



BUFFALO FISCAL STABILITY AUTHORITY

Annual Report of the Buffalo Fiscal Stability Authority
Fiscal Year Ended June 30, 2011

October 3, 2011

Annual Report of the Buffalo Fiscal Stability Authority

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Introduction

This is the eighth annual report of the Buffalo Fiscal Stability Authority (the “BFSA” or the “Authority”), known locally as the City Control Board. It covers the eighth fiscal year in which the City of Buffalo (the “City” or “Buffalo”) and its covered organizations (as defined below) operated under the requirements of the Buffalo Fiscal Stability Authority Act. This report focuses mainly on the period from July 1, 2010 through June 30, 2011, adding to the actions, accomplishments and progress cited in the BFSA’s seven prior annual reports.

The combined efforts of the City and its covered organizations, in cooperation with the BFSA, have contributed greatly to Buffalo’s fiscal improvement to date. Since BFSA was created in 2003, the City of Buffalo and its taxpayers have saved more than \$371.5 million. These essential savings were created through the exercise of extraordinary powers granted to BFSA by New York State (the “State”), and through the cooperation of the City of Buffalo and its covered organizations.

Background

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

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

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

- Established BFSA as a fiscal control agency over the City and its covered organizations;

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

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

The BFSA Act provides that the Authority shall have different financial control and oversight powers depending upon whether the City’s financial condition causes it to be in a “control period” or an “advisory period.” Pursuant to the BFSA Act, an advisory period may not begin until the BFSA has determined that “(a) for each of the three immediately preceding City 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 BFSA assistance as provided for within the BFSA Act, and; (b) the City Comptroller and the State Comptroller jointly certify that securities were sold by the City during the immediately preceding City fiscal year in the general public market and that there is substantial likelihood that such securities can be sold by the City in the general public market from such date through the end of the next succeeding City fiscal year in amounts that will satisfy substantially all of the capital and cash flow requirements of the City during that period in accordance with the four-year plan then in existence”.

During an advisory period, BFSA is empowered, among other things to: review the operation, management, efficiency and productivity of City operations and of any covered organization's operations, and to make reports and recommendations thereon; to review and comment on the provisions of the budget and four-year plan and any financial plan modification; to audit compliance with the City's financial plans; to review and comment on the terms of any proposed borrowing, including the prudence of each proposed issuance of bonds or notes by the City; to assess the impact of any collective bargaining agreement that in the judgment of the Authority may have a significant impact on the City's long-term fiscal condition, and to re-impose a control period if the Authority determines at any time that a fiscal crisis is imminent or if the City meets certain statutorily defined conditions.

Mission Statement

The Buffalo Fiscal Stability Authority originally adopted its mission statement on September 24, 2007, and has subsequently modified and adopted a revised mission statement on October 3, 2011. The Authority's Mission Statement is as follows:

“Created by the State of New York as a public benefit corporation, it is the mission of the Buffalo Fiscal Stability Authority to provide financial oversight over the budgets, financial plans and capital plans of the City of Buffalo and its covered organizations. BFSA shall undertake such actions as afforded to it under its creating legislation as necessary to assure the financial stability of the City and its covered organizations, to preserve the confidence of the investors and bond rating agencies, to uphold essential services to residents, to maintain affordable property taxes, and to protect the economy of both the region and the State as a whole.”

Governance

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

As of June 30, 2011, the following individuals served on BFSA's Board of Directors:

- **R. Nils Olsen, Jr., Chair**
Former Dean of the University at Buffalo Law School and current Professor of Law at the UB School of Law
- **George K. Arthur, Secretary**
Former President, Buffalo Common Council
- **Frederick G. Floss, Ph.D.**
Professor of Economics and Finance, Buffalo State College and Vice President for Academics with United University Professions
- **John J. Giardino**
Special Counsel with Phillips Lytle LLP and Managing Partner with Artemis Capital Partners
- **Gail E. Johnstone**
Former President and CEO of the Community Foundation for Greater Buffalo
- **Frank B. Messiah**
President of the Buffalo Chapter of the NAACP and former Regional Administrator with the NYS Department of Labor
- **Byron W. Brown (ex officio)**
Mayor, City of Buffalo
- **Chris Collins (ex officio)**
County Executive, Erie County

BFSA maintains two standing committees. The first of these is the Audit, Finance and Budget Committee which is chaired by R. Nils Olsen with Directors Fred Floss and Frank Messiah constituting the remaining committee members.

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

Attached to this report are BFSA's Authorizing Statute, By-Laws, Code of Ethics and Audited Financial Statements for 2010-11.

At June 30, 2011, BFSA had the following staff members:

- **Jeanette M. Mongold, C.P.A. (Executive Director)**
Former Deputy Comptroller with the City of Buffalo and former Senior Manager with Deloitte and Touche, Buffalo, New York.

- **Bryce E. Link, M.P.A. (Principal Analyst/Media Contact/Treasurer)**
Former BFSA analyst, senior analyst and former budget fellow with the State Division of the Budget's Expenditure Debt Unit.

- **Nathan D. Miller, B.S. (Financial Analyst/ Manager of Technology)**
Former BFSA executive assistant / office manager and former administrative assistant with Child and Family Services.

Summary of Accomplishments in 2010-11

In its eighth fiscal year of operation, BFSA continued to assist the City and its covered organizations in attaining long-term fiscal stability. While there is tangible evidence of the City's progress emerging during the 2010-11 fiscal year, there continues to remain significant financial challenges that the City and the covered organizations are facing. Such challenges are discussed throughout this report and are addressed in detail in the section titled "City of Buffalo and Covered Organizations – Reports on the 2011-12 Budgets and Related Four-Year Financial Plans".

Certain key indicators of the progress of the City include the following:

- Standard & Poor's ("S&P") upgraded the City's A- rating to an A rating with a stable outlook on the City's general obligation long-term debt in the 2010-11 fiscal year, citing the ongoing relationship between the City and BFSA, management's willingness to adopt many of BFSA's control mechanisms and general fund operating surpluses in each of the past six fiscal years. Previously (in 2009), S&P upgraded the City credit rating from BBB+ to A-, reflecting "the city's improved financial profile, stronger financial management controls, and continued advisement provided by the Buffalo Fiscal Stability Authority. The outlook is stable." S&P has also cited the ongoing relationship between the City and BFSA, which together have worked to achieve structurally sound operations for three consecutive years, as well as a four-year financial plan that clearly identifies out-year operating gaps and gap-closing measures, City management's willingness and proactive approach in adopting many of the BFSA control mechanisms into its own charter, adding long-term stability to the credit, and structurally sound general fund operating surpluses achieved in each of the past three fiscal years, resulting in strong accumulated general fund reserves.
- Both Moody's Investor Services and Fitch Ratings reaffirmed their credit ratings of the City during fiscal year 2011 at A2 positive outlook and A+ stable outlook, respectively.
- The City's total General Fund fund balance increased from \$138.6 million at June 30, 2009 to \$142.7 million at June 30, 2010. The City's unreserved, undesignated fund balance increased from \$48.20 million at June 30, 2009 to \$49.95 million at June 30, 2010. Total unreserved fund balance, which includes the Rainy Day Fund, increased from \$100.9 million to \$110.2 million. The City's Rainy Day Fund, representing a minimum of 30 days of the prior year's general fund expenditures, which may be used for unforeseen capital or operating expenditures, increased from \$33.64 million to \$34.35 million from June 30, 2009 to June 30, 2010.

The City's total unreserved, undesignated fund balance was at its highest point at June 30, 2007 when it totaled \$76.02 million.

- The School District's total fund balance increased from \$169.89 million at June 30, 2009 to \$212.12 million at June 30, 2010. Total unreserved fund balance at June 30, 2009 of \$168.89 million increased from its level at June 30, 2009 of \$138.25 million. Unreserved, undesignated fund balance decreased from \$42.58 million at June 30, 2009 to \$36.33 million at June 30, 2010.

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

Multi-Year Financial Planning

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

In 2010-11, BFSA monitored implementation of the eighth four-year financial plan for the City and its covered organizations. That plan covered fiscal years ending 2011 through 2014, and contained budget balancing measures the City did not need to implement in recent years. For example, the City's four-year plan anticipated the use of \$36.98 million in unreserved, undesignated fund balance, the use of \$6.9 million in restricted State Aid to Municipalities ("AIM"), as well as \$20.75 million in proposed Programs to Eliminate the Gap (PEGs) to be able to balance the four-year financial plan. The School District also included Programs to Eliminate the Gap (PEGs) in each year of its financial plan to balance its budget. The School District's four-year financial plan contained operating deficits each year for 2011 – 2014 which altogether totaled \$124 million, and included the utilization of \$100 million of fund balance over the course of the financial plan.

BFSA also approved the ninth four-year financial plan for the City and its covered organizations in June 2011, covering fiscal years ending 2012 through 2015. The most recent financial plan was the fifth consecutive plan since 2007-08 that did not rely on the savings of a wage freeze. BFSA issued separate reports governing the preliminary budgets and financial plans for the City and covered organizations, as well as reports on the final budgets and financial plans. A summarization of such reports is included herein under the section titled "City of Buffalo and Covered Organizations – Reports on the 2011-12 Budgets and Related Four-Year Financial Plans".

Monitoring Fiscal Health

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

In 2010-11, BFSA continued to monitor the regular quarterly reporting process of the City and its covered organizations and reviewed the financials to determine if modifications were necessary. The following summarizes many, but not all, actions BFSA took in 2010-11 in response to the monitoring:

- BFSA approved one City budget modification during the fiscal year in the amount of \$2.6 million, which was funded from the City's General Fund unreserved, designated fund balance for judgments and claims to cover several legal settlements.
- BFSA approved the City's 2011 \$22.4 million capital improvement budget on June 15, 2011. The plan met the requirements of the BFSA's that the City develop a full five-year capital improvement program. BFSA's approval was conditioned on the City "continu(ing) to reduce its use of capital borrowing for short-term operating expenses that are not supported by a long-term physical asset with the goal of eliminating the practice..." and "continu(ing) to rescind authorized but unissued debt whenever possible."
- In recognition of the improved financial situation of the City, BFSA authorized the City in June 2011 to borrow approximately \$27.3 million to finance new capital projects for itself and its dependent school district. BFSA staff monitored the process and pricing of the issue and provided final approval.
- At the time of the drafting of this report, BFSA has not received nor approved the Buffalo Municipal Housing Authority's capital budget for FY 2012 for improvements and redevelopment of BMHA's housing stock. This is attributed to being a timing issue, since the U.S. Department of Housing and Urban Development ("HUD") reduced the BMHA capital budget allocation in July 2011.
- BFSA reviewed and approved 203 City contracts and obligations totaling \$86.4 million; 172 School District contracts and obligations totaling \$51.9 million; 28 BMHA contracts and obligations totaling \$12.4 million and 39 BURA contracts and obligations totaling \$15.4 million. In addition, the

BFSA approved Phase V Joint School Construction Board Financing in the amount of \$195 million.

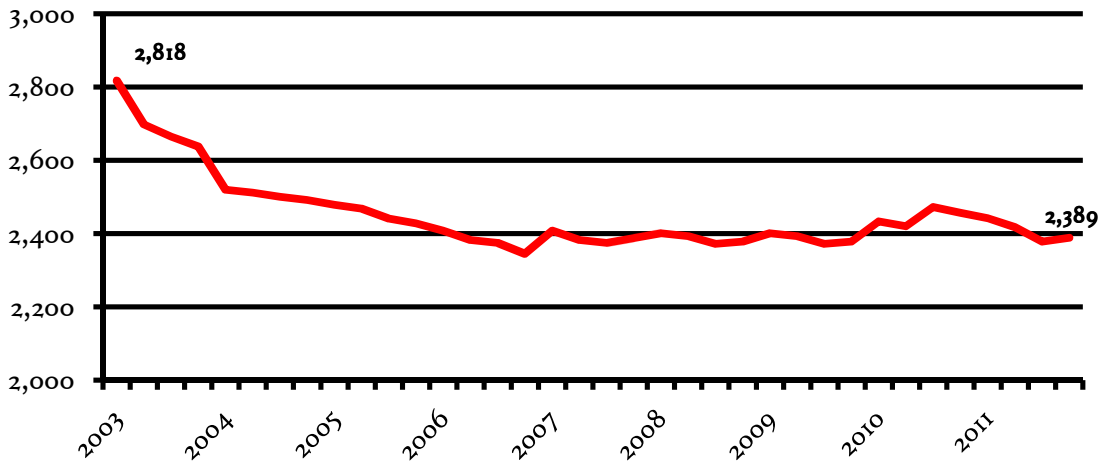
Workforce Summary and Trends

Workforce costs represent the single largest expenditure category in the City and its covered organizations. For the City in 2010-11, the costs of employee salaries, pensions, health insurance (for active and retired employees) and other benefits accounted for 85 percent of budgeted spending. In the School District, it represented 60 percent. In addition, workforce costs are among the fastest-growing budget categories due to significant increases in fringe benefits, in particular health insurance and pension contributions. The City's liability for its retiree health insurance costs, representing its long-term Other Postemployment Benefit (OPEB) liabilities, was required to be recorded at June 30, 2008, under generally accepted accounting principles ("GAAP"). This estimate is required to be revalued every two years. The City's OPEB obligation at June 30, 2010 was estimated at \$1.2 billion, while the School District's obligation was also estimated at \$1.2 billion. The City's long-term fiscal stability remains directly tied to its ability to manage the size and cost of its workforce.

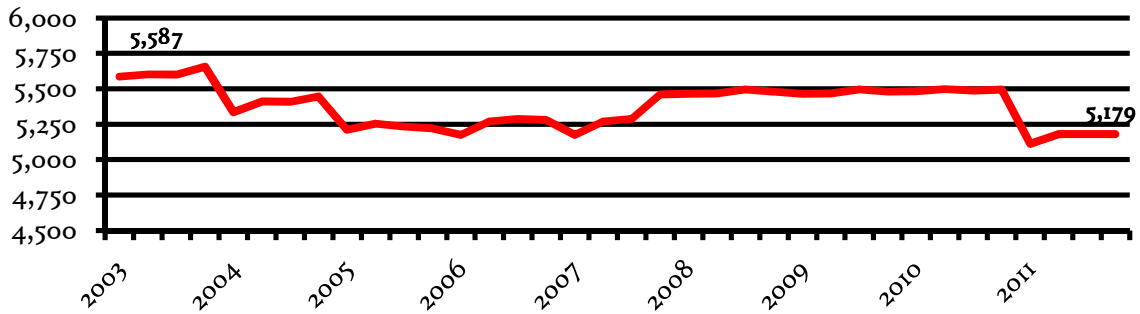
In 2010-11, the City increased its budgeted workforce modestly by a net 5 positions compared to FY 2010; filled positions actually decreased by 68 to 2,389 compared to 2,457 at FYE 2010. The School District's budget reduced employment levels by 287 positions, while filled positions decreased by 314 positions to 5,179; it is noted that staff levels remain below 2003-04 levels. BMHA's workforce was essentially static, decreasing one position to a total of 228 filled positions. BURA had 57 positions both budgeted and filled at the conclusion of the 2010-11 fiscal year. BURA's workforce size remains significantly below 2003-04 levels when BFSA was created. Additionally, BURA fully funds 5 positions in the City's Office of Strategic Planning.

The following charts detail both the City and School District's staff levels since 2003.

City Workforce Size
(number of FTEs - actual)



School District Workforce Size
(number of FTEs - actual)



Projected workforce trends are discussed in the section titled “City of Buffalo and Covered Organizations – Reports on the 2011-12 Budgets and Related Four-Year Financial Plans”.

Providing a More Cost-Effective Financing Framework

Over four years, from 2004 through 2007, BFSAs reduced the City’s capital and cash flow debt costs, refunded existing City debt at more beneficial interest rates, and provided short-term budgetary relief through deficit financing (it is noted the statutory power to undertake deficit financing expired at the end of the 2006-07 fiscal year). This was possible due to BFSAs’s highly-rated credit as compared to the City’s bond ratings, which enabled savings for the City upon issuance of its Declaration of Need.





BFSAs’s own credit rating was previously upgraded by rating agencies. In 2007, Fitch Ratings upgraded BFSAs to AA from AA- to reflect “the demonstrated

effectiveness of the Buffalo Fiscal Stability Authority in assisting the recent improvement of the city of Buffalo's fiscal condition." This followed a rating upgrade from Moody's Investors Service in 2006 to Aa2 from Aa3. These upgrades further enhanced financing savings BFSA was able to produce for the City. When Moody's recalibrated ratings in 2010, BFSA was rated at the Aa1 level, while Fitch rated BFSA at the AA+ level after the recalibration occurred. The BFSA has not been rated since 2007, when the City recommenced borrowing on its own behalf.

Pursuant to the BFSA Act, all of the City's State aid, along with both the City and School District's portions of the local sales tax, are legally revenues of BFSA. The first call on those revenues is to pay any debt service, which allows BFSA to maintain a credit rating superior to the City's. However, as previously noted the City has made significant strides in improving its credit ratings. The rating agencies have commented on the success the City has had, but cautions the improved ratings by highlighting several underlying issues that the City is faced with, including aging infrastructure, declining population, and dependency on State aid.

Since BFSA was created in 2003, the City's credit rating has improved from BBB- with negative outlook to A- stable from Standard & Poor's, and from Baa with negative outlook to A2 positive outlook from Moody's Investors Service (after the recent recalibration). The City's credit ratings in 2003 were perilously close to the "non-investment grade" by all rating agencies. It is noted that currently the rating outlook from all three rating agencies is stable. In its rating upgrade report, S&P states that the upgrade reflects "strong financial performance, as evidenced by a six-year history of operating surpluses and accumulation of substantial general fund reserves; improvements of its financial practices through the adoption of many of the BFSA fiscal control mechanisms into the city charter, enhancing long-term stability; and the ongoing relation between the City and BFSA, which together have worked to achieve structurally sound operations, as well as a four-year financial plan that clearly identifies out-year operating gaps and gap-closing measures".

The following table illustrates credit rating comparisons between BFSA and the City of Buffalo in 2011:

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

For the year ended June 30, 2011, the BFSA earned or accrued a total of \$551,758 in investment earnings from funds held in various bond related accounts, from state funds held on behalf of the City and from funds in its own operating accounts.

During the year under review, at the request of the City and in recognition of the improvements in the financial condition of the City, the BFSA authorized the City to borrow \$27,300,000 on its own for City and School District capital needs. BFSA monitored the transaction process and the pricing, and ultimately approved the transaction. These bonds were sold competitively as opposed to a negotiated sale and represents the first time in 29-years that that the City has competitively sold bonds, and is indicative of the improving fiscal situation of the City. Additionally, the City completed a separate bond refinancing during 2011. The City has not required a cash flow borrowing since 2006.

The following table contains a listing of all BFSA debt transactions since the Authority was created, and amounts outstanding at June 30, 2011:

BFSA Debt Table at June 30, 2011					
(\$ in thousands)	Issue Date	Bond Par Issued	Note (BAN) Par Issued	Bond Par Outstanding	Note Par Outstanding
Sales Tax and State Aid Secured Bonds (Series 2004A)	Jun-04	\$25,745		\$11,915	
Bond Anticipation Notes (Series 2004A-1)	4-Sep		\$84,000		\$0
Sales Tax and State Aid Secured Bonds (Series 2005A)	Jun-05	\$28,030		\$17,435	
Sales Tax and State Aid Secured Bonds – Refunding (Series 2005B&C)	Jul-05	\$47,065		\$30,945	
Bond Anticipation Notes (Series 2005A-1)	Jul-05		\$90,000		\$0
Sales Tax and State Aid Secured Bonds (Series 2006A)	Apr-06	\$27,270		\$21,740	
Bond Anticipation Notes (Series 2006A-1)	Apr-07		\$60,000		\$0
Sales Tax and State Aid Secured Bonds (Series 2007A)	Apr-07	\$28,470		\$24,725	
Total		\$156,580	\$234,000	\$106,760	\$0

Structural Reform and Savings Opportunities

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

Budgetary Control: In 2010-11, the BFSA monitored the 2011-14 financial plans of the City and its covered organizations. Such monitoring was performed through various activities including but not limited to: analysis and reporting on the financial plans, analysis and reporting on quarterly reports, monitoring of action by entities (e.g., BURA pay-down on outstanding Section 108 loans, effective planning for efficiency grants by the City, contract review, etc...) and reviewing any budget modifications for BFSA board consideration. The BFSA's final evaluation of the City's compliance with its financial plan for the year ended June 30, 2011 is expected to occur in or around December 2011.

