



# **BUFFALO FISCAL STABILITY AUTHORITY**

**Annual Report of the Buffalo Fiscal Stability Authority**  
Fiscal Year Ended June 30, 2012

September 24, 2012

# Annual Report of the Buffalo Fiscal Stability Authority

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## **Introduction**

This is the ninth annual report of the Buffalo Fiscal Stability Authority (the “BFSA” or the “Authority”), known locally as the City Control Board. It covers the ninth 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, 2011 through June 30, 2012, adding to the actions, accomplishments and progress cited in the BFSA’s eight 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 \$379.5 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.

This report has been prepared pursuant to the requirements of New York State’s Public Authorities Accountability Act of 2005 and the Public Authorities Reform Act of 2009.

## **Background**

The Buffalo Fiscal Stability Authority Act was adopted in 2003 in response to a State Comptroller’s report on the City of Buffalo’s financial condition, and a subsequent determination by the New York State Legislature “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 (the “BFSA 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 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 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". On May 29, 2012, the BFSA made a determination that all provisions of the BFSA Act with respect to transitioning into an advisory period had been met and resolved to enter into an advisory period effective July 1, 2012. An advisory period shall continue through June 30, 2037, unless a control period is reimposed.

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 modifications; to audit compliance with the City and any of the Covered Organization'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.

While currently under an advisory period, a control period could be reimposed in the event of the occurrence of certain events as described in the BFSA Act. During a control period, the BFSA would be empowered, among other things, (i) to approve or disapprove contracts, including collective bargaining agreements to be entered into by the City or any Covered Organization, binding or purporting to bind the City or any Covered Organization; (ii) to approve or disapprove the terms of borrowings by the City and Covered Organizations; (iii) to approve, disapprove or modify the City's financial plans and take any action necessary in order to implement the financial plan should the City or any Covered Organization fail to comply with any material action necessary to fulfill the plan, including issuing binding orders to the appropriate local officials; (iv) to set a maximum level of spending for any proposed budget of any Covered Organization; (v) to impose a wage or hiring freeze, or both, with respect to employees of the City or any Covered Organization; (vi) to review the operation, management, efficiency and productivity of the City and any Covered Organization; and (vii) upon a determination that no condition exists which would permit imposition of a control period to terminate the control period.

## **Mission Statement**

The Buffalo Fiscal Stability Authority originally adopted its mission statement on September 24, 2007; and had subsequently revised the mission statement in 2011. BFSA reaffirmed the mission statement by adopting it on August 1, 2012. 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 enabling 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

The BFSA is governed by a board of nine directors, seven of which are appointed by the Governor of the State. Of the seven directors appointed by the Governor, one must be a resident of the City, one is to be appointed following the recommendation of the State Comptroller, and one is to be appointed on the joint recommendation of the Temporary President of the Senate and the Speaker of the Assembly. The Mayor of the City and the County Executive serve as ex officio directors. The Governor designates the Chairperson and Vice Chair from among the directors. Five directors constitute a quorum. To date, a Vice Chair has not been named.

As of June 30, 2012, 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*
- **Brigid Doherty**  
*Executive Director of the James H. Cummings Foundation and former Executive Director of the WNY's Women's Fund*
- **Frederick G. Floss, Ph.D.**  
*Professor of Economics and Finance, Buffalo State College and former Vice President for Academics with United University Professions*
- **John J. Giardino**  
*Special Counsel with Phillips Lytle LLP and Managing Partner with Artemis Capital Partners*
- **Richard T. Jurasek, Ph.D.**  
*President of Medaille College*
- **Frank B. Mesiah**  
*President of the Buffalo Chapter of the NAACP and former Regional Administrator with the NYS Department of Labor*
- **Byron W. Brown (ex officio)**  
*Mayor, City of Buffalo*
- **Mark C. Poloncarz (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, Jr. with Directors Frederick Floss and Frank Mesiah constituting the remaining committee members.

The second committee is the Governance Committee and is chaired by R. Nils Olsen, Jr. with Directors George Arthur and Brigid Doherty 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 2011-12.

At June 30, 2012, 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.*
- **Robert L. Miller, C.P.A. (Comptroller)**  
*Former Chief Financial Officer with CVF Technologies Corporation and former Vice President/Controller with Pratt & Lambert United, Inc.*
- **Carmen R. Tyler (Executive Administrative Assistant)**  
*Former Director of Finance and Executive Administrative Assistant with Elim Christian Fellowship*

## Summary of Accomplishments in 2011-12

In its ninth fiscal year of operation, BFSA continued to assist the City and its Covered Organizations in attaining long-term fiscal stability. While there is evidence of the City's progress emerging over the last several years, 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 2012-13 Budgets and Related Four-Year Financial Plans".

