Review of Approved Four-Year Financial Plan for Fiscal Years Ending 2007–2010

Introduction

On June 6, 2006, by Resolution No. 06-40, the Buffalo Fiscal Stability Authority 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 BFSA Act and certified the revenue estimates in that Plan. The Plan contains a strategy for addressing structural budget gaps in the City, School District and Buffalo Municipal Housing Authority through 2009-10, as well as an accumulated deficit from prior years in the Buffalo Urban Renewal Agency. It is the fourth such Plan approved since BFSA was created by New York State in 2003.

This section summarizes the Financial Plan for each organization and BFSA's response. It also details major components and assesses the risks to the Financial Plan in the context of the fiscal challenges still facing Buffalo.

The Financial Plan addresses combined baseline budgetary shortfalls ranging from $93 million in 2006-07 to $230 million in 2009-10. Through a combination of workforce reductions, significant increases in State Aid and anticipated new future revenues, the plan closes projected budget gaps each year as required by the State legislation that created BFSA.

The new four-year strategy does not rely upon any deficit financing assistance through BFSA, unlike the Financial Plans approved in 2003-04 and 2004-05. Those first two plans had relied on a combined $26.9 million in deficit borrowing to close budgets.

While the plan does not rely on deficit financing assistance, it does continue to rely upon significant savings associated with the wage freeze imposed on the City and its covered organizations by BFSA in April 2004.

Status of the Wage Freeze

The City, School District and other covered organizations have assumed continuation of the wage freeze to achieve budgetary balance in the new Financial Plan. The freeze was initially imposed by BFSA on April 21, 2004, pursuant to Resolution 04-35 and consistent with Section 3858 of the BFSA Act. Given the major underlying structural problems, as well as the continuance of budgets that are not balanced except through annual, aggressive (and in some cases, highly speculative) budgetary actions and assumptions, BFSA considers the freeze essential to the adoption and maintenance of a balanced Financial Plan.

The wage freeze is a "control period" power under the BFSA Act. Pursuant to the Act, the control period shall remain in place until that point at which "for each of the three immediately preceding fiscal years, the City has adopted and adhered to budgets covering all expenditures, other than capital items, the results of which did not show a deficit, without the use of any authority assistance" (Section 3858, 1). The newly adopted Financial Plan, projects that the wage freeze – which BFSA determines to be a significant form of authority assistance – will be essential to maintaining balance through at least the completion of the 2009-10 fiscal year. As such, the Financial Plan would maintain the control period until at least after completion of the 2012-13 fiscal year.

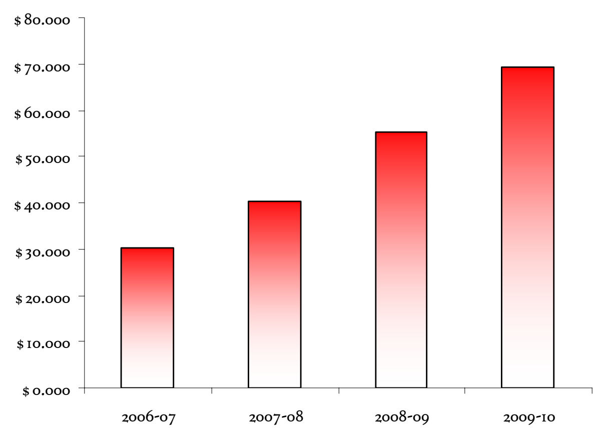
In the two years covered by the wage freeze to date (2004-05 and 2005-06), the City saved an estimated $9.1 million in steps, longevity payments and raises associated with the Police Benevolent Association contract signed in 2003. Further, the freeze has also prevented the payout of $9.8 million in increases related to the interest arbitration of Local 282, the Firefighters' union. In the School District, the freeze has saved at least $9 million in annual steps and longevity payments.

There remains an opportunity for individual unions to negotiate an exemption to the wage freeze. Section 3858, 2 (C) (II) permits individual unions to be exempted from the wage freeze if they make "an acceptable and appropriate contribution toward alleviating the fiscal crisis." BFSA has notified the City and covered organizations, and their respective collective bargaining units, of this provision, and remains open to reviewing new agreements that further budgetary stability.

City Four-Year Financial Plan

The City's Financial Plan continues to confront growing baseline budget gaps in each year. Before any new revenues or initiatives to close gaps are accounted for, baseline shortfalls grow from $30.4 million in 2006-07 to nearly $70 million in 2009-10. This structural gap assumes that the wage freeze remains in place.

Baseline Gaps Continue to Grow



The structural gap results from stagnant baseline revenue projections (i.e. no additional State aid can be projected into these baselines until it materializes) against continually growing costs. Over the next four years, the City's baseline expenditures grow by a projected $42.3 million, absent new management actions to address them.

Of that baseline cost growth, eighty-five percent is directly attributable to fringe benefits alone – most specifically, employee and retiree health insurance. As this starkly illustrates, the cost of employee fringe benefits (especially health insurance) remains the most pressing structural issue in the City's long-term fiscal recovery.

Gap-Closing Actions and Revenues

The City's Budget and Financial Plan, as originally proposed, modified and adopted by the Common Council, closes projected baseline gaps with a series of initiatives and assumed new revenues. The following is a summary of each action and their respective contributions to closing the annual budget gaps.

	2006-07	*2007-08*	*2008-09*	*2009-10*
New Sales Tax Revenue	*$5.9 m*	*$5.9 m*	*$14.6 m*	*$14.6 m*

The second-largest component of the City's Financial Plan is additional sales tax revenue. The additional revenue sharing is being provided pursuant to an agreement associated with Erie County's increasing of the sales tax by a quarter-percent (to 4.25%) in response to its own budget issues. That agreement will provide the City with approximately $5.9 million of the County's additional fourth cent in 2006-07. The City assumes that amount will recur through a combination of State and County actions in each year of the Financial Plan. In addition, the City's plan also assumes that Buffalo's share of the sales tax will grow further by 2008-09, driving an additional $8.7 million (on top of the $5.9 million) in revenues in each year that follows. A sales tax task force has been formed to review the current distribution formula, and the City's assumption is based on its anticipation that the task force will recommend a change to the current sharing agreement.

