Review of the Approved Four-Year Financial Plan for Fiscal Years Ending 2008-2011

Introduction

On June 5, 2007, by Resolution No. 07-21, 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 2007-08 through 2010-11.

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

The proposed budget and financial plan was submitted by the Mayor to BFSA on May 1, 2007, in accordance with the requirements of the BFSA Act. Based on BFSA's preliminary review of the proposed budget and financial plan, at the May 9, 2007 Board meeting the City and covered organizations were instructed to develop a modified financial plan that showed the potential impact of lifting the wage freeze that had been originally imposed on April 21, 2004. The modified financial plan was submitted by the Mayor to BFSA on May 23, 2007. This report summarizes that modified plan, the fifth such financial plan approved since BFSA was created by New York State in 2003 and the first since 2003-04 to not rely on the savings of a wage freeze.

Lifting the Wage Freeze

BFSA first imposed the wage freeze by Resolution 04-35 on April 21, 2004, citing budgetary imbalance and growth in projected budget gaps, and finding that the freeze was essential to the adoption or maintenance of a balanced financial plan. Since that date, the City's fiscal crisis has sufficiently abated to enable a lifting of the freeze. Significant increases in State aid have buttressed spending control to provide adequate budgetary flexibility to enable BFSA to lift the wage freeze.

At BFSA's request, the City and its covered organizations modified the proposed May 1 financial plan to include the resources they estimated as sufficient to cover the costs of paying out wage increases going forward. Following BFSA staff analysis, the BFSA Board passed Resolution 07-21, which provided for a lifting of the wage freeze July 1, 2007. The costs of lifting the freeze are detailed in the following sections on the budget and financial plan.

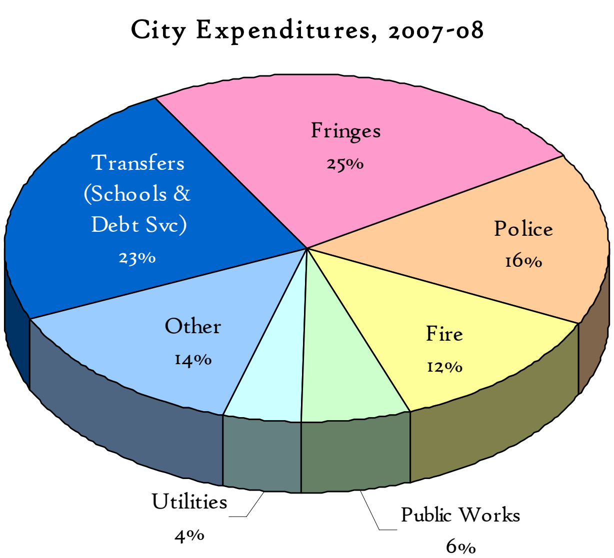
While the approved financial plan is balanced, outstanding lawsuits challenging the timing and specific employee-impact of the lifting of the wage freeze could, if successful, have a significant negative impact on the City and School District and require dramatic financial plan modifications.

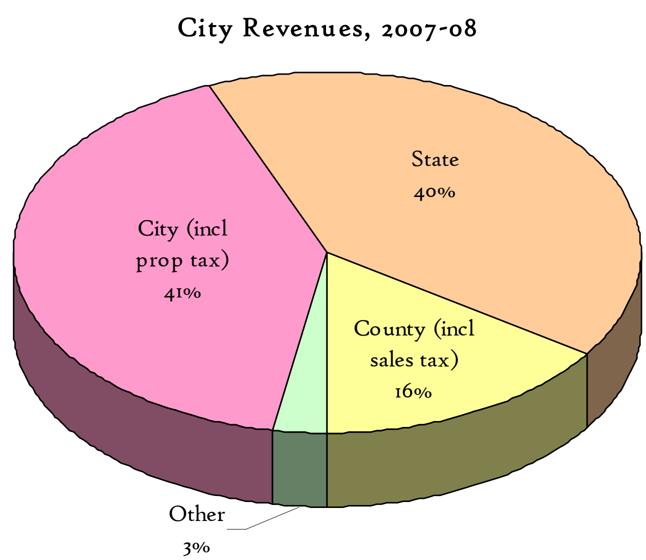
City of Buffalo Four-Year Financial Plan

The City's four-year plan provides for spending of $418.3 million in 2007-08, growing to $463.1 million in 2010-11, an increase of 10.7 percent over four years. The plan contains no projected budget gaps over the period, as projected annual revenue growth exceeds projected annual expenditure growth. The budget is balanced in 2007-08, and the plan projects surpluses of $0.4 million in 2008-09, $7.1 million in 2009-10 and $14.3 million in 2010-11.

Summary of 2007-08 Budget

The 2007-08 budget provides for $418.3 million in spending. This total includes transfers to both the School District ($70.3 million) and the Capital Debt Reserve ($27.2 million), both of which are funded out of the property tax levy. The $418.3 million figure represents a 1.4 percent increase over the 2006-07 total budget of $412.4 million. The following charts show a breakdown of the City's total 2007-08 budget by major spending and revenue category:





When transfers are excluded from the total, the City's spending on its own General Fund services is $320.7 million, an increase of 3.2 percent over the previous year. While this report focuses on the "all funds" City budget including transfers, it is important to point out the significant role that State aid plays in funding the City's own services. Of the $320.7 million figure, $169.0 million is attributable to State revenues, including $144.8 million in unrestricted State aid. In other words, unrestricted State aid will fund 45.1 percent of the City's own services in 2007-08. By the final year of the plan, unrestricted State aid would account for $184.2 million, or 52.4 percent of the City's own services.

City Revenues ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Budget	FYE 2008 Budget
State	126.6	143.2	146.8	162.2	169.0
City	173.8	174.8	177.5	168.1	172.1
County	60.5	58.6	59.9	62.8	65.5
Federal	6.9	1.8	1.0	2.6	2.5
Other	3.7	3.5	3.7	3.4	3.4
Deficit Borrowing/Fund Bal	7.8	19.1	0.0	7.1	0.0
Transfers In	5.5	6.9	5.8	6.2	5.8
Total	384.8	407.9	394.7	412.4	418.3

Continuing a trend, unrestricted State aid remains the City's primary growth revenue. The $142.3 million in unrestricted aid budgeted for 2007-08 is 39 percent higher than the $102.7 million it received in 2003-04, the year BFSA was created. Furthermore, the City's 2007-08 budget does not include two other sources of State funding that will be made available: $12.8 million in "Aid and Incentives to Municipalities" funding which the City has set aside for future economic development purposes, and $12.0 million in Efficiency Incentive Grants. While State aid continues to grow at a significant rate, the other major City revenue items have been relatively flat. Thus, the City is vulnerable to changes in the State's ability and willingness to sustain increases in aid.

The budget keeps the City's property tax levy flat at $146.3 million for the fourth consecutive year. The levy is split between the City ($76.0 million) and the School District ($70.3 million). Modest growth in assessed values has increased the City's constitutional property taxing margin to $21.7 million, up from a low of $12.4 million in 2003-04. At present, the City is using 87 percent of its constitutional taxing capacity.

City Expenditures ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Budget	FYE 2008 Budget
Fringe Benefits	82.4	85.1	87.8	98.4	101.1
Police	69.8	64.4	64.1	66.8	68.0
Fire	53.0	50.9	51.3	54.0	52.0
Public Works	21.8	17.8	17.4	22.4	24.2
Utilities	12.3	13.7	15.1	17.7	17.1
Transfers Out (Schools/Debt)	99.1	107.5	100.7	101.7	97.6
All Other	39.5	45.8	41.0	51.4	58.3
Total	377.9	385.2	377.4	412.4	418.3

On the spending side, aside from transfers the largest category remains fringe benefits. The $101.1 million budgeted for fringes is an increase of $2.7 million over the 2006-07 budget, with increases in health insurance premiums being partially offset by year-over-year decreases in pension costs. Health insurance costs for both active employees and retirees are budgeted at $56.4 million, while pension payments total $24.0 million.

The budget for police is increased over the 2006-07 budget, to reflect a significant increase in overtime costs. By contrast, the budget for fire is down $2.0 million from the previous budget since overtime came in below budget in 2006-07. In public works, where spending is up $1.8 million over the previous year's budget, growth is being driven mainly by supplies, services and capital outlay in the Division of Engineering, as well as a significant increase (191 percent, or $375,000) in hourly wages for the Division of Sanitation. This increase is attributable to the City shifting certain hourly positions from the Refuse and Recycling Enterprise Fund to the General Fund for a more proper accounting treatment.