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

- Moody's upgraded the City's A2 rating to an A1 rating with a stable outlook on the City's general obligation long-term debt in the 2011-12 fiscal year citing significant improvements of the City's financial operations and liquidity following augmentation of reserves in each of the last eight years and a trend of structurally balanced operations, despite near-term declines. The rating also factors: (1) challenges posed by the city's poor demographic profile; (2) a high debt burden that is expected to gradually moderate; (3) the oversight of city operations by the Buffalo Fiscal Stability Authority (BFSA, sales tax and state aid secured bonds rated Aa1), which has approved the City's four-year financial plan; (4) the city's improved revenue raising flexibility given modest growth in assessed valuation and improved taxing margin; and (5) additional bondholder security provided by the City's legally required and trustee-held bi-annual set-aside of debt service payments from first property taxes collected. The stable outlook reflects Moody's belief that the city's liquidity and reserve position will remain adequate, evidenced by elimination of the need for seasonal cash flow borrowing in the last five fiscal years.
- Standard & Poor's ("S&P") reaffirmed its rating in 2012. S&P last 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."
- Fitch Ratings reaffirmed its credit rating of the City during fiscal year 2012 at A+ with a stable outlook. The stated rating rationale includes: (1) the City maintains strong reserve levels that it has built up since the beginning of the decade; (2) oversight of the City by the State established fiscal oversight agency remains in place; (3) the City's economic base is diverse and continues to experience commercial and residential development; and (4) conservative policies and

strong management have contributed to an increase in the City's overall financial flexibility.

- The City's General Fund fund balance increased consistently from June 30, 2003 (just prior to creation of the BFSA) until June 30, 2010. During this time period, the City's unreserved, undesignated/unassigned fund balance increased from \$10.2 million in FY 2003 to \$76.0 million in FY 2007. Additionally, in 2007 the City established a Rainy Day Fund, representing funds set aside for unanticipated revenue shortfalls or unexpected expenditures, thus providing the City a safety net. The Rainy Day Fund was at \$35.5 million at June 30, 2012.

While the City has seen overall fiscal improvement, it is noted the City reported a decrease in fund balance from June 30, 2010 to June 30, 2011. The City's total General Fund fund balance decreased from \$142.7 million at June 30, 2010 to \$130.0 million at June 30, 2011. The City's unassigned fund balance decreased from \$50.0 million at June 30, 2010 to \$5.7 million at June 30, 2011. Total unassigned fund balance and assigned fund balance, which includes the Rainy Day Fund, decreased from \$110.2 million to \$57.2 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 \$34.35 million to \$35.49 million from June 30, 2010 to June 30, 2011. The subsequent decrease in unassigned fund balance is attributed to the City's use of this available resource to offset reductions in State Aid, to lower the property tax rate, and to maintain the current level of services to the residents of the City.

- The School District's total fund balance increased from \$212.2 million at June 30, 2010 to \$235.7 million at June 30, 2011. Unreserved (designated and undesignated) fund balance totaled \$168.9 million at June 30, 2010. Assigned and Unassigned Fund Balance totaled \$204.8 million at June 30, 2011.

The significant financial oversight, monitoring and control actions taken by BFSA, as well as actions taken by the City and its Covered Organizations, during the nine year period 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 2011-12, BFSA monitored implementation of the ninth four-year financial plan for the City and its Covered Organizations. That plan covered fiscal years ending 2012 through 2015, and contained certain budget balancing measures and actions to close

the forecasted budgetary gap. The City's four-year plan included the use of \$37.9 million of unassigned fund balance, the use of \$14.4 million of restricted State Aid to Municipalities ("AIM"), in addition to \$11.8 million in proposed Programs to Eliminate the Gap (PEGs) to be able to balance the four-year financial plan.

The 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 preliminary operating deficits each year from 2012-13 to 2015-16 which altogether totaled \$165.7 million. The District reduced this projected operational deficit to \$112.6 through the combined usage of \$53.1 million in fund balance. An additional \$42.3 million is reduced through defined PEG actions. The remaining \$70.3 million is eliminated through amorphous, yet-to-be defined actions.