Collective Bargaining Agreements: In December 2010, BFSA disapproved a collective bargaining agreement ("CBA") for union employees as proposed by the Buffalo Municipal Housing Authority for operating engineers (Local 17). The contract was disapproved on the grounds that it did not address long-term OPEB costs or short-term health insurance costs. The contract maintained a six-month vesting period for individuals to be eligible for health insurance in retirement, which was deemed to be overly generous.

BFSA approved a contract for BURA's covered (Civil Service Employees Association, Inc., Local 815) and exempt employees in February 2011. The proposed contract presented to the BFSA appropriately addressed raising health insurance costs and contained reasonable wage increases. This CBA provided employees annual 2 percent raises, as well as \$2,000 salary upgrade. The CBA also included certain concessions that began to reform some of the costly CBA provisions from previously agreements. Some of these concessions included reduced vacation time for new employees, the elimination of one personal day for current employees and a reduction of two days for new hires, switching to a lower cost health insurance plan for all employees, contributions towards health insurance premiums for current and new employees, increased job responsibilities, increased health insurance contributions in retirement for all employees depending on their length of service, elimination of summer hours between Memorial Day and Labor Day, and the withdrawal of lawsuits against BURA and BFSA. The increased costs of the contract fit within BURA's budget and four-year financial plan.

In May 2011, the BFSA approved Resolution 11-05, which prohibited the City from paying an arbitration award to the Buffalo Professional Firefighters Association, Inc. Local 282 for the period beginning July 1, 2002 through June 30, 2004. It stated that there would be no payment of awarded salary increases

for any period prior to July 1, 2007, since the increases were not in effect prior to the commencement of the wage freeze on April 21, 2004. The arbitration award was for the period between July 1, 2002 through June 30, 2004.

In May 2011, BFSA approved a labor agreement between the Buffalo Public Schools and their Transportation Aides of Buffalo (TAB), which represents workers who monitor and supervise school children on the District buses during the academic year. The three year CBA provides workers with incremental salary increases to move them towards the Districts' adopted Living Wage Ordinance.

In May 2011, BFSA approved a Memorandum of Agreement between the Buffalo School District and the Buffalo Teachers Federation that provided an early-retirement incentive to employees that had missed an earlier opportunity to retire either through the prior-year offered State sponsored incentive, or through the early-retirement incentive in their current CBA based on a combination of age and years of service. The agreement provided qualifying employees with a \$10,000 payment per employee for accepting the early retirement incentive. The total cost of the MOA was estimated at \$660,000. The District anticipated that the early retirement incentive would allow the number of full time equivalent positions to be reduced through attrition and allow vacated positions to be filled with teachers on lower a lower pay grade. The agreement was determined to be affordable and compliant with the District's financial plan.

Efficiency Funding: The non-competitive State funds are earmarked specifically for investments in efficiency cost-containment projects and require BFSA approval. The enacted 2010-11 New York State budget reduced efficiency incentive grant appropriations of all uncommitted grant funds effective for the second consecutive year, reducing the balance of remaining Efficiency Grants to \$4.6 million. This reduction negatively affected Buffalo's remaining balance of efficiency funds to "achieve recurring savings through innovations and reengineering." In July 2010 the City requested project approval in the amount of \$1.4 million for the City's Land Use Plan and Zoning Initiative; such approval was granted. In November 2010, the City requested a series of project approvals in the total amount of \$3.2 million for the following programs: \$925,000 for Continuation of VOIP deployment to all City owned buildings; \$865,000 for asset and property management review/planning; \$850,000 for an automated time and attendance system, \$240,000 for a centralized vehicle management system, \$200,000 for a fuel tracking system, and \$120,000 for replacing the fuel dispensing pumps; such approval was granted.

BFSA Recommendations: BFSA contributed to the identification of opportunities for reform and savings through a number of projects and presentations to the Board during the fiscal year. In particular, BFSA made presentations concerning other postemployment benefits liabilities and methodologies that could be implemented to reduce this staggering future cost.

BFSA reviewed several Collective Bargaining Agreements (“CBA’s”) during the 2011 FY and constructed multiple schedules identifying the various components of the CBA’s and differences between similar employee groups employed by the different covered organizations.

BFSA also began analyzing and reviewing various components of health care costs and have tracked those pieces for both the City and the District. BFSA closely monitored overtime usage, particularly with the fire and police departments. Additionally, BFSA made presentations on the budgetary growth of both the City and School District since BFSA’s inception.

Legal Matters

The adoption of the wage freeze by BFSA in April 2004 was the basis for a number of lawsuits as was the subsequent lifting of the wage freeze effective 2007. BFSA has successfully defended each case which has been concluded and is vigorously defending those cases not yet concluded. The single largest case that was pending was settled by the Court of Appeals in March 2011. The Court of Appeals found in favor of the BFSA that the implementation of the wage freeze over multiple years was legal and that employees could only be moved up one-step, since steps did not accrue during the period of the wage freeze. Pending cases involving the BFSA are briefly summarized below in the order of commencement:

- American Federation of State, County and Municipal Employees v. Tobe, et al. – This lawsuit was brought in the United States District Court for the Western District of New York by various unions challenging in the wage freeze imposed by the Authority. Most of the issues were resolved in favor of the Authority by the Second Circuit in a case brought by the Buffalo Teachers Federation. Three of the unions have agreed to withdraw their claims as a part of new collective bargaining agreements. The only remaining plaintiffs are the International Union of Operating Engineers Local 17 and Teamsters Local 264. Cross-Motions for Summary Judgment are pending before the District Court to have the remaining issues determined as a matter of law. The motions have been argued and are in the Court’s hands for decision.

- Buffalo Teachers Federation v. Richard Tobe et al. – This case involves a motion brought by the Buffalo teachers against BFSA seeking to reopen the original case in which the wage freeze was found to be constitutional. The motion is being made because the Court of Appeals of the State of New York ruled on March 29, 2011 that the contractually provided step increases and increments were not deemed to have accrued during the period of the freeze so that the employee’s salary upon the lifting of the freeze would not be the same as they would have been had there been no freeze. BFSA has responded in opposition to the motion and the City and

School District have moved to intervene in opposition to the motion. All papers have been filed with the court which has not decided the case.

- Meegan v. Byron W Brown as Mayor of the city of Buffalo; City of Buffalo and Buffalo Fiscal Stability Authority – This case is a lawsuit in Federal District Court by the police union seeking a declaration that the statute creating the BFSA is unconstitutional and arises primarily from the decision by the New York Court of Appeals holding that steps and increments do not accrue under the statute during the period of the freeze. The action was commenced on June 14, 2011 and the BFSA is preparing a defense.
- Buffalo Professional Firefighters Association, Inc., IAFF Local 282 v. Buffalo Fiscal Stability Authority and City of Buffalo – This proceeding was brought by the firefighters union to declare a resolution enacted by the BFSA on May 11, 2011 to be invalid. The resolution ordered the City of Buffalo to not pay any increases in wages or benefits provided under a recent arbitration award for the period beginning July 1, 2002 through June 30, 2004. The proceeding was commenced on July 15, 2011 and BFSA is preparing papers in opposition to the proceeding.
- Gress v. City of Buffalo and BFSA - This lawsuit was brought by four Buffalo seasonal employees who claim that the wages paid to them by the City of Buffalo since July 2002 have violated the City of Buffalo's so called "Living Wage Ordinance." The action has been certified on behalf of all other similarly situated seasonal employees. BFSA was named as a party for a declaration that BFSA does not have the authority to freeze or control the wages of the Plaintiff or the class but BFSA is defending the lawsuit on all issues. The trial court granted a Motion for Summary Judgment by the Plaintiff dismissing the BFSA from the case and denying the City's Motion for Summary Judgment based upon a question of fact. Both the City and the Authority appealed that decision and the Appellate Division affirmed. BFSA has moved for leave to appeal to the Court of Appeals and that motion has not yet been decided.

Public Meetings

BFSA held ten public meetings of the Board of Directors in 2010-11, fully complying with the Open Meetings Law. In addition, three public meetings of the Board's Governance Committee and three public meetings of the Audit, Finance and Budget Committee were convened. All meeting minutes and resolutions for every BFSA meeting are available on the Authority's website. As begun in May 2007, BFSA continues to offer video webcast files of its Board meetings via the Authority's website. Two Executive Sessions were held, and the minutes are also available via BFSA's website. BFSA had the required quorum present at all of its public meetings in 2010-11.

Internal Controls

The purpose of the internal control program is designed to ensure that BFSA has a system of accountability for and oversight of its operations and to assist BFSA in achieving its goals and objectives with minimal risk to the organization's operations. BFSA took a series of steps in 2010-11 to reinforce its system of internal controls and to promulgate new policies regarding records management, procurement and property:

- In July 2010, the Board reviewed, affirmed and re-adopted by Resolution the BFSA's Prompt Payment Policy, in compliance with Section 2880 of the Public Authorities Law requiring public authorities to promulgate rules and regulations detailing its prompt payment policy and to periodically review such guidelines.
- In July 2010, the Board, reviewed, affirmed and re-adopted by Resolution guidelines regarding Property Disposal for BFSA, in compliance with Section 2896 of the Public Authorities Law requiring public authorities to adopt comprehensive guidelines detailing the authority's operative policy on the disposal of personal property.
- In July 2010, the Board reviewed, affirmed and re-adopted by Resolution a BFSA Whistleblower Policy, stating the Authority's position on whistleblowers who report illegal or unethical practices by the Authority, staff members or Directors, in accordance with the Public Authority Accountability Act of 2005.
- In July 2010, the Board affirmed and re-adopted by Resolution BFSA's Investment Guidelines in compliance with Section 2925 of the Public Authorities Law requiring public authorities to develop investment guidelines that establish a set of basic procedures to meet investment objectives and other specific criteria.
- In September 2010, the Board affirmed and re-adopted by Resolution BFSA's Code of Ethics, stating the Authority's position on conflicts of interest, personal integrity, honesty, ethical conduct and public trust.
- In September 2010, the Board affirmed and re-adopted by Resolution BFSA's Procurement Policies in compliance with State Law requiring the authority to adopt guidelines for the Use, Awarding, Monitoring and Reporting of Procurement Contracts.

Regarding its own finances, BFSA received a clean, unqualified opinion from its independent outside auditor, Lumsden & McCormick LLP. That audit report was reviewed, accepted and approved by the Board at its October 3, 2011 meeting.

The 2010-11 audit report along with all previous independent audit reports of BFSA's finances, are available on the Authority's website.

BFSA took several actions regarding its budget during the 2010-11 fiscal year:

- In March 2011, the Board's Audit, Finance and Budget Committee authorized by Resolution the posting of BFSA's proposed 2012-15 budget and four-year plan in at least five locations, including City locations of the Buffalo and Erie County Public Library. This action complied with regulations of the Office of the State Comptroller that BFSA make available the proposed budget and financial plan for public inspection for at least 30 days before Board approval, and not less than 60 days before the commencement of the next fiscal year, and for a period of not less than 45 days. In addition, the proposed budget and financial plan was posted on BFSA's website to enhance public access.
- In June 2011, after the public review period had been completed the Board adopted by Resolution BFSA's budget for 2011-12 and four-year plan for 2012-15.

BFSA did not procure new or additional services with any outside service vendors during fiscal year 2010-11. However, BFSA did enter into a month-to-month leasing agreement for its office space; refer to the section titled "Leases" for additional information.

BFSA's Principal Analyst served as the Authority's Internal Controls Officer for 2010-11. The Internal Controls Officer reviews internal control policies and procedures on a quarterly basis (or more often if required) and regularly meets with BFSA staff to ensure internal control performance standards are being met and recommendations are being executed. An Internal Management Committee consisting of the Executive Director, Comptroller and Principal Analyst provides accountability for internal control and operations. In addition, the Executive Director and Comptroller work closely with BFSA's independent outside auditor, which also ensures that internal control and operational responsibilities are being carefully reviewed by BFSA, and deficiencies are addressed as necessary.

BFSA follows the guidelines established in the Internal Controls Manual, which describes internal control standards and contains various policies and procedures on procurement, investments, purchasing and reimbursement, financial transactions, travel and purchase card reimbursement and also includes the BFSA's office technology and facilities management handbook. BFSA is satisfied that this structure and these procedures are sufficiently effective in monitoring the Authority's internal controls.

Pursuant to Section 2800.2(a)(5) of the NYS Public Authorities Law, the following compensation information is provided: In 2010-11 BFSA was managed by

Jeanette M. Mongold, Executive Director. The Executive Director's annual salary of \$102,000 was part of her compensation. Jeanette Mongold's health insurance benefits through the New York State Health Insurance Program totaled \$5,588, which was paid by the BFSA; Jeanette Mongold's pension contribution (to New York State and Local Retirement System) was \$11,526.

BFSA does not provide Board Members with compensation, but does reimburse members for their travel expenses to attend Authority meetings, and for other Authority related matters. Total meeting travel expenses for the year ended June 30, 2011 was \$1,305.

In 2010-11, BFSA offered the following employee benefit plan options through the New York State Health Insurance Program: Empire Plan, Independent Health, and Blue Cross Blue Shield. Additionally, dental and vision plans are offered.

Leases

BFSA is current party to a month-to-month lease with the Buffalo Economic Renaissance Corporation ("BERC") for its offices in the Market Arcade Building located at 617 Main Street, Suite 400, Buffalo, New York, 14203. The monthly amount is currently \$3,412.50; annualized this totals \$40,950.

Performance Measurement

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

- The review and approval of the City's and covered organization's budgets and four year financial plans (completed June 2011);
- The review of the City's and covered organization's quarterly financial plans (completed on a quarterly basis throughout the fiscal year);
- The review and the approval or disapproval of budget modifications during the year (completed throughout the 2010-11 fiscal year);
- The review and approval or disapproval of the annual capital budget (approved 2011 Capital Plan on June 15, 2011 for the City);
- The review and approval or disapproval of capital borrowing (approved June 15, 2011);

- The review and approval or disapproval of contracts entered into that exceed \$50,000 (approved throughout the fiscal year);
- The review and approval or disapproval of all proposed collective bargaining agreements, regardless of dollar value (as previously noted considered throughout fiscal year as presented to BFSA).

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

BFSA Actions

Deficit Borrowing	\$26.9 million
Wage Freeze Savings	\$57.8 million
District Subsequent Wage Freeze Savings - through June 30, 2012	\$92.5 million
Draw Down of Efficiency Grants	\$20.1 million
Wage Freeze Impact on Firefighters' Arbitration Award	\$14.5 million
Savings on Debt Issuance Costs	\$5.0 million
Current year decrease of cosmetic surgery costs-FY 2011	\$4.0 million
Refinancing of City Debt	\$1.8 million
Interest Earnings over what the City could have earned	\$1.5 million
Disapproval of BMHA Labor Contracts	\$1.4 million
Participation in JSCB Phase II Bond Pricing	\$1.0 million
Deputy Superintendent's Separation Agreement	\$0.2 million
Subtotal	\$226.7 million

City and Covered Organization Actions

Fiscal Year 2003-04

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

Fiscal Year 2004-05

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

Fiscal Year 2005-06

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

Fiscal Year 2006-07

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

Subtotal	\$144.8 million
Total Impact to Date	\$371.5 million

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

Other Actions

Credit Related:

Improved City credit rating at A stable from S&P (2011)
Recalibrated BFSA credit rating to Aa1 stable from Moody's (2010)
Recalibrated BFSA credit rating to AA+ stable from Fitch (2010)
Rated City credit rating at A+ stable level from Fitch (2010)
Recalibrated City credit rating to A2 stable from Moody's
Improved City credit rating to A- stable from S&P (2009)
Improved City credit rating to BBB+ stable from S&P (2008)
Improved BFSA credit rating to AA stable from Fitch (2007)
Improved City credit rating to Baa2 stable from Moody's (2007)
Improved City credit rating to BBB-stable from S&P (2006)
Improved BFSA credit rating to Aa2 stable from Moody's (2006)
Improved outlook on City debt from Moody's (2006)
Improved outlook on City debt from Standard & Poor's (2003)

Debt Related

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

Labor Related:

Implemented new wage and benefit package with BURA's employees (2011)
Disapproved a new wage and benefit package with BMHA's Local 17 - Operating Engineers (2011)
Implemented new wage and benefit package with BMHA's Exempt Non-Represented employees (2010)
Implemented new labor contract with the Buffalo Public School System's Summer Food Service Workers (2010 and 2008)
Implemented new labor contract with the Buffalo Public School System's Substitute Teachers, known as SU/B (2009)
Implemented new labor contract with BMHA's Blue, White and Managerial class employees, Local 264 (2009)
Implemented new labor contract with the City's Building Inspectors (2009)
Implemented new labor contract with Transportation Aides of Buffalo and the Buffalo School System (2009)
Implemented new labor contract with the City's Blue-Collar workers (2009)
Implemented new labor contract with cooks and food service workers and the Buffalo School System (2008)
Implemented new labor contract with the Buffalo Educational Support Team and the Buffalo School System (2008)
Implemented new labor agreement with the City's White-Collar workers (2008)
Implemented new labor contract with Buffalo Crossing Guards, Inc. (2008)

City of Buffalo and Covered Organizations

Reports on the 2011-12 Budgets and Related 2012-15 Four-Year Financial Plans

Overview

On June 15, 2011, by Resolution No. 11-11, 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 2011-12 through June 30, 2015.

This section summarizes the financial plans 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 budgets and financial plans were submitted by the Mayor to BFSA on May 2, 2011, in accordance with the requirements of the BFSA Act. This report summarizes that plan, the ninth such financial plan approved since BFSA was created by New York State in 2003 and the fourth since 2003-04 to not rely on the savings of a wage freeze. The City's Common Council made minor revisions and approved the budget on May 20, 2011. Per the City Charter the Comptroller's office is required to certify the City's projected revenues for the upcoming fiscal year. The Comptroller's office certified the revenues included within the Mayor's proposed budget on May 9, 2011.

The City's budget for FY 2011-12 is balanced with the planned use of \$12.3 million of unreserved, undesignated fund balance. Totalling \$462.3 million, the FY 2012 budget is \$1.7 million greater than the FY 2011 budget. Revenue growth is relatively flat over the course of the four-year financial plan, increasing by 5.5 percent or \$24.1 million in FY 2014-15. That translates to an annual growth projection of 1.8 percent a year.

Overall, State assistance is expected to decrease \$4.4 million in 2011-12 as compared to budgeted amounts in 2010-11, and remain relatively flat over the life of the financial plan. County sales tax receipts are anticipated to decrease approximately \$1.6 million from the 2011 adopted budget. Property tax revenues are expected to decrease slightly by \$.67 million from 2011 levels.

Total expenditures for 2011-12 are budgeted at \$462.3 million, representing an increase of \$1.8 million, or 0.4 percent, as compared to the adopted 2010-11 budget of \$460.6 million. The increase in budgeted expenditures is attributed

primarily to increases for fringe benefits, which are projected to increase in 2011-12 by \$5.8 million, as compared to the prior year.

Pension contributions will increase as a result of increased contribution rates as calculated by the New York State Comptroller's Office. The City has budgeted an increase of \$3.7 million for this expected increase in pension contributions. In addition, health insurance for both active and retired employees is expected to increase approximately \$1.4 million from 2010-11 levels. The remaining amount of \$700,000 is attributed to all the remaining accounts and does not represent any large individual increases. The City has offset the increase to fringe benefit costs decreasing departmental level expenditures by \$3.3 million which is achieved through a combination of decreases in personal services, supplies and capital outlays. Decreases in personal service costs are largely attributed with filling current and future vacancies with potentially lower step/paid employees.