Use of Fund Balance	*2006-07 $4.9 m*	*2007-08 $2.4 m*	*2008-09 $2.2 m*	*2009-10 N/A*

The Plan would draw down some of the City's unreserved, undesignated fund balance in each of the first three years. In total, $9.5 million would be drawn out of the available fund balance. For the fiscal year ending June 30, 2005, the City had an available fund balance of $39.2 million. The State Comptroller has recommended that Buffalo maintain an available fund balance of 8 to 10 percent of its operating budget. Drawing down $9.5 million over the three years, without adding significantly to the fund balance, would leave Buffalo's reserves at or below the minimum amount recommended by the Comptroller.

Savings from CitiStat	*2006-07 N/A*	*2007-08 $1.8 m*	*2008-09 $3.6 m*	*2009-10 $5.5 m*

The Financial Plan assumes that the Mayor's CitiStat initiative to enhance accountability and efficiency in City services will begin yielding savings in the second year. The Plan projects savings of one percent of departmental appropriations annually, beginning in 2007-08. Savings of $1.8 million are projected to compound to $3.6 million and $5.5 million in 2008-09 and 2009-10, respectively.

Casino Revenue	*2006-07 N/A*	*2007-08 N/A*	*2008-09 $5.0 m*	*2009-10 $5.0 m*

The Financial Plan assumes that the Seneca Buffalo Casino will begin generating revenue for the City as early as 2008-09. In each of the last two years of the Plan, $5.0 million in new revenue is assumed.

Injured-on-Duty Initiative	*2006-07 $0.7 m*	*2007-08 $0.9 m*	*2008-09 $1.2 m*	*2009-10 $4.9 m*

The Financial Plan includes a new initiative targeted at reducing the number and duration of injured-on-duty claims in the City's Police and Fire Departments. The IOD case management initiative is projected to generate savings of $0.7 million in the first year, growing to $4.9 million in 2009-10.

Savings from Staff Changes	*2006-07 $0.6 m*	*2007-08 $0.6 m*	*2008-09 $0.6 m*	*2009-10 $0.6 m*

The first year of the Financial Plan, the City eliminates 49 vacant positions, and adds 17 new filled titles. The net budgetary impact is a $630,000 annual savings off of the baseline gaps.

Retiree Health Care Savings	*2006-07 N/A*	*2007-08 $0.5 m*	*2008-09 $1.2 m*	*2009-10 $1.2 m*

The Financial Plan includes savings related to an initiative to reduce retiree health insurance costs over the next several years. Working with consultants, the City has identified potential retiree savings by modifying benefit packages while adding spousal coverage. The savings are estimated at $500,000 in 2007-08, growing to $1.2 million.

Utility Cost Savings	*2006-*	*2007-*	*2008-*	*2009-*

	07	08	09	10
	$1.3 m	*$1.4 m*	*$1.6 m*	*$1.7 m*

The Financial Plan assumes savings from the finalization of a new energy procurement contract for the City's energy pool. A total of $12.4 million in savings is assumed across the four years of the Plan, beginning with $1.3 million in 2006-07. These savings would mitigate – but not eliminate – what the Financial Plan projects to be 8 percent annual growth in utilities.

Additional Property Taxes	*2006-07*	*2007-08*	*2008-09*	*2009-10*
	N/A	*N/A*	*N/A*	*$8.4 m*

The Financial Plan assumes that increases in assessed value of residential and commercial property in the City (including new development projects) will yield additional property tax revenue in the out-years. Beginning in the final year of the Plan, additional tax revenues of $8.4 million are assumed.

BFSA's Review of the Financial Plan

The approved Financial Plan incorporates City efforts to address a number of concerns raised by BFSA in its initial review, including rate of spending growth, risk of certain gap-closing actions and attrition assumptions. The City's responses to the primary concerns raised by BFSA are summarized below.

- **Rate of Growth:** The proposed budget for City spending in 2006-07 was up $25.9 million from the previous year's budget, a jump of 9.1 percent. According to BFSA's analysis, this represented the largest year-to-year increase since at least 2000-01. After BFSA directed the City to revisit its 2006-07 spending assumptions, the City submitted a revised budget and Financial Plan that took steps to contain and control certain areas of spending in the Plan's first year through enhanced BFSA oversight.

  The Administration modified its budget proposal to shift $12.2 million into "freeze accounts" that would be accessible only with express written approval from BFSA. The $12.2 million is comprised of four items: $8.5 million in capital outlay spending, $1.7 million in funded vacancies, $1.3 million in utility savings and $0.7 million in overtime savings related to updated injured-on-duty figures in the Fire Department. The establishment of the freeze accounts has the impact of limiting the Administration's ability to spend unilaterally by $12.2 million, which, if fully actualized, would reduce year-to-year growth to 4.8 percent. BFSA will ensure that the expenditure of these freeze account funds is made gradually throughout the fiscal year, as protection against unforeseen events or negative budgetary trends.

- **Risk of Gap-Closing Actions:** The out-years of the Financial Plan as proposed by the City contained a series of initiatives that, in BFSA's judgment, are fraught with risk. While BFSA has previously allowed the inclusion of some risk in the out-years of Financial Plans (to provide the City time to work on further developing those initiatives), it is important to identify the risk upfront.

BFSA noted that proposed gap closing actions were primarily revenue-based, rather than optimizing opportunities to reduce costs. Among the most risky proposals were: the assumption of $29.3 million in new sales tax revenues; $5.0 million in annual casino revenue starting in 2008-09; $4.9 million in out-year savings from an injured-on-duty (IOD) case management approach that has not yet shown it can substantially reduce costs; $8.4 million in increased property tax revenue generated by new development; and the draw down of $9.5 million in Fund Balance, (thereby utilizing a one-shot revenue for recurring costs and reducing reserves to minimal acceptable levels).