BFSA also approved the tenth four-year financial plan as submitted by the City and its Covered Organizations on June 4, 2012, covering fiscal years ending 2013 through 2016. The most recent financial plan was the sixth 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 2012-13 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 2011-12, BFSA continued to monitor the regular quarterly reporting process of the City and its Covered Organizations and reviewed the projections to determine if budget modifications were necessary. The following summarizes many, but not all, actions BFSA took in 2011-12 in response to such monitoring procedures:

- BFSA approved one City budget modifications during the fiscal year. The first budget modification, in the amount of \$1.8 million, was to partially fund the construction of a new City Court detention center. The identified funding sources was the City's General Fund reserved/restricted fund balance for capital outlays.
- On December 7, 2011, the BFSA approved a request by the City to redesignate New York State Efficiency Incentive Grant funding to new projects. This redesignation resulted in a modification to the financial plan with respect to the

three out-years and affected the City's anticipated programs-to-eliminate the budget gap by \$2.0 million.

- On October 3, 2011, BFSA approved a budget modification to the JSCB Phase III budget along with a related change order. BFSA had approved the original budget for project costs of Phase IIIA in the amount of \$197.9 million on August 8, 2007, and the project costs of Phase IIIB in the amount of \$185.0 million on February 8, 2009. The Phase III budget was modified to increase spending by \$8.7 million, plus a yet-to-be-determined amount for additional interest earnings. These additional funds were made available due to unexpected earnings resulting from the initial deposit of Phase III construction funds.
- BFSA approved the City's 2012 \$22.0 million capital improvement budget on March 14, 2012, which included a \$5.0 million capital improvement allotment for the District, for a total capital budget of \$27.0 million. The plan met the requirements of the BFSA 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." BFSA staff monitored the process and pricing of the issue and provided final approval.
- The BFSA approved a collective bargaining agreement between the Buffalo CSD and the Professional, Clerical, and Technical Employees' Association, representing approximately 450 filled positions. This collective bargaining agreement required both a budget modification and financial plan modification as costs for the collective bargaining agreement were not reflected in the original budget or related four-year financial plan. The BFSA approved the budget modification in the amount of \$5.7 million for 2011-12 to be funded from Assigned Fund Balance, and a reallocation of projected expenditures in the amount of \$12.5 million in the remaining three out-years of the Financial Plan.
- BFSA approved the issuance and sale by the BMHA of senior housing revenue bonds for various purposes, including renovations, related to a low-income senior housing facility located in the City of Buffalo in an amount not-to-exceed \$5,300,000 and the loan of Replacement Housing Factor Funds to an affiliate of BMHA in the principal amount not-to-exceed \$5,130,000.
- BFSA received and approved the Buffalo Municipal Housing Authority's capital budgets for 2011 and 2012, representing funding available for improvements and redevelopment of BMHA's housing stock. The total amount approved included \$8.3 million for 2011 and \$7.5 million for 2012.
- BFSA reviewed and approved 228 City contracts and obligations totaling \$68.4 million; 224 School District contracts and obligations totaling \$78.3 million; 38

BMHA contracts and obligations totaling \$11.9 million and 39 BURA contracts and obligations totaling \$13.8 million. Additionally, the BFSA continues to monitor the finances of the Joint School Construction Board reconstruction projects, which is a capital investment exceeding \$1.5 billion.