The economic recession continues to impact the City in the upcoming fiscal year, as well as during the out-years of its financial plan. In order to balance the 2011-12 budget, the City found it necessary to utilize its unreserved, undesignated fund balance to address the gap between operating revenues and expenses as well as utilizing the restricted AIM held by BFSA and implementation of PEG (programs to eliminate the gap) actions.

The four-year financial plan has a total budget deficit in excess of \$64.0 million and compared to the 2010-11 budget revenues are projected to decrease year to year. As previously noted the City has utilized \$12.3 million of unreserved, undesignated fund balance to balance the upcoming budget. The City plans on utilizing fund balance in each year of its financial plan. The planned use of fund balance within the 2012-2015 Four-Year Financial Plan is \$37.9 million, which accounts for approximately 76% percent of the current unreserved, undesignated fund balance. In addition, it was necessary for the City to incorporate a series of Programs to Eliminate the Gap (PEGs) in 2012-13, 2013-14 and 2014-15 for a total deficit reduction plan of \$11.75 million. The City also plans to draw-down and utilize \$14.4 million of restricted AIM over the course of the financial plan.

The City has presented a balanced budget and four-year financial plan which does draw relatively heavy on fund balance, uses PEGs and also utilizes restricted AIM funds. BFSA's analysis indicates that there are areas of financial concern that require strong operational and fiscal management by the City in order to mitigate such risks. It is noted that these risks, outlined below, are manageable in the upcoming budget year particularly because of the use of fund balance. The City's unreserved, undesignated fund balance was \$49.95 million at June 30, 2010, as per the most recent audited financial statements, with an additional \$34.3 million rainy day fund, which carries some restrictions.

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

(1) The City has provided a budget and financial plan which increases reliance on nonrecurring revenue sources (i.e., AIM funds, the use of fund balance, and PEGs.) The use of unreserved, undesignated fund balance is planned for recurring expenditures which is an unsustainable practice.

The City has budgeted for the use of unreserved, undesignated fund balance to maintain/decrease the property tax rate over the financial plan, and to continue to provide services to residents, during a time period where the impact of the latest national recession is still affecting both local and regional economies.

The budget has been prepared conservatively with respect to revenues, which establishes the overall annual spending limit of the City. The City relies on externally generated revenues such as State Aid and Sales Tax, representing 42% and 15% on average, respectively, of total City General Fund revenues. An economic recession/downturn, therefore, has the ability to have a significant detrimental impact on the City's finances. The City's available fund balance has allowed the City to weather this recent recession, but as was discussed earlier the unreserved, undesignated fund balance is projected to decrease by over \$39 million by FY 2015.

The actual use of fund balance will need to be closely monitored by the City Administration as the economic realities adjust. The continual use of fund balance for operating expenditures will ultimately require reconsideration of the overall budget, as these resources reflect one-time uses that were obtained through a combination of increases in state aid, the wage freeze, and initiatives by the City Administration. The table below, under item (2) highlights the non-recurring resources that will be utilized over the course of the financial plan.

(2) Reliance by the City on non-recurring revenues and use of reserves to fund operating deficits is as follows:

	BUDGET YEAR				4-Year Total
	(\$ in millions)				
	2012	2013	2014	2015	
	\$	\$	\$	\$	\$
Use of Fund Balance	12.3	11.5	9.6	4.4	37.9
Use of Restricted AIM	3.3	4.5	3.3	3.3	14.4
Total Nonrecurring Revenue/Other Sources	15.6	16.0	12.9	7.7	52.3
Total Budgeted Appropriations	462.3	466.9	474.1	481.7	
% of Nonrecurring Revenues/Other Sources to Budgeted Appropriations	3.4%	3.4%	2.7%	1.6%	

(3) The City's unreserved, undesignated fund balance was \$49.95 million at June 30, 2010, as per the most recent audited financial statements; there is an additional \$34.3 million rainy day fund, which carries some restrictions for its use. The City's budget for FY 2011-12 is balanced with the planned use of \$12.33 million of unreserved, undesignated fund balance.

(4) There are no provisions for salary increases for employees/members of any of the City's unions, as well as non-represented employees. All unions, with the exception of one smaller represented group, have contracts which either have expired, or will expire June 30, 2011. The two largest unions, including police officers and firefighters, can revert to binding arbitration. Increases in salaries and wages for these unions alone would have a significant impact on total expenditures and furthermore the results of operations of the City, if they do not include significant concessions, and would present further challenges in determining how to pay for these increases in the future. Staff costs represent 84% of the City's budget.

(5) Consistent with prior year, the City continues to maintain a tight budget over capital outlays, supplies and other areas, such as travel, over the life of the financial plan. The City continues to bond for capital and infrastructure items, which ultimately costs more due to interest costs. As events unfold, it would be advisable for the City to determine if fund balance could be better used for improvements or projects that will ultimately save costs due to not requiring bonding. It will be challenging for the City to continue to maintain services in an environment where economic resources may not be available to meet the needs of its citizens.

(6) The City did budget increases in State Aid conservatively, however there is uncertainty regarding what will actually occur with state funding. State Aid could stay stable, could decrease, or furthermore could increase; all scenarios dependent on external factors outside of the control of the City Administration. The City continues to closely monitor this, and it is an area that fluctuates year to year as the State adopts its annual budget. Additionally, it is noted that there is proposed legislation that would limit or "cap" the annual growth of property tax year to year. There are various versions of the property tax cap being proposed and the impact of the final legislation or if it will even be enacted is unknown at this time. The legislation could potentially limit the City's ability to raise revenue quickly. Real Property Tax collections are one of the few revenues that the City has direct control over and the cap could limit the City's Administration's authority to utilize it.

Note: New York State did pass legislation enacting a real property tax cap on June 27, 2011. The impact of such legislation is yet to be determined as the New York State Comptroller's Office is in the process of providing its interpretations of the law.

(7) A significant change in services is the recommencement of operations of the City's pre-trial detention center ("City Lock-Up"). The City and County had an inter-municipal agreement effective July 1, 2003 which was terminated by the County. As a result, the City will be constructing a facility to process males arrested in the City who are awaiting their pre-trial hearing. Estimated costs of construction are \$3.5 million, and annual operating costs are approximately \$1.5 million annually. The effective date of termination for the City Lock-Up agreement with the County is February 4, 2012.

(8) The financial plan modestly addresses the deficit in the Refuse Fund; however this fund continues to operate at a loss. The General Fund is responsible for the shortfall of this fund and at June 30, 2010 there was a deficit balance of \$17.5 million for the solid waste and recycling. As of June 30, 2010, \$15.8 million of fund balance has been reserved to eliminate the accumulated interfund liability related to the ongoing deficit in the Solid Waste Fund. Both the Parking and Water System funds are financially stable, however the aggressive use of transfers from the Parking Fund to the General Fund may be overly-optimistic.

(9) Other PEG actions are considered to generate savings; however these savings are estimates based on plans yet to be fully developed. The PEG actions, in the event that the programs are either delayed or do not result in the savings as estimated, would put pressure on the annual budgets that has not been reflected in this financial plan.

(10) The City has been including changes in the provisions related to health insurance in negotiations with unions. The impact on other postemployment benefits (OPEB) to be paid out in the future is dependent on the final settled terms. Currently, the City budgets for expenditures on a pay-as-you-go basis. The budgeted payment for 2011-12 is \$35.6 million as compared to the most recently calculated annual required contribution (ARC) of \$79.9 million. This challenge is effecting municipalities across the country and is not specific to just the City. It is noted that the most recent estimate for total OPEB (to be paid over a 30 year period) is \$1.2 billion.

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

(12) The City is able to maintain the Real Property Tax levy flat over the course of the 2012-2015 Financial Plan. The City is currently at 79 percent of their maximum constitutional taxing power, the lowest it has been in recent years. What that translates to in dollars is a tax levying margin of \$37.5 million; which is the difference between the maximum constitutional taxing power of \$180.8 million and the actual real property tax levy for FY 2012 of \$143.3 million. One

can project that there will be an increase of this margin as property assessments increase and the property tax levy is held flat based on the Mayor's budget and financial plan. It is important to note that non-homestead tax rates have decreased and are projected to be held flat as an enticement to business to move and stay in the City of Buffalo.

The following is BFSA's complete analysis and review of the City's 2011-12 Budget and Four-Year Financial Plan.

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

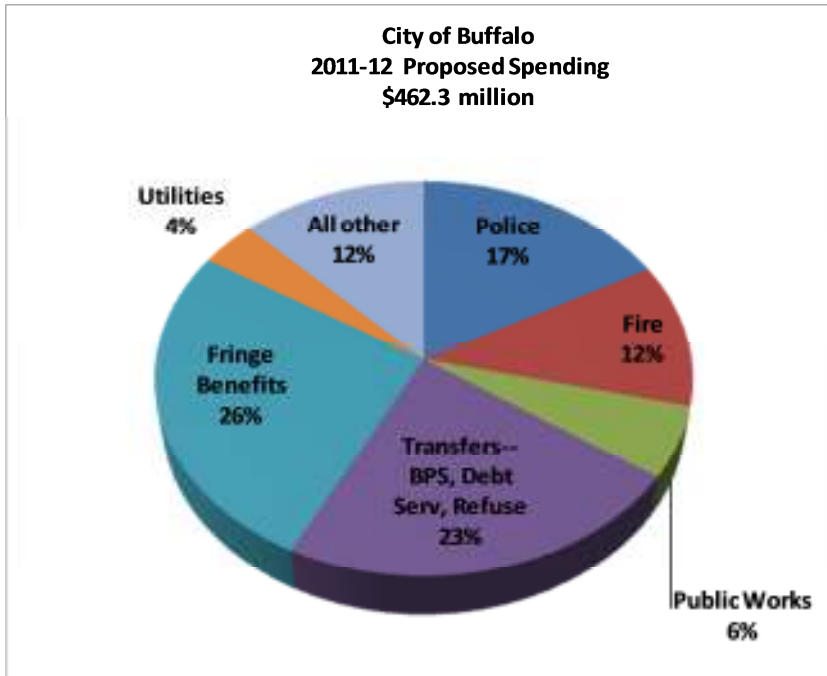
Summary of 2011-12 Budget

The City's adopted 2011-12 budget recommends General Fund spending of \$462.3 million. This total includes transfers to the School District (\$70.3 million), the Capital Debt Reserve (\$32.2 million) and Refuse Fund (\$2.5 million). The resources for the transfers are funded out of the property tax levy. The transfers to the School District, Capital Debt Reserve and Refuse Fund are typically annual occurrences. The transfer to the Refuse Fund is partially attributed to the \$14.4 million deficit that the General Fund is ultimately liable for if the Refuse Fund continues to be operationally unbalanced. The \$462.3 million budget figure represents a .4 percent increase over last year's adopted budget of \$460.6 million.

The largest transfer is to the School District and as noted above totals \$70.3 million, which is the same as in 2009-10 and has been held flat since FY 2007. Buffalo's School District is a dependent district, as established by NYS, and therefore cannot levy taxes and raise its own revenues; as such, it relies on a transfer of property tax revenues raised by the City to partially fund operations. For 2012, the City expects to transfer 49 percent of its projected property tax levy to the School District.

Removing transfers from the budget provides a clearer picture of what the City is spending for its own services. That adjusted amount, nearly \$356.8 million, is up \$1.4 million or roughly .4 percent on a year-to-year basis.

The City's four-year financial plan provides for spending of \$462.3 million in 2011-12, increasing to \$481.7 million in 2014-15, an increase of 4.2% over the four-year period. With the use of reserves, the implementation of PEGs, and the drawdown of restricted AIM held by the BFSA, the financial plan is balanced throughout the four years. The use of these funds is indicative of the structural imbalance facing the City and its continuing dependency on annual increases in State aid to address increasing expenditures.



The above chart illustrates the largest components of the budget, they are as followed: fringe benefits (26%), which includes health insurance, pension contributions, FICA, and other similar commitments; transfers (23%) including education, debt service and refuse & recycling; police (17%); and fire (12%). Public works and utilities combine to account for another 10 percent of the budget, while all other departments and general charges compose 12 percent of expenditures.

When transfers are excluded from total budgeted appropriations, the City's spending on its own General Fund services is \$356.6 million, an increase of \$1.4 million or 0.4% over the prior year's budget. While this report focuses on the "all funds" City budget including transfers, it is noteworthy to point out the significant role that State Aid plays in funding the City's services. Of the \$356.6 million figure, \$189 million is funded through State revenues, including \$161.3 million in unrestricted State aid. In other words, unrestricted State aid will fund 45.2% (a decrease from \$167.0 million, or 47 %, in 2010-11) of the City's own services in 2011-12.

City Revenues (\$ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Actual	FYE 2009 Actual	FYE 2010 Actual	FYE 2011 Budget	FYE 2012 Budget
State	126.6	143.2	146.8	157.4	183.2	196.4	178.4	170.7	169.4
City	173.8	174.8	177.5	178.4	181.4	175.8	193.1	195.9	198.0
County	60.5	58.6	59.9	69.3	72.6	70.8	70.2	70.3	68.5
Federal	6.9	1.8	1.0	0.6	0.9	0.0	2.2	0.7	0.7
Other	3.7	3.5	3.7	3.8	3.8	3.8	2.1	1.3	1.2
Deficit Borrowing /									
Fund Balance	7.8	19.1	0.0	0.0	0.0	0.0	0.0	14.8	12.3
Transfers In	5.5	6.9	5.8	5.8	5.8	5.8	8.7	9.5	12.3
Total	384.8	407.9	394.7	415.3	447.7	452.6	454.6	463.1	462.3

The \$161.3 million in unrestricted aid budgeted for 2010-11 is 57.1% higher than the \$102.7 million the City received in 2003-04, the year BFSA was created. Below, the table shows the amount of annual AIM that the City received each year since the inception of BFSA, as well as the incremental increase that the BFSA held back per statute.

Total AIM (\$ in millions)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Actual	FYE 2009 Actual	FYE 2010 Actual	FYE 2011 Budget	FYE 2012 Budget
AIM	102.7	102.7	115.9	129.5	147.3	165.6	167.1	165.7	161.3
BFSA Held	0	0	0	12.7	12.8	16.6	0	0	0
Total	102.7	102.7	115.9	142.2	160.1	182.2	167.1	165.7	161.3

The proposed budget decreases the City's property tax levy to \$143.3 million, down from \$144.3 million. The levy is split between the City (\$73.0 million) and the School District (\$70.3 million). Higher assessed values have increased the City's property tax margin, which is now at \$37.5 million. The proposed budget utilizes 79.3 percent of the City's constitutional taxing capacity, a decrease from 80.2 percent last year.

Sales tax revenues have generally been down as a result of the economic recession; the City is budgeting for a decrease of \$1.6 million in the CFY with annual increases of approximately 3 percent over the out years of the four-year financial plan. This sales tax revenue forecast does not factor in BFSA expenses nor does it factor in BFSA debt service. The sales tax figures discussed in this section deal exclusively with the City sales tax revenue after BFSA expenses and debt service payments are excluded.

It should be noted that BFSA's operating expenses and principal and interest on debt issued by BFSA on behalf of the City is withheld from sales tax dollars intercepted by the BFSA. For FY 2012, total BFSA operating expenses of \$0.9 million and debt services of \$19.0 million is projected to be retained by BFSA for such purposes.

The following chart details the City's sales tax revenue over the life of the financial plan:

Sales Tax Revenue (\$ in millions)	FYE 2011 Adopted	FYE 2012 Budget	FYE 2013 Financial Plan	FYE 2014 Financial Plan	FYE 2015 Financial Plan
	69.9	68.3	70.4	72.5	74.8
Percent Change		-2.3%	3.1%	3.1%	3.0%

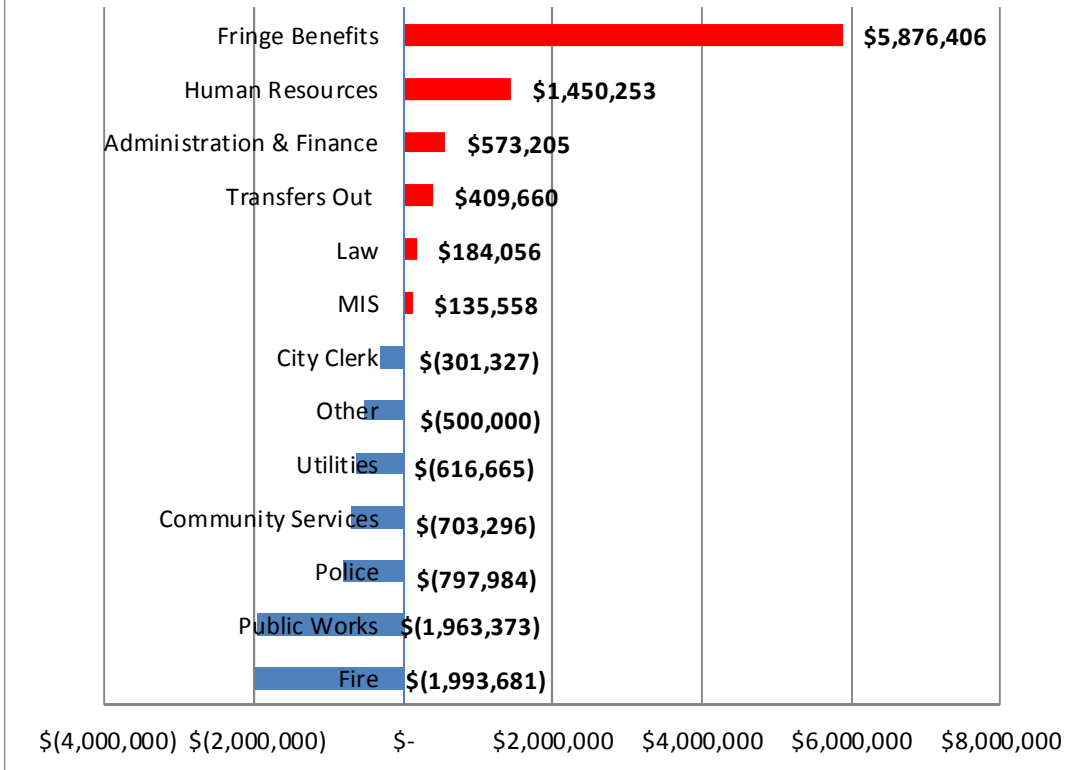
Spending Levels Compared to 2010-11

Compared to the 2010-11 adopted budget, proposed City spending is increasing by \$1.8 million. At the departmental level expenditures are projected to decrease by \$3.3 million compared to the 2010-11 adopted budgets. The exceptions include Administration & Finance (up \$.6 million) and Human Resources (up \$1.4 million). Spending in Administration & Finance is projected to increase for supplies and services, while spending in Human Resources is greater due to increases in medical and technical service costs.

The largest decreases in proposed spending are within the following departments: Fire (decrease of \$2 million), Public Works, Streets and Parks (decrease of \$1.9 million), Police (decrease of \$.8 million), Community Services (decrease of \$.7 million), and City Clerk (decrease of \$.3 million). Reasons for the decreases range from decreases in personal services, supplies and capital outlays, to decreases in travel. Other departments are also expected to see their budgets decrease.

Under General Charges the City is projecting an increase of \$4.6 million with fringe benefits representing the largest cost driver. Fringe benefit costs have increased (up \$5.8 million, or 4.85%) due to growth in health insurance costs (up \$1.4 million) for both active and retired employees, as well higher contributions for the NYS Retirement System (\$3.7 million). All other fringe benefits are projected to increase by \$.8 million. Utilities are projected to decrease \$.6 million. All other general charges are projected to decrease by \$.6 million. In addition, transfers out will increase \$.4 million as a result of increased debt service payments. It is important to note that fringes are calculated on the number of budgeted positions, and may be overstated in the instance the City maintains vacancies during the fiscal year.