Utility costs are down slightly over the previous year to reflect actual experience in 2006-07, and transfers are down by $4.1 million to reflect lower capital debt service for the City ($3.7 million) and the School District ($0.4 million). The category of "all other" spending is up $6.9 million as a result of a series of departmental increases, the largest of which are: City Clerk up $0.9 million to fund the Council's Action Plan; Management Information Systems up $0.8 million to fund new services and capital equipment; Human Resources up $0.8 million to fund new services including medical case management; and Law up $0.6 million to fund additional staffing and outside legal services.

Regarding the cost of lifting the wage freeze, the City's revised financial plan incorporated $850,045 into the 2007-08 budget to pay for employee step increases ($534,200) and longevity increments ($315,845).

In general, staffing levels are up in the new budget. Whereas in 2006-07 the City budgeted 2,508 positions and ran a high number of vacancies (100 as of the third quarter), the 2007-08 budget provides for a total of 2,518 positions as shown in the following table:

City Workforce Size	FYE 2007 Budget	FYE 2008 Budget	Yr-to-Yr Change
Police (non-uniform)	159	169	+ 10
Law	26	30	+ 4
Public Works	295	298	+ 3
Mayor & Executive	42	45	+ 3
Permits & Inspections	90	93	+ 3
Audit & Control	43	45	+ 2
Parking	42	44	+ 2
Fire (non-uniform)	42	44	+ 2
Police (uniform) *	779	780	+ 1
Assessment & Taxation	31	32	+ 1
Management Info Systems	30	31	+ 1
Administration & Finance	65	66	+ 1
Human Resources	20	21	+ 1
City Clerk	17	18	+ 1
City Council	36	36	n/c
Community Services	57	57	n/c
Fire (uniform) **	734	710	– 24
Total	2,508	2,519	+ 11

* The budget provides for the hiring of 40 additional police officers to augment the current force. The figures shown in this table reflect the net impact of those new hires balanced against retirements that occurred throughout the 2006-07 fiscal year. As discussed later in the report, the out-years of the financial plan also provide for the hiring of additional uniformed police personnel.

** Uniformed fire positions are budgeted down by 24 only to reflect retirements that occurred throughout the 2006-07 fiscal year and anticipated to occur during 2007-08. As discussed later in the report, the out-years of the financial plan provide for the hiring of additional uniformed fire personnel.

Summary of Financial Plan through 2010-11

The City's financial plan for fiscal years 2008-09, 2009-10 and 2010-11 shows no projected budget gaps, as annual revenue growth exceeds projected annual expenditure growth. The financial plan projects surpluses of $0.4 million, $7.1 million and $14.3 million in the three years, respectively.

City Financial Plan ($ in million)	FYE 2008 Budget	FYE 2009 Projected	FYE 2010 Projected	FYE 2011 Projected	2008-11 Change
Revenues	418.3	430.3	446.1	463.1	+ 10.7%
Expenditures	418.3	429.9	439.0	448.8	+ 7.3%
Surplus / (Deficit)	–	0.4	7.1	14.3	

Revenues are projected to grow by approximately 3 percent each year, driven mainly by increased State aid. With the exception of sales tax (which is projected to grow 2.6 percent annually) and State aid, every other revenue category in the City's financial plan is assumed to remain flat for the four years. State revenues are assumed to grow to $204.5 million by 2010-11, including $184.2 million of unrestricted aid. The City has built its projections of State aid on the Governor's 2007 Executive Budget which pledged, in addition to a $12.8 million increase in Aid and Incentives to Municipalities funding for the City's 2007-08 fiscal year, an additional $44 million in recurring aid over the next three City fiscal years.

City Revenues ($ in million)	FYE 2008 Budget	FYE 2009 Projected	FYE 2010 Projected	FYE 2011 Projected	2008-11 Change
State	169.0	179.2	193.3	208.5	+ 23.4%
City	172.1	172.1	172.1	172.1	–
County	65.5	67.3	69.1	70.9	+ 8.2%
Federal	2.5	2.5	2.5	2.5	–
Other	3.4	3.4	3.4	3.4	–
Deficit Borrowing/Fund Balance	0.0	0.0	0.0	0.0	–
Transfers In	5.8	5.8	5.8	5.8	–
Total	418.3	430.3	446.1	463.1	+ 10.7%

The City has conservatively projected its unrestricted State aid in the financial plan. As shown in the following table, the amount of unrestricted aid built into the plan is lagged by one year, meaning that pledged aid increases to the City are underestimated in each fiscal year of the financial plan. If pledged increases in State aid continue through 2010-11, the City will have significant additional resources in each year. Given the possibility of an economic downturn and the fact that the pledged aid may not be realized, BFSA believes the City has budgeted prudently.

Unrestricted State Aid ($ in million)	FYE 2008	FYE 2009	FYE 2010	FYE 2011
Amount in City Financial Plan	142.3	155.1	169.0	184.2
Aid pledged by Governor	155.1	169.0	184.2	199.0
Additional Amount	12.8	14.0	15.2	14.7

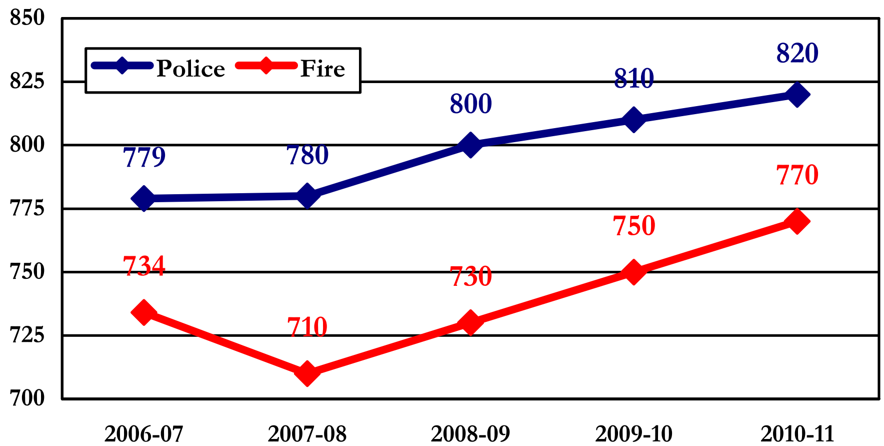
On the expenditure side of the ledger, the City is projecting 2.8 percent growth in 2008-09, 2.1 percent in 2009-10 and 2.2 percent in 2010-11. The largest growth over the period continues to be concentrated in fringe benefits, which are projected to increase from $101.1 million to $120.8 million over the four years of the plan (19.4 percent). Utilities are projected to grow by 16 percent over the four years, reflecting trends in natural gas and electricity prices.

City Expenditures ($ in million)	FYE 2008 Budget	FYE 2009 Projected	FYE 2010 Projected	FYE 2011 Projected	2008-11 Change
Fringe Benefits	101.1	107.3	113.7	120.8	+ 19.5%
Police	68.0	70.7	71.1	71.5	+ 5.1%
Fire	52.0	52.9	53.8	54.6	+ 5.0%
Public Works	24.2	23.3	23.4	23.5	– 2.9%
Utilities	17.1	18.0	18.9	19.8	+ 15.8%
Transfers Out (Schools/Debt)	97.6	97.6	97.6	97.6	–
All Other	58.3	60.1	60.5	61.0	+ 4.6%
Total	418.3	429.9	439.0	448.8	+ 7.3%

Most departmental budgets are projected to remain fairly flat, except for police and fire. The Police Department budget is projected to grow from $68.0 million in 2007-08 to $71.5 million in 2010-11, while the Fire Department will increase from $52.0 million to $54.6 million over the same period. In both cases, these projected increases reflect the impact of plans to grow the City's public safety staffing in the coming years:

Budgeted Staffing Levels

Uniform Police and Fire



Note: Budgeted staffing levels in 2006-07 do not reflect the actual size of the force as of the end of the 2006-07 fiscal year. Due to retirements, the City was running vacancies in both the Police and Fire Departments. As of June 30, 2007, there were 730 filled positions in uniformed police (i.e. 49 vacancies) and 701 in uniformed fire (i.e. 33 vacancies). The financial plan would add police officers beginning in 2007-08, and firefighters beginning in 2008-09.

Except for the increases to uniformed police and fire personnel, staffing levels in every other City department will remain flat (at the 2007-08 level) through the financial plan. Total staffing in the City's General Fund will be 2,519 in 2007-08, growing to 2,559 in 2008-09, 2,589 in 2009-10 and 2,619 in 2010-11.