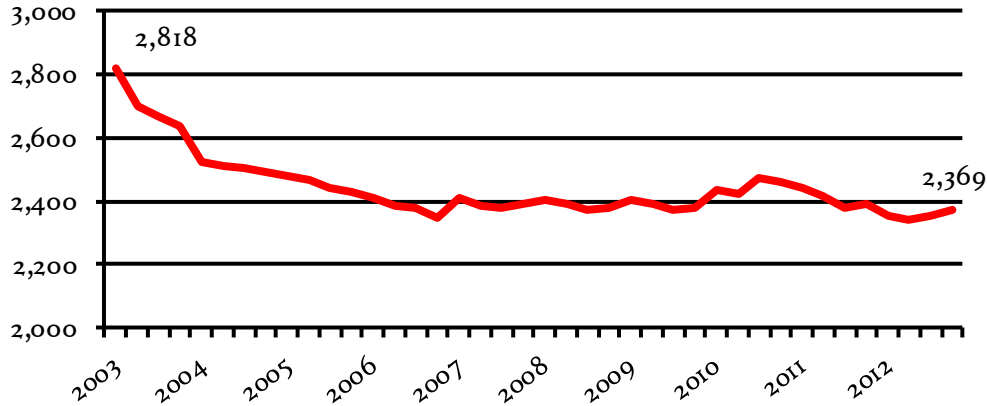
## **Workforce Summary and Trends**

Workforce costs represent the single largest expenditure category in the City and its Covered Organizations. For the City in 2011-12, the costs of employee salaries, pensions, health insurance (for active and retired employees) and other benefits accounted for 84 percent of budgeted appropriations. In the School District, these costs represented 53 percent of total budgeted appropriations. In addition, workforce costs continue to be among the fastest-growing budget category 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) liability, was required to be reported at June 30, 2008, under generally accepted accounting principles ("GAAP"). This estimate is required to be revalued every two years; the last valuation was in connection with year end June 30, 2011. The City's OPEB obligation at June 30, 2011 was estimated at \$1.64 billion, while the School District's obligation was also estimated at \$1.68 billion. Both the City and the District's long-term fiscal stability remains directly tied to its ability to manage the size and cost of its workforce.

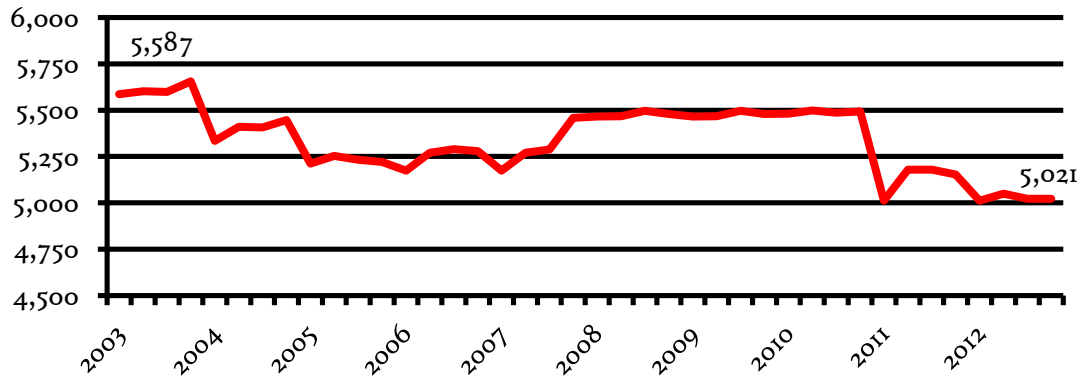
For 2011-12, the City increased its budgeted workforce modestly by 2 positions compared to FY 2011; filled positions decreased by 20 to 2,369 compared to 2,389 at FYE 2011. The District's budget decreased employment levels by 237 positions, while filled positions decreased by 132 positions to 5,021 from 5,153; it is noted that staff levels remain below 2003-04 levels. BMHA's workforce was essentially static, decreasing one position to a total of 243 filled positions. BURA had 60 positions both budgeted and filled at the conclusion of the 2011-12 fiscal year. BURA's workforce size remains significantly below 2003-04 levels when BFSA was created. Additionally, BURA fully funds 5 positions in the City's Office of Strategic Planning.

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

### City Workforce Size (number of FTEs)



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



Projected workforce trends are discussed in the section titled “City of Buffalo and Covered Organizations – Reports on the 2012-13 Budgets and Related Four-Year Financial Plans”.

#### Providing a More Cost-Effective Financing Framework

Over four years, from 2004 through 2007, BFSA reduced the City’s capital and cash flow debt costs, refunded existing City debt at more beneficial interest rates, and provided short-term budgetary relief through deficit financing (it is noted the statutory power to undertake deficit financing expired at the end of the 2006-07 fiscal year).

These actions were possible due to BFSA's highly-rated credit as compared to the City's bond ratings at that time period, which enabled savings for the City upon issuance of its Declaration of Need.

BFSA's credit rating was previously upgraded by rating agencies. In 2007, Fitch Ratings upgraded BFSA to AA from AA- to reflect "the demonstrated effectiveness of the Buffalo Fiscal Stability Authority in assisting the recent improvement of the city of Buffalo's fiscal condition." This followed a rating upgrade from Moody's Investors Services 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 own 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 A1 positive outlook from Moody's Investors Service (after the 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.

The following table illustrates credit rating comparisons between BFSA and the City of Buffalo in fiscal year 2012:

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

In conjunction with issuing debt on behalf of the City, the BFSA previously entered into forward delivery agreements (“FDA’s”) to invest the debt-service set asides required for annual principal and interest payments. For the year ended June 30, 2012, the BFSA reported a total of \$495,776 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. The FDA’s provide the City a guaranteed rate of return between 4.48% and 5.236%, which far exceeds the rate of return the City earned during 2012 of approximately 0.30%.