Spending Compared to 2010-11



City Expenditures	FYE 2004	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012
(\$ in million)	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Fringe Benefits	82.4	85.1	87.8	90.3	100.6	104.4	107.1	119.1	124.9
Police	69.8	64.4	64.1	66.9	71.4	76.7	75.3	79.5	78.7
Fire	53.0	50.9	51.3	50.3	56.0	55.0	55.2	56.2	54.2
Public Works	21.8	17.8	17.4	22.4	22.4	22.1	25.1	27.5	27.0
Utilities	12.3	13.7	15.1	19.3	17.0	17.5	15.1	18.8	17.0
Transfers Out (Schools/Debt/Refuse)	99.1	107.5	100.7	102.1	98.5	105.4	103.5	105.3	105.7
All Other	39.5	45.8	41	42.3	65.7	66.2	69.2	54.3	54.8
Total	377.9	385.2	377.4	393.6	431.6	435.0	450.5	460.6	462.3

Employee-Related Costs

The vast majority of expenditures in the City budget are employee-related costs. Direct employee salaries and wages, combined with fringe benefits, represent nearly 84 percent of the City's General Fund expenditures exclusive of transfers, as compared to 85 percent of General Fund budgeted expenditures in 2010-11. The 2011-12 spending plan proposes \$300.2 million in direct salary and fringe benefit costs, which has marginally decreased from the 2010-11 level of \$300.6 million, but has increased from \$283.5 in 2009-10, \$270.2 million in 2008-09, and \$17.1 million (6.0 percent) from the 2009-10 adopted budget.

Police and Fire personal service (PS) costs are budgeted to decrease by a combined total of \$2.8 million in 2011-12 as compared to budgeted amounts for 2010-11. This decrease is largely attributed to the City's plans to bring in new recruits to fill the current vacancies within both departments as well as eliminating 4 vacant positions in the Fire Department. By bringing in new personnel to fill the current vacancies, the City will be able to hold the line on overtime and possibly reduce the amount of overtime utilized for normal operations. The decrease in PS is short-term, since once the new recruits are in service they will annually move up a step until they reach the top operational step which is approximately 5 years. New policies for controlling overtime and sick leave use have also been implemented and have thus far proven successful in reducing related expenses. The City believes such trends will continue in 2011-12.

Both Police and Fire overtime spending is expected to remain static in the out-years of the financial plan. There is a moderate increase of \$300,000, or 3 percent in FY 2012 for Police overtime, increasing the total budgeted amount to \$9.5 million, which is then held flat in the remaining years of the financial plan. The Fire Department is actually decreasing the amount budgeted in FY 2012 for

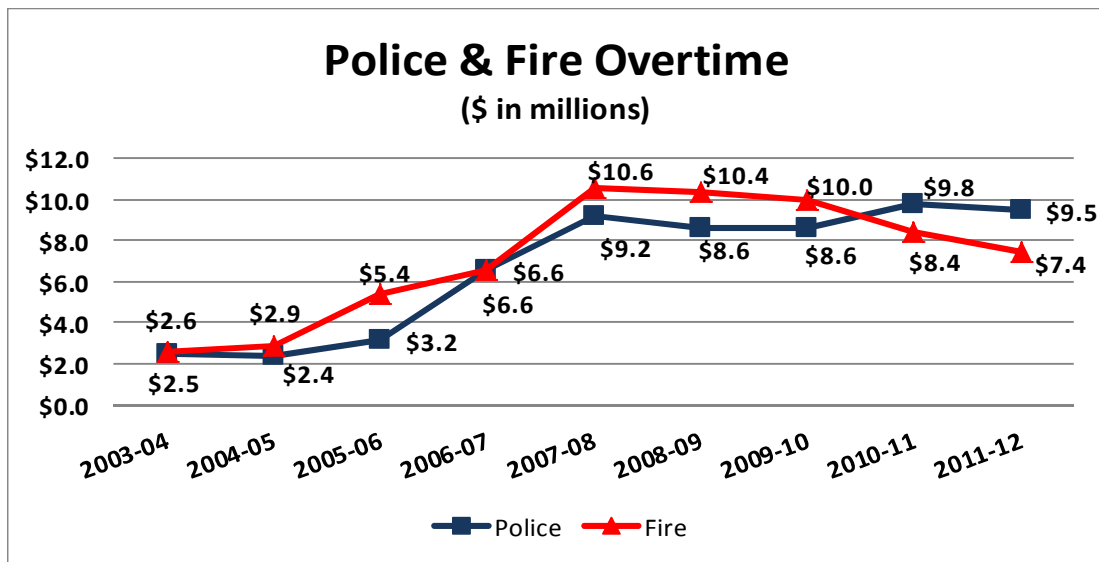
overtime by \$1.4 million, or a reduction of 15.5 percent. Going forward, overtime is being held flat at \$7.4 million a year for the Fire Department. As previously noted, the City is able to address overages in overtime by using unfilled positions to offset the additional costs.

In the police budget, personal services represent 97 percent of the total Police Department budget (an increase from 96.2% in the prior year's budget) and the remaining amount is budgeted for supplies, vehicles, services, capital outlay and other minor expense lines. Overtime comprises 12 percent of the total proposed police budget. The budget includes an increase of seven uniformed positions.

The budget for Fire has remained fairly consistent with the prior year budget. Personnel are expected to decrease from 719 to 715 uniform firefighters, while the City does plan to add firefighters to replace those lost through attrition over the life of the financial plan.

In the Fire Department budget, the personal services line represent 96.4 percent of the budget (compared to 96.6% in the prior year budget), with the remaining amount budgeted for supplies, vehicles, services, capital outlay and other minor expense lines. Overtime comprises 13.7 percent of the total proposed fire budget. The budget includes a decrease of four uniformed positions.

The chart below shows historical actual amounts as well as the current projections for FY 2011 and budgeted amounts for FY 2012.



With respect to Public Works, the third largest departmental budget for the City, budgeted amounts have decreased by \$2.0 million over the previous year's budget. The City is in its second year in which the City has managed its park system. The City has hired 62 people to work in its Parks Department and has

also contracted with the Olmsted Parks Conservancy to manage its historic Olmsted Parks and Parkways. Overall, costs for parks management are held relatively flat over the life of the financial plan at approximately \$6.4 million, which includes \$1.2 million for the Olmsted Conservancy. Growth in the parks budget over the life of the financial plan is approximately 1 percent annually and does not include any growth in the \$1.2 million payment to Olmsted. It is noted that the contract with Olmsted includes a clause that partially matches private fund raising efforts.

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

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

Staffing levels increase are projected to increase slightly by 17 positions, for a total of 2,613 positions, as shown in the following table:

	2010-11 Budget	2011-12 Budget	Change
Police (Non-Uniform)	165	191	26
Police (Uniform)*	795	802	7
Fire (Non-Uniform)	44	49	5
Division of Buildings	62	65	3
Law	32	35	3
Mayor & Executive	47	49	2
City Clerk	17	18	1
Animal Control & Shelter	14	14	0
Assessment & Taxation	31	31	0
Audit & Control	45	45	0
Budget	8	8	0
City Council	39	39	0
Collections	6	6	0
Engineering	79	79	0
Forestry	5	5	0
Human Resources	20	20	0
MIS	34	34	0
Parks	32	32	0
Parks Admin.	3	3	0
Public Works (Gen Office)	3	3	0
Purchase	31	31	0
Recreation	20	20	0
Telecommunications	2	2	0
Treasury	12	12	0
Parking	42	41	-1
Permits & Inspections	94	93	-1
Administrative Adjudication	2	0	-2
Sanitation & Streets	140	138	-2
Fire (Uniform)**	719	715	-4
Community Services	53	33	-20
Total	2,596	2,613	17

The most significant increase is police non-uniformed which is projected to increase by 26 budgeted positions due to the City recommencing operations of a pre-arraignment detention center which will require lock-up attendants.

Summary of Financial Plan through 2014-15

Four-Year Financial Plan

The City's four-year financial plan projects budget gaps totaling \$60.6 million, as annual revenue growth is not expected to keep pace with expenditure growth. This represents an increase of \$3.2 million over the 2010-11 financial plan which projected total budget gaps of \$57.4 million. With the use of nearly \$12.3 million in unreserved, undesignated fund balance in 2011-12 the City is able to close the current year's anticipated budget gap. However, the overall reliance on fund balance to balance the budget operations has increased. Total unreserved, undesignated fund balance that has been earmarked in the current year financial plan is \$48.8 million as compared to \$37.0 million last year. In addition to the increased reliance on fund balance in the out years of the financial plan, the City has included a variety of efficiency measures to close expected budget gaps. The Programs to Eliminate the Gap (PEGs) include offsite time and attendance, and asset and property management plans. A closer look at the use of one non-recurring revenue sources, use of fund balance, and anticipated impact from the PEGs is found below:

City of Buffalo Gap Closing Measures				
(in \$millions)	2011-12	2012-13	2013-14	2014-15
Use of Fund Balance	\$12.3	\$11.5	\$9.6	\$4.4
Use of Restricted AIM	\$3.3	\$4.5	\$3.3	\$3.3
Offsite Time & Attendance	-	\$1.00	\$2.00	\$2.00
Asset & Property Management Plan	-	\$1.75	\$2.25	\$2.75
Total	\$15.6	\$18.75	\$17.15	\$12.45

With the use of fund balance, non-recurring revenues, and other gap closing measures, the City is able to balance its budget in years 2012 through 2015. Preliminary calculations show that the City will have approximately \$51 million in undesignated, unreserved fund balance as of June 30, 2011. Per the proposed plan the City would have approximately \$2.2 million of undesignated, unreserved fund balance remaining at June 30, 2015, in the event fund balance is used to the extent budgeted, recognizing that fund balance is the last funding source drawn upon.

In addition the City is planning on and utilizing restricted State Aid, Aid to Municipalities (“AIM”) which the BFSA is currently holding. Over the four-year plan the City will draw down \$14.4 million out of the available \$17.7 million available leaving a projected remaining amount available of \$3.3 million. It should be noted that these are restricted funds that can only be used for limited purposes.

The City is also budgeting for Transfers in of \$12.3 million in fiscal year 2012, which decreases to \$10.8 million by 2015 due to the elimination of transfers from the capital fund. The transfer from the Enterprise Parking Fund is expected to increase nearly \$1 million dollar in the upcoming 2011-12 financial plan and remain static in the out-years of the financial plan.

Revenues: Over the life of the plan, revenues are projected to grow by \$22.5 million, or 5.0 percent.

Taxes (which includes property taxes, PILOTS, etc...) are expected to grow from \$153.9 million to \$159.0 million (\$5.2 million, or 3.4 percent). Property tax revenue is expected to grow modestly at 3.3% or less than 1.1% annually; this is a conscious choice of the administration by trying to keep property tax rates low and encourage business and individuals to purchase property in the City.

Intergovernmental revenues are projected to increase \$13.0 over the course of the plan. Within this revenue category is sales tax, which is expected to grow at 3.1 percent in each of the years of the financial plan, increasing from \$68.3 million to \$74.8 million, or an increase of \$6.5 million. Last year’s financial plan forecasted an increase of \$12.5 million in revenue over the course of the plan; this year’s projection is slightly higher at \$14.6 million.

State Aid is projected to remain flat in FY 2012 and 2013 and increases by \$3.0 million, or 2 percent, in each remaining out-year of the financial plan. Total State Aid is projected to be \$161.3 million in FY 2012 and increases to \$167.8 million in FY 2015.

Service Charges and Interest revenue remain flat over the life of the financial plan.

Miscellaneous revenue is projected to increase \$3.3 million over the life of the financial plan, with the increase largely attributed to a projected asset sale in FY 2015.

As previously stated, the City is planning to use the restricted AIM over the course of the financial plan. The City has budgeted for the use of \$3.3 million in FY 2012, and a total balance of \$14.4 is projected to be used in FY 2015.

City Revenues (\$ in million)	FYE 2012 Budget	FYE 2013 Budget	FYE 2014 Budget	FYE 2015 Budget	2012-15 % Change
State	168.9	170.1	172.2	175.5	3.9%
Real Property Taxes	153.8	153.8	156.4	158.9	3.3%
Local & Other	68.5	70.6	72.7	74.9	9.3%
Other Taxes	12.9	12.9	12.9	12.9	0.0%
Service Charges	12.1	12.1	12.1	12.1	0.0%
Miscellaneous	7.1	7.1	7.1	10.4	46.5%
Fines	8.5	9.3	10.2	11.0	29.4%
Licenses & Permits	3.6	3.6	3.6	3.6	0.0%
Interest	1.2	1.2	1.2	1.2	0.0%
Federal	1.0	1.0	1.0	1.0	0.0%
Other	0.1	0.1	0.0	0.2	100.0%
Deficit Borrowing /					
Fund Balance	12.3	11.5	9.6	4.4	-64.2%
Transfers In	12.3	10.8	10.8	10.8	-12.2%
Total	462.3	464.1	469.8	476.9	3.2%

In addition to the planned use of restricted AIM, a nonrecurring revenue, the City is also planning on using the following amounts of unreserved, undesignated fund balance: in 2011-12 \$12.3 million, \$10.8 million in 2012-13, \$9.6 million in 2013-14, and \$4.4 million in 2014-15. Since the BFSA's creation the City of Buffalo has conservatively projected its State Aid in its financial plan. In recent years, the growth in State Aid, which during its first year is restricted as to its use, lagged by one year, meaning that pledged aid increases to the City were intentionally underestimated in each fiscal year of the financial plan. This restricted AIM has been held by BFSA in the past and disbursed to the City when approved by BFSA. However, based on the current economic conditions facing state and local governments, the City for the third consecutive year is not forecasting an increase in State Aid. Currently, the BFSA is holding \$17.7 million in prior years AIM. The City's use of \$14.4 million of these restricted AIM funds in the financial plan will result in a remaining balance of \$3.3 million at the conclusion of 2015.

Unrestricted State Aid (\$ in million)	FYE 2012 Budget	FYE 2013 Budget	FYE 2014 Budget	FYE 2015 Budget
Amount in City Financial Plan	161.3	161.3	164.5	167.8
Use of prior years AIM	3.3	4.5	3.3	3.3
Actual Aid to be Provided	164.6	165.8	167.8	171.1
Total	14.4	9.9	6.6	3.3

Expenditures: Overall spending is projected to increase from \$462.3 million in 2011-12 to \$481.7 million in 2014-15, for a total increase of \$19.4 million (or 4.2%). Specifically, they are budgeting 1 percent increase in 2012-13, 1.55 percent in 2013-14, and 1.6 percent in 2014-15. Fringe benefit costs account for the largest share of the increase, growing by \$12.7 million over the four-year period. Utilities are projected to remain flat; all other general charges are projected to decrease by \$1.2 million over the course of the financial plan.

Expenditures are broken down into three major categories for purposes of the City's financial plan and includes departmental spending (projected increase of \$7.9 million or 3.8 percent), general charges (projected increase of \$11.5 million or 7.7 percent) and transfers out to other funds (\$105.7 million a year).

City Expenditures (\$ in million)	FYE 2012 Budget	FYE 2013 Projected	FYE 2014 Projected	FYE 2015 Projected	2012-15 Change
Fringe Benefits	124.9	128.9	133.2	137.6	10.17%
Police	78.75	79.8	80.9	82.0	4.08%
Fire	54.2	55.4	56.7	58.2	7.38%
Public Works	27	26.8	26.9	26.9	-0.37%
Utilities	17	15.2	15.5	15.8	-7.06%
Transfers Out (Schools/Debt)	105.7	105.7	105.7	105.7	0.00%
All Other	54.75	55.1	55.2	55.5	1.37%
Total	462.3	466.9	474.1	481.66	4.19%

The four-year plan shows minimal annual increases in each department through 2014-15, the City is budgeting for an increase of 4.2 percent over the course of the financial plan.

As noted, fringe benefits continue to be the largest area of expenditure growth for the City, and are projected to increase from \$124.9 million for 2012 to \$137.6 million in 2015, followed by the fire department which is projecting an increase of 7.4 percent, or \$4 million. This is followed by expected increases within the

police department which is projected to increase 4 percent, or \$3.25 million. There are no salary increases budgeted for either department throughout the financial plan.

The remaining departments combined represent a net increase of \$700,000, for a total projected City-wide departmental spending growth of \$7.9 million over the life of the financial plan.

It is important to note that there are no budgeted salary increases for employees outside of the normal salary step progression. Utilities are projected to decrease by 7 percent over the plan and that is attributed to decreased use of some facilities and energy saving investments.

Most departmental budgets are projected to remain consistent with prior years. Budgeting and related spending for capital outlays has been reduced or remains flat over the four years of the financial plan, this represents the third year in a row that departmental capital spending has been reduced or held flat and BFSA continues to question if the reduction to capital outlays are sustainable over the four-year plan (for a total of five years).

Debt service costs (\$32.2 million), the City's contribution to the School District (\$70.3 million) and the transfer to the Refuse Fund (\$3.2 million) are projected to remain flat through the plan.

Summary of Revenues and Expenditures						
	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-2013</i>	<i>2013-2014</i>	<i>2014-2015</i>	<i>4-Year</i>
	<i>Adopted Budget</i>	<i>Modified Budget</i>	<i>PROJECTION</i>	<i>PROJECTION</i>	<i>PROJECTION</i>	<i>Total</i>
Total Operating Revenues and Interfund Transfers In	\$448.37	\$450.00	\$452.60	\$460.21	\$472.55	-
Total Appropriations/Expenditures and Interfund Transfers Out	\$460.56	\$462.33	\$466.87	\$474.10	\$481.69	-
Operating Surplus / (Deficit)	(\$12.19)	(\$12.33)	(\$14.27)	(\$13.89)	(\$9.14)	(\$49.64)
Use of Fund Balance	\$12.19	\$12.33	\$11.53	\$9.64	\$4.39	\$37.89
Remaining Surplus / (Deficit)	\$0.00	\$0.00	(\$2.75)	(\$4.25)	(\$4.75)	(\$11.75)
Gap Closing Measures:						
Asset & Property Management Plan		\$0.00	\$1.75	\$2.25	\$2.75	\$6.75
Offsite Time & Attendance		\$0.00	\$1.00	\$2.00	\$2.00	\$5.00
Surplus / (Deficit)		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Budgetary Gap:

The excess of budgeted appropriations over estimated revenues over the financial plan results in a total budgetary gap of \$57.4 million. The City intends to use a combination of fund balance (\$37.8 million), non-recurring State AIM (\$14.4 million) and PEGS (\$11.75 million) to fund this operational deficit.

The following provides additional information on the proposed savings from implementation of the proposed Programs to Eliminate the Gap.

- Offsite time and attendance initiatives total \$5.0 million over the financial plan. These initiatives intend to automate time and attendance and other personnel managing systems for off-site locations. It is expected that this program will lower costs, improve efficiencies, and improve the accuracy of both compensation and benefits.
- The asset and property management plan initiative, is estimated to provide \$6.75 million in savings over the financial plan. Under this initiative, efficiency funding is set aside to retain engineering consultants to develop a comprehensive evaluation and action plan for City properties and assets. The assessment will include repairs, capital investment, staffing needs, as well as a risk assessment. A bar coding and scanning system will also be put in place to track City assets, including equipment and vehicles. Additionally, a keyless fuel master system will be incorporated into this new system.

Four-Year Plan Staff Levels:

	2010-11 Adopted Budget	2011-12 Proposed	2012-13 Proposed	2013-14 Proposed	2014-15 Proposed
Police (uniform)	795	802	802	802	802
Fire (uniform)	719	715	715	715	715
Other	1,084	1,096	1,096	1,096	1,096
Citywide	2,598	2,613	2,613	2,613	2,613
Net Increase/(Decrease)		15	0	0	0

In terms of staffing, personnel levels are projected to increase by 15 positions in the upcoming 2011-12 fiscal year and remain flat (at 2,613 positions) in each of the next three years. The main driver for the net increase in City personnel can be tied to the City recommencing operations of a city lock-up which the County of Erie had been operating for several years. The increase in non-uniformed police staff is attributed with this move.