Any multi-year financial plan contains some risk, and the City's is no different. While the plan is balanced, it does contain some degree of speculation in the following areas:

- The financial plan projects continued growth in State aid. The assumed rate of growth is within the parameters Governor Eliot Spitzer's 2007-08 Executive Budget provided for (i.e. $57 million over four years), but will require annual action in each State budget through 2010-11.

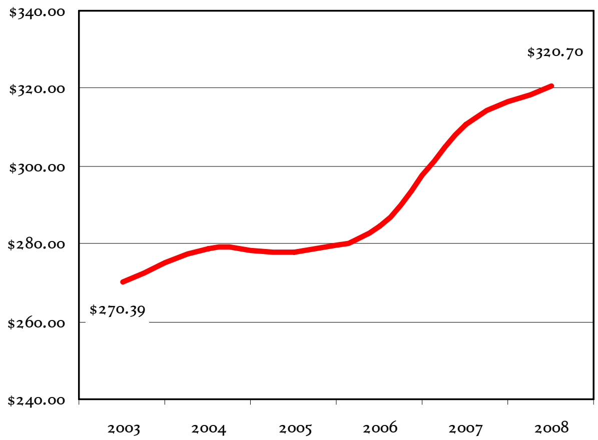
- The financial plan assumes that $5.9 million in additional sales tax sharing, first provided in January 2007, will continue each year. This revenue is subject to State legislative action to continue Erie County's one-cent additional sales tax, and that it will include the stipulation that the current sharing be continued.

- The financial plan projects fringe benefit costs to grow by approximately 6 percent each year from 2007-08 through 2010-11. The addition of new uniformed police officers and firefighters could drive this total higher, as the City continues to pay health insurance for retirees and assumes health and pension obligations for new hires.

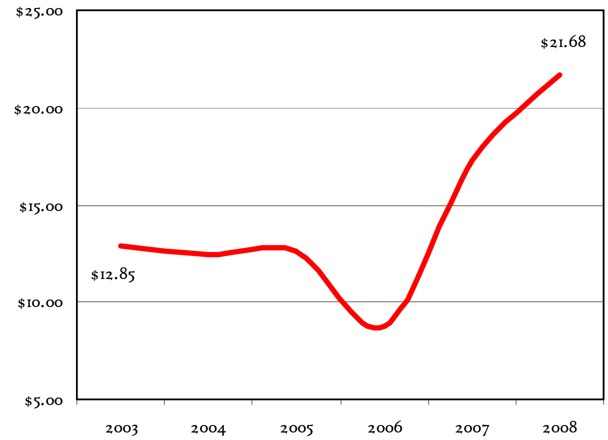
- There remain outstanding lawsuits challenging BFSA's wage freeze actions. Legal defeats could drive the City's wage obligation higher than what is currently contained in the financial plan. Additionally, all City unions are operating under expired contracts. The uncertainty of these pending labor agreements adds significant risk to the City's financial plan, making it imperative that new settlements be within the City's ability to pay.

These risks notwithstanding, the City's conservative budgeting of anticipated State revenues in each year of the financial plan provides insurance against these risks, as does the fund balance the City has built up since 2003.

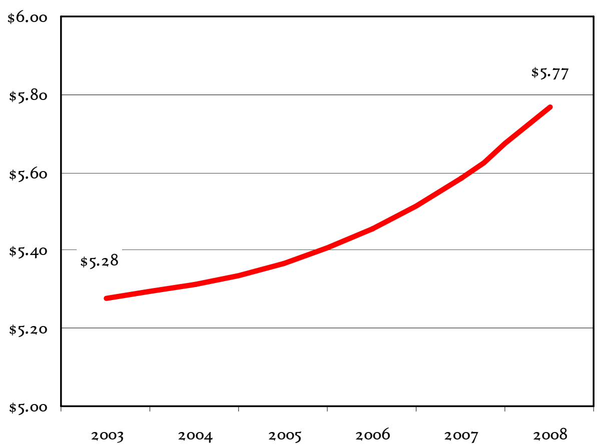
City Budget Size - Excl. Transfers
(millions of $)



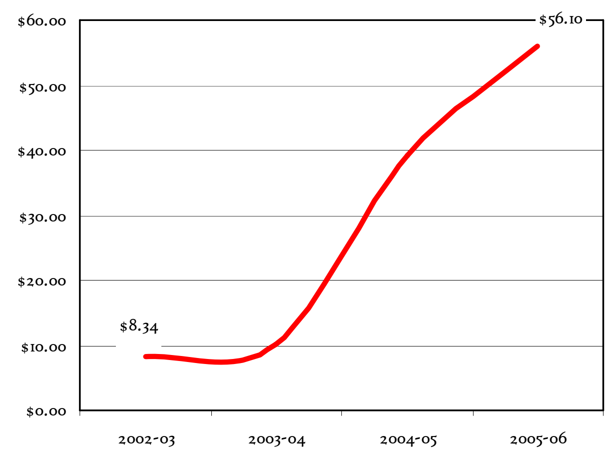
City Property Tax Margin
(millions of $)



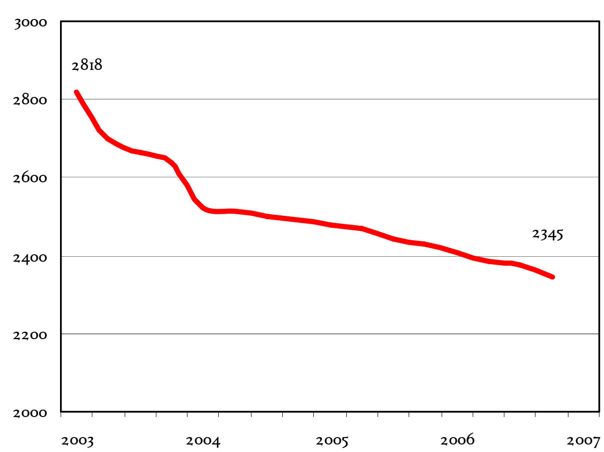
City Five-Year Avg Property Valuation
(billions of $)



City Unreserved, Undesignated Fund Balance
(millions of $)



City Workforce Size
(number of FTEs)



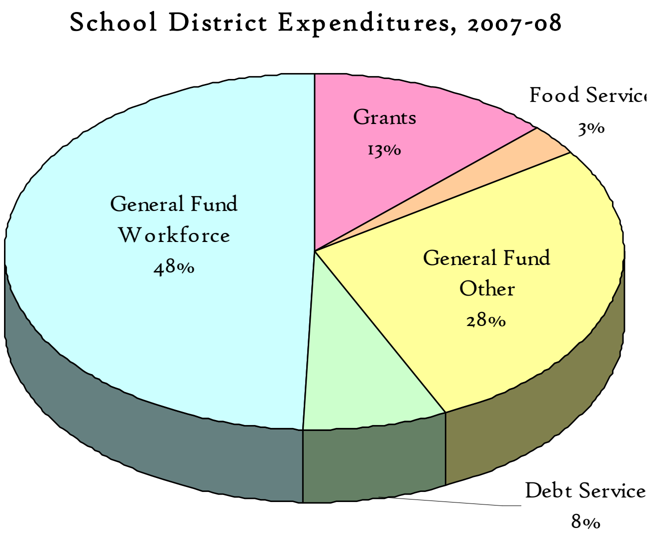
Buffalo Public Schools Four-Year Financial Plan

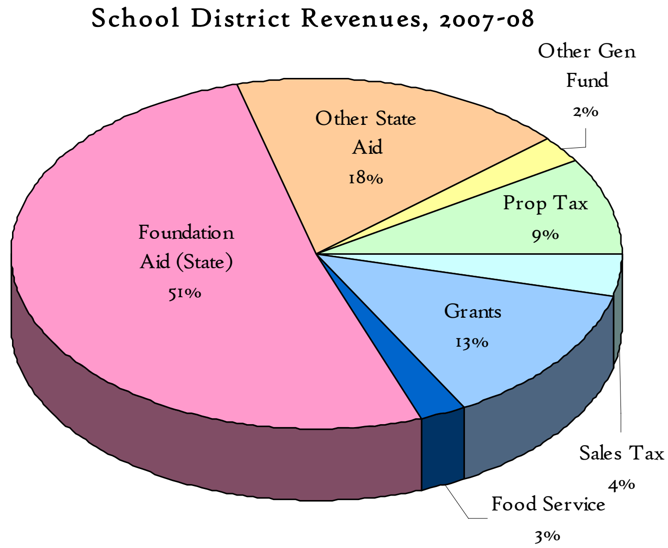
The School District's financial plan provides for spending of $796.4 million in 2007-08, growing to $917.9 million in 2010-11, an increase of 15.2 percent over four years. Unlike the City, the School District's portion of the financial plan grapples with baseline budget gaps of $8.0 million in 2008-09, $12.3 million in 2009-10 and $13.6 million in 2010-11. However, the gaps are considerably less than projected in previous financial plans and reflect both increased State aid and management steps taken to control costs within the District. The financial plan identifies steps to be taken to close the baseline gaps in each year. As noted earlier, outstanding lawsuits challenging the lifting of the wage freeze would, if successful, dramatically increase these baseline gaps and have significant negative impacts on the District.