During the year under review, at the request of the City, the BFSA authorized the City to borrow \$27,000,000 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 and represent the second time in 30-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 2012. 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, 2012:

<b>BFSA Debt Table at June 30, 2012</b>					
	Issue	Bond Par	Note	Bond Par	Note Par
(\$ in thousands)	Date	Issued	(BAN) Par Issued	Outstanding	Outstanding
Sales Tax and State Aid Secured Bonds (Series 2004A)	Jun-04	\$25,745		\$9,165	
Bond Anticipation Notes (Series 2004A-1)	Sep-04		\$84,000		\$0
Sales Tax and State Aid Secured Bonds (Series 2005A)	Jun-05	\$28,030		\$15,475	
Sales Tax and State Aid Secured Bonds – Refunding (Series 2005B&C)	Jul-05	\$47,065		\$23,380	
Bond Anticipation Notes (Series 2005A-1)	Jul-05		\$90,000		\$0
Sales Tax and State Aid Secured Bonds (Series 2006A)	Apr-06	\$27,270		\$19,980	
Bond Anticipation Notes (Series 2006A-1)	Apr-07		\$60,000		\$0
Sales Tax and State Aid Secured Bonds (Series 2007A)	Apr-07	\$28,470		\$23,235	
<b>Total</b>		<b>\$156,580</b>	<b>\$234,000</b>	<b>\$91,235</b>	<b>\$0</b>

## **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. The City has introduced new actions each year through the financial plan; the City has made some progress in resolving its structural budgetary deficit. However, without a major reduction in expenditures or a new revenue source, the City will be facing a structural imbalance going forward, as is illustrated with the proposed PEG's.

**Budgetary Control:** During 2011-12, the BFSA monitored the 2012-2015 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 actions by entities (e.g., efficiency grants drawdown requests by the City, contract review, etc...), reviewing proposed collective bargaining agreements and determination of whether such CBA's were consistent with the financial plan, and reviewing any proposed budget and financial plan modifications for BFSA board consideration. The BFSA's final evaluation of the City's compliance with its budget for the year ended June 30, 2012 is expected to occur in or around December 2012.

**Collective Bargaining Agreements:** On October 3, 2011, the Authority approved a Memorandum of Agreement ("MOA") for a retirement incentive offered to eligible employees of AFSCME Local 264, as provided to Food Service Cafeteria Managers. The retirement incentive provided for a one-time payment of \$5,000 to individuals who accepted the terms; two employees did accept the retirement incentive for a total cost of \$10,000. The District's intent was to avoid forced layoffs with an estimated cost for unemployment benefits for two employees of \$16,517. The net savings of this retirement incentive was approximately \$6,500.

Also on October 3, 2011, BFSA approved a proposed Collective Bargaining Agreement ("CBA") between the City of Buffalo and the Operating Engineers (Local 17). The proposed contract presented to the BFSA began to address raising health insurance costs and contained reasonable wage increases. The CBA covered the time period between July 1, 2002 and June 30, 2013 and provided employees annual 2 percent raises, as well as a \$2,000 salary upgrade. There were no salary increases prior to July 1, 2007. 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 all employees, switching to a lower cost health insurance plan for all employees, contributions towards health insurance premiums primarily from new employees increased health insurance contributions in retirement for all new employees and the withdrawal of lawsuits against the City of Buffalo and BFSA. The increased costs of the contract were deemed to be consistent with the City's budget and four-year financial plan.

BFSA approved a CBA and a MOU on October 3, 2011, between the District and Local 264 representing the District Food Service Workers and the Summer Food Service Workers. The CBA for the Food Service Workers is effective through June 30, 2014. The MOU for the Summer Food Service Workers is effective through the 2013 Summer food service program. The increased costs for the agreements were included in the FY 2011-12 adopted budget and FY 2012-15 Financial Plan. BFSA estimated the combined net costs of these agreements at \$1.55 million. Approval of the agreements brought the District in compliance with the District's Living Wage Ordinance for this collective bargaining unit. It also afforded the District additional management rights in supervising the Food Service Program.