Risks and Opportunities:

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

- Staff costs continue to rise and now represent 84% of the City's budget.
- Given the state of the economy in NYS, and the political atmosphere to not increase taxes further, projected additional State Aid may not reflect actual future revenues.
- The City has not reached collective bargaining agreements with two of its largest unions, Police and Fire. Costs associated with either settled contracts or through arbitration would add additional strain to the financial plan.
- The COB may be underestimating their Police and Fire overtime costs for 2011-12 and beyond, based on multiple assumptions that may not materialize over the course of the financial plan, such as less retirees than projected, increase of IOD's, the inability to recruit enough qualified applicants and potential overtime increases.
- The City plans to utilize \$3.3 million in restricted AIM funds in three of the years of the financial plan (2011-12, 2013-14 and 2014-15), and \$4.5 million in 2012-13 to balance the budget. This represents a non-reoccurring revenue source that would be nearly fully expended by 2015.
- OPEB liabilities, estimated at about \$1.2 billion for the City, with an annual contribution of \$83.7 million, will need consideration going forward. The City currently pays these expenses on a pay-as-you go basis, which as previously discussed is increasing at a high rate annually.
- The City is maintaining its contribution to the Buffalo School District flat over the life of the financial plan at \$70.3 million a year; there has been members of the community that have voiced an opinion that the City should be contributing a greater share to the District.

Overall, the City's financial plan increasingly relies on fund balance as a "last-resort" funding source. This increased reliance is concerning for several reasons:

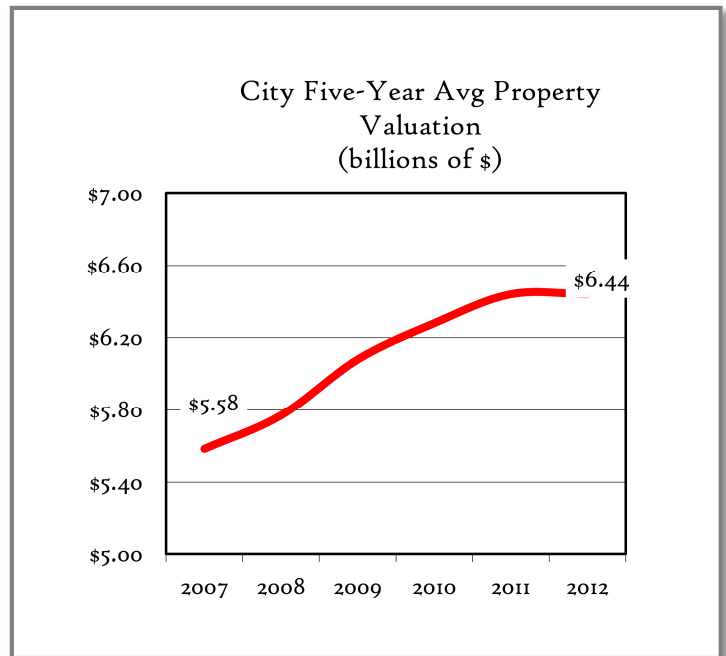
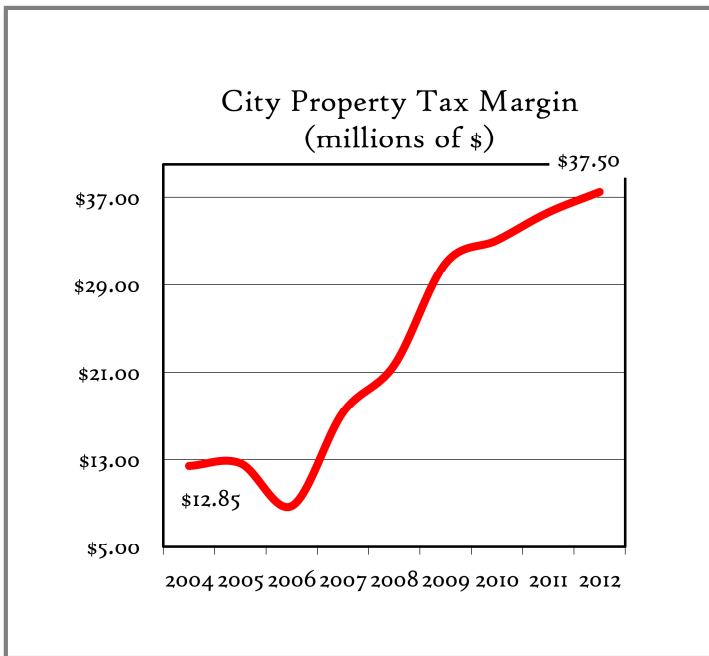
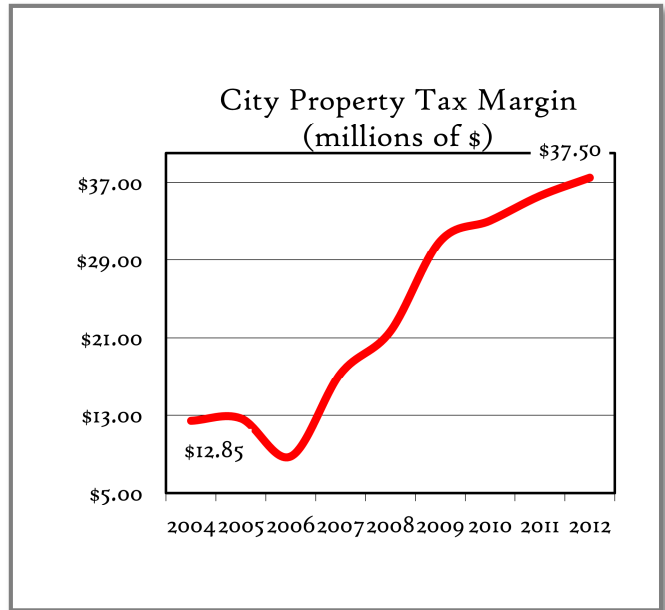
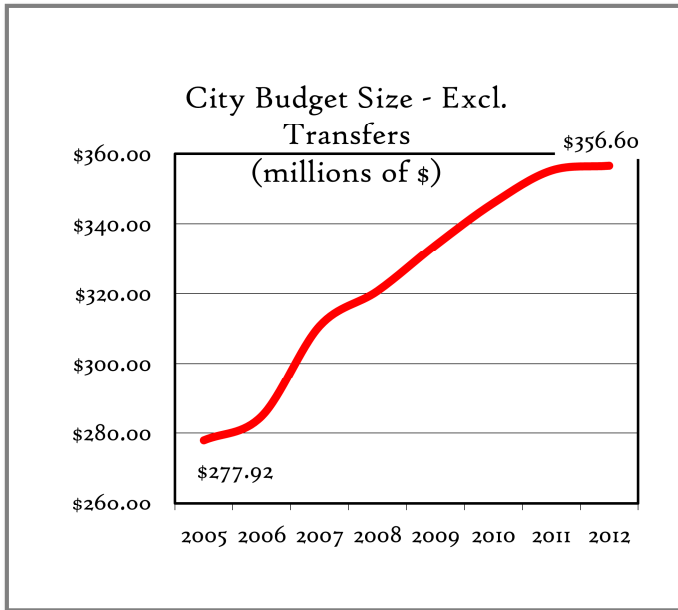
- The unreserved, undesignated fund balance was generated during a period of significant increases to State Aid and a wage freeze. Neither of the situations exist now, and furthermore it is reasonable to predict that the City will not be realizing significant increases to State Aid as has been provided in the past.
- In the event all the budgeted fund balance is fully utilized over the four years, approximately \$2.2 million of unreserved, undesignated

fund balance would remain at June 30, 2015. This would undoubtedly put significant pressure on budgets beyond 2015.

- No increases to employee salaries/wages are included in the financial plan outside of step increases. All unions, with the exception of one smaller union, are either out of contract or will have a current contract expire on June 30, 2011.
- The financial plan modestly addresses the deficit in the Refuse Fund; however this fund continues to operate at a loss. The General Fund is responsible for the short fall of this fund.
- Other PEG actions are considered to generate savings; however these savings are estimates based on plans yet to be developed.

These risks notwithstanding, the City's conservative budgeting practices and the ability to utilize accumulated fund balance has positioned Buffalo to weather a short-term economic downturn. The 2011-12 fiscal year presents new challenges above and beyond what the City has faced in recent years, without any increase in State Aid and in fact receiving a reduction to AIM. If the overall economy does not improve before the development of 2012-13 budget and financial plan, the City could face even greater challenges in upcoming budget cycles.

The following charts illustrate various discussion points within the report.



Buffalo Public School District 2011-2012 Budget & Four-Year Financial Plan

Introduction

The Buffalo Public School District (the “District”) provided its 2011-2012 Preliminary Budget on April 27, 2011. The Board of Education adopted the 2011-2012 Budget and Four Year Financial Plan on May 25, 2011, with minor changes. The following is a summary of the final adopted budget and financial plan.

The following summarizes key provisions of the Adopted Budget:

- General Fund operating revenues total \$726.65 million in the Adopted Budget;
- Food service operating revenues total \$21.77 million in the Adopted Budget;
- General Fund expenditures total \$756.85 million in the Adopted Budget. The “Reserve for Contingency” line was increased from \$1.2 million to \$1.7 million from the proposed to the final budget, with the expressed intent of using the additional \$505,000 to restore teaching positions after actual student enrollment for the 2011-2012 school year has been determined;
- Food Service Expenditures total \$23.62 million in the Adopted Budget;
- The 2011-2012 Adopted Budget includes the elimination of 302 positions from the General Fund, most significantly 208 Buffalo Teachers Federation (“BTF”) positions. It is significant to note that of these 208 General Fund teaching positions that were eliminated, 75 were transferred to the Special Projects Fund to be funded in 2011-2012 with Federal JOBS funds. The remaining 133 positions constitute a blend of layoffs and reductions through natural attrition¹;
- The 2011-2012 Adopted Budget includes the usage of \$14.2 million in Designated or Reserved Fund Balance as well as \$16.0 million in Unreserved, Undesignated Fund Balance. Usage of Unreserved, Undesignated Fund Balance is additionally budgeted in each of out-year of the Financial Plan;

¹ The Buffalo Board of Education acted in September 2011 to utilize \$1.2 million of the Reserve for Contingency line to restore 12 Buffalo Teachers Federation (“BTF”) positions as well as 14 Buffalo Educational Support Team (“BEST”) positions.

- The Food Service Fund is utilizing \$1.86 million in Unreserved, Undesignated Fund Balance in FY 2011-2012. In total, \$4.4 million in Unreserved, Undesignated Fund Balance is budget for the four years of the Financial Plan;
- Both the General Fund and Food Service Fund are balanced through the Financial Plan through the usage of Fund Balance as well as a series of Programs to Eliminate the Gap, or “PEGs.”

Overview:

The District is a dependent school district and therefore has no authority to levy taxes to generate revenues. Subsequently, the District is highly dependent on State Aid, its primary source of revenue. In FY 2011-2012, General Fund Revenues are budgeted at \$726.65 million. Total State Aid constitutes \$602.5 million of this \$726.65 million, or 82.9% of total General Fund Revenues. This conservative estimate is consistent throughout the Financial Plan as total State Aid is projected to increase to \$629.9 million of the \$756.57 million of total projected revenues in the final year of the Financial Plan, FY 2014-2015, or 83% of operating revenue. Additionally, there is an increased reliance on total State Aid as compared to the other sources of General Fund revenue, as the percentage of total State Aid to General Fund Revenue continues to increase.

General Fund Revenues					
	2011-12 Adopted	2012-13 Out-Year 1	2013-14 Out year 2	2014-15 Out-Year 3	% Change from Year 1-4
State Aid	602,507,351	606,399,626	619,432,974	629,899,615	4.55%
Property Tax	70,322,758	70,322,758	70,322,758	70,322,758	0.00%
Sales Tax	34,000,000	34,680,000	35,373,600	36,081,072	6.12%
All Other Revenue Sources	19,818,158	20,267,158	20,267,158	20,267,158	2.27%
Total	726,648,267	731,669,542	745,396,490	756,570,603	4.12%

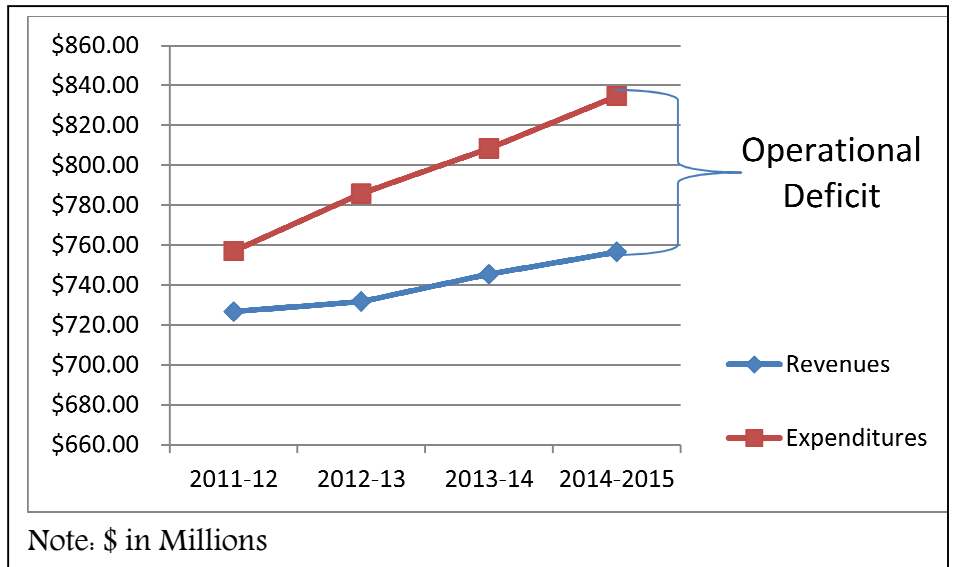
The 2011-2012 Adopted Budget provides for appropriated expenditures of \$756.85 million. This increases to \$834.65 million by FY 2014-2015, an increase of 10.28 % over the course of the four year financial plan.

The District’s Financial Plan includes baseline budgetary gaps for both the General Fund and the Food Service Fund. The difference between the level of expenditures and revenues represents the operational deficit, as depicted below.

Operational Deficit (General Fund)					4-Year Impact
	2011-12	2012-13	2013-14	2014-2015	
Revenues	726,648,267	731,669,542	745,396,490	756,570,603	4.12%
Expenditures	756,848,267	785,811,369	808,448,927	834,648,693	10.28%
Surplus/(Deficit)	(30,200,000)	(54,141,827)	(63,052,437)	(78,078,090)	(225,472,354)

Note: Deficit prior to the utilization of reserves

The net FY 2011-2012 General Fund operational deficit of \$30.2 million is eliminated through the usage of \$14.2 million in Reserved or Designated Fund Balance and \$16.0 million in Undesignated, Unreserved Fund Balance. Similar projected usage of Fund Balance occurs in the three out-years of the Financial Plan. After the use of \$82.1 million in Fund Balance, the remaining projected gap is \$143.4 million, necessitating additional gap-closing measures in the out-years of the Financial Plan.



General Fund Revenues are projected to increase at an average rate of 1.03% from fiscal year (“FY”) 2012 to FY 2015. General Fund expenditures are projected to increase at an average rate of 2.57% over this period. After factoring in the anticipated use of Fund Balance, the operational deficit increases 40% over the course of the Financial Plan. Subsequently, the District will be faced with some difficult decisions to close this gap.

Program to Eliminate the Gap (General Fund)

Along with the Financial Plan, the District adopted a “Program to Eliminate the Gap” or “PEG” action plan. As previously discussed, the operational deficit is narrowed through the combined utilization of reserved and designated fund balance as well as Undesignated, Unreserved fund balance. The use of Unreserved, Undesignated fund balance represents a real operational deficit in that it is the actual funding source for budgeted operating expenses that exceed operating revenues. As reserved and designated fund balance has been set

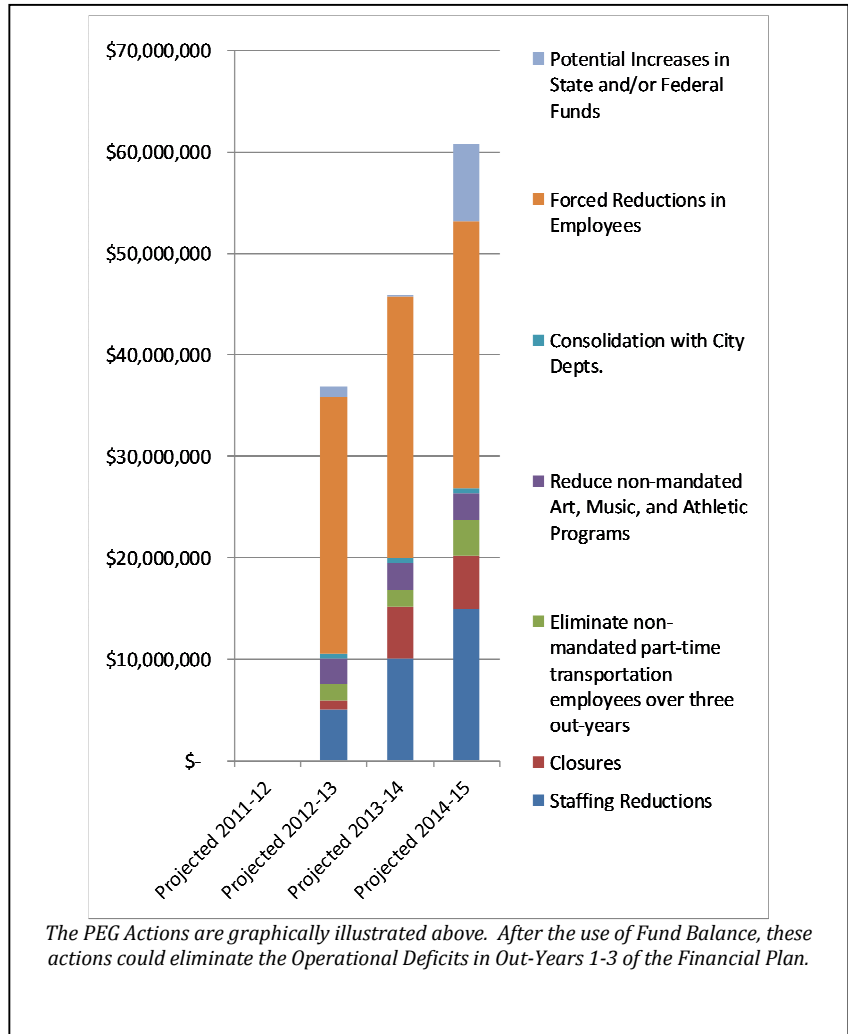
aside for specific purposes, this planned use of fund balance doesn't rise to the level of what would be considered an operational imbalance between revenues and expenditures.

The PEG action plan offers potential gap eliminating actions. These measures eliminate the remaining projected deficits in the out-years of the Financial Plan. They are often measures of last resort.