Summary of 2007-08 Budget

The School District's 2007-08 budget contains $796.4 million in spending: $673.5 million in the General Fund, $102.2 million in the Special Projects/Grants Fund and $20.7 million in the Food Service Fund. The overall District budget is 5.9 percent greater than the 2006-07 budget, while the General Fund portion alone is 17.4 percent higher. The large year-to-year jump in General Fund spending is attributable to a shifting of certain State revenues from the Grants Fund into the General Fund. The State's new Foundation Aid formula merges several types of categorical aid (formerly considered "categorical grants") into the District's base General Fund aid. As a result, more than $50 million and 715 staff positions previously accounted for in the Grants Fund will now be shown in the General Fund.

The following charts show a breakdown of the School District's total 2007-08 General Fund budget by major spending and revenue category:





State aid to the District continues to grow significantly. Although the above-referenced shift of certain grant revenues into the General Fund artificially increases the year-to-year growth in General Fund State aid, the vast majority of the total revenue increase over the previous year is funded by State aid. Total State aid to the District is up more than $40 million from 2006-07, funding virtually all of the $44.9 million budget-to-budget increase.

School District Revenues ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Budget	FYE 2008 Budget
Local Sources					
Property Tax	68.7	68.8	68.7	70.8	70.3
Sales Tax	30.1	31.1	32.1	31.5	33.0
Subtotal	98.8	99.9	100.8	102.3	103.3
State Aid (Gen Fund)	342.7	382.7	408.7	454.5	550.6
Federal Medicaid	6.2	5.7	5.3	5.6	4.4
Other General Fund	12.6	7.8	10.7	11.1	15.2
Grants	155.7	154.5	153.5	157.2	102.2
Food Service	19.3	19.8	20.5	20.7	20.7
Subtotal	536.5	570.6	598.6	649.2	693.1
Total	635.3	670.5	699.4	751.5	796.4

Aside from State aid and the shift of grant funds, all other major revenue sources in the District's budget are expected to be relatively flat. The City's property tax contribution is down slightly to $70.3 million, reflecting a decrease in certain District debt service paid out of the property tax levy. Sales tax is budgeted up $1.5 million to reflect a higher rate of receipts in 2006-07. Federal Medicaid reimbursements are down slightly, while "other General Fund" revenues – including interest earnings, tuition and local share contributions for the Joint Schools Construction Board – are budgeted up a combined $4.1 million. The Food Service Fund shows flat on a year-to-year basis. Non-local funding sources constitute 87.0 percent of the School District budget in 2007-08, up from 84.4 percent in 2003-04.

On the spending side, the category with the largest increase is General Fund employee compensation. A large portion of that increase reflects the above-referenced shift in certain grant funds to the General Fund, along with the direct costs for 715 employees supported by those grants.

School District Expenditures ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Budget	FYE 2008 Budget
General Fund					
Employee Compensation	206.5	193.3	185.8	195.7	248.4
Fringe Benefits	87.6	107.3	101.9	117.1	145.8
Transportation	28.6	31.9	34.1	35.8	36.1
Utilities	10.7	12.1	18.2	16.5	15.3
Tuition	22.0	24.2	24.6	26.9	29.0
Custodial Contracts	15.3	15.5	15.7	15.9	16.5
Charter Schools	26.4	40.1	50.2	61.3	65.0
Debt Service (incl JSCB)	28.7	37.6	47.8	59.3	60.2
Other	32.8	31.6	34.8	45.0	57.2
Subtotal	458.6	493.6	513.1	573.5	673.5
Special Projects / Grant Fund	155.7	154.5	153.5	157.2	102.2
Food Service Fund	19.3	19.2	19.4	20.7	20.7
Total	633.6	667.3	686.0	751.5	796.4

Aside from the grant funds shift, the largest cost driver in the District's budget is health insurance premiums. In 2005-06, the District implemented a single carrier health insurance initiative to save millions of dollars. Despite ongoing arbitrations by unions challenging the initiative, the District maintained the single carrier program for its entire 2006-07 fiscal year. However, the 2007-08 budget no longer assumes the related savings, since the District may be forced to shift back to a multiple carrier offering. As a result, the District's General Fund health insurance costs are expected to escalate more than $16 million in the new budget. The District estimates that if the single carrier program were retained in 2007-08, the cost increase would have only been $5 million. In other words, a reversion to a multiple carrier program from the single carrier program, if mandated, will cost the District approximately $11 million in lost savings.

Regarding the cost of lifting the wage freeze, the School District's revised financial plan incorporated $5.7 million into the 2007-08 budget to pay for employee step and longevity increases. The District's budget is able to absorb this impact without creating a shortfall in 2007-08, however the costs of lifting the freeze pose critical out-year challenges for its financial plan (as discussed in the following section).

Staffing levels are up slightly in the 2007-08 District budget. A total of 5,460 positions are provided for across all funds (4,509 in the General Fund, 888 in the Grants Fund and 63 in the Food Service Fund), an increase of 14 positions over the previous year's budget.

School District Workforce Size	FYE 2007 Budget	FYE 2008 Budget	Yr-to-Yr Change
Teachers	3,458	3,446	– 12
Administrators	201	198	– 3
White Collar / Clerical	544	555	+ 11
Teacher Aides	944	956	+ 12
Trades	48	48	n/c
Blue Collar	154	155	+ 1
Engineers	68	68	n/c
Exempt / Board	29	34	+ 5
Total	5,446	5,460	+ 14

Summary of Financial Plan through 2010-11

The District's financial plan, while balanced in 2007-08, shows baseline budget gaps for fiscal years 2008-09, 2009-10 and 2010-11. However, largely as a result of significant State aid growth and pledged increases in State support over the next four years, those gaps are considerably smaller and more manageable than in any previous financial plan since BFSA was created in 2003.

With the four-year cost of lifting the wage freeze included in its projections, the financial plan shows baseline budget shortfalls for the District of $8.0 million in 2008-09, $12.3 million in 2009-10 and $13.6 million in 2010-11. In order to achieve annual budget balance, the financial plan identifies specific gap-closing actions the District will implement in each of those years, such as downsizing staff, closing school buildings and reducing certain vendor contract payments, supplies and programs. The District is also relying on its available fund balance to ensure budgetary balance through the financial plan.

School District Financial Plan ($ in million)	FYE 2008 Budget	FYE 2009 Projected	FYE 2010 Projected	FYE 2011 Projected	2008-11 Change
Revenues	796.4	820.7	860.6	904.3	+ 13.5%
Expenditures	796.4	828.7	872.9	917.9	+ 15.3%
Surplus / (Deficit)	–	(8.0)	(12.3)	(13.6)	

As noted above, this financial plan shows considerably smaller projected gaps than any previous plan. The primary reason is State aid. Not only did the 2007-08 State budget provide a large increase for the District's new budget, but it also provided (for the first time) minimum aid guarantees through 2010-11. This aid pledge enables the District to include specific increases in State revenues in its financial plan, helping to offset annual cost increases. The largest component of State aid to the District – Foundation Aid – is projected to grow from $410.1 million in the 2007-08 budget to $515.5 million in 2010-11, a four-year increase of 25.7 percent.

Total revenues are projected to grow 3 to 5 percent each year, although aside from State aid, most revenues are projected to remain relatively flat. Natural growth in sales tax is projected at 2 percent each year (recent annual increases have been approximately 3 percent on an accrual basis). The City's contribution to the District from the property tax levy is projected flat at $70.3 million throughout the financial plan. Revenues in the Grant Fund are flat-lined at $102.2 million through 2010-11, and Food Service Fund revenues are projected to grow approximately 1 percent each year.