In December 2011, the Authority approved a CBA between the District and the Professional, Clerical, and Technical Employees' Association ("PCTEA") representing the white-collar employees of the District. This CBA supersedes the previous labor agreement which expired on June 30, 2007. The contract provides for annual salary and wage increases of 0% in 2007 and 2008, with increases ranging between 2.25% and 3.0% through June 30, 2012, along with a flat salary upgrade of \$2,500 effective July 1, 2010. The contract begins to address and reform certain costly provisions in previous agreements, in particular the need to have employees contribute more towards health insurance. Current active employees will contribute 1.25% of salary, with new employees contributing 20% of the total premium cost. Future retirees will also contribute more towards health insurance with current active employees contributing a small amount of \$400 - \$1,000 annually; more significantly new employees will contribute 25% of the total premium cost. The total estimated cost for this contract over the financial plan is \$13.7 million, with immediate 2011-12 additional costs estimated at \$5.3 million. The District requested, and the Authority subsequently approved, a 2011-12 budget modification to utilize up to \$5.7 million of General Fund Assigned Fund Balance for the additional current year costs. With respect to the remaining costs in the three out-years of the financial plan, the District was required to modify its Financial Plan so as not to add to the previously projected deficit; such financial plan modification was subsequently approved by the BFSA.

On May 14, 2012, BFSA approved a MOA between the District and the Buffalo Teachers Federation that provided a retirement incentive to teachers that had missed an earlier opportunity to retire either through the prior-year offered State sponsored early retirement 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 a \$10,000 payment per employee for accepting the retirement incentive. The net savings of the MOA was estimated at \$20,946 per participant. The District anticipated that the retirement incentive would allow the number of full-time equivalent positions to be reduced through attrition rather than through layoffs and would allow vacated positions to be filled with teachers on 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-related projects and require BFSA approval. The enacted 2011-12 New York State budget did not reduce efficiency incentive grant appropriations of all uncommitted grant funds as it has the past two past fiscal years. The amount available to the City is \$20.1 million, with all of it committed to various projects in process of implementation. It is noted that over the past two years, the State reduced the total amount of such funding by \$4.9 million.

**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.

The BFSA has issued formal recommendations within this report on the current budgets and financial plans of the various entities; refer to the section titled “Reports on the 2012-13 Budgets and Related 2013-16 Four-Year Financial Plans.” In addition to the written reports, the BFSA provides fiscal advice and guidance to management of the City and Covered Organizations.

BFSA reviewed several Collective Bargaining Agreements (“CBA’s”) during the 2012 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. The BFSA was able to develop a cost model that addressed the budgetary impact and advised entities as to actions to be taken to balance costs in context of the Financial Plan.

BFSA also began analyzing various components of health care costs and has 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:

- 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. 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 was granted. The case will be argued in the Court of Appeals on October 17, 2012.

- 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. The District denied the motion and the Buffalo teachers appealed. All papers have been filed with the court which has not decided the case. BFSA has filed its brief in opposition.
- Buffalo Professional Firefighters Association, Inc., IAFF Local 282 v. BFSA 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 the Court dismissed the proceedings. The Firefighters have appealed.

## **Public Meetings**

BFSA held seven public meetings of the Board of Directors in 2011-12, fully complying with the Open Meetings Law. In addition, four public meetings of the BFSA's Governance Committee and four public meetings of the Audit, Finance and Budget Committee were convened. All meeting minutes and resolutions for every BFSA meeting are available on the Authority's website. As begun in May 2007, BFSA continues to offer video webcast files of its Board meetings via the Authority's website. Two Executive Sessions were held, and the minutes are also available via BFSA's website.

In addition, BFSA held an annual public forum on May 10, 2012 to allow the citizens and residents of the City to comment on the budgets and financial plan of the City and respected Covered Organizations. BFSA had the required quorum present at all of its public meetings in 2011-12.

## Internal Controls

The purpose of the internal control program is 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 2011-12 to reinforce its system of internal controls and to promulgate new policies regarding lobbying contact policy and appointment of a lobbying contact officer:

- In July 2011, the Board reviewed, affirmed and re-adopted 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 2011, the Board, reviewed, affirmed and re-adopted 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 2011, the Board reviewed, affirmed and re-adopted 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 2011, the Board affirmed and re-adopted BFSA's Investment Guidelines in compliance with Section 2925 of the Public Authorities Law requiring public authorities to develop investment guidelines that establish a set of basic procedures to meet investment objectives and other specific criteria.
- In July 2011, the Board affirmed and re-adopted BFSA's Code of Ethics, stating the Authority's position on conflicts of interest, personal integrity, honesty, ethical conduct and public trust.
- In December 2011, the Board adopted BFSA's Lobbying Contact Policy and, as required by Public Authorities Law, Article 9, Title 12-A Section 2987.
- In March 2011, the Board amended and re-adopted by Resolution BFSA's Procurement Policies, in compliance with State Law requiring the authority to adopt guidelines for the Use, Awarding, Monitoring and Reporting of Procurement Contracts.
- In March 2012, the Board adopted Minority and Women Business utilization goals as required to be in compliance with Article 15-A of the New York State Executive Law.