The PEG action plan includes the following measure to eliminate the remaining operational deficits in the three out-years of the Financial Plan:

- **Staff Reductions:** Staff reductions of up to 100 positions averaging \$50,000 in total employee compensation costs is proposed in each of the three out-years of the Financial Plan. The District believes that that eliminating positions could be achieved due to the declining level of student enrollment in District schools and through natural attrition, thus reducing, but not eliminating altogether, the need for forced layoffs. The elimination of up to 100 positions in each year of the Financial Plan would have a potential cumulative savings of up to \$30.0 million;
- **Closure of Administrative, Alternative and/or Swing Sites:** Closure of three sites in FY 2012-2013 as well as ten sites in FY 2013-2014 following the completion of Phase V of the Joint Schools Construction Board ("JSCB") reconstruction plan could afford a combined \$11.3 million in savings through the three out-years of the Financial Plan;
- **Forced Reductions:** Forced layoffs of active employees, particularly those who provide services in non-mandated programs, could be used to close the gap. These layoffs would diminish the quality of services offered by the District. Such actions could afford a combined \$77.43 million in savings through the three out-years of the Financial Plan;

- Other Reductions to Close the Gap:** Additional potential actions to close the operational gap include eliminating non-mandated part-time transportation employees over the three out-years of the Financial Plan, reducing non-mandated programs such as art, music, and athletics, as well as consolidations of administrative services with City of Buffalo (the “City”) departments to gain greater efficiencies and minimize costs. Combined, these actions could afford a \$16 million in savings through the three out-years of the Financial Plan;
- Additional Revenue:** Revenue projections from the State of New York and the Federal Government are conservatively projected based on current economic factors, both regionally and nationally. The possibility exists that these resources could increase or decrease. A cumulative increase of \$8.6 million is included.



The following chart demonstrates the budgetary impact of the PEG actions:

General Fund PEG Actions					
	2011-12	2012-13	2013-14	2014-15	Cumulative 4-Year Impact
Baseline Gap	(30.20)	(54.14)	(63.05)	(78.08)	(225.47)
Anticipated Use of Fund Balance (Reserved & Unreserved)	30.20	17.30	17.30	17.30	82.10
Revised Baseline Gap	0.00	(36.84)	(45.75)	(60.78)	(143.37)
Net of PEG Actions	0.00	36.84	45.75	60.78	143.37
Baseline Gap after PEG Actions	0.00	0.00	0.00	0.00	0.00

The current Financial Plan (FY 2012-2015) is projecting a cumulative baseline deficit of \$225.47 million as compared to the FY 2010-2014 Adopted Budget and Four-Year Financial Plan which projected a higher baseline deficit of \$244.5 million. This is a significant change and can be attributed to a multitude of factors. The 2010-14 Financial Plan had budgeted for employee compensation based on projections for an unfavorable ruling on the litigation involving the District and the BTF. Such litigation could have awarded District employees up to a three step increase during the period of the wage freeze, or the step increases that would have occurred had the BFSA not imposed a wage freeze in April of 2004. The New York State Court of Appeals unanimously ruled to overturn lower court rulings in favor of the District and the BFSA. Subsequently, anticipated expenditures in personnel lines have been significantly reduced. The result of an unfavorable ruling would have cost the District an additional estimated \$18.5 million a year going forward.

Program to Eliminate the Gap (Food Service Fund)

The Food Service Fund revenues total \$21.77 million in FY 2011-2012 and increases to \$23.26 million in the final out-year of the of the Financial Plan, representing a total increase of 6.9% over the course of the Financial Plan. Revenues for the Food Service Fund are largely from Federal and State sources, constituting a combined \$19.5 million of the \$21.77 million, or 89.65%. Food sales account for \$1.86 million in revenues for FY 2011-2012. The net of interfund transfers from the General Fund to the Food Service Fund accounts for another \$0.36 million.

Food Service Fund expenditures total \$23.62 million in FY 2011-2012 and grow to \$25.62 million in the final out-year of the Financial Plan, an increase of 8.4% over the course of the Financial Plan. Appropriations are for a number of items, with the primary costs being food supplies and employee compensation; the most significant appropriation in the CFY 2011-2012 is the \$10.15 million in food supplies. Compensation for food service employees is budgeted at \$5.4 million in FY 2011-2012. The remaining \$8.01 million of appropriated expenditures are for a myriad of different categories including: compensation for additional Food Service employees, computer equipment and software, facility and equipment rentals, postage and delivery, payments to the employee retirement systems,

miscellaneous fringe benefits, employee transportation reimbursements, utility costs, advertising, non-food supplies, USDA commodities, and contract and repair services.

Food Service Fund					% Change from Year 1-4
	FY 2011-12 \$	FY 2012-13 \$	FY 2013-14 \$	FY 2014-15 \$	
Revenues	21.77	22.25	22.75	23.26	6.9%
Expenditures	23.62	24.27	24.93	25.62	8.4%
Surplus/(Deficit)	(1.86)	(2.02)	(2.18)	(2.36)	(8.41)
Anticipated Use of Fund Balance (Unreserved/ Undesignated)	1.86	0.68	0.84	1.02	4.40
Remaining Deficit	-	(1.34)	(1.34)	(1.34)	(4.01)
Net of PEG Actions (elimination of 27 positions @ \$49,523/ea)		1.34	1.34	1.34	4.01
Baseline Gap after PEG Actions		-	-	-	-

The rate of growth of expenditures exceeds the rate of growth of revenues which creates the operational deficit. This deficit is reduced through the usage of a combined \$4.4 million in Unreserved, Undesignated Fund Balance. Total Unreserved, Undesignated Fund Balance was \$9.0 million at June 30, 2010. Usage of Unreserved, Undesignated Fund Balance at this level would essentially reduce the reserve by fifty percent.

The Food Service Fund PEG Action Plan proposes staff eliminations of 27 positions in each out year of the Financial Plan. The positive budgetary variance in each year is \$1.34 million, or a cumulative \$8.41 million.

The combined use of Unreserved, Undesignated Fund Balance and the proposed PEG actions eliminate the deficits throughout the Financial Plan for the Food Service Fund.

General Fund Revenues

General Fund Revenues total \$726.6 million in the Adopted 2011-12 Budget. They are projected to increase modestly through the out-years of the Financial Plan: the FY 2014-15 anticipated General Fund Revenues total \$756.6 million. This constitutes a \$30.0 million increase, a total increase of 4.12%, or an average annual increase of about 1.03%, from year one to year four of the Financial Plan.

General Fund Revenues are comprised of the following:

- New York State Aid,
- Real Property Tax,
- Medicaid Reimbursement,
- GAP Elimination Adjustment (“GEA”) – Note: This is not a revenue source but rather the portion of New York State Aid retained by the State of New York to reduce its own baseline deficit,
- Charter School Transitional Aid,
- Building Aid (JSCB), and
- All Other Revenue Sources (includes tuitions, interest earnings, interfund transfers, certain reimbursements).

General Fund Revenues					
	Adopted 2011-12 \$	FY 2012-13 \$	FY 2013-14 \$	FY 2014-15 \$	% Change from Year 1-4
State Aid	602.51	606.40	619.43	629.90	4.55%
Property Tax	70.32	70.32	70.32	70.32	0.00%
Sales Tax	34.00	34.68	35.37	36.08	6.12%
All Other Revenue Sources	19.82	20.27	20.27	20.27	2.27%
Total	726.65	731.67	745.39	756.57	4.12%

As depicted above, the major source of General Fund revenues in each year of the Financial Plan is State Aid, which is mainly Foundation Aid. This revenue line increases 4.55% over the course of the Financial Plan for an average annual increase of 1.1%. It is important to note that each year of the Financial Plan includes a \$33.0 million State Gap Elimination Adjustment (“GEA”). The GEA is the amount of Foundation Aid withheld from the State of New York to reduce the State’s operating deficit.

Property Tax Revenue is held static at 0.0%. This is a reasonable assumption as the City has not changed this amount since FY 2007-08 when it was decreased \$0.5 million.

The District's portion of the City's Sales Tax revenues is projected to increase \$2.0 million, an increase of 6.12% over the course of the Financial Plan, or an average annual increase of 1.53%. Projected growth in sales tax revenue has been affected in part by the recent recession and the commensurate reduction in the purchase of goods.

Other Revenue Sources are projected to increase \$449,000, or 2.27%, over the course of the Financial Plan for an average annual increase of 0.57%. These revenues include Medicaid Reimbursement, Other (a culmination of Tuition, Interest, miscellaneous, Interfund Transfers), and the Local Share Contribution from JSCB (interest earnings).

General Fund Expenditures

General Fund Expenditures total \$756.85 million in the Adopted FY 2011-12 Budget. The gap between this amount and the \$726.6 million in anticipated General Fund Revenues constitutes the Operational Deficit. As discussed earlier, this gap is closed through the use of Reserved or Designated Fund Balance and Unreserved, Undesignated Fund Balance.

General Fund expenditures are anticipated to grow at a faster pace than General Fund revenues throughout the four years of the Financial Plan. General Fund expenditures increase to a projected \$834.65 million in FY 2014-15, an anticipated growth of \$77.8 million from FY 2011-12. The rate of growth is 10.28% over the four years, or an average annual increase of 2.57%. As the rate of General Fund expenditures increase at a faster pace than the projected growth of General Fund Revenues, the operational deficit widens and necessitates additional gap-closing measures such as use of reserves and/or PEG actions.

General Fund expenditures are examined below by breaking them into two subcategories: Total Employee Compensation and General Charges.

EXPENDITURES – TOTAL EMPLOYEE COMPENSATION

Total Employee Compensation is broken down further by employee groups. These groups include:

- **Buffalo Teachers Federation (“BTF”)** - ,
- **Buffalo Council of Supervisors and Administrators (“BCSA”)**,
- **Professional, Clerical, Technical Employees Association (“PCTEA”)**,
- **Buffalo Educational Support Team (“BEST”)**,
- **All Other Departments** (includes BTF – Other Compensation, Substitutes, Transportation Aides of Buffalo or “TAB,” Trades, Local 264 – Blue Collar, Local 409 – Engineers, Board of Education, Miscellaneous, Overtime).

Note: "All Other Departments" has been combined for this report to focus on the main Personnel Costs.

The largest Employee Compensation costs are attributed to BTF compensation. The BTF is a very large employee group with an anticipated 3294.4 Full Time Equivalent ("FTE") employees in FY 2011-12 (2,662 General Fund, 632.4 Grants Fund).

General Fund Expenditures (Personnel)						
\$ in Millions						
Expenditures	2011-12 Adopted	FY 2012-13	FY 2013-14	FY 2014-15	% Change from Year 1 to Year 4	Avg. Annual % Increase
Personnel Cost	\$	\$	\$	\$	%	
BTF	148.04	156.19	157.75	159.32	7.62%	1.91%
BCSA	15.64	15.16	15.47	15.78	0.90%	0.22%
PCTEA	15.50	15.57	15.65	15.73	1.48%	0.37%
BEST	11.37	11.51	11.51	11.51	1.23%	0.31%
All Other Departments	34.99	35.49	34.90	34.19	-2.29%	-0.57%
Total	\$225.54	\$233.92	\$235.28	\$236.53	4.87%	1.22%

General Fund expenditures for BTF Compensation is budgeted at \$148.04 million in the Adopted Budget and increases annually to \$159.32 million by FY 2014-15. These expenditures include only wages, as other benefits such as health insurance are budgeted separately. This expenditure increases by 7.62% over the four years of the financial plan, an average growth rate of 1.9% annually.

It is important to note that the BTF's contract expired June 30, 2004. Any collective bargaining agreement during any year of the Four-Year Plan could increase employee compensation costs.

The BCSA represents a much smaller collective bargaining unit than the BTF. There are a projected 202.1 FTEs in FY 2011-12 (161 General Fund, 41.1 Grants Fund). General Fund expenditures for BCSA compensation are budgeted at \$15.64 million in FY 2011-12, growing to \$15.78 million by FY 2014-15. This constitutes a growth of 0.9% over the four years of the financial plan, an average annual growth of 0.22%. As with the BTF, BCSA's CBA expired June 30, 2004. Any new collective bargaining agreement during the span of the Four-Year Plan could increase employee compensation.

All Funds FTEs					
Departments	2010-11 Original Budget	2011-12 Adopted Budget	Out- Year #1	Out- Year #2	Out- Year #3
BTF	3,408.1	3,294.4	3,275.4	3,275.4	3,275.4
BCSA	192.4	202.1	193.1	193.1	193.1
PCTEA	506.6	509.7	509.7	509.7	509.7
BEST	802.0	690.0	690.0	690.0	690.0
All Other Departments	276.5	251.9	259.4	259.4	259.4
Total	5,185.6	4,948.1	4,927.6	4,927.6	4,927.6

The above chart shows the overall reduction of District employees in the Adopted FY 2011-12 Budget and Four-Year Financial Plan. The projected decreases in BTF employees is representative of the overall reduction of teachers due to attrition, made possible by the District's Retirement Incentive and the State of New York's Chapter 105 Part A Retirement Incentive. The number of FTEs could decrease further in out-years one through three through PEG actions which calls for forced layoffs.

Personnel costs for members of PCTEA are budgeted at \$15.50 million in the Adopted FY 2011-12 Budget. Members of PCTEA constitute an anticipated 509.7 FTE's in FY 2011-12 (400.0 General Fund, 98.7 Grants Fund, 11.0 Food Service Fund). The projected General Fund expenditures increase slightly to \$15.73 million by FY 2014-15, constituting a 1.48% growth over the four years of the financial plan, a de minimis average annual growth of only 0.37%.

As with the BTF and BCSA, PCTEA's collective bargaining agreement expired June 30, 2004. Any new CBA could increase employee compensation.

Personnel costs for members of BEST are budgeted at \$11.37 million in the Adopted FY 2011-12 Budget. This amount is the summation of compensation for members of the BEST collective bargaining unit, and Teachers' Aides who are both certified and non-certified. This General Fund expenditure increases to \$11.51 million in FY 2015, a 1.23% increase over the course of the Financial Plan, or an average annual growth of 0.31%.

The number of BEST FTE employees is projected to be flat at 690.0 employees from FY 2011-12 though FY 2014-15. Members of this collective bargaining unit are currently under contract to June 30, 2012. A new labor agreement during the course of the current Four-Year Financial Plan could impact the amount of employee compensation.

All Other Departmental spending is budgeted at \$35.0 million in the Adopted FY 2011-12 Budget. As previously stated, this category is a culmination of various expenditure lines in the Financial Plan including employee compensation for some of the smaller unions, board members' stipends, etc.... Combined expenditures are projected to decrease to \$34.2 million by FY 2014-15. This constitutes a 2.29% decrease in expenditures by FY 2014-15, or an average annual decrease of 0.57%.

EXPENDITURES – GENERAL CHARGES

Total General Fund General Charges include a wide variety of expenditures; this term is used here to summarize all expenditures other than direct employee compensation.

General Fund General Charges account for \$531.3 million in expenditures in the Adopted 2011-12 Budget, representing 70.2% of total General Fund expenditures. General Charges include the following:

- **Health Insurance (Active Employees)**,
- **Health Insurance (Retired Employees)**,
- **All Other Fringe Benefits** - (Civil Service Retirement, Teachers Retirement, NYS Early Retirement, Social Security, Termination Pay, Other)
- **Charter School Payments**,
- **Transportation**,
- **Utilities**,
- **Debt Service** (non-JSCB as well as JSCB Phase I, Phase II, Phase III, Phase IV, and Phase V),
- **All Other** - (Tuition, Contracts-Custodian, Equipment, Contracts, Insurance, Miscellaneous, Reserves for Contingency, Rental Contracts, Repairs & Maintenance, Textbooks, Supplies & Related, and Interfund Transfers).

Health insurance for active employees is one of several major General Fund expenditures for the District. Health Insurance expenditures for active employees is budgeted at \$37.75 million in the Adopted 2011-12 Budget. This represents a significant decrease from the 2010-11 Adopted Budget of \$42.3 million.

Total Health Insurance costs are driven largely by the number of District employees. The 2010-11 Adopted Budget included 4,320.7 FTE employees within the General Fund. The Adopted Budget for 2011-12 includes 3,948.5 FTE employees within General Fund, a decrease of 372.2 FTEs. This lower number of employees accounts for the lower anticipated cost of Health Insurance from the 2010-11 Adopted Budget to the 2011-12 Adopted Budget.

General Fund General Charges Expenditures						
(\$ in Millions)						
Expenditures	2011-12 Adopted	FY 2012-13	FY 2013-14	FY 2014- 15	% Δ Year 1 to Year 4	Avg. Annual % Increase
General Charges	\$	\$	\$	\$	%	
Health Insurance (Active)	37.75	44.06	47.98	52.25	38.41%	9.60%
Health Insurance (Retiree)	63.57	72.96	81.53	91.06	43.24%	10.81%
All Other Fringe Benefits	75.65	71.33	71.17	70.93	-6.24%	-1.56%
Charter Schools	92.60	99.80	109.40	120.20	29.81%	7.45%
Transportation	40.52	41.33	42.15	43.00	6.12%	1.53%
Utilities	12.93	13.84	14.25	14.68	13.53%	3.38%
Debt Service (Including JSCB)	116.60	113.18	111.65	109.63	-5.98%	-1.49%
Reserve for Contingency	1.71	1.20	1.20	1.20	-29.82%	-7.46%
All Other	89.98	94.20	93.85	95.18	5.78%	1.45%
General Charges Subtotal	531.31	551.9	573.18	598.13	12.58%	3.14%
Personnel Subtotal	\$225.54	\$233.92	\$235.28	\$236.53	4.87%	1.22%
Total	756.85	785.82	808.46	834.66	10.28%	2.57%

Health insurance expenditures for active employees have been constrained by the single carrier provider system, and the costs are expected to increase at a quick pace. The 2011-12 Adopted Budget for this expenditure is \$37.75 million but increases to \$52.25 million in FY 2014-15. This constitutes a rate of growth of 38.41% over the course of the four years, or an average annual increase of 9.6%.

Similarly, health insurance expenditures for retirees is a major expenditure. General Fund expenditures for retiree health insurance are budgeted at \$63.6 million in FY 2011-12. The District anticipates continuing to spend much more for health insurance for retirees than for active employees. Expenditures for retiree health insurance increase to \$91.1 million in the third out-year of the

Financial Plan. This constitutes a 43.2% increase over the course of the Financial Plan; an average annual increase of 10.8%.

The District budgeted for 3,754 retired employees in FY 2010-11. The expected number of retirees climbs to 3,854 in the Adopted 2011-12 Budget and grows to an expected 4,154 employees in FY 2014-15. Retirees currently contribute either nothing or very little toward the cost of their health insurance; up to \$500 per retiree per year is received.

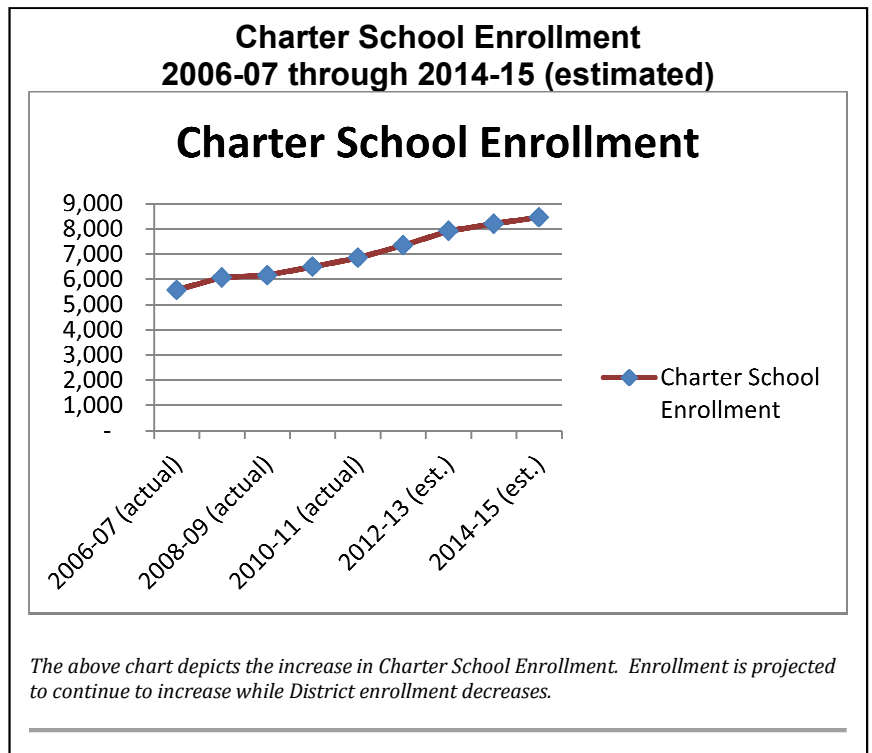
As previously noted, All Other Fringe Benefits is an umbrella term used in this summary to cover a variety of benefits. These include:

- Civil Service Retirement (excludes BTF, BCSA, and BEST);
- Teachers Retirement (includes BTF, BCSA, and BEST);
- New York State Retirement Incentive;
- Social Security;
- Termination Pay; and
- Other Benefits (supplemental benefits, workers' compensation, unemployment, and other minor benefits).

