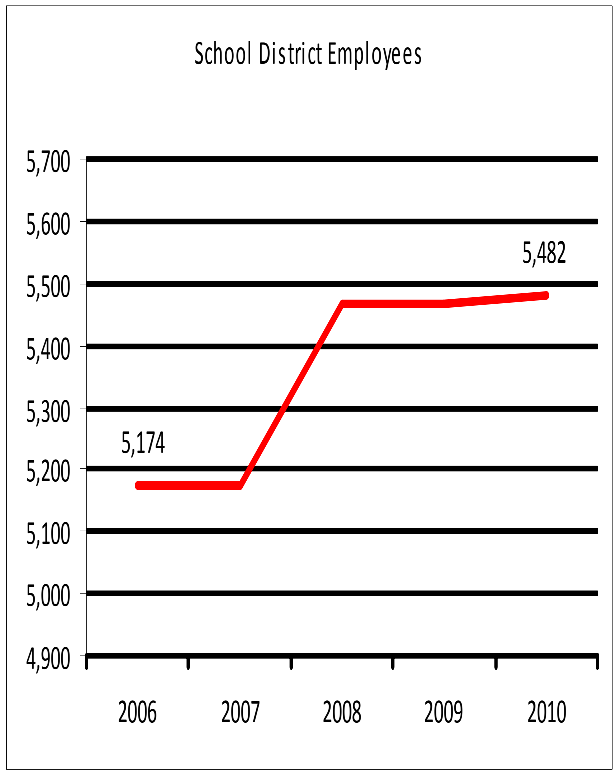
- The budget and plan do not contemplate any salary increases during the period. Outside of the steps litigation there are no resources budgeted for negotiated salary increases, the District has budgeted for the annual steps going forward which are currently valued at $5.3 million annually.

- Other potential risks include increases in retirement costs which may be imposed as a result on lower investment returns, higher than projected growth in charter enrollment, and any reductions in grants which result in the District having to absorb additional expenditures.


School District Budget Size
(In $ millions)
$1,000
$900
$800
$700
$600
$500
$946
$667
2005
2006
2007
2008
2009
2010
2011


SD Unreserved, Undesignated Fund Balance
(In $ millions)
$45
$40
$35
$30
$25
$20
$15
$10
$42.59
$12.44
2004-05
2005-06
2006-07
2007-08
2008-09


School District Enrollment
37,000
36,500
36,000
35,500
35,000
34,500
34,000
33,500
33,000
36,706
34,528
2005-06
2006-07
2007-08
2008-09
2009-10


School District Employees
5,700
5,600
5,500
5,400
5,300
5,200
5,100
5,000
4,900
5,482
5,174
2006
2007
2008
2009
2010

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 most recent census took place in 2010 and the results of that census will start to factor into BURA's annual grant allocations in the years to come.

The Buffalo Urban Renewal Agency's (BURA) four-year plan provides for funding of approximately $31.1 million in FY 2010-11, decreasing to approximately $25.6 million in FY 2013-14, a 17.5 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.

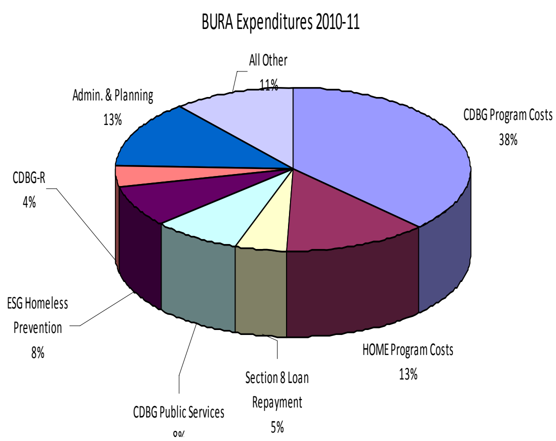
One lingering issue for BURA continues to be the utilization of funding to alleviate deficits occurring prior to 2003, at a time when federal dollars have continued to decrease. BURA's older deficits remain, as a result of poor management practices, where more funding was expended on grant programs then 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, 2010) 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.

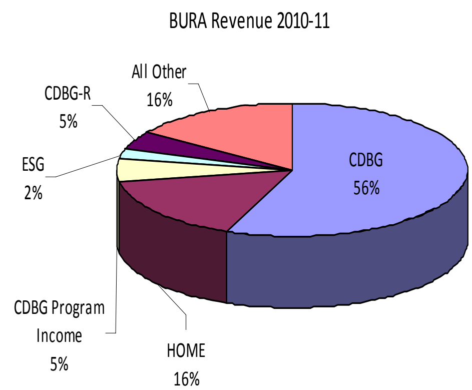
A second issue which merits attention is the use of a portion of BURA's annual CDBG allocation to pay off prior Section 108 Loan Guarantees. These are Section 108 Loans made through BURA that went into default and are guaranteed by BURA's annual CDBG allocation. So, in effect BURA must use a portion of its annual CDBG allocation to pay off bad loans before its CDBG funding can be used for tangible community development projects. BURA currently has $6.02 million in default Section 108 Loans, which it is retiring based on a payment plan arranged through the U.S. Department of Housing and Urban Development.