To address BFSA's concerns, the Administration modified its four-year Financial Plan to include a contingency budget that identifies alternatives to balancing out-years in the event that increased sales tax and casino revenue do not materialize. The main alternatives include reducing the police force to 675 through attrition, consistent with the current contract; increasing property taxes by greater amounts; reducing capital outlay; and appropriating additional fund balance.

Summary and Trends (see charts following)

The Buffalo City General Fund Budget, without transfers, totals $310.7 million. Since two of the City's largest revenue sources (property and sales taxes) have been relatively stagnant, the City has relied upon BFSA deficit borrowing (totaling $26.9 million in 2003-04 and 2004-05); BFSA-imposed wage freeze savings ($29.3 million) and increased State Aid (up from 36 percent of budget to 53 percent of budget in just three years) to balance its Financial Plan. At the same time, three categories of spending that have proven difficult to control – police, fire and fringe benefits – make up 70 percent of all costs.

While there have been some positive trends, all have clear downsides. For example:

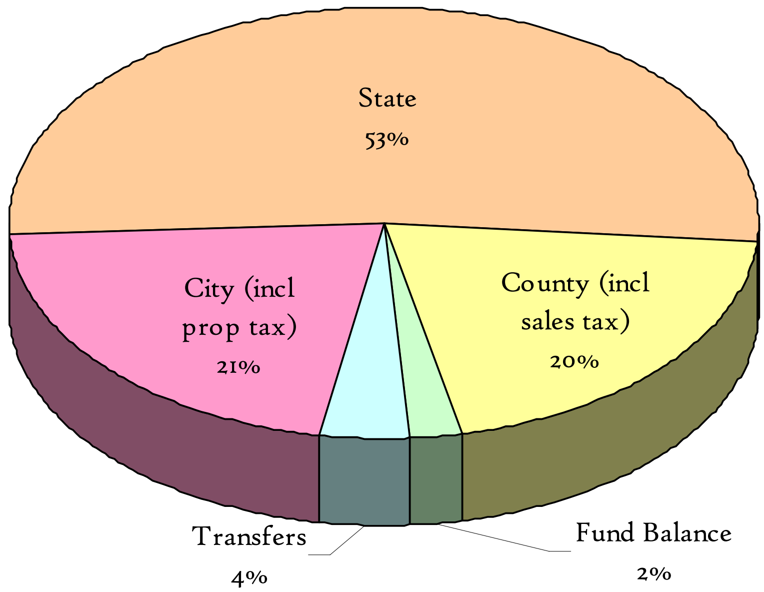
- -- The City has finally achieved a minimal increase in tax margin associated with increased property values. However, this increase is *de minimis* when compared to the $1.8 billion loss in value during the 1990s.
- -- The State has been generous with new aid, but the result has been a large jump in spending which may be difficult to control if these funds do not recur. (The State's largess has provided a double benefit, by enabling a reduction in cash flow borrowing to $60 million for 2006-07, half the amount borrowed in 2003-04.)
- -- The City has downsized its workforce; unfortunately benefit costs continue to grow even as fewer employees are benefiting, and some commissioners have begun to say the reduced numbers are not sustainable.
- -- The City's available fund balance – enhanced to a large extent by deficit borrowing and the draw down of one-shot State Aid – has achieved a more appropriate level, but the Financial Plan would once again require drawing down these reserves to minimal levels.

At the same time there have been some very negative economic trends which will inevitably play into the City's ability to recover from its ongoing fiscal crisis:

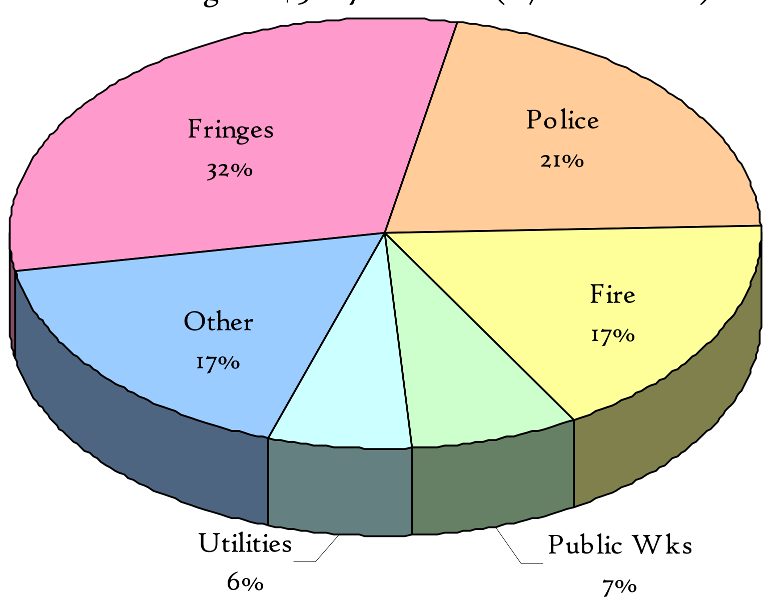
- -- The City's population continues to decline, down in 2005 to an estimated 279,745, a reduction of 4.4 percent from the 2000 Census.
- -- In the 1990's,18 percent of the population aged 18-44 left the area.
- -- There has been little net job creation, with the job number virtually unchanged from eight years ago.
- -- More than 26 percent of residents live below the poverty line, sixth highest of any city in the United States with more than 250,000 population.
- -- More than 20,000 residential units lie vacant.

Given these trends, the Chairman of BFSA has called upon the State Legislature to make the necessary changes in the State's laws to enable the City administration to better manage its affairs or to commit to providing additional funds to ensure long-term budgetary balance, maintain service levels and provide an impetus to local economic improvement.