School District Revenues ($ in million)	FYE 2008 Budget	FYE 2009 Projected	FYE 2010 Projected	FYE 2011 Projected	2008-11 Change
Local Sources					
Property Tax	70.3	70.3	70.3	70.3	–
Sales Tax	33.0	33.7	34.3	35.0	+ 6.1%
Subtotal	103.3	104.0	104.6	105.3	+ 1.9%
State Aid (Gen Fund)	550.6	574.3	613.3	658.1	+ 19.5%
Federal Medicaid	4.4	4.4	4.4	4.4	–
Other General Fund	15.2	14.9	14.9	12.9	– 15.1%
Grants	102.2	102.2	102.2	102.2	–
Food Service	20.7	20.9	21.1	21.4	+ 3.4%
Total	796.4	820.7	860.6	904.3	+ 13.5%

The School District's baseline expenditures, before gap-closing actions are implemented, grow by approximately 4.8 percent per year through the financial plan. Of the projected $121.5 million increase in baseline spending from 2007-08 to 2010-11, the largest component is employee and retiree health insurance premiums (estimated to be up $44.2 million over the period). Pass throughs to charter schools are also expected to grow over the period, from $65.0 million in 2007-08 to $110.6 million in 2010-11, in part reflecting the recent lifting of the statewide cap on the number of charter schools.

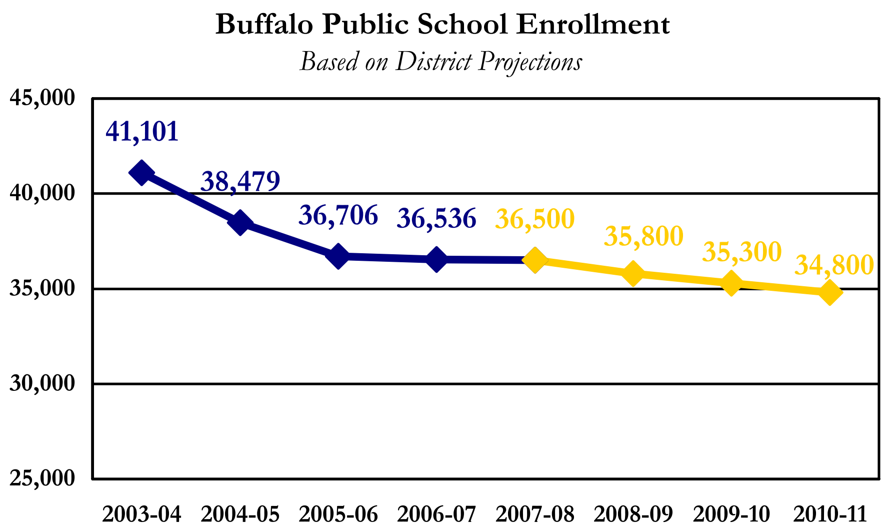
School District Expenditures ($ in million)	FYE 2008 Budget	FYE 2009 Projected	FYE 2010 Projected	FYE 2011 Projected	2008-11 Change
General Fund					
Employee Compensation	248.4	253.7	258.7	261.7	+ 5.4%
Fringe Benefits	145.8	157.4	172.5	189.6	+ 3.0%
Transportation	36.1	36.9	37.7	38.5	+ 6.6%
Utilities	15.3	16.0	16.9	17.7	+ 15.7%
Tuition	29.0	30.1	31.0	31.9	+ 10.0%
Custodial Contracts	16.5	16.9	17.4	17.4	+ 5.5%
Charter Schools	65.0	79.5	96.5	110.6	+ 70.2%
Debt Service (incl JSCB)	60.2	60.8	59.9	59.1	– 1.8%
Other	57.2	54.3	59.0	67.8	+ 18.5%
Subtotal	673.5	705.6	749.6	794.3	+ 17.9%
Special Projects / Grant Fund	102.2	102.2	102.2	102.2	–
Food Service Fund	20.7	20.9	21.1	21.3	+ 2.9%
Total	796.4	828.8	873.0	917.9	+ 15.3%

In order to close its projected out-year budget shortfalls ($8.0 million in 2008-09, $12.3 million in 2009-10 and $13.6 million in 2010-11), the District's financial plan contains a series of gap-closing measures:

Gap-Closing Actions	FYE 2009	FYE 2010	FYE 2011
		($ in millions)	
Eliminate Staff *Recurring savings produced through elimination of 40 positions in 2009-10 and 10 positions in 2010-11*		2.0	4.5
School Closings *Recurring savings produced through closing of 3 schools in 2009-10 and 2 schools in 2010-11*		1.9	3.2
Use of Fund Balance / Reserves *One-time resource produced through draw-down of unreserved, undesignated fund balance reserve*	6.0	6.4	3.9
Reduce Contract Services *Recurring savings produced through cuts to non-mandated contract services*	1.0	1.0	1.0
Reduce Supplies and Professional Development *Recurring savings produced through cuts in supplies and professional development programming*	0.7	0.7	0.7
Reduce Athletic Programs *Recurring savings produced through cuts to District athletic department and junior varsity programs*	0.3	0.3	0.3
Total Savings	8.0	12.3	13.6
Gap After Savings	0.0	0.0	0.0

The District's staffing level is projected to remain flat until 2009-10, when it begins implementing staff cuts to balance its budget. A total of 5,460 staff (including 3,446 teachers) is included in the financial plan for 2007-08 and 2008-09. With the out-year staff reductions, total personnel will fall to 5,419 in 2009-10 and 5,409 in 2010-11.

District enrollment in the 2006-07 academic year was fairly stable, down only one-half of one percent from 2005-06 to 36,536. This was the lowest year-to-year drop in enrollment the District has experienced since 1998. In fact, the enrollment decline had worsened in recent years, with an average yearly decline of 4.4 percent in the five preceding years. However, the lifting of the statewide cap for the number of charter schools has the potential to result in additional educational outlets in Buffalo, thereby further reducing the District's enrollment. The financial plan is based on the assumption that enrollment will decline by approximately 500 students per year, falling to 34,800 in 2010-11.



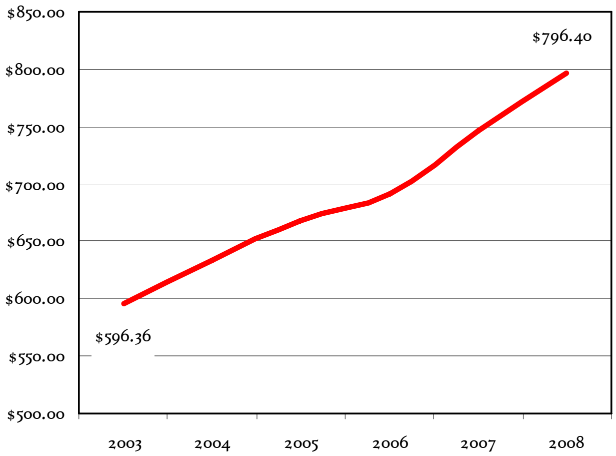
The District's financial plan, while balanced, is subject to at least three major risks:

- The four-year plan is balanced contingent not only on a maintenance of State aid, but substantial annual growth. Although the State has provided for minimum multi-year Foundation Aid targets, State aid continues to be the District's only growth revenue of note.

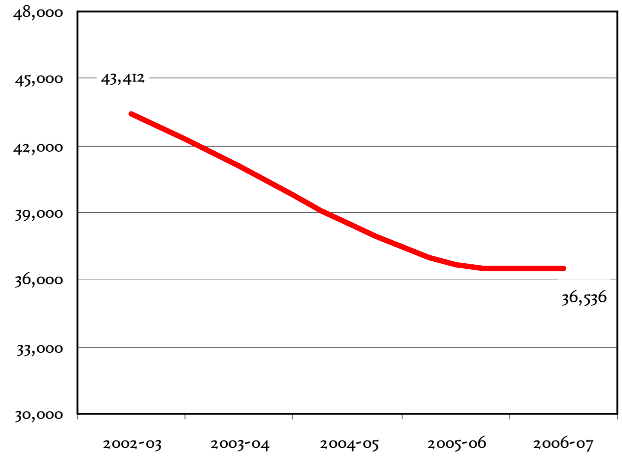
- Outstanding lawsuits challenging the lifting of the wage freeze would, if successful, have a significant negative impact on the District. If the District were forced to pay multiple step increases to its employees, its first-year costs of lifting the freeze would increase 263 percent, to $20.7 million, and over the life of the financial plan District costs would grow by an additional $55.1 million. Absent offsetting additional State aid, the result would be massive cuts which would dramatically undercut an already challenged School District. Additionally, all but one of the School District's unions are operating under expired contracts. The uncertainty of these pending labor agreements, particularly if coupled with the current step differentials, adds significant exponential risk to the District's financial plan, making it imperative that new settlements be within the District's ability to pay.

- In order to close its projected out-year budget gaps, the District would exhaust nearly all of its accumulated reserves, leaving it with virtually no fund balance to guard against budgetary uncertainty. Under the current financial plan, the District would draw down 99 percent of its current $16.4 million fund balance to achieve balance through 2010-11.