The District is budgeting \$75.65 million in the Adopted 2011-12 Budget for the All Other Fringe Benefits category. This amount decreases to \$70.93 in FY 2014-15 and represents a 6.24% decrease over the four years of the Financial Plan, an average annual decrease of 1.56%.

Payments to Charter Schools are another area of highly significant expenditure for the District. The District is budgeting \$92.6 million in the 2011-12 Adopted budget, growing to a projected \$120.2 million in FY 2014-15. This constitutes 12.23% of total General Fund expenditures. It is anticipated to increase at a much faster rate than General Fund expenditures as a whole. Payments to Charter Schools increase a total of 29.81% over the four years of the Financial Plan, or an average annual increase of 7.45%.

New York State's formula for Charter School Payments by



public school districts is an issue that the District has taken exception to. The formula is based on a per pupil transfer of funds from the District to Charter Schools. However, this formula assumes that all costs associated with the student are transferred from the District to the Charter School. The District holds that there is no “dollar-for-dollar” transfer of costs as the fixed costs associated with operating the District such as personnel, building maintenance, utilities, etcetera, cannot be transferred from the District to the Charter School. The District does receive some Charter School Transitional Aid, though this General Fund revenue is diminutive when compared to the payment to charter schools. General Fund Transportation expenditures include costs for special education and public and private providers. The services were competitively bid in FY 2010-11; the contract is subject to annual increases.

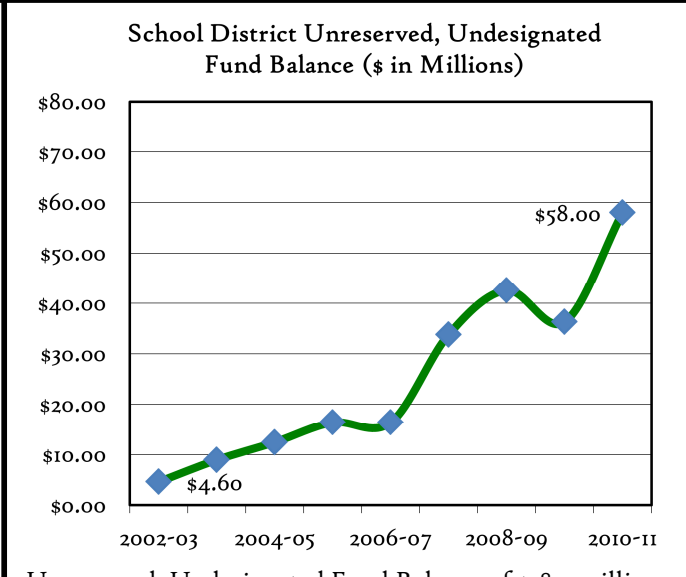
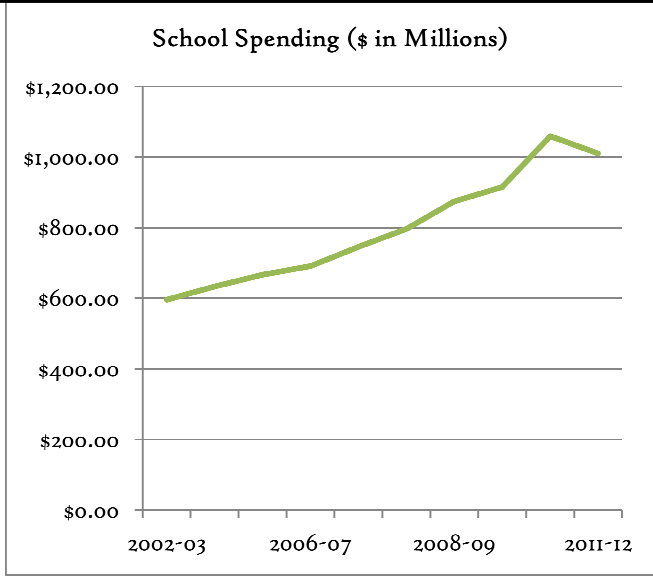
Transportation expenditures are \$40.5 million in the Adopted 2011-12 Budget. This increases to \$42.99 million in FY 2014-15, an increase of 6.1% over the course of the four year plan. This represents an average annual increase 1.5%. General Fund Utilities expenditures are \$12.93 million in the Adopted 2011-12 budget and increase to \$14.68 million in the FY 2014-15. This constitutes an increase of 13.5% over the course of the four year plan or an average increase of 3.4%. The District is able to utilize pooled rates with the City of Buffalo to achieve greater purchasing power and therefore lower overall utility rates. General Fund Debt Service expenditures are \$116.6 million in the Adopted 2011-12 budget and decrease to \$109.63 million in the FY 2014-15. This constitutes a decrease of 5.98% over the course of the four-year plan or an average decrease of 1.49%. Debt Service expenditures are derived from set debt service schedules. As the principal is paid down on existing bonds, overall payments decrease over the course of the Financial Plan.

The final General Fund expenditure is All Other and as noted, is an umbrella category for a multitude of General Fund expenditures. General Fund expenditures in FY 2011-12 total \$89.98 million and increase to \$95.18 million in FY 2014-15. This constitutes an increase of 5.78% over the course of the four years or an average annual increase of 1.45%. Note that included in the All Other umbrella is Interfund Transfers, or operating transfers to other funds, such as the Food Service Fund.

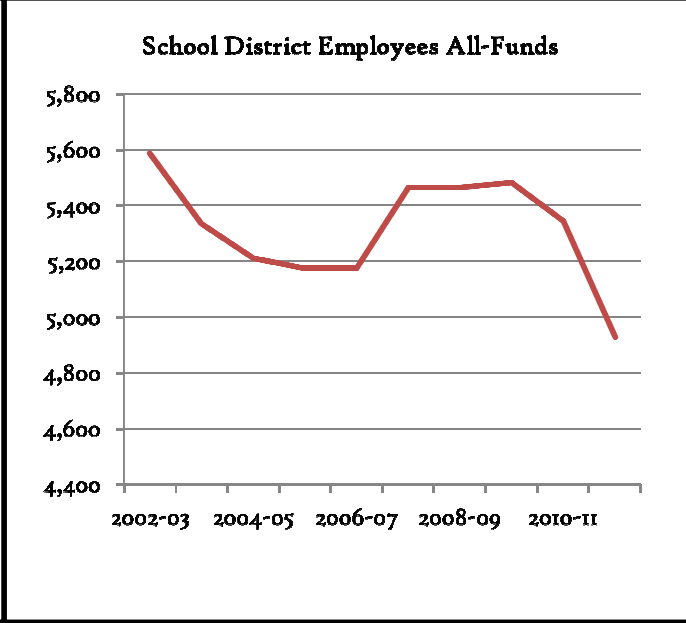
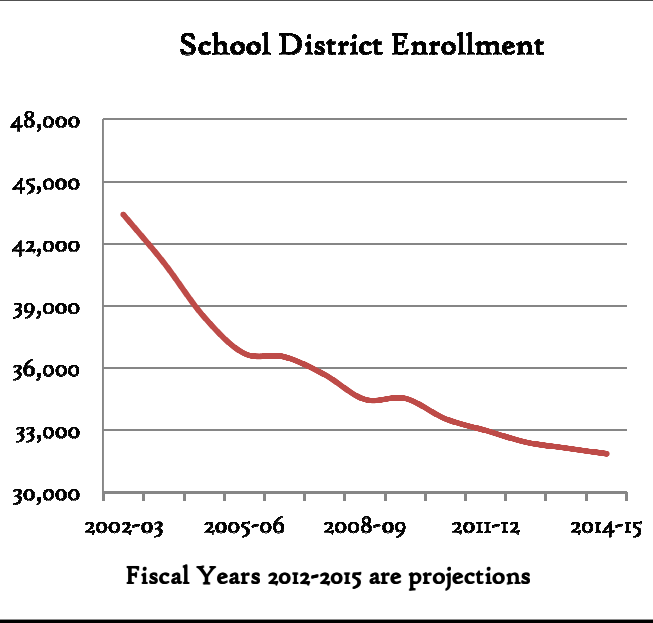
Financial Plan Risks

- As the District is a dependent school district, the plan is heavily reliant on State Aid. The level of State Aid is very precarious given the poor economic climate that continues in New York State and the State's own budgetary concerns. The Gap Elimination Adjustment to Foundation Aid could be increased at some point to help the State close a future deficit. Other aid cuts are conceivable.
- The District is using \$64 million in Unreserved, Undesignated fund balance as a last resort to close the operational deficit over the course of the financial plan. In the event that this balance is fully expended over the four years, Unreserved, Undesignated will essentially be depleted by June 30, 2015 (estimated at \$3.5 million).
- PEG actions, if implemented, could have a significantly negative impact on the quality of educational services in the District.
- Following the District's favorable ruling by the New York State Court of Appeals regarding the legality of the BFSA-imposed wage freeze, the Buffalo Teachers Federation has pursued new litigation in Federal court challenging the wage freeze.
- As charter school enrollment continues to increase, the District's payments to charter schools increases. However, there is a disproportionate amount of funds that are paid to the charter schools, although it's challenging to clearly define what this amounts to. However, it is clear that the growth of charter schools and increased enrollment stretches the District's resources further.
- The Proposed Budget and Four-Year Financial Plan do not include any estimate for settling collective bargaining agreements. As stated earlier, major District unions are out-of-contract.
- Other Post-Employment Benefit ("OPEB") liabilities continue to loom large over this period. The last assessment puts the OPEB liability at \$1.2 billion. The annual required contribution ("ARC") is currently \$121 million and is subject to adjustment as it is based on current assumptions. While there is no current requirement to fund this liability, its impact cannot be ignored as the costs are quite significant, compound annually, and could eventually negatively impact the City of Buffalo's credit ratings.

The following charts illustrate various discussion points within the report.



Unreserved, Undesignated Fund Balance of \$58.0 million at 06/30/2011 is an estimate.



Buffalo Urban Renewal Agency

Summary

The Buffalo Urban Renewal Agency (BURA) is a Public Benefit Corporation working within the City of Buffalo (COB) tasked with planning, rehabilitation, remediation and redevelopment of both residential and commercial real property. Grant revenues administered by BURA on behalf of the City of Buffalo are largely based on funding received from federal allocations through the U.S. Department of Housing and Urban Development (HUD). Funding is approved by Congress; a formula determines how such funds will be distributed to local communities.

Population is one of the factors used within the allocation formulas in determining the amount of grant funding; it is noted the City of Buffalo has had a population decrease of 31,338 people, or a decline of 10.7%, as recently reported with the 2010 census results. Uncertainties remain as to what impact this decrease will have specifically on BURA.

Total projected grant revenues are \$26.4 million for 2012, which is a decrease of \$4.7 million (14.9%) from the 2011 budgeted amount of \$31.1 million. The major revenue categories are as addressed below:

- Community Development Block Grants (CDBG) – CDBG funds, including CDBG-R funds, represent the most significant revenue source to BURA and comprises 60% (in 2012) to 65% (in 2015) of total grant revenue and program income. HUD has provided a revised authorized amount to BMHA for 2012 of \$14,540,753; this amount was held consistent throughout the four-year financial plan.

CDBG funding has been highlighted at the federal level as a program which could see significant reductions in the future; this coupled with the population decrease could result in further reductions at the local level which would need to be addressed by management accordingly.

This economical and financial risk is mitigated in that BURA is limited in spending up to the amount of the grant awards. The larger social and city-wide issues are more challenging and would be policy driven by BURA's Board of Directors.

CDBG-R represents a grant authorized in 2009-10 and is continuing to be spent down. \$1.4 million is budgeted for use in 2011-12; the remaining \$311,000 is budgeted for 2012-13. Revenue is \$0 from 2014 - 2015.

- HOME Program Funds – HUD reduced 2011-12 funding by \$600,000. This reduction is reflected in 2012, and is held at this level for the remaining years of the financial plan. Similar risks and mitigating factors as noted above are applicable.
- ESG represents the third largest grant revenue and as noted previously, has decreased in recent HUD authorizations. This amount is budgeted at the new level of \$705,316 beginning in 2012, and is held flat through 2015. ESG for Homeless Prevention terminates after this current year and represents a \$2,000,000 decrease in revenue. This Homeless Prevention Grant was awarded in 2009-10, and may be drawn upon for expenses through 2011-12. Revenue is \$0 from 2013 and onward.
- The Neighborhood Stabilization grant ends after 2013. This revenue is budgeted annually in 2012 and 2013 in the amount of approximately \$660,000, and correspondingly at \$0 in 2014 and 2015 due to the termination of the grant.
- BURA Year 35 & 36 program funds are budgeted for recognition beginning in fiscal year 2013. This revenue source ranges from \$158,000 to \$341,000 annually.
- All remaining revenues are consistent with the current (i.e., 2011) budgeted amounts. While not significant in total, it is furthermore noted that

CITY OF BUFFALO URBAN RENEWAL AGENCY OPERATING BUDGET & FOUR YEAR PLAN					
FOR THE FISCAL YEARS ENDING	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2015</u>
ENTITLEMENT & FORMULA GRANT BUDGETS					
Grant Revenues and Related Income					
CDBG	\$17,409,073	\$14,540,753	\$14,540,753	\$14,540,753	\$14,540,753
CDBG-R	1,400,000	1,400,000	311,494	-	-
HOME	5,073,088	4,476,638	4,476,638	4,476,638	4,476,638
ESG	705,483	705,316	705,316	705,316	705,316
ESG for Homeless Prevention	2,596,054	2,198,027	-	-	-
HOPWA	565,329	567,151	567,151	567,151	567,151
NYS Block by Block Grant	776,000	-	-	-	-
Neighborhood Stabilization Program	658,755	658,755	658,755	-	-
CDBG program income	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
HOME program income	250,000	250,000	250,000	250,000	250,000
BURA Year 35 & 36 Program Admin Funds	-	-	158,261	264,676	340,888
Total Grant and Program Income	31,083,782	26,446,640	23,318,368	22,454,534	22,530,746

Expenditures include both grant expenditures and the administrative costs in implementing these programs. Administration and Planning costs are capped at various levels as predetermined and communicated by the authorizing body. On average, approximately 17% - 23% of grant revenues will be spent for administration and planning expenditures. This percentage becomes larger as grant revenues are not increasing over the financial plan, and total costs for administrative and planning and program delivery costs increase.

Reflective of the decrease in grant revenues, both program expenditures and administrative and planning costs decrease. Program expenditures decrease from \$21.4 million as budgeted for fiscal year 2012 to \$17.2 million for fiscal year 2015, representing a decrease of 20%. Total administrative and planning costs, along with delivery costs, increase from \$5.0 million for fiscal year 2012 to \$5.3 million for fiscal year 2015, an increase of 6%.

The four-year financial plan includes 60 budgeted positions and remains constant at this level through 2015. Of these 60 positions, 59 are currently filled. Additionally, the City employs 4 individuals within the Office of Strategic Planning whose salaries are fully funded through grants administered by BURA. Altogether, 63 current positions within BURA and the City are paid for with BURA grant funds. All BURA's union employees are working under a current contract which will expire June 30, 2013. Increases to salaries after 2013 have not been included in the financial plan.

Health insurance costs are budgeted to increase by 9.0% in 2012, and 5% thereafter due to the self-funding of prescription costs and movement of retirees into a senior product.

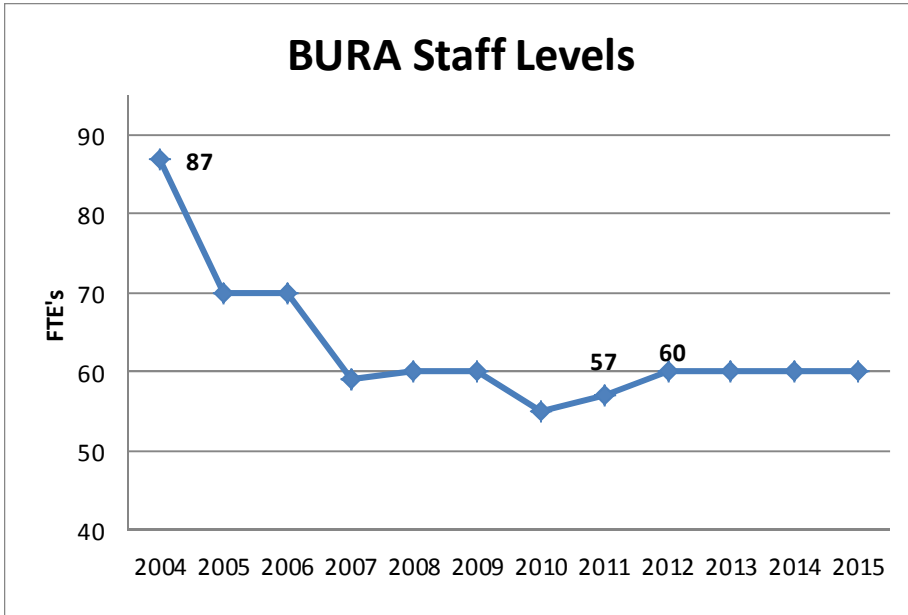
**CITY OF BUFFALO URBAN RENEWAL AGENCY
OPERATING BUDGET & FOUR YEAR PLAN**

FOR THE FISCAL YEARS ENDING	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Grant Expenditures					
CDBG public service costs @ 15%	2,563,728	2,428,567	2,428,567	2,428,567	2,428,567
Section 108 loan repayments	1,427,530	760,286	1,759,649	1,678,897	2,462,192
CDBG program costs	10,413,542	8,645,204	7,622,501	7,679,342	6,871,799
CDBG-R program costs	1,270,113	1,270,113	282,599	-	-
HOME CHDO set aside @ 15%	762,281	671,496	671,496	671,496	671,496
HOME program costs	4,028,499	3,582,504	3,582,504	3,582,504	3,582,504
Emergency Shelter program costs	674,370	670,050	670,050	670,050	670,050
ESG for Homeless Prevention	2,596,054	2,198,027	-	-	-
HOPWA program costs	549,670	550,136	550,136	550,136	550,136
NYS Block by Block Grant program costs	776,000	-	-	-	-
Neighborhood Stabilization Program costs	658,755	658,755	658,755	-	-
Total Program Costs	<u>25,720,541</u>	<u>21,435,138</u>	<u>18,226,256</u>	<u>17,260,992</u>	<u>17,236,744</u>
Admin & Planning Costs					
CDBG admin costs @ 20% grant + PI	\$ 3,368,304	\$ 3,238,151	\$ 3,238,089	\$ 3,238,089	\$ 3,238,089
CDBG-R admin costs @ 10% grant	129,887	129,887	28,895	-	-
HOME admin costs @ 10%	532,308	472,638	472,638	472,638	472,638
Emergency Shelter admin @ 5%	31,113	35,266	35,266	35,266	35,266
HOPWA admin costs @ 3%	15,659	17,015	17,015	17,015	17,015
Total Admin & Planning Costs	<u>4,077,271</u>	<u>3,892,957</u>	<u>3,791,903</u>	<u>3,763,008</u>	<u>3,763,008</u>
BURA Program Delivery Costs	<u>1,285,969</u>	<u>1,118,545</u>	<u>1,300,208</u>	<u>1,430,534</u>	<u>1,530,994</u>
Planning and Program Delivery Costs	<u>31,083,782</u>	<u>26,446,640</u>	<u>23,318,368</u>	<u>22,454,534</u>	<u>22,530,746</u>

Other notable items:

- BURA continues to repay old Section 8 Loans, which are in default by those the funds were originally loaned to. As BURA guaranteed these loans, BURA must make payment on them using the CDBG funds. The current balance is \$5.56 million (as compared to \$6.02 million last year), and will be paid off by August 1, 2018.
- HUD recently issued a report which brought into question the spending of funds in a timely manner, as well as whether certain expenditures were allowable under the grant agreements. This report was recently issued and it isn't clear at this point in time if any funds will need to be repaid.