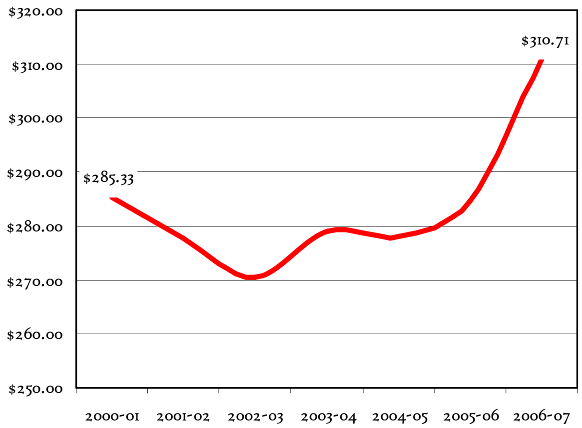
City 2006/07 Budget Revenues
Total Budget = $310.7 million (w/o transfers)



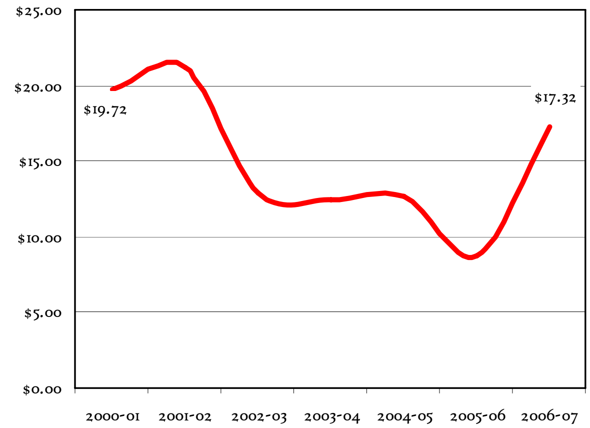
City 2006/07 Budget Proposed Spending
Total Budget = $310.7 million (w/o transfers)



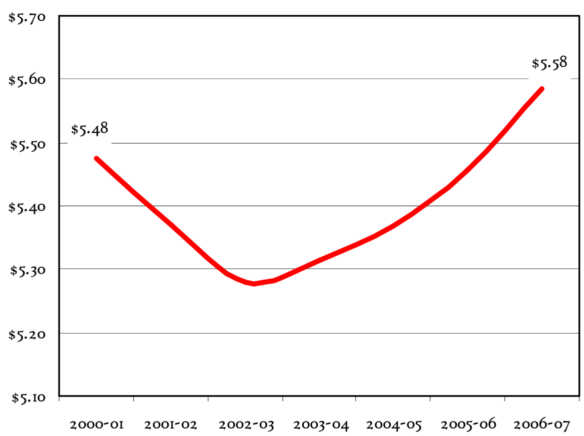
City Budget Size
(millions of $)



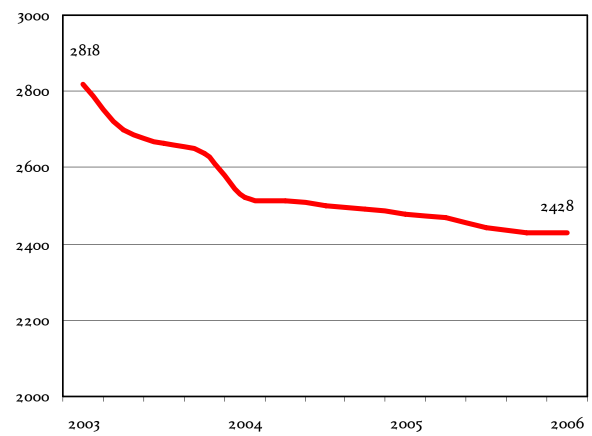
City Property Tax Margin
(millions of $)



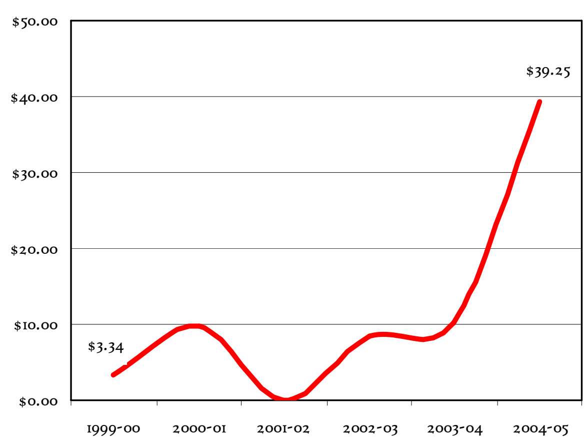
City Five-Year Avg Property Valuation
(billions of $)



City Workforce Size
(number of FTEs)



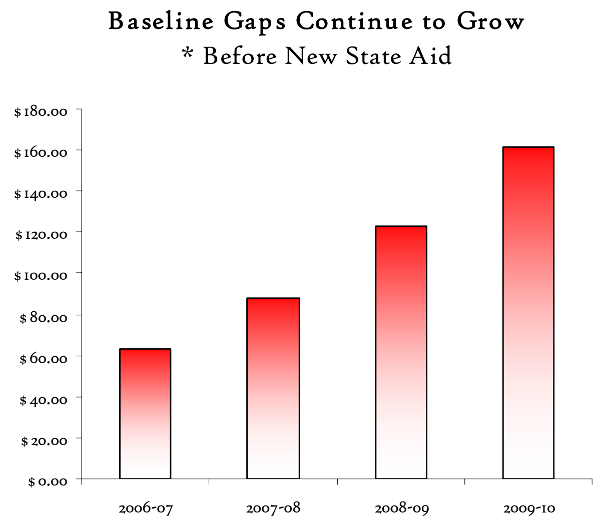
City Unreserved, Undesignated Fund Balance
(millions of $)



School District Four-Year Financial Plan

Like the City, the School District's Financial Plan faces baseline budget gaps that continue to grow each year. Before any new revenues or initiatives to close gaps are accounted for, baseline shortfalls grow from $63.1 million in 2006-07 to $161.7 million in 2009-10. This structural gap assumes that the wage freeze remains in place.