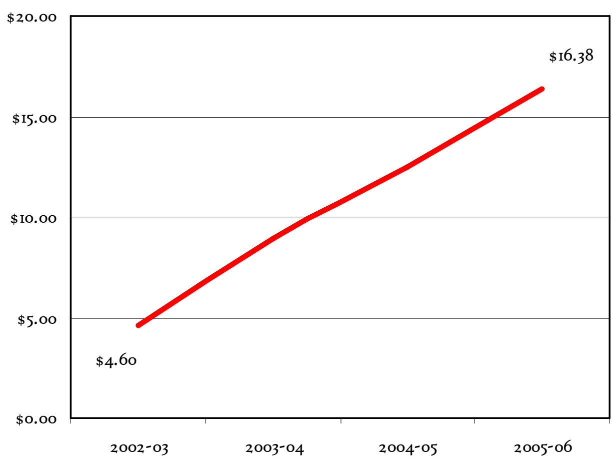
School District Budget Size
(millions of $)



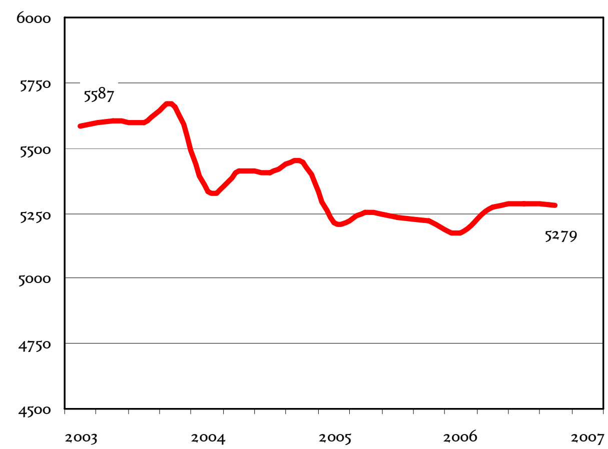
School District Enrollment



School Unreserved, Undesignated Fund Balance
(millions of $)



School District Workforce Size
(number of FTEs)



Buffalo Urban Renewal Agency

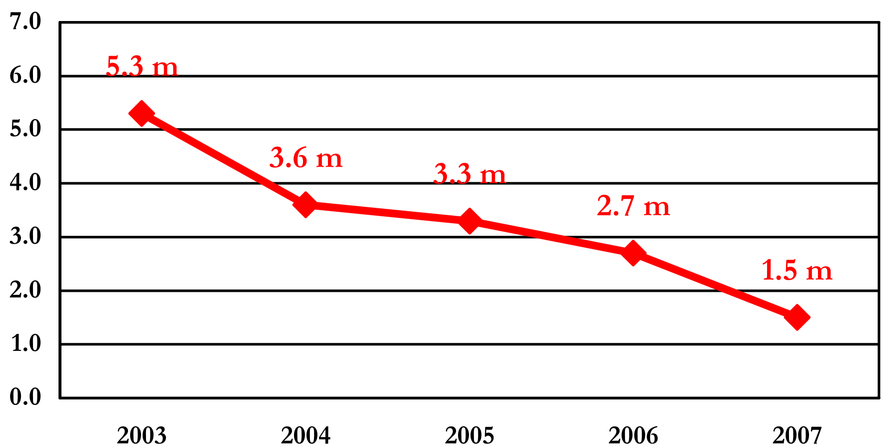
The Buffalo Urban Renewal Agency (BURA) is a public benefit corporation established pursuant to Title 71, Section 639 of the State General Municipal Law (GML) for the purposes stated in Articles 15 and 15-A of the GML. Those functions include planning, rehabilitation, remediation and redevelopment of both residential and commercial real property within the City of Buffalo. In carrying out these responsibilities, BURA administers grant revenues awarded to the City based on funding received primarily from federal allocations.

Based on recent trends, BURA's financial plan assumes that funding will be relatively stagnant over the next four years. Under the plan, BURA's total 2007-08 funding level will be $26.8 million, falling to $24.9 million by 2010-11 (a 7.1 percent decline). Expenditures are closely tied to the following programmatic funding levels: the Community Development Block Grant (CDBG); HOME; Emergency Shelter Grants (ESG); Housing Opportunities for Persons With Aids (HOPWA); and Lead Grant. All these federal programs are restricted such that BURA recognizes revenue only upon expenditure for eligible activities. Funding for reserves is generally prohibited by grant regulations, and as such, BURA does not budget reserves in forecasts provided to BFSA.

Aside from stagnant revenues, the primary financial issue for BURA continues to be an effort to alleviate deficits that occurred prior to 2003, at a time when federal dollars are decreasing. Those prior year deficits were created by over-budget spending under the previous BURA administration. As the following graph illustrates, progress continues to be made on retiring the prior year deficits, which as of March 31, 2007 totaled $1.5 million.

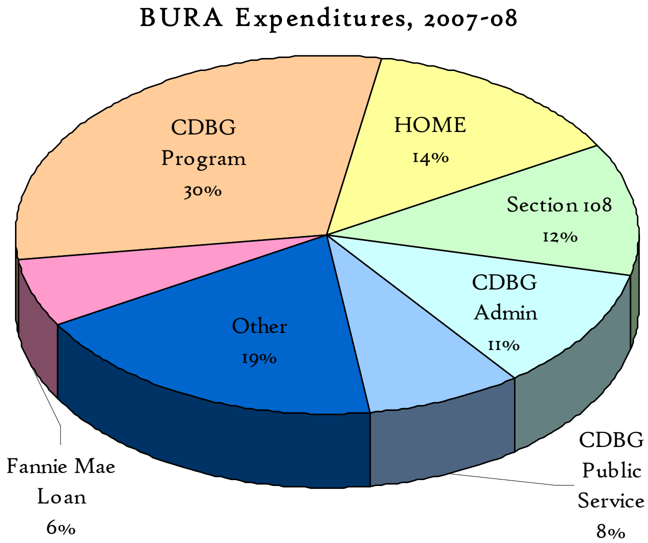
Retiring Prior Years Deficit

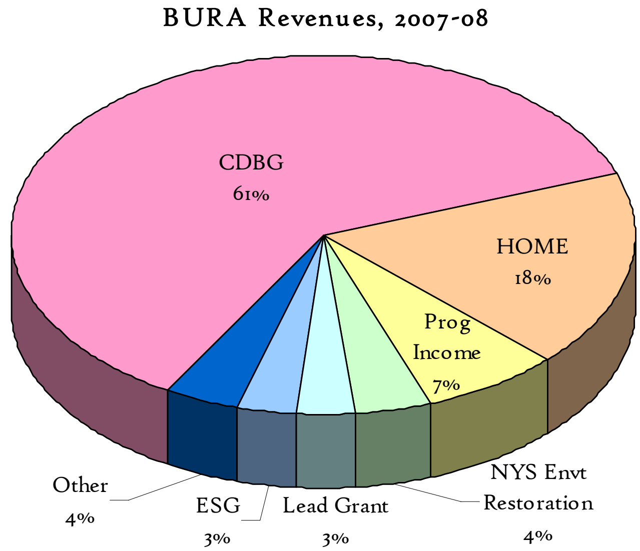
Buffalo Urban Renewal Agency Estimates, by Year



Summary of 2007-08 Budget and Financial Plan

The following charts show a breakdown of BURA's total 2007-08 expenditures and revenues by major categories:





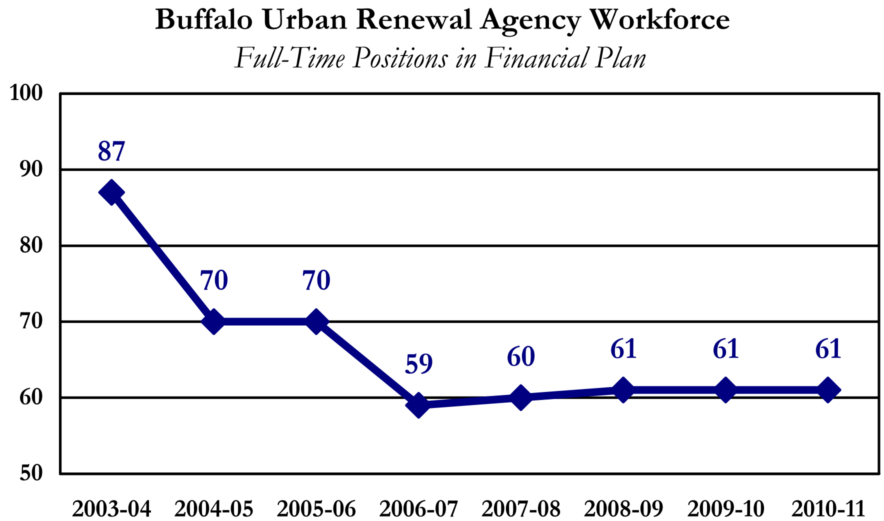
Federal grants to local urban renewal agencies continue to be precarious. The Community Development Block Grant program, BURA's largest revenue source, continues to contract. Since 2003, block grant funding to BURA is down approximately 17 percent and HOME funding is down approximately 10 percent. BURA's financial plan forecasts decreases in revenue over the next four years, although both CDBG and HOME funds are, optimistically and perhaps unrealistically, assumed to be maintained at current levels. This trend appears inconsistent with recent experience. If federal funding continues this downward trend, BURA could potentially be faced with difficult management decisions regarding agency operations in the not-too-distant future.