The following graph displays both historical and expected future staffing levels for BURA:



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.

BUFFALO MUNICIPAL HOUSING AUTHORITY 2012-2015 FOUR-YEAR FINANCIAL PLAN SUMMARY

SUMMARY

The Buffalo Municipal Housing Authority's (the "BMHA") 2012-2015 financial plan is consistent with the prior year's approved financial plan with either minor or no changes in estimates or assumptions in fiscal years 2012 – 2014. The BMHA utilizes information obtained from industry-related resources in estimating projected revenues and expenses, and adjusts the annual operating budget and financial plan as necessary as key assumptions change. Such key underlying assumptions have remained consistent with what was projected last year, and therefore management concluded that these key underlying assumptions were appropriate to apply within the 2012-2015 financial plan.

The BMHA's financial results for the year ended June 30, 2010, as reported by the BMHA, reflect a cash flow increase of \$2.2 million as compared to the budgeted amount of \$625,000, representing a positive variance of \$1.6 million. It is noted that the BMHA overspent their 2010 budget by approximately \$813,000, or 2.5%. BMHA's management has indicated the overspending was directly related to the implementation of grants pursuant to the American Recovery and Reinvestment Act of 2009 ("ARRA"), which will have a significantly reduced impact in its final year of 2012. This particular trend is not expected to continue and was therefore not considered during the development of the 2011-12 budget and related financial plan.

HIGH LEVEL OVERVIEW

Operating revenues are budgeted to increase \$900,000 in fiscal year 2012 as compared to the 2011 budget, representing an increase of 2.6%. For the remaining years of the financial plan, revenues are projected to increase each year from \$36.0 million in fiscal year 2012 to \$37.7 million in fiscal year 2014, representing an increase of \$1.7 million or 4.7% over the four year period.

Expenses are budgeted to increase at a slightly lower rate. Total budgeted expenses for fiscal year 2012 are \$35.1 million, representing an increase of \$800,000 (2.3%) over the fiscal year 2011 budget. Expenses are projected to continue to increase modestly from \$35.1 million in fiscal year 2012 to \$36.6 million in fiscal year 2015, reflecting an increase of \$1.5 million over this time period, or 4.3%. With respect to operating expenses, the BMHA has applied an inflation factor of 3% for most expenses, except for salaries which are held at a level amount throughout the financial plan. All labor contracts that have been settled are due to expire June 30, 2011; there remains one older outstanding contract with the Operating Engineers Local 17 which expired on June 30, 2002. The 3% inflation factor was applied to employee benefits for fiscal years 2012, 2013 and 2014; employee benefits in 2015 were held flat as compared to 2014.

A high level summary of the Operating Budget of the BMHA is as follows:

	2010	2011	FINANCIAL PLAN			
	Actual	Budget	2012	2013	2014	2015
Total operating revenues	\$ 35.6	\$ 35.1	\$ 36.0	\$ 36.4	\$ 37.4	\$ 37.7
Total operating expenditures	33.4	34.3	35.1	35.6	36.1	36.6
Excess of operating revenues over total operating expenditures	2.2	0.7	0.9	0.9	1.4	1.2
Less: nonoperating expenses	0.0	0.7	0.7	0.7	0.7	0.7
Total cash flow impact	\$ 2.2	\$ 0.0	\$ 0.2	\$ 0.2	\$ 0.6	\$ 0.4

It is noted that non-operating expenses include debt service payments (i.e., principal payments) to be made on the outstanding energy performance contract.

BMHA has indicated that the organization is currently utilizing reserves for nonrecurring activities that will enhance the living conditions of its residents and include the following:

- Enhancing security measures such as lighting, cameras and access control;
- Replacement of equipment and vehicles for more efficient maintenance and ready access to properties; and
- Starting a cycle maintenance program that will enhance the conditions and marketability of the units.

The majority of these activities result in capitalized assets and are expensed through depreciation, as per generally accepted accounting principles.

Status of Ongoing Programs

Consistent with last year's financial plan, the BMHA continues its efforts to revitalize the A. D. Price Courts development with Phase II expecting to be completed by June 2011. In addition, it is noted the Kensington Heights demolition has begun. The towers are currently being abated and demolition had been expected to begin the summer of 2010 and is now scheduled for the end of 2011.

The BMHA Energy Contract Performance Program continues to provide excess savings, which is reflected within the financial plan.

Additionally, in February 2011, BMHA took over management of Marine Drive; a needs assessment of the property is currently being planned.

OPERATING REVENUES

The following chart summarizes operating revenues within the financial plan:

	Financial Plan			
	2012	2013	2014	2015
	\$	\$	\$	\$
Operating Subsidy	20,712,182	21,333,548	21,973,554	21,973,554
Dwelling Rental Income	9,727,686	10,019,517	10,320,102	10,629,705
Transfers from Capital Grant Fund	3,644,828	3,144,828	3,144,828	3,144,828
Other	1,903,345	1,948,444	1,994,898	2,001,472
	<u>35,988,041</u>	<u>36,446,337</u>	<u>37,433,382</u>	<u>37,749,559</u>

The most significant components of operating revenue include the Operating Subsidy and Dwelling Rental Income, which account for 58% and 28% of total revenue respectively, on average:

- An Operating Subsidy funding level of 92% has been projected for each year as the U.S. Department of Housing and Urban Development (“HUD”) has been funding between 83% and 97% over the last several years. The estimate is experienced based and also takes into consideration information available from external resources available to the BMHA. The most recent federal budget did not impact the Operating Subsidy to any housing authorities, however there has been discussions at the federal level related to a potential recapture of excess reserves which could impact BMHA. At this time there has not been any definitive conclusions reached at the federal level. The Operating Subsidy is projected to increase 3% annually in total dollars from 2012-2015, with the funding level of 92% being consistently projected. BMHA traditionally projects HUD revenues lower than the actual receipts due to the uncertainty of the housing appropriations to HUD by Congress.
- Dwelling and Rental Income for 2010 is reported to have been \$9.0 million. The balance of \$9.7 million as budgeted for 2012 represents an increase of \$700,000, or 7.5%, over 2010 actual amounts. This revenue is projected to increase annually beginning in 2013 through 2015 at a rate of 3%. New developments at A.D. Price, better cycle maintenance for apartments and improved occupancy rates all contribute to the increases in rental income.

Transfers from the Capital Grant Fund constitutes approximately 9% of total revenues and consists of two components, one representing the reimbursement of administrative costs for the administering of the capital grant programs, and the second for direct personnel costs:

- Capital Fund Operating Income is budgeted at \$2.1 million annually for each year of the financial plan. The actual amount received in 2010 was \$2.4 million. This income, representing the transfer of administrative expenses from the capital budget, is projected to remain at the 2011 budget level through 2015.
- Capital Fund Administration Fee represents a transfer from the capital budget to cover personnel costs of employees working on capital matters. The 2012 budget of \$1.5 million is \$0.1 million greater than 2010 actual fee income. This amount is budgeted at \$1.0 million for 2013-2015. There is a remaining balance of ARRA funds to be received in fiscal 2012; the decrease of \$500,000 in years 2013 – 2015 represents the expected decrease associated with ARRA funds.

Other – This category includes non-dwelling rental income, interest income, fee for service, administrative fee for development and other income. In total, these fees are budgeted to increase to \$1.0 million in 2012, representing a 2.4% increase over 2011 budgeted amounts. This general category is projected to increase an additional 2.4% in 2013 and 2014. The increase between 2014 and 2015 is nominal.

OPERATING EXPENSES

Total budgeted operating expenditures for years 2012 through 2015 are budgeted less than operating revenues, resulting in projected surpluses for each year of the financial plan. The budgeted surpluses are modest, ranging between \$157,000 in 2012 to a high of \$641,000 in 2014.

Total 2012 budgeted operating expenses are \$35.1; budgeted debt service payments of \$711,000 result in total projected cash outflows of \$35.8 million. In 2012, operating expenses have increased over the 2011 budget by \$811,000 (2.4%). The budget increases modestly each year, with an increase of \$450,000 (1.3%) in 2013, \$512,000 (1.4%) in 2014, and \$510,000 (1.4%) in 2015.

Total Expenses - General Operating Fund and Central Office							
FYE 2011, 2012, 2013 AND 2014							
				FINANCIAL PLAN			
	Actual	Budget		Budget	Budget	Budget	Budget
	2010	2011		2012	2013	2014	2015
	\$	\$		\$	\$	\$	\$
EXPENDITURES:							
TOTAL ADMINISTRATIVE COST	9,363,969	10,279,030		10,379,732	10,483,361	10,594,871	10,609,909
TOTAL TENANT SERVICES COST	689,916	702,436		711,932	721,657	734,495	743,384
TOTAL UTILITIES COST	7,187,631	7,568,532		8,126,253	8,310,523	8,536,636	8,758,128
TOTAL ORDINARY MAINTENANCE	9,100,391	9,193,596		9,339,489	9,489,759	9,644,537	9,740,077
TOTAL PROTECTIVE SERVICE	156,894	927,620		929,972	932,395	934,890	934,890
TOTAL OTHER GENERAL EXPENSES	6,890,334	5,637,254		5,632,184	5,631,112	5,635,554	5,804,621
TOTAL EXPENSES	33,389,135	34,308,469		35,119,563	35,568,808	36,080,982	36,591,007
EXCESS REVENUES OVER EXPENSES	2,240,931	749,187		868,478	877,529	1,352,400	1,158,552
DEBT SERVICE	-	711,023		711,023	711,023	711,023	711,023
CASH FLOW IMPACT	2,240,931	38,164		157,455	166,506	641,377	447,530

The BMHA has applied an inflation rate of 3% to most expenses except salaries; this inflation factor was obtained HUD. With respect to salaries, there are no increases projected throughout the financial plan. Benefits are also budgeted to increase 3% during the period 2012 – 2014, with no change from 2014 to 2015. Total salaries and benefits for all departments are budgeted at \$18.1 million in 2012, \$18.2 million in 2013, and \$18.4 million in 2014 and 2015.

Major expense line items and the projections included within the financial plan are as follows:

Administrative Costs – Salaries and benefits comprise approximately 51% of total operating expenses. As noted above, the BMHA has not included any salary increases throughout the financial plan. The current contracts with the collective bargaining units expire this June 30, 2011. There is one older outstanding labor agreement with the Operating Engineers that remains open (last expired June 30, 2002). Exempt employees follow the provisions of the white collar union and no increases have been included.

Ordinary Maintenance – The second largest expense category of Ordinary Maintenance represents 27% of the total budget. The 2012 budget of \$9.3 million is greater than 2010 actual by \$200,000. Minor increases in maintenance materials and maintenance contracts are budgeted for 2012

through 2015. Total expenses range between \$9.3 million and \$9.7 million and are projected to increase 4.3% over the four years of the financial plan.

Utilities Costs – Utility costs represent the third largest expense category at 23.5% of the budget. Utility costs are budgeted at \$8.1 million in total, however this does include labor costs and related benefits; the actual utility costs, exclusive of labor costs and benefits are \$7.0 million. Actual utility expenses for 2010 were \$6.2 million.

Utility costs are budgeted at an increase of \$550,000 (8.5%) in 2012 as compared to 2011. From 2013 through 2015, utilities are budgeted at 2.5% - 3.0%, or roughly \$200,000, annually. Historically these costs have been conservatively budgeted and have resulted in budgetary savings.

BMHA has stated the organization is benefiting from major energy projects designed to control their utility expenses and experiencing significant savings.

Other General Services – The Other General Services category constitutes 16% of the total budget. This category includes retirees' health insurance, interest expense, and insurance among other smaller budgeted items. There are no large or unusual fluctuations in any of the individual balances. Other General Services is budgeted at \$5.6 million in 2012 and is projected to increase 3% over the four years of the financial plan, or \$172,000.

Retiree health insurance was budgeted for separately within Other General Services beginning in fiscal year 2011, and is budgeted at \$2.2 million - \$2.3 million annually each year of the financial plan. The most recent available estimate for the total actuarial accrued liability for other postemployment benefits ("OPEB") is \$53.4 million at June 30, 2009.

Tenant Services – The 2012 budgeted amount is \$0.7 million and remains relatively flat through 2015. Actual tenant services costs were \$0.7 million in 2010.

Protective Services – Protective Services of approximately \$930,000 annually are contractually based.

MARINE DRIVE

In February 2011, BMHA took over management of Marine Drive. This complex is self-sustaining with revenues generated to pay all annual expenses. The BMHA believes that any deficiency in operating results are to be paid by the City; however, it is be noted that BMHA has projected net operating income for each year of the financial plan.

Total Marine Drive revenues range from \$3.2 million to \$3.4 million over the financial plan, with total expenses ranging between \$3.1 million to \$3.3 million. The resulting net operating income ranges from \$91,000 to \$106,000 annually.

CAPITAL AND OTHER GRANTS SUMMARY

The summary of the Capital Fund as provided for within the four-year financial plan is as follows; the 2011 budgeted amounts were included for comparison purposes.

Budget Projections					
Capital and Other Grants					
Four-Year Financial Plan 2012 - 2015					
	Budget	FINANCIAL PLAN			
	2011	2012	2013	2014	2015
	\$	\$	\$	\$	\$
Capital Grants	10,179,316	10,179,316	10,179,316	10,179,316	10,179,316
Capital Fund Recovery Act	13,510,364				
HOPE VI Grants	759,111	-	-	-	-
ROSS Grants	391,000	391,000	391,000	391,000	391,000
Section 8 - City of Buffalo	2,936,095	3,024,178	3,114,904	3,208,351	3,208,351
Section 8 - 002 Program	1,954,917	2,013,565	2,073,972	2,136,191	2,136,191
TOTAL GRANTS REVENUE	29,730,803	15,608,059	15,759,191	15,914,858	15,914,858
Capital grant transfer to operating	(3,694,828)	(3,694,828)	(3,194,828)	(3,194,828)	(3,194,828)
GRANT REVENUE NET OF OPERATING TRANSFERS	26,035,975	11,913,231	12,564,363	12,720,030	12,720,030

The programs associated with the stimulus funding provided by the federal government are not extended past the current fiscal year; this is included in 2011 as Capital Fund Recovery Act revenue sources.

WORKFORCE SUMMARY

Following is a summary of BMHA's workforce over the four-year financial plan:

BUFFALO MUNICIPAL HOUSING AUTHORITY					
WORKFORCE FOUR YEAR PLAN					
	2011	FINANCIAL PLAN			
	BUDGET	2012	2013	2014	2015
DEPARTMENT:					
AUDIT	5	5	5	5	5
EXECUTIVE	23	23	23	23	23
MIS	8	8	8	8	8
FINANCE & BUDGET	13	14	14	14	14
PERSONNEL	6	6	6	6	6
CAP. IMP. & DEV.	30	31	31	31	31
SECTION 8	9	9	9	9	9
ASSET MANAGEMENT	170	191	191	191	191
TOTAL	264	287	287	287	287

The increase in twenty-three (23) positions in asset management is reflective of the additional employees are associated with taking over management of Marine Drive. As previously noted, these additional positions are paid for with revenues generated solely by Marine Drive and not through operating revenues of BMHA.

CONCLUSION

The BMHA has submitted to BFSA a financial plan which is operationally balanced, with operating revenues exceeding operating expenses each year and with adequate cash flow to pay the principal on its outstanding long-term debt.

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

Joint Schools Reconstruction Board

The Joint Schools Reconstruction Board (“JSCB”) was created in 2000 by resolutions of the Buffalo Board of Education and Buffalo Common Council. It was given special powers under New York 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 and coordinate efforts to enable compliance with, monitor and report on a program-wide diversity plan as part of the reconstruction effort.

JSCB is an inter-municipal board. The Board of Directors is comprised of the Mayor of Buffalo, the City Comptroller, the Buffalo School District’s Superintendent, a designee of the Buffalo Common Council, and two designees of the Buffalo Board of Education. Leadership as of June 30, 2011 was as follows:

- Honorable Byron Brown, Mayor of Buffalo,
- Ms. Darby Fishkin, Interim Comptroller/ Deputy Comptroller,
- Dr. James Williams, Superintendent of the Buffalo School District,
- Honorable Richard Fontana, Buffalo Common Council designee,
- Ms. Florence Johnson, Buffalo Board of Education designee,
- Mr. Chris Jacobs, Buffalo Board of Education designee.
- Vacant, New York State Regent for the Eighth District.

Note: the Buffalo City Charter names the New York State Board of Regent representing the eighth district an ex-officio member of JSCB. Regent Robert Bennett resigned from the JSCB Board to avoid any potential conflict of interest. JSCB is defined as a “covered organization”, pursuant to §3851(13) of New York State Public Authorities Law.

As of the end of the 2010-11 fiscal year, the JSCB had completed improvements to nine schools from Phase I, for a total cost of \$173.47 million, thirteen schools from Phase II, for a total cost of \$326.89 million, and nine schools from Phase III, for a total cost of \$350.06 million. As of March 2011, improvements have been completed for the nine schools involved with Phase III.

Phase IV

Borrowing to finance the project occurred in the second quarter of the 2010 fiscal year. Total project costs are projected at \$292.53 million. Phase IV is to include ten schools, as well as include District-wide technology enhancements and improved energy performance. As of June 30, 2011, \$236.24 million or 80.8% of the projected \$292.53 of the work had been completed. The ten schools selected for Phase IV are as follows:

Status of Phase IV Projects (\$ in millions)	Project Cost	Spent as of 06/30/2011	Percent Complete
PS #3 D'Youville Porter Campus	12.84	12.84	100.00%
PS #17 Early Childhood Center	11.37	7.95	69.91%
PS #54 Dr. George E. Blackman, ECC	11.00	10.98	99.78%
PS #72 Lorraine Academy	15.90	15.90	100.00%
PS #81 School 81	14.37	9.70	67.51%
PS# 84 ECHCC for Children	10.31	10.31	100.00%
PS #93 Southside Elementary School	27.51	27.51	100.00%
PS # 197/306 Science, Math & Technology Prep School at Seneca	35.22	26.13	74.20%
PS #203 Olmsted 5-12 Kensington	33.59	23.92	71.22%
PS #305 McKinley High School	50.33	30.97	61.53%
District-Wide Technology	54.00	44.04	81.54%
Energy Performance	16.08	15.99	99.44%
Totals	292.53	236.24	80.76%

The District anticipates completion of Phase IV in April of 2012.

Phase V

Borrowing to finance the project occurred in the fourth quarter of the 2011 fiscal year. Total project costs are projected at \$175.0 million. Phase V is to include seven schools, as well as include District-wide technology enhancements and improved energy performance. As of June 30, 2011, \$24.06 million or 13.75% of the projected \$175.0 of the work had been completed. The ten schools selected for Phase V are as follows:

School	Project Cost	Spent to 06/30/2011	% Completed
PS# 18 Dr. Antonia Patoja Community School of Academic Excellence	16.40	1.87	11.42%
PS #53 Community School	17.98	2.02	11.22%
PS #59M Charles R. Drew Science Magnet Museum Site	14.90	1.41	9.49%
PS #61 Early Childhood Center	10.57	0.95	8.98%
PS #64 Fredrick Law Olmsted School	16.89	1.78	10.57%
PS #65 Roosevelt Early Childhood Center	9.70	0.83	8.58%
PS #202 Grover Cleveland Comp. High School of Choice	27.79	3.11	11.20%
District-Wide Technology	49.14	7.72	15.72%
Energy Performance	11.64	4.35	37.36%
Total	175.00	24.06	13.75%