The structural gap is the result of stagnant baseline revenue projections (i.e. no additional funding can be projected into the baselines until it materializes) against continually growing costs. From 2006-07 to 2009-10, the District's projected baseline expenditures grow by $102.9 million, or 17 percent, absent new management actions to address them.



Of that baseline cost growth, more than half (52 percent) is directly attributable to fringe benefits, specifically employee and retiree health insurance – and, to a lesser degree, growth in teacher retirement system (TRS) costs. The cost of fringe benefits remains a pressing structural issue in the District's fiscal recovery.

This projected cost growth occurs against a backdrop of a continuing and rapid decrease in enrollment. The 2006-07 budget is based on an assumed student population of 35,000, with subsequent years falling to 33,500, 31,500 and 30,000. Enrollment is projected down 18 percent just over the four-year Financial Plan. If that projection were to hold, it would mean an overall enrollment drop of nearly 16,000 students, or 35 percent, in the decade between 2000 and 2010. (The actual enrollment dropped by 18.7% from 2001-02 through 2006.)

Gap-Closing Actions and Revenues

The School District's Financial Plan closes its projected baseline gaps with a series of initiatives and assumed new revenues. The following is a summary of each action and its respective contribution to closing the annual budget gaps.

(Note: The following actions reflect the District's Financial Plan as approved by BFSA on June 6, 2006. The District subsequently submitted a modified budget for 2006-07 that was approved by BFSA on August 9, 2006. That modification, which is summarized in the following section, mitigated the need for significant staff cuts in the 2006-07 fiscal year.)

New State Aid	2006-07	2007-08	2008-09	2009-10
	$46.9 m	$55.2 m	$63.6 m	$72.2 m

New York State provided the School District with $46.9 million in additional revenue for the 2006-07 fiscal year. Of that total, $13.3 million is specifically for an increase in debt service costs related to Phase II of the Joint Schools Construction Project. The out-year assumption of additional aid is speculative at the present time, although the District has used a relatively conservative 2 percent annual growth factor in its projections, given the historic increases in state aid.

Staff Reductions	2006-07	2007-08	2008-09	2009-10
	$16.2 m	$31.8 m	$57.4 m	$86.1 m

The District's Financial Plan relies heavily on staff reductions to balance out-year budgets. A total of 1,064 positions would be eliminated between fiscal years 2007 and 2010: 224 in the first year, 200 in the second, 312 in the third and 328 in the fourth. The magnitude of the projected cut would be significant, and represent 20 percent of the current workforce. (Note: As discussed below, changes made to the 2006-07 budget in a modification approved by BFSA on August 9, 2006, mitigated the need for significant position cuts in 2006-07.)

School Building Closures	2006-07	2007-08	2008-09	2009-10
	n/a	$1.0 m	$2.1 m	$3.3 m

The District will continue its initiative to reduce the number of school buildings, closing three each year through 2009-10.

2006-07 Budget Modification

The District subsequently submitted to BFSA a budget modification for the 2006-07 fiscal year. BFSA approved that modification on August 9, 2006. The modification made significant changes to the District's gap-closing plan for 2006-07, particularly in the area of health insurance.

The District's original baseline gap projections had contained significant increases in health insurance costs due to ongoing union challenges to the single health insurance carrier initiative. Having lost two arbitration decisions on the matter, the District budgeted (and included in its baseline projections) health costs assuming multiple insurance carriers. As a result, projected health costs in the original proposed financial plan were expected to be significantly higher (23% overall) than what the District experienced in 2005-06, during which it had a single insurance carrier.

In the weeks immediately following BFSA's approval of the Financial Plan, the District administration reevaluated its litigation/arbitration position regarding the ongoing Buffalo Teachers Federation challenge to the single carrier initiative. The District's legal team advised it that current proceedings will not conclude until at least March 2007. As a result, the District recast its 2006-07 budget to assume nine months (three quarters) worth of savings from the single carrier initiative. This $10.5 million in savings significantly mitigated the need for staff reductions in 2006-07.

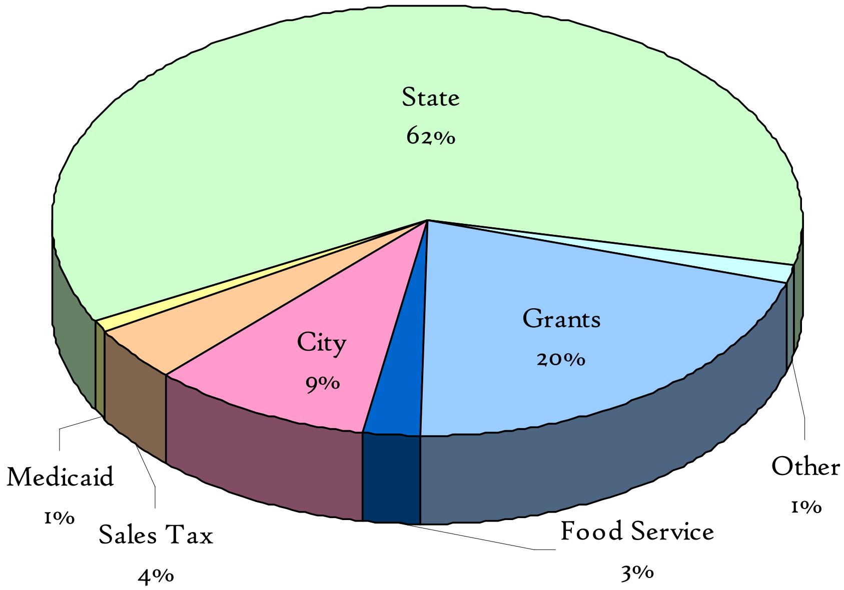
In addition to revising its assumptions regarding health insurance costs, the District revised certain revenue and expenditure items to enable it to close the $16 million gap for 2006-07. Among those items were freezing $1.5 million in existing vacancies; increasing sales tax revenues based on current receipts and 2006-07 projections; reduced debt service expenses based on revised schedules from the City; reduced workers compensation and unemployment costs based on new projections; and lower substitute teacher costs based on projections and the implementation of a tighter system of controls in this area of the budget.