Regarding its own finances, BFSA received a clean, unqualified opinion from its independent outside auditor, Lumsden & McCormick LLP. That audit report was

reviewed, accepted and approved by the Board at its September 24, 2012 meeting. The 2011-12 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 2011-12 fiscal year:

- In March 2012, the BFSA Audit, Finance and Budget Committee authorized by Resolution the posting of BFSA's proposed 2013-2016 budget and four-year financial plan in at least five public 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 and include as an item at the public forum to enhance public access.
- In June 2012, after the public review period had been completed the Board adopted by Resolution BFSA's budget for 2012-13 and four-year plan for 2013-2016.

BFSA did procure new or additional services from service vendors during fiscal year 2011-12. Services were procured for the following:

1. Actuarial review and the provision of the estimated impact on the District's other postemployment liability resulting from changed terms within a proposed collective bargaining agreement;
2. A finance expert in governmental accounting was hired to provide technical advice to the Board related to interpretation of the term "deficit" as written in the BFSA Act;
3. Software training for new employees of the BFSA.

BFSA's Principal Analyst served as the Authority's Internal Controls Officer for 2011-12. 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 who also reviews the internal control structures and performs tests to determine if the internal control structure is operating effectively, as well as if deficiencies are being addressed as necessary and in a timely manner.

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 2011-12 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 \$11,290, which was paid by the BFSA; Jeanette Mongold's pension contribution (to New York State and Local Retirement System) was \$16,116.

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. The BFSA did not have any significant travel-related expenses for the year ended June 30, 2012.

In 2011-12, 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 annual review and subsequent approval of the City's and Covered Organization's budgets and four year financial plans (completed June 2012).
  - The 2012-13 Budgets and 2013-2016 Financial Plans were approved by BFSA in June 2012.
- The review of the City's and Covered Organization's quarterly financial reports (completed on a quarterly basis throughout the fiscal year).
  - Submitted to BFSA within 30 days of quarter end.
- The review and the approval of budget and financial plan modifications during the year.

- Performed as necessary throughout the 2011-12 fiscal year.
- The review and approval or disapproval of the annual capital budget.
  - Approved 2012 Capital Plan on March 14, 2012 for the City and 2011 and 2012 Capital Budgets for BMHA on June 4, 2012.
- The review and approval or disapproval of capital borrowing as necessary.
  - Approved 2012 Capital Plan on March 14, 2012 and related capital borrowing.
- 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.
  - Approved throughout the 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
Reduction in cosmetic surgery expenditures City-wide	\$10.6 million
Refinancing of City Debt	\$1.8 million
Interest Earnings over what the City could have earned	\$2.0 million
Disapproval of BMHA Labor Contracts	\$2.4 million
Participation in JSCB Phase II Bond Pricing	\$1.0 million
Deputy Superintendent's Separation Agreement	\$0.2 million
<b>Subtotal</b>	<b>\$234.7 million</b>

**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

<b>Subtotal</b>	<b>\$144.8 million</b>
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<b>Total Impact to Date</b>	<b>\$379.5 million</b>
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## 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 (2010)  
Improved City credit rating to A- stable from S&P (2009)  
Improved City credit rating to BBB+ stable from S&P (2008)  
Improved BFSA credit rating to AA stable from Fitch (2007)  
Improved City credit rating to Baa2 stable from Moody's (2007)  
Improved City credit rating to BBB-stable from S&P (2006)  
Improved BFSA credit rating to Aa2 stable from Moody's (2006)  
Improved outlook on City debt from Moody's (2006)  
Improved outlook on City debt from Standard & Poor's (2003)

#### Debt Related

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

#### Labor Related:

Approved a new wage and benefit package with City's Local 17 - Operating Engineers (2012)  
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 (2012, 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 2012-13 Budgets and Related 2013-16 Four- Year Financial Plans**

## **Overview**

On June 4, 2012, by Resolution No. 12-15, BFSA approved the final 2013-16 Financial Plan for the City of Buffalo and its Covered Organizations. The BFSA found such Financial Plans were complete and complied with the standards set forth in Sections 3857 and 3858 of the Buffalo Fiscal Stability Authority Act. Furthermore, the BFSA certified the revenue estimates in the 2012-13 budgets.