Summary of 2010-11 Budget

Of the $31.1 million in budgeted spending, $27.0 million is actually used for direct program related costs, while $4.1 million is used for administration and planning costs (13.1%). Of the $31.1 million, the six largest expenditure categories include: CDBG program costs (37.6%), Administrative and Planning Costs (13.1%), HOME program costs (13%), All Other (11%), ESG Homeless Prevention (8.4%) and CDBG Public Services (8.2%), while a variety of other programs and related costs make up the balance of BURA spending (8.7%).

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, ESG for Homeless Prevention, CDBG program income, CDBG-R and NYS Block by Block Grant funds, while other smaller pots of monies round out BURA's revenue. The following charts show a breakdown of BURA's total 2009-10 Expenditures ($31.1 m) and Revenues ($31.1 m) by major categories:





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. In the table below revenues are compared on a year-to-year basis for 2009-10 and 2010-11. Revenues overall have increased $1.8 million from 2009-10 to 2010-11. The most significant revenue increases from 2009-10 to 2010-11 are CDBG, which is up by $1.3 million and ESG fro Homeless Prevention, which is up by $0.8 million. Two revenue sources are down slightly from the prior year, which include CDBG program income, which is down by $.25 million and income from the sale of assets, which is also down $.25 million.

In the out-years of the 4-year financial plan, BURA forecasts a decrease in funding for 2011-12 (-$1.2 m), with a decrease in funding in 2012-13 (-$3.3 m) and another decrease in 2013-14 (-$.97 m), the final year of the financial plan. As the remaining Federal stimulus funds are drawn down and spent, BURA is expected to see a decrease in funding over the next few fiscal years. 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 FY 2010-11, BURA for the first time in several years faces consecutive revenue increases and the challenges associated with administering revenue increases instead of revenue decreases.

BURA Revenues ($ in million)	**FY 09-10 Budget**	**FY 10-11 Budget**	**Change 09-10 to 10-11**
CDBG	16.1	17.4	1.30
CDBG-R	1.2	1.4	0.20
HOME	5.1	5.1	0.00
ESG	0.7	0.7	0.00
ESG for Homeless Prevention	1.8	2.6	0.80
HOPWA	0.5	0.6	0.10
NYS Block by Block	0.78	0.77	-
Neighborhood Stabilization Program	0.66	0.66	-
CDBG Program Income	1.9	1.6	(0.30)
Additional loan recovery and sales of assets	0.2	0	(0.20)
HOME program income	0.3	0.3	0.00
TOTAL	**29.2**	**31.1**	**1.9**

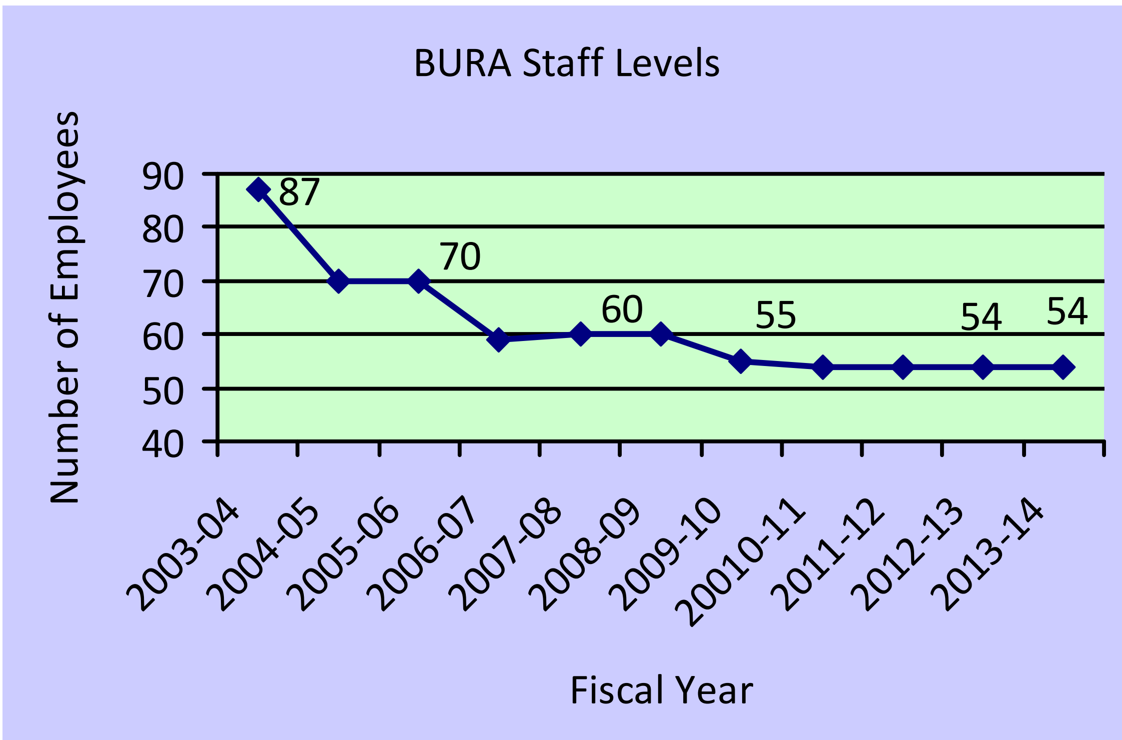
As mentioned above, in looking at BURA expenditures there are two distinct categories, grant expenditures, which are program related costs, and administrative and planning, which are sometimes referred to as soft costs. The first chart below details grant expenditures, while the second chart looks at 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 $1.8 million in 10-11 from 09-10 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 Federal Stimulus grants are being spent down for the second year in a row, some of which are expected to increase from 09-10 levels. For example, the ESG for Homeless Prevention program is funded at nearly $2.6 m for 2010-11, an increase of nearly $.8 million. Other Federal Stimulus programs that are budgeted for 2010-11 include the Neighborhood Stabilization Program is funded at $.67 m and the CDBG-R program funded at $1.2 m (an increase of nearly $.2 m), while the NYS Block by Block Grant program is funded at approximately $.8 m, similar to 2009-10 levels.