BURA Revenues ($ in million)	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Budget	FYE 2008 Budget
CDBG	18.1	17.5	16.5	16.5
HOME	1.9	8.7	4.8	4.7
American Dream Downpayment	-	-	0.1	0.1
Lead Grant	-	0.4	0.4	0.8
ESG	1.1	1.4	0.7	0.7
HOPWA	0.8	0.4	0.5	0.5
NYS Environmental Restoration	-	-	-	1.0
CDBG Program Income	4.6	4.9	2.6	2.0
Loan Recovery / Asset Sales	0.3	-	0.2	0.3
HOME Program Income	0.5	0.3	0.3	0.3
Total	27.3	33.4	26.0	26.8

BURA has two major categories of expenditures: Grant Expenditures, which are program-related costs, and Administrative / Planning, sometimes referred to as "soft costs." The following chart shows both major categories of spending. Again, the recent fluctuations to BURA's revenues have been mirrored on the expenditure side. Overall, expenditures are expected to increase $0.8 million in 2007-08 from the 2006-07 budget. That increase can be largely attributed to spending associated with the NYS Environmental Restoration Project.

BURA Expenditures ($ in million)	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Budget	FYE 2008 Budget
Grant Expenditures				
CDBG Public Service Costs	1.9	2.5	2.0	2.1
Section 108 Loan Repayments	3.7	3.7	3.3	3.2
Fannie Mae Loan Repayments	-	-	1.6	1.6
CDBG Payroll Reimb to City	1.2	0.5	0.9	0.4
CDBG Program Costs	13.0	12.2	7.7	8.0
HOME CHDO Set Aside	-	-	0.7	0.7
HOME Program Costs	1.8	8.4	3.8	3.8
Amer Dream Downpayment	-	-	0.1	0.1
Lead Grant	-	0.4	0.4	0.8
ESG Program Costs	1.0	1.3	0.7	0.7
HOPWA Program Costs	0.8	0.4	0.5	0.5
NYS Envir Restoration Project	-	-	-	1.0
Subtotal	23.5	29.4	21.6	22.8
Admin / Planning Expenditures				
CDBG Indirect Reimb to City	0.2	0.2	0.2	0.2
CDBG Planning	-	-	0.3	0.4
CDBG Administration	3.0	3.2	3.4	2.9
HOME Administration	0.6	0.5	0.5	0.5
ESG Administration	0.05	0.04	0.04	0.04
HOPWA Administration	0.03	0.01	0.01	0.01
Lead Grant	-	0.03	0.02	0.03
Subtotal	3.9	4.0	4.4	4.0
Total	27.3	33.4	26.0	26.8

Spending for employee salaries is expected to remain constant in the financial plan, at about $1.9 million per year. Employment levels are projected to remain relatively flat at around 60 full-time positions. BURA's current staffing levels remain significantly below those of previous years. In 2003-04 BURA had 87 full time employees.



Health insurance, which was previously consolidated under a single carrier for all City personnel, is projected to experience a 12 percent cost increase in 2007-08. BURA's pension costs are expected to be slightly down in 2007-08 as a function of rates determined by the New York State Employees Retirement System, and the financial plan anticipates these rates will continue.

BURA's financial plan contains declines of 6.7 percent in revenues and expenditures through 2010-11:

BURA Financial Plan ($ in million)	FYE 2008 Budget	FYE 2009 Projected	FYE 2010 Projected	FYE 2011 Projected
Revenues	26.8	25.4	25.6	25.0
Expenditures	26.8	25.4	25.6	25.0
Surplus / (Deficit)	–	–	–	–

As noted earlier, the plan assumes that BURA's major revenue sources – CDBG and HOME funds – will remain flat at the budgeted 2007-08 levels. The only revenue categories to change over the four years are the Lead Grant (down from $0.8 million in 2007-08 to zero in 2010-11) and the NYS Environmental Restoration Project grant (only a one-year grant of $1.0 million in 2007-08). The financial plan adjusts BURA's expenditures accordingly to keep its grant costs in balance with available resources.

BURA's financial plan, while balanced, does contain a certain degree of risk in the following areas:

- It assumes major federal grant programs – CDBG and HOME – will continue to be funded at the same levels for the next four years, when recent history seems to suggest otherwise. For example, CDBG funding allocations for Buffalo decreased 17 percent (nearly $3.4 million) between 2003 and 2007, while HOME funding allocations decreased 10 percent ($0.5 million) during the same period. ESG funds also declined over that period. Further, in addition to the program funding levels determined by the federal government, population is another factor influencing allocation formulae. The next decennial Census (2010) will further impact Buffalo's federal grant revenues.

- BURA is assuming flat revenues over the life of the financial plan for program income, despite recent experience of substantial declines. From 2004-05 to 2006-07, CDBG program income declined nearly 44 percent and HOME program income declined nearly 52 percent over the same period.

- Pending lawsuits could change the financial landscape for BURA, as legal setbacks could drive BURA's wage obligation higher than what is currently built into the financial plan. Additionally, the uncertainty with BURA's major labor contract could also drive financial risks. It is imperative that new collective bargaining agreements recognize BURA's contracting revenue base.

- On a cautionary note, BURA continues to use in excess of $3 million of its annual CDBG allocation to pay off prior Section 108 loan guarantees, some of which result from developer loan defaults. A look at successful Section 108 loan guarantee projects from other communities across the country reveals that these types of loan programs can produce sufficient program income to pay off loans made for development activities, allowing the municipality to concentrate scarce resources on additional development activities. In Buffalo's case, CDBG funds that could potentially be used for additional brick-and-mortar type projects are being used to pay off prior Section 108 loans, taking away resources that could benefit the community in the form of development activities or public services.

BURA's conservative budgeting and management practices since 2003 have continued to reduce its prior years deficit and improve its financial outlook, providing assurances against potential risks. However, lingering questions about federal funding of organizations like BURA requires continued financial vigilance on the agency's part.

Buffalo Municipal Housing Authority

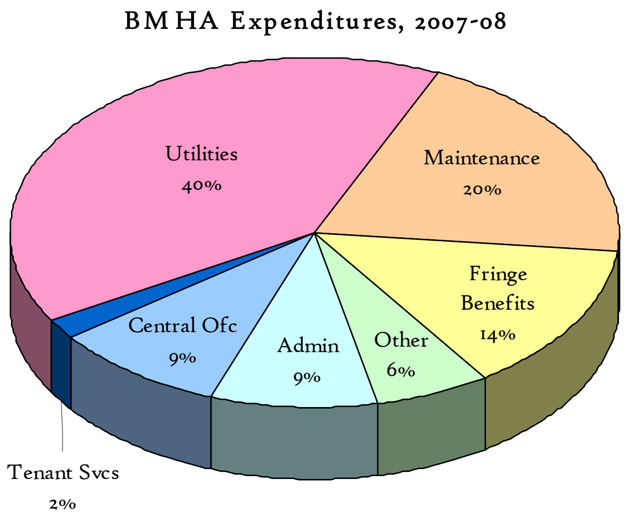
The Buffalo Municipal Housing Authority (BMHA), established in 1934 by resolution of the City's Common Council, is responsible for the construction, rehabilitation and modernization of all low-income public housing within the City of Buffalo. It is governed by a seven-member board comprised of five mayoral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

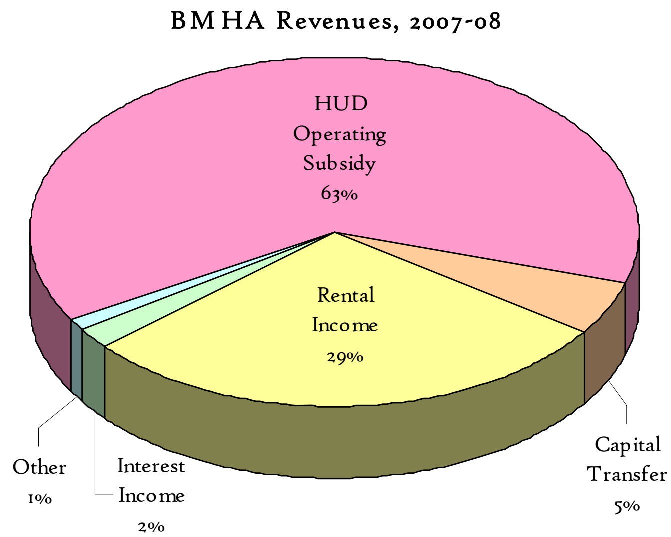
BMHA's finances have faced sustained pressure in recent fiscal years, in the face of lingering questions regarding federal funding levels. BMHA's new financial plan for its federal portfolio (as overseen by the U.S. Department of Housing and Urban

Development) contains revenues of $31.9 million in 2007-08 growing to $33.3 million in 2010-11, an increase of 2 percent over four years. The financial plan is balanced in every year with minimum annual surpluses. It is essentially a “steady state” plan, with sustained services and minor annual growth. Section 8 and other grants add approximately $5.7 million to its annual revenues, and capital funding adds another $9 million annually.