While this budget modification mitigated the need for dramatic staff cuts in 2006-07, the Financial Plan continues to project out-year staff reductions as a key item in the District's gap-closing plan over the remaining three years of the plan.

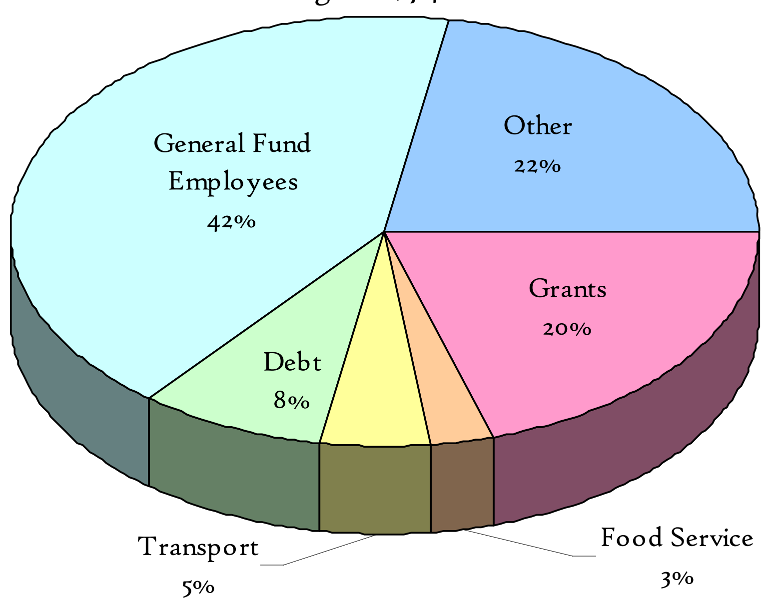
Summary and Trends (see charts following)

The overall School District budget totals $746 million. Of that amount, the City of Buffalo's property tax supports only 9 percent of spending, even with an additional $2 million of shared levy in 2006-07. The District's spending has increased dramatically, even as it has reduced the number of schools and employees, and while spending increases have been mitigated by the BFSA-imposed wage freeze. Spending in 2006-07 is expected to be up by 7.3 percent over the prior year, and 11.3 percent since 2004-05.

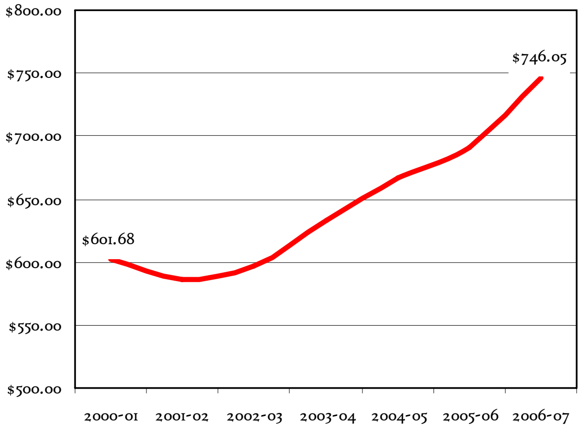
Schools 2006/07 Budget Revenues
Total Budget = $746.0 million



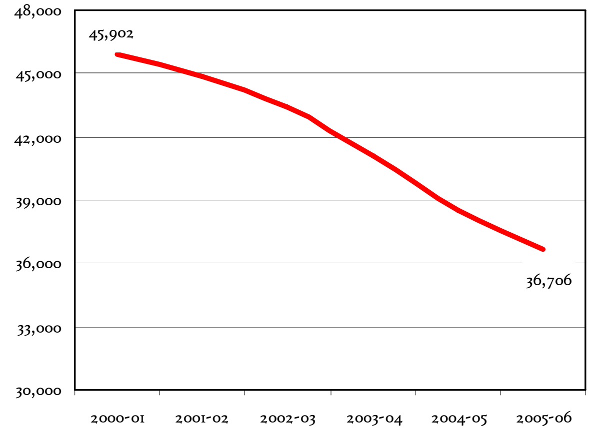
Schools 2006/07 Budget Spending
Total Budget = $746.0 million



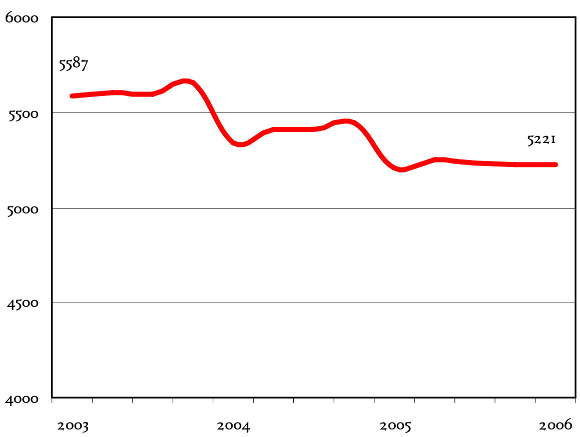
School District Budget Size
(millions of $)



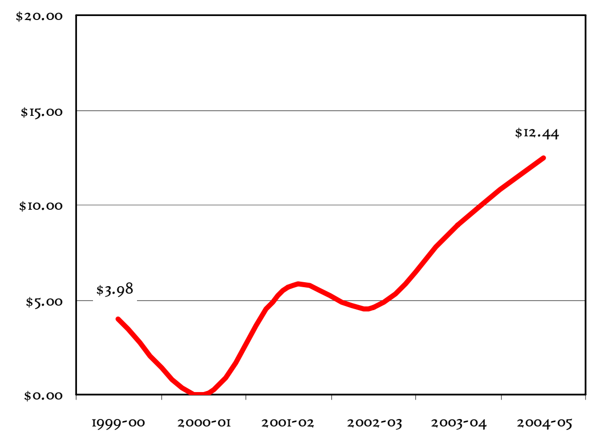
School District Enrollment



School District Workforce Size
(number of FTEs)



School Unreserved, Undesignated Fund Balance
(millions of $)



Joint Schools Construction Board

Phase I

Because Phase I of JSCB pre-dated the creation of BFSA, the Authority had no official role in the approval of bonds for the projects. However, the work on nine schools and two District-wide projects which comprised Phase I is now complete. This Phase was financed by the issuance of $197,057,091 of Erie County IDA (ECIDA) bonds payable through a lease-purchase contract by the School District and, in the event of default, by an intercept of State Aid. These projects are expected to be state-aid reimbursable at 93.7 percent of costs.