One cautionary note should be pointed out: BURA continues to use over $1.4 (down from $2.4 m in 2009-10) 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 scare 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 09-10 Budget	FY 10-11 Budget	Change 09-10 to 10-11
CDBG public service costs	2.4	2.6	0.2
Section 108 Loan repayments	2.8	1.4	-1.4
Fannie Mae Loan repayments	-	-	-
CDBG payroll reimbursement to COB	-	-	-
CDBG program costs	9.2	11.7	2.5
CDBG-R program costs	1.1	1.3	0.2
HOME CHDO set aside	0.8	0.8	0
HOME program costs	4	4	0
American Dream Downpayment Initiative	-	-	-
Lead Grant	-	-	-
ESG program costs	0.7	0.7	0
ESG for Homeless Prevention	1.8	2.6	0.8
HOPWA program costs	0.5	0.5	0
NYS Block by Block	0.8	0.8	-
Neighborhood Stabilization Program	0.66	0.66	-
Non-Federal Grant Expenditures	0.2	0	-0.2
TOTAL PROGRAM COSTS	**24.9**	**27.0**	**2.1**

BURA Expenditures ($ in million)	FY 09-10 Budget	FY 10-11 Budget	Change 09-10 to 10-11
CDBG indirect cost reimbursement to COB	-	-	-
CDBG admin costs	3.6	3.4	-0.2
CDBG-R admin costs	0.1	0.1	-
HOME admin costs	0.5	0.5	0
ESG admin costs	0.04	0.03	-0.01
HOPWA admin costs	0.01	0.01	0
Lead Grant	-	-	-
TOTAL ADMIN AND PLANNING COSTS	**4.3**	**4.0**	**(0.2)**
TOTAL OVERALL EXPENDITURES	**29.2**	**31.0**	**1.9**

On the spending side, BURA's Administrative Cost Budget and Program Delivery Budget, which includes employee salaries and benefits is expected to decrease over $.4 million from 2009-10 levels, before increasing by approximately $.3 million in 2011-12 and seeing modest increases in both 2012-13 and 2013-14. Employment levels are expected to remain static from 2009-10 levels. BURA plans to hold the line with 54 direct employees, while fully funding 5 positions in the City's Office of Strategic Planning. Historically speaking, BURA staff levels are down considerably. In the 2003-04 FY, BURA maintained 87 full time employees, and the current 54 employees equals a staffing low. Fringe benefit costs are expected to decrease from 2009-10 levels (down $.2 m), before increasing modestly in each of the out years 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 10-11 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. 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 2013-14

BURA's financial plan for fiscal years 2011-12, 2012-13 and 2013-14 reveals declines of 17.5 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 annually at approximately 1.8 percent in years 2011-12 through 2013-14, 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 54 full time employees over the four-year plan period, which is down roughly 38 percent since the 2003-04 FY (before consider the Office of Strategic Planning employees that BURA funds).

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 that Federal Stimulus dollars remain a large part of BURA 2010-11 allocation, 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.

- While BURA was not required to repay HUD any funds from misallocations, HUD's monitoring of BURA's CDBG program from a couple of years ago brought to light several management deficiencies. BURA has made progress in a number of these areas and continues to work closely with HUD personnel to improve its management.

- 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. CDBG program income is expected to drop by $.25 m in 2010-11 from 2009-10, while HOME program income is budgeted flat. BURA has budgeted program income for both CDBG and HOME flat over the life of the financial plan despite the on-going downward trend.

- 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, 2010) is retired. While BURA has managed this situation effectively thus far, it remains a concern.

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.