Summary of 2007-08 Budget

Federal Portfolio: BMHA’s federal portfolio includes $31.8 million in spending for 2007-08, an increase of slightly more than one-half of one percent from the previous year’s budget. The following graphics illustrate major categories of revenue and expenditure for BMHA’s 2007-08 fiscal year:





[Note: The fringe benefits number is only for the assets being managed and does not reflect the Central Office benefit costs]

BMHA’s operating subsidy from the U.S. Department of Housing and Urban Development (HUD), the major source of funding for its low-income housing operations, is budgeted at $20.2 million (63 percent of total revenues). This figure is $1.6 million less than what was actually received in 2006-07. Since HUD announces its subsidies on a calendar year basis, BMHA is certain of its federal subsidy for the first half of its fiscal year, but does not yet know the funding level for the period from January through June. Further, future subsidy levels are partially dependent upon HUD’s approval of BMHA’s level of compliance with its asset-based management requirements – with $1.6 million in 2007-08 funding at risk.

The second-largest component of BMHA’s revenue base, rental income (both dwelling and non-dwelling) is budgeted at $9.3 million (29 percent of total revenues), slightly less than the 2006-07 budget.

On the expenditure side, BMHA has budgeted using the asset-based model. This means that central office services are budgeted only for those amounts that can be reasonably allocated to the assets being reported under HUD operations. Central office costs that are attributable to other areas, such as Section 8 and capital funding, are not included. An Authority-wide reporting system combining asset-based and other grants accounting is still in development.

Overall, BMHA's expenditure growth is expected to be minimal over the previous year. However, line-by-line comparisons to prior years' actuals and budgets are difficult as costs have been reclassified. For example, tenant services costs have gone from $2.3 million in the 2006-07 budget to $0.7 million in the 2007-08 budget as many of the staff involved in this work are now accounted for under the central office.

The largest single expense line for BMHA is utilities, at $12.5 million (39 percent of total expenditures). This represents a minimal (1 percent) increase over the 2006-07 budget, and is based on the fact that BMHA has now completed two phases of an energy saving plan which is guaranteed to reduce consumption significantly over the course of the year.

Staffing levels are up slightly, from 255 (as of June 30, 2007) to 257 for the new fiscal year.

State Portfolio: In addition to the federal portfolio, BMHA maintains a smaller New York State portfolio. For that component of the budget, the State has approved a $5.0 million grant for the demolition of the Kensington Heights complex, which will allow redevelopment to move forward. At the same time, the Marine Drive complex continues to require intensive care. Marine Drive's 2007-08 budget appears to be balanced, but does not contain any expectation of generating sufficient additional funds to reduce its high level ($1.8 million) of outstanding accounts payable, most of which are due to the City of Buffalo. Vacancy rates remain unacceptably high (16 percent) and will require a significant effort to reduce to levels necessary to achieve budgetary balance. The State Division of Housing and Community Renewal has recently completed an audit of the complex and found a variety of deficiencies that will require additional funds and management attention to remedy. Continued close monitoring of the State portfolio is required.

Summary of Financial Plan through 2010-11

The four-year financial plan for BMHA's federal portfolio assumes little year-to-year change. The Authority is constrained as to its revenue sources, which are primarily HUD subsidies and rents. The financial plan anticipates an increase of $1.0 million in HUD subsidy through 2010-11, and increases in rent revenues of $0.5 million. The rental income growth is attributed to assumed lower vacancy rates and rental increases. On the expenditure side, cost growth is forecast at $1.5 million through 2010-11.

In summary, this budget and financial plan represents BMHA's first attempt to estimate the cost of operations under a new management model, and as such adjustments are likely over the course of the next fiscal year and beyond. However, given BMHA's inability to raise significant additional revenues, it is imperative that the Authority keep its overall expenditures close to budgeted levels.

The primary risk in BMHA's budget and financial plan remains the Authority's ability to comply with HUD requirements regarding implementation of asset-based management, and BMHA's ability to ensure union cooperation in the effort. Should BMHA be unable to comply with the new management standards, it stands to lose $1.6 million in subsidy during calendar year 2008 and significantly larger amounts in subsequent years. A secondary risk involves projected spending levels for employee fringe benefits. BMHA's financial plan anticipates a 5.0 percent annual rise in health insurance and a decrease in pension contributions. These aggressive assumptions will add to the challenge in achieving new BMHA labor contracts that are affordable and consistent with the financial plan. Given the significant risks in BMHA's financial plan, it is imperative that new collective bargaining agreements recognize and address BMHA's financial realities.

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 2006-07 fiscal year, JSCB had completed improvements to nine schools from Phase I and nearly completed thirteen Phase II projects at an aggregate cost of $326.9 million. Of this, $18.9 million has been approved by the State Education Department as an adjustment to the maximum cost allowance (MCA) for Phase II, and is to be included in a new money financing for Phase III. All thirteen Phase II schools will be open for the school year beginning in September 2007, although the gymnasium at School 304 (Hutch Tech) will not be completed until November 2007.

Phase II Update

The following table summarizes progress as of June 30, 2007 for Phase II:

Status of Phase II Projects* ($ in million)	Project Cost	Spent as of 6/30/07	Percent Completed
School 6	$18.78	$18.78	100%
School 33	$13.63	$13.19	97%
School 37	$14.64	$14.64	100%
School 39	$20.03	$17.60	88%
School 69	$13.62	$13.62	100%
School 82	$10.66	$10.66	100%
School 90	$9.17	$9.17	100%
School 91	$14.10	$14.10	100%
School 94	$16.52	$16.52	100%
School 95	$27.65	$27.65	100%
School 192	$35.79	$31.88	95%
School 200	$36.66	$32.75	95%
School 394	$36.06	$30.75	91%
All High Stadium	$6.62	$6.18	93%
Districtwide Technology	$50.28	$28.84	57%
Energy Performance	$9.25	$9.25	100%
Totals	$326.89	$295.64	90%

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

Phase III Update

Phase III consists of nine schools, and energy and technology components. The District is dividing 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 current MCA levels are adequate, the District will commence work on four schools, as well as the energy and technology components. This Phase IIIA will cost approximately $162 million (i.e. the amount of project costs) and will allow contractors currently completing Phase II schools to begin work on the next phase of the reconstruction project.

To initiate Phase III, JSCB sold $180 million in 2007 premium insured bonds in August 2007 to cover project costs and expenses for Phase IIIA. Net interest cost of the issue was 5.10 percent. Issuance costs, including underwriters' discount and New York State charges, were $4.1 million. The BFSA Board approved the financing in early August, and BFSA staff actively participated in the pricing of the transaction.

Phase IIIA includes two high schools (Burgard and South Park), two elementary schools (Hillary Park and Bennett Park Montessori), and energy and technology projects.

The School District and JSCB are reviewing options for Phase IIIB. One option, assuming satisfactory market conditions, would be to supplement the funding with cash harvested from a refinancing of Phases I and II. This option would require a legislative change from the State, since under current law any interest savings from a refinancing would accrue to SED and not JSCB. Another option could be value reengineering (e.g. omitting certain components, such as replacement windows, or using lower-cost components) of the schools in Phase IIIB to try to reduce construction costs sufficiently to meet the target. The District is hoping to avoid such changes if at all possible.

As currently planned, Phase IIIB would include 2 high schools (City Honors and Riverside), 3 elementary schools (Academy, International and Herman Badillo Bilingual), energy and technology projects.