The Office of the State Comptroller (OSC) has conducted an audit of JSCB's Phase I construction, with the following objectives:

- To determine if the construction work was performed in conformance with the scope of the plans;
- To determine whether the work performed was of satisfactory quality; and
- To determine whether the District implemented appropriate management and monitoring controls during the construction period.

Relating to the first two objectives, OSC engaged outside consultants who tested four of the nine schools and concluded that the work performed was in substantial compliance with plans and specifications and was of good quality.

Relating to objective three, the report noted several findings and deficiencies in the District's oversight of the program. Those which are not yet cleared are under discussion between the District and the State Education Department (SED) as to remedies. The outcome may impact the amount of State Aid reimbursement which, if reduced, will have to be covered by local share. The District had expected to use excess local share from Phase I to cover contingencies in the subsequent phases.

Phase II

Phase II enabling legislation was signed into law by Governor Pataki on September 7, 2004 as Chapter 421 of the Laws of 2004. Phase II financing closed in December 2004 through ECIDA financing after SED and BFSA approved the transaction.

Phase II includes thirteen schools, an energy performance project, a District wide telecommunications project and the renovation of All-High Stadium.

A challenge in Phase II has been meeting SED's Maximum Cost Allowance (MCA – the dollar cap by project component). The District believes this is a result of rapidly increasing material prices; MCA automatically covers increases in labor costs. JSCB has requested an increase in the MCA from SED but there has been no decision to date.

Phase II projects in $000's

School	6	33	37	39	69	82
Project Cost	$18,515	$13,189	$14,246	$19,591	$13,250	$10,373
Spent to 6/30/06	$13,387	$ 2,225	$11,850	$ 2,927	$12,427	$ 9,631
% Completed	72.3	16.9	83.2	14.9	93.8	92.8
Anticipated Completion Date	3/07	9/07	8/06	9/07	11/06	8/06

School	90	91	94	95	192	200
Project Cost	$ 8,854	$13,724	$16,072	$26,900	$32,656	$33,385
Spent to 6/30/06	$ 5,128	$11,279	$15,565	$24,710	$ 3,490	$14,115
% Completed	57.2	82.2	96.9	91.9	12.1	42.3
Anticipated Completion Date	12/06	8/06	8/06	8/06	1/08	9/07

School	304	All High	Dist Wide Tech	Energy Perf	Totals
Project Cost	$32,874	$ 6,620	$38,496	$ 9,251	$307,996
Spent to 6/30/06	$11,566	$3,464	$16,863	$ 8,774	$167,401
% Completed	35.2	52.3	43.8	94.9	54.3
Anticipated Completion Date	9/07	8/07	12/06	12/06	

(All the schools anticipated to be completed by 8/06 are now operating)

Phase III

The State Legislature approved $375 million for Phase III and it was signed into law as Chapter 283 of the Laws of 2006.

Design work for Phase III is considered preliminary since many targeted projects (e.g. auditoriums, swimming pools and other non-instructional projects) are state aid reimbursable in smaller percentages than classroom space. In addition, the rising cost of materials and the MCA continue to be factors. Overall, the District has calculated likely state aid reimbursement at 60 percent (compared to 93.7 percent of costs in Phase I), making local share unaffordable for the District. The District has slowed down all design work on Phase III (about $750,000 have already been spent) pending resolution of the cost issues.

Buffalo Urban Renewal Agency Four-Year Financial Plan

The primary fiscal issue in the Buffalo Urban Renewal Agency (BURA) continues to be a prior-years' accumulated deficit. The shortfall is the result of planning and administrative spending that took place in 2003 and earlier, prior to the current BURA administration.

In BURA's first Financial Plan submitted in September 2003, the prior-years' shortfall was estimated at more than $5 million. Today, based on actions BURA has taken to close-out prior year accounts and reallocate unused grant funds, the deficit figure stands at $2.7 million. This figure is down from $3.3 million a year ago.

BURA maintains that its accumulated deficit will be closed in 2006-07 through full implementation of the Agency's Financial Plan. The plan contains several strategies for closing the deficit:

- Recovering unused funds previously granted to, but unused by, block grant recipients;
- Using income generated by sub-recipients; and
- Generating operating savings from negotiated "cost caps" (i.e. using less grant revenue on BURA administrative costs) with the federal Department of Housing and Urban Development (HUD).

While HUD does not expressly permit funding a reserve to address deficits, it has allowed recovered balances to be applied to pay down prior-years' gaps. As a result, BURA continues to budget conservatively in an attempt to use budgetary savings to address the shortfall.

In general, BURA's revenues are comprised of federal grants, along with some income generated by grant sub-recipients. The Agency's Financial Plan projects its 2006-07 revenues at $27.0 million, down from $30.9 in the previous year's budget. The reduction reflects federal cuts in grant programs administered by BURA and other urban renewal agencies across the country. [Note: The reduction also reflects one-time federal HOME (Home Investment Partnership Program) funds which were released to BURA in 2005-06, but which do not recur.]