The 2010-11 Annual Budget of the Buffalo Municipal Housing Authority (BMHA) includes estimated revenues of $35.1 million, which increase to $37.4 million in 2013-14, representing an increase of 6.5 percent over the four-year period.

With respect to expenses, BMHA has budgeted for $34.3 million in 2010-11 which increases to $36.1 million in 2013-14, representing an increase of 5.2 percent over the four-year period.

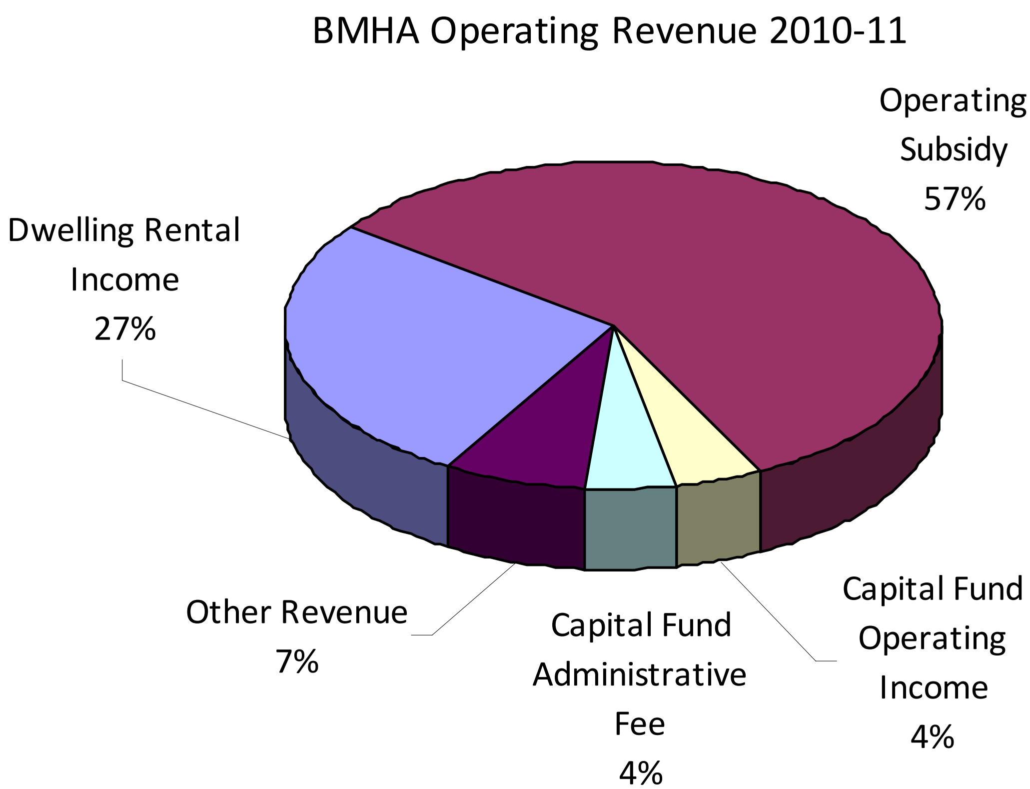
The 2011–2014 four-year financial plan (financial plan) includes annual budgetary surpluses ranging between $0.7 million for the year ending June 30, 2011 to $1.3 million for the year ending June 30, 2014. The BMHA intends to use the annual operating surpluses to pay for debt service, and has included a cash flow analysis in it's annual budget and four-year financial plan. After debt service payments (i.e., principal payments) are taken into consideration, the BMHA is budgeting for positive annual cash flows ranging $0.04 for the year ending June 30, 2011 to $0.6 million for the year ending June 30, 2014.

The Financial Plan includes an estimate for the impact of the outstanding collective bargaining agreement for the Operating Engineers, and for estimated salary increases for the three exempt senior level executives. The estimate included for the Operating Engineers is based on terms consistent with what was settled with AFSCME Local 264 (approved by BFSA on December 9, 2009) and provided subsequently to the non-represented white-collar employees (approved by BFSA on May 12, 2010). However, It should be noted that the Financial Plan does not include any salary or wage increases for any employees (represented and non-represented) after the current contract expires on June 30, 2011. This method of financial planning is consistent with past practice with the Financial Plan being adjusted as such agreements are reached.

Summary of 2010-11 Annual Budget

Revenues:

The 2010-11 Annual Budget includes total estimated revenues of $35.1 million, representing an increase of 3.5% from the adopted 2009-10 budget and $1.0 million under 2009 actual revenues. The following charts show a breakdown of BMHA's budget by major revenue categories.



BMHA's operating revenues for 2010-11 are consistent in make up as compared to 2009-10 revenues for BMHA. In 2009-10, BMHA's Operating Subsidy was budgeted at 59 percent of revenues versus the 57 percent for 2010-11.

BMHA also receives additional revenues outside of its operating budget, which are generally made up of capital grant funds and will be discussed later in this report.

BMHA Revenues (in $ millions)	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Budget**	**FY 2011 Budget**
HUD Subsidy	$20.2	$22.5	$21.2	$20.7	$19.9	$20.1
Rental Income	9.1	8.8	8.9	9.0	9.1	9.4
Capital Fund Op. Inc	1.7	1.0	3.1	1.8	1.5	1.5
Investment Income	0.6	0.7	0.8	0.4	0.1	0.2
Other	0.3	1.6	3.0	4.1	3.2	3.9
Total	**$31.9**	**$34.6**	**$37.0**	**$36.0**	**$33.8**	**$35.1**

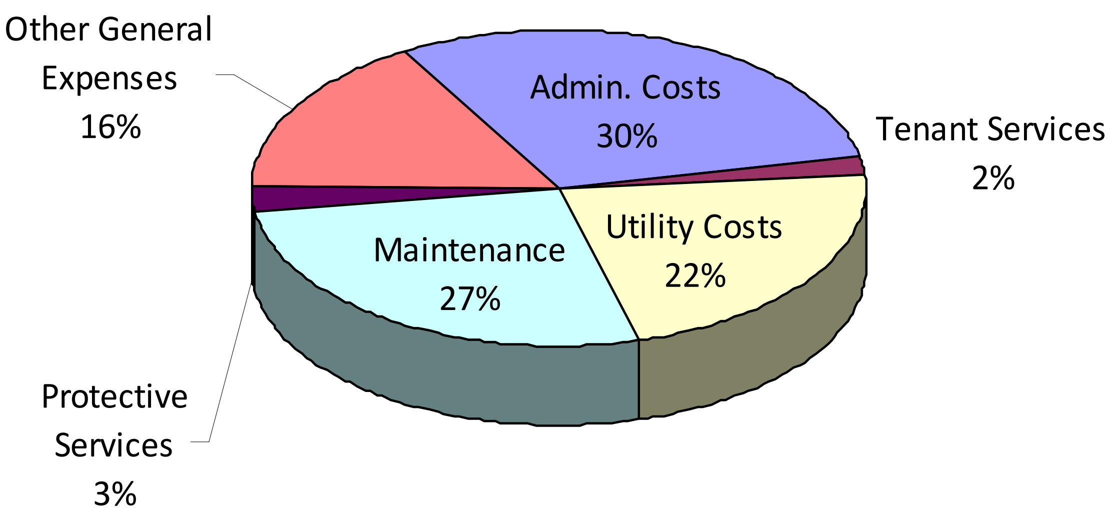
Overall revenues are budgeted $1.2 million over 2009-10 levels. HUD's operating subsidy ($20.1 million) comprises 57.4% of BMHA revenues, and is an increase from the $19.9 million, or 58.6%, of overall originally budgeted revenues received in the prior year, and is slightly less (by $0.6 million) than actual 2009 revenue. The increase from the prior year budgeted amount for BMHA's HUD operating subsidy results from general expectations that housing subsidies nationwide will increase, which is in contrast to recent trends.

Rental income, 27% of total revenues, is expected to increase slightly as BMHA continues to work towards its strategy of improved tenant retention rates and faster turnaround in vacancy preparations, thus lowering overall vacancy rates. For the most part, other revenues are projecting up to a slight degree from 2009-10 levels, except for fees for services, which are expected to decrease by $75,000. Historical revenues are presented below, as well as 2010-11 forecasts as a comparison of revenues over time and for the upcoming fiscal year.

Expenses

The 2010-11 Annual Budget includes total estimated expenses of $34.3 million, representing an increase of 5.2% from the adopted 2009-10 budget and $2.6 million more than 2009 actuals. The following charts show a breakdown of BMHA's budget by major expenditure categories.

BMHA Expenditures 2010-11



BMHA expenses are expected to shift to a small degree from the 2009-10 budget. Last year administrative costs totaled 28% versus 30% in 2010-11, while utility costs totaled 28% of expenses in 2009-10 and are down to 22% for 2010-11. Additionally, maintenance costs have decreased as a percentage of the budget from 30% in 2009-10 to 27% for 2010-11. Protective service costs have increased from 1% of the 2009-10 budget to 3% of the 2010-11 budget, while other general expenses have also increased from 11% last fiscal year to 16% in 2010-11.

The following is a historical summary of actual expenses since fiscal year 2006 and includes 2010 budgeted amounts and 2011 proposed budgeted amounts:

BMHA Expenses (in millions)	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Budget**	**FY 2011 Budget**
Administrative	$2.0	$2.4	$5.5	$5.7	$7.1	$7.2
Tenant Services	2.1	2.0	0.3	0.4	0.5	0.6
Utilities	12.0	9.0	8.6	8.0	8.4	7.3
Maintenance	7.0	6.7	5.9	7.7	7.1	7.2
Protective Services	0.1	0.0	0.0	0.0	0.2	0.9
Insurance	1.7	1.8	1.6	0.4	0.4	1.3
Employee Benefits*	5.4	5.1	5.3	5.3	6.0	6.2
Interest Expense	0.0	0.3	1.0	1.2	1.3	1.1
Other General Exp.	0.5	0.5	0.7	2.9	1.6	2.5
Total	**$30.8**	**$27.8**	**$28.9**	**$31.6**	**$32.6**	**$34.3**