BURA Revenues

(in $ million)	'06 Budget	'06 Forecast	2007	2008	2009	2010
Grants & Related Income						
CDBG	$18.058	$18.058	$16.547	$16.547	$16.547	$16.547
HOME	$5.053	$8.053	$4.763	$4.763	$4.763	$4.763
American Dream Initiative	$0.122	$0.122	$0.061	$0.061	$0.061	$0.061
ESG	$0.715	$0.881	$0.709	$0.709	$0.709	$0.709
HOPWA	$0.456	$0.456	$0.480	$0.480	$0.480	$0.480
Econ Development Grant	$0.549	$0.549	$1.000	-	-	-

CDBG Program Income	$3.000	$3.000	$2.600	$2.000	$2.000	$2.000
Loan recovery/asset sales	$1.800	$1.800	$0.200	$0.400	$0.400	$0.400
HOME Program Income	$0.250	$0.250	$0.250	$0.250	$0.250	$0.250
Lead Grant	$0.200		$0.400	$0.450	$0.450	-
Unused prior CDBG Grant	$0.750	$0.750				
Total	$30.953	$33.919	$27.010	$25.660	$25.660	$25.210

On the expenditure side, BURA continues to reduce its "cost cap" amounts as part of the agreement with HUD that freed up the one-time HOME funding for Buffalo. This effectively decreases the amount of federal funding available for program administration by BURA. Last year, this approach enabled a redirection of $1 million in annual operating funds for one-time expenses approved by HUD, such as tree-trimming and demolitions.

BURA Expenditures

(in $ million)	'06 Budget	'06 Forecast	2007	2008	2009	2010
Grant Expenditures						
CDBG Public Svc Costs	$2.167	$2.167	$1.986	$2.482	$2.482	$2.482
Section 108 Loan Repayments	$4.301	$4.301	$3.289	$3.112	$2.810	$2.639
Fannie Mae Loan Repayment	-	-	$1.500	$1.500	$1.500	$1.500
CDBG Payroll Reimb to City	$0.855	$1.196	$0.438	$0.438	$0.438	$0.438
Indirect Cost Reimb to City	$0.193	$0.188	$0.189	$0.189	$0.189	$0.189
CDBG Program Costs	$12.666	$12.331	$8.180	$7.326	$7.627	$7.799
HOME CHDO Set Aside	$0.758	$3.758	$0.715	$0.715	$0.715	$0.715
HOME Program Costs	$4.015	$4.015	$3.797	$3.797	$3.797	$3.797
American Dream Initiative	$0.122	$0.122	$0.061	$0.061	$0.061	$0.061
Emergency Shelter Prog Costs	$0.876	$0.845	$0.674	$0.674	$0.674	$0.674
HOPWA Program Costs	$0.442	$0.442	$0.466	$0.466	$0.466	$0.466
Lead Grant	$0.200	-	$0.400	$0.450	$0.450	-
Environment Restoration Prog	-	-	$1.000	-	-	-
Subtotal	$26.398	$29.365	$22.695	$21.210	$21.209	$20.760
Admin & Planning Costs						
CDBG Admin Costs	$3.778	$3.974	$3.765	$3.900	$3.901	$3.900
HOME Admin Costs	$0.530	$0.530	$0.501	$0.501	$0.501	$0.501
Emergency Shelter Admin	$0.036	$0.036	$0.035	$0.035	$0.035	$0.035
HOPWA Admin Costs	$0.014	$0.014	$0.014	$0.014	$0.014	$0.014
Subtotal	$4.358	$4.554	$4.315	$4.450	$4.451	$4.450
Total	$30.953	$33.919	$27.010	$25.660	$25.660	$25.210

BURA's spending plan provides for 63 staff positions with salary costs of $2.4 million. The agency is down 7 positions from last year (6 layoffs and 1 retirement).

BURA's plan to close its accumulated deficit does contain some risk, both logistically and programmatically. First, any funds that are redirected from the current (or future) year to address the deficit will reduce funds available for programs on a dollar-for-dollar basis. Further, as a flow-through agency for federal block grants, BURA may experience future reductions in resources beyond 2006-07. The federal government continues to debate a restructuring of the block grant program, and any modification is likely to impact agencies like BURA.

Buffalo Municipal Housing Authority Four-Year Financial Plan

The Buffalo Municipal Housing Authority (BMHA) continues to struggle with significant fiscal and management issues. A major problem throughout fiscal year 2006 was the Authority's inability to ascertain the amount of subsidy it would receive from HUD for the year due to changes in HUD allocations. The BMHA amount was not confirmed until after the fiscal year end. The same problem will be present in fiscal 2007.

BMHA's utility costs were $3.4 million higher than budgeted. The increased HUD subsidy covered $2.1 million of the increase, with the excess cost covered by additional revenues of $261,000 and other savings of $1 million. Preliminary numbers indicate that BMHA will finish the year in balance. Year end results will be affected by the accrual of a NYSERDA grant covering the energy conservation program in one of their major housing developments, which will fall directly to the bottom line. The grant is expected to be accrued at about $2.5 million.

The single most significant issue currently confronting BMHA is HUD's requirement that federal housing projects be move to a project management model by October 1, 2006. This major operating change will require major union cooperation in a very short time period. The consequences of not reaching the October 1 deadline would be a permanent loss of $1.6 million in HUD subsidy. At this time there is no certainty that the federal requirement will be met within the established timeframe.

Financial Plan

BMHA submitted an abbreviated 2007 budget and 4-year plan based on the assumption that the operating subsidy from HUD would remain level with 2006. Under this (currently uncertain) scenario, the budget would be balanced.

Increases in expenditures for utilities in the budget and 4-year plan are primarily funded by further downsizing of the staff, with the resulting reduction in the growth in benefits, and reduced maintenance expenditures.

HUD has now approved subsidy levels through December 30th (assuming project-based compliance which is uncertain at this time). Subsidy announcements are now done on a calendar year basis, so BMHA will not know the amount of the subsidy for its last six months until close to calendar year end.

The plan submitted by BMHA in May was insufficient for full unconditional BFSA approval. A revised budget and four-year plan will be presented to the Board at the September 28 meeting.