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

With respect to expenses, total budgeted expenses have increased $1.7 million over the 2010 Adopted Budget, or 5.2%. Total budgeted expenses for 2011 are greater than actual 2009 expenses by $2.7 million, or 8.5%. This increase is attributed to the following:

- Increased salaries and wages, tied to contractual obligations from the recently approved collective bargaining agreements for AFSCME Local 264 union employees, the contract with non-represented employees, and the estimated costs for the remaining three exempt positions and the Operating Engineers.
- Increases in protective services for an expected public safety contract with the Buffalo Police Department. Protective services are increasing $0.6 million in 2010-11 from 2009-10 levels. This agreement has yet to be approved and put into place.
- Recording $2.3 million for retiree healthcare costs to address BMHA's Other Postemployment Benefits (OPEB) liability. This expense is found under "other general expenses" and is increasing from $0 for what was budgeted last year to $2.5 million in the current year. Additionally, increases in travel, training, office supplies, postage and copier leases are reflected. Overall, the increase in Other General Expenses is 156.2 percent and largely the result of the additional OPEB expense.

Key expense areas expected to decrease for 2010-11 include:

- Employee benefits down $0.7 million, which is attributed to BMHA pulling "legacy costs" out from current employee fringe lines and being shown as GASB 45 retiree health costs, as well as smaller than anticipated annual increases.
- Utilities (down $1.1 million) as a result of final phases of the energy program coming to a conclusion at certain AMP's.

BMHA Staffing

BMHA Workforce Size	FY 2010 Budget	FY 2011 Budget	Yr-to-Yr Budget Change
Audit	5	5	0
Executive	15	23	8
MIS	5	8	3
Finance & Budget	12	13	1
Personnel	5	6	1
Capital Imp and Development	14	30	16
Section 8	9	9	0
Asset Management	203	170	-33
Total	**268**	**264**	**-4**

BMHA is anticipating minimal staff increases during the 2011 fiscal year, as discussed below. 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 BMHA to work properly and still provide overall control of operations. However, given that overall expenses are budgeted lower than 2009 actual results, we anticipate that they will carry a relatively high number of vacancies throughout the year. At the end of the 2009 fiscal year BMHA had 267 budgeted positions with 38 vacancies.

In the chart above, the fiscal year 2009-10 budgeted staff level of 268 reflects the adopted budget. However, when the CBA's were approved in December 2009, the total staff levels for 2009-10 declined to 262. So for 2010-11, there will be an actual increase of 2 net positions from the 2009-10 revised budget as it is currently configured.

Summary of 2011–2014 Four-Year Financial Plan

Following is a summary of the 2011–2014 Financial Plan:

BMHA Financial Plan (in millions)	FY 2011 Budget	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected	Change from 2011 to 2014
Revenues	$35.1	$36.0	$36.4	$37.4	6.55%
Expenses	34.3	35.1	35.6	36.1	5.25%
Surplus	**$0.8**	**$0.9**	**$0.8**	**$1.3**	**62.5%**
Other Grant Revenues	$26.0	$11.9	$12.6	$12.7	-51.2

BMHA is projecting surpluses for each year of the Financial Plan. Because BMHA budgets on an accrual basis (except for depreciation, which is not included), the BMHA must have adequate cash available to pay annual principal on its debt of $1.8 million incurred for the energy savings project undertaken over the last four years. BMHA does consider the need for these annual payments and has determined that the projected surplus in each year of the financial plan will be sufficient to allow for the principal payments. In the proposed financial plan, BMHA has budgeted for a positive net cash flow after debt service in amounts ranging between approximately $38,000 for the year ending June 30, 2011 to approximately $641,000 for the year ending June 30, 2014.

As illustrated in the above table BMHA's Capital Fund Grants (i.e. Other Grant Revenues) are a primary revenue source outside of BMHA's recurring revenues. The amount budgeted for Other Grant Revenues includes transfers out for administration costs.

For 2010-11, BMHA's capital budget includes $13.5 million in Federal Stimulus funds, which were allocated by HUD in 2009-10, while 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 $20.1 million to $21.9 million.

BMHA Financial Plan ($ in millions)	FY 2011 Budget	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected	2010-14 Change
HUD Subsidy	$20.1	$20.7	$21.3	$21.9	8.96%
Rental Income	9.4	9.7	10.0	10.3	9.57%
Capital Fund Op. Inc. / Admin. fee	2.1	2.1	2.1	2.1	0%
Investment Income	0.15	0.15	0.15	0.15	0%
Other	3.2	3.3	2.8	2.9	-9.38%
Total	**$35.0**	**$36.0**	**$36.4**	**$37.4**	**6.55%**

The HUD Subsidy and Rental Income revenue lines represent the majority of BMHA's total recurring revenues totaling 57% and 27%, respectively, for the year ending June 30, 2011. The Capital Fund Operating Income and Capital Fund Administration Fee line items represent the allocated revenue out of the capital budget, representing a reimbursement of operational expenses incurred on behalf of implementing such capital programs. Estimated Capital Fund Operating Income remains consistent at $2.1 million throughout the Financial Plan. The Capital Fund Administration Fee (which is rolled into the "Other" category above) is approximately $1.5 million in 2011 and 2012 but drops to $1.0 million in 2013 and 2014. The expected decline results from new information systems coming on-line and expected savings on the administrative side of grants. Both the Capital Fund Operating Income and Capital Fund Administrative Fee typically run about 4% of total operating revenue, with some fluctuation year-to-year.

Capital Budget

The capital and other grants budget is used to fund the majority of BMHA's capital acquisitions and improvements. Following is a summary of BMHA's grants revenues to be used for both capital acquisitions and other purposes allowable under the terms of the grants:

BMHA Budget Projections - Capital and Other Grants					
(in millions)	**Budget 2010**	**Budget 2011**	**Budget 2012**	**Budget 2013**	**Budget 2014**
Capital Grants	$10.1	$10.2	$10.2	$10.2	$10.2
Capital Fund Recovery Act	1.0	13.5			
HOPE VI Grants	0.0	0.8	0.0	0.0	0.0
ROSS Grants	0.3	0.4	0.4	0.4	0.4
Section 8 - City of Buffalo	3.6	2.9	3.0	3.1	3.2
Section 8 - 002 Program	1.8	1.9	2.0	2.1	2.1
TOTAL GRANTS REVENUE	$**16.8**	$**29.7**	$**15.6**	$**15.8**	$**15.9**
GRANT REVENUE NET OF OPERATING TRANSFERS	$**13.8**	$**26.0**	$**11.9**	$**12.6**	$**12.7**

The capital and other grants budget is separate from the operating budget. The last line of the chart is net of operating transfers for administrative costs incurred by the BMHA in connection with implementation of the grants. In 2011, BMHA has included $13.5 million of Federal Stimulus funds which were authorized in 2009-10. BMHA does not expect to receive additional Federal Stimulus awards outside of the original authorization. The $13.5 million represents the significant increase in the Capital and Grants Budget from 2010 to 2011, and furthermore as this funding is expected to discontinue after 2011, it also represents the reason for the decrease in total budgeted Grant Revenue in 2012. Over the Financial Plan, the non-Federal Stimulus budget is relatively consistent.

Review of Expenses over the Financial Plan

BMHA's expenses grow by nearly 5 percent from 2010-11 to 2013-14, an increase of $1.7 million. Major expense categories are cataloged in the chart below for the 2010-11 to 2013-14 financial plan.

BMHA Financial Plan ($ in millions)	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected	2011-14 Change
Administrative	$7.2	$7.2	$7.2	$7.3	1.38%
Tenant Services	0.6	0.6	0.6	0.6	0.00%
Utilities	7.3	7.9	7.9	8.1	10.96%
Maintenance	7.2	7.3	7.4	7.5	4.17%
Protective Services	0.9	0.9	0.9	0.9	0.00%
Insurance	1.3	1.3	1.4	1.4	7.69%
Employee Benefits*	6.2	6.4	6.6	6.7	8.89%
Interest Expense	1.1	1.1	1.1	1.1	0.00%
Other General Exp.	2.5	2.4	2.5	2.3	-5.71%
Total	**$34.3**	**$35.1**	**$35.6**	**$36.0**	**4.99%**

*As noted previously, 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.

Expenses are expected to increase at a rate less than the increase in estimated revenues over the four-years included in the Financial Plan. As noted above, total budgeted expenses increase by $1.7 million, or approximately 5.0%, from 2011 to 2014. BMHA's expenses increase from $34.3 million in 2011 to $36.0 million in 2014. The major line items contributing to the increase are as follows:

- Utilities increase from $7.3 million in 2011 to $8.1 million in 2014, as a result of inflation and recent trends.
- Maintenance costs increase from $7.2 million in 2011 to $7.5 million in 2014, as a result inflationary growth.
- Employee fringe benefits increase from $5.6 million in 2011 to $6.0 million in 2014, and growth is consistent with annual trends.

The following expense line items represent approximately 80% of total 2011 budgeted expenses: Ordinary Maintenance, 21%; Utilities, 21.3%; Administrative Costs, 21.3% and Employee Benefits, 16.2%. These expenses remain relatively stable over the financial plan and continue to total approximately 80% from 2011 to 2014.

Staffing levels grow by 2 during the budget year and remain stable for the period of the plan. Currently BMHA has a total of 262 budgeted positions and will grow to 264 budgeted positions in 2010-11 and remain flat through 2013-14.

Major Initiatives

BMHA is in the process of redeveloping the A.D. Price Courts housing complex. Phase I of this project (55 units) has been completed and the housing units are occupied. Phase II of the A.D. Price Courts redevelopment is currently underway and consists of 94 senior housing units in a midrise building. BMHA would like to develop an additional 55 units as part of the A.D. Price Courts redevelopment project and has applied for tax credits to help secure financing for the proposal.

BMHA is also committed to redeveloping its State portfolio including Kensington Heights, and has secured a $5 million demolition grant from the Dormitory Authority for demolition of the current structures and abatement work is underway with demolition work to follow.

An energy improvement program is also scheduled to begin at several BMHA properties, which is expected to result in energy savings. BMHA's award of $14.5 million in Federal stimulus funds in 2009-10 has allowed BMHA to fund capital improvements across its housing portfolio, which may not have happened without these additional resources. The Federal stimulus funds must be fully spent within three years.

Budget and Financial Plan Risks

- BMHA's projected budget surplus from the 2009-10 financial plan are drastically reduced in the 2010-11 financial plan. The main driver of this reduction in projected surplus is the cost of the collective bargaining agreements with BMHA's employees. With low projected surpluses, BMHA's budget could face significant pressure should unexpected expenses arise.

    - HUD does not permit BMHA to budget for contractual wage increases until actually agreed upon.

- BMHA has to be successful in maintaining Asset Based Project management in good standing to continue to receive full HUD support going forward. HUD will continue to monitor BMHA's management of the Asset Based management model to ensure viability of the various AMP's. Should an AMP or some facet of the BMHA fail to meet these tests, HUD funding could potentially be reduced. Therefore, this will remain a risk for the foreseeable future.

– 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. Many BMHA properties are older in nature and are less energy efficient as is typical with older properties. While BMHA believes that the on-going energy upgrades will reduce utility expenses, BMHA has typically been challenged in remaining at or below budgeted levels for utility costs.

– As the Federal stimulus funding is spent down, BMHA must be aware of recurring expenses created as a result of the Federal stimulus dollars will need to be covered through either future operating revenues or new revenue sources. 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 has an unfunded Other Postemployment Benefits (OPEB) liability of $53.4 million. BMHA has budgeted $2.3 million in 2011 for this purpose. However, BMHA's annual required contribution is $3.2 million leaving a net gap in fully addressing this matter.

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 2009-10 fiscal year, JSCB had completed improvements to nine schools from Phase I, as well as, 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.

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. 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 99 percent of the work has been completed to date; $349 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 were open and ready for occupation for the beginning of the 2010-11 school year.

Status of Phase III A & III B Projects ($ in million)	Project Cost	Spent as of 6/30/10	Percent Completed
School 27	$17.33	$17.33	100%
School 32	$28.49	$28.49	100%
School 43	$23.62	$23.62	100%
School 45	$27.96	$27.96	100%
School 76	$21.83	$21.83	100%
School 195	$42.20	$41.41	98%
School 205	$30.07	$30.07	100%
School 206	$39.90	$39.90	100%
School 301	$38.08	$38.08	100%
District wide Technology	$66.34	$66.34	100%
Energy Performance	$14.25	$14.25	100%
Totals	$350.07	$349.28	99.77%

Phase IV

Borrowing to finance the project occurred in the second quarter of the 2010 fiscal year, and total project costs are projected at $292.5 million. Phase IV is to include10 schools, as well additional district wide energy and technology enhancements; approximately $104 million (36 percent) out of the projected $293 million in work has been completed so far. The 10 schools selected for Phase IV are as follows:

Status of Phase IV Projects ($ in million)	Project Cost	Spent as of 6/30/10	Percent Completed
School 3	$12.84	$5.09	40%
School 17	$11.37	$1.47	13%
School 54	$11.00	$6.20	56%
School 72	$15.90	$6.72	42%
School 81	$14.37	$2.08	14%
School 84	$10.31	$5.32	52%
School 93	$27.51	$17.07	62%
School 197/306	$35.22	$6.12	17%
School 203	$33.59	$5.65	17%
School 305	$50.33	$9.28	18%
District wide Technology	$54.01	$29.57	55%
Energy Performance	$16.08	$9.64	60%
Totals	$292.53	$104.21	36%

Phase V

Initial design and architecture work is already beginning for Phase V; 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 third quarter of the 2011 fiscal year, and total project costs are projected at $146.28 million at this time. Phase V is to include 7 schools, as well additional district wide energy and technology enhancements. The 7 schools selected for Phase V are as follows:

Status of Phase V Projects ($ in million)	Project Cost	Spent as of 6/30/10	Percent Completed
School 18	$12.16	$.89	7%
School 53	$15.45	$.86	6%
School 59M	$11.96	$.67	6%
School 61	$10.34	$.75	7%
School 64	$14.15	$1.05	7%
School 65	$9.48	$.66	7%
School 202	$27.57	$1.40	5%
District wide Technology	$35.17	$.64	2%
Energy Performance	$10.00	$0	0%
Totals	$146.28	$6.92	5%