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 initial proposed budgets and financial plans were submitted by the Mayor to BFSA on May 1, 2012, in accordance with the timing requirements of the BFSA Act. The City submitted a revised Financial Plan to BFSA on May 23, 2012, with Common Council approving the annual budget on May 21, 2012. The District submitted a final Financial Plan on May 16, 2012, with the Board of Education approving the annual budget on May 23, 2012. The BMHA submitted a revised Financial Plan on June 1, 2012, with the BMHA Board of Commissioners approving the annual budget on May 31, 2012. BURA did not submit a revised Financial Plan.

As previously noted, this report section summarizes the 2013-16 Financial Plans of the City and Covered Organizations, which is the ninth such financial plan approved since BFSA was created by New York State in 2003 and represents the fifth consecutive financial plan (since 2003-04) to not rely on the annual current savings from a wage freeze.

It is noted that the City Charter requires the City Comptroller's Office to certify the City's projected revenues for the upcoming fiscal year. The Comptroller's Office did certify the estimated revenues included within the Mayor's proposed budget dated May 10, 2012.

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

*Overview of 2012-13 Proposed Budget*

### Overview

The Mayor's proposed 2012-13 budget provides for General Fund spending of \$482.6 million, representing an increase of \$20.3 million, or 4.4%, over last year's adopted budget of \$462.3 million. Total 2012-13 revenues are estimated at \$471.1 million, an

increase over the prior year budget of \$451.0 million, or 4.7%. The excess of budgeted appropriations over estimated revenues is funded through the budgeted use of fund balance in the amount of \$11.5 million.

The final adopted budget included immaterial modifications to expenditures of approximately \$360,000; there was no change to the total amount of budgeted appropriations.

The following summary provides a high level overview of the components of the City's budget and provides addition detail on key changes and differences from the prior year.

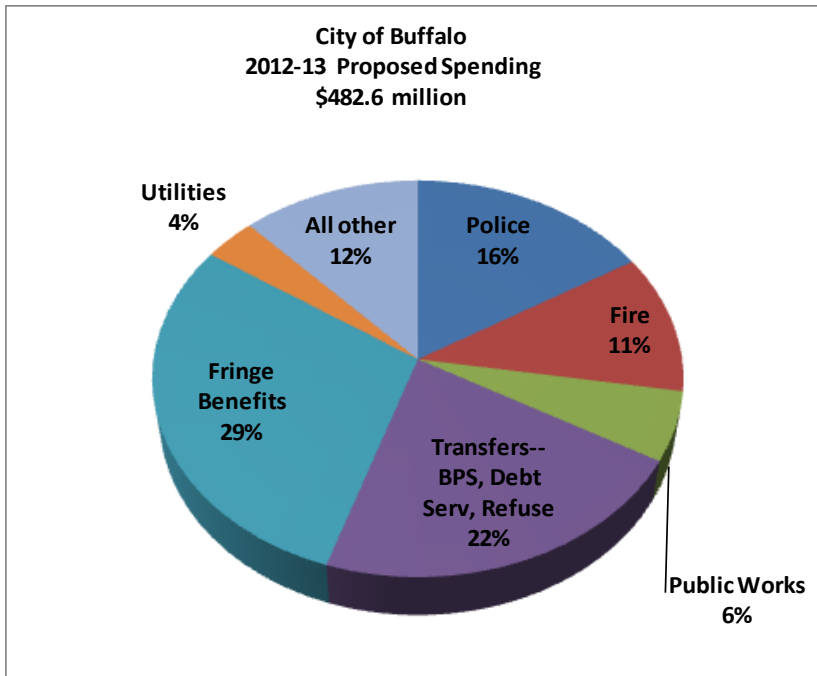
### Budget Summary

Total budgeted appropriations of \$482.6 million include total budgeted Interfund Transfers (i.e., Operating Transfers Out) of \$105.4 million. This balance consists of three separate transfers: the annual operating transfer to the School District (\$70.3 million); the transfer to the Debt Service Fund for the payment of principal and interest due in 2012-13 on outstanding debt (\$31.9 million); and an operating transfer to the Solid Waste and Recycling Fund to provide funding to offset the operating deficit (\$3.2 million). Both the transfer to the District and to the Debt Service Fund are specifically funded directly from the real property tax levy, and represents 50.7% and 23.0%, respectively, of the City's 2012-13 proposed real property tax levy. Total budgeted appropriations for Interfund Transfers is consistent with the prior year budget with a difference of less than \$300,000 noted.

The largest transfer to the School District of \$70.3 million has been held consistent 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. The City's entire tax levy as proposed for 2012-13 is \$138.6 million; the portion that is provided to the District is approximately 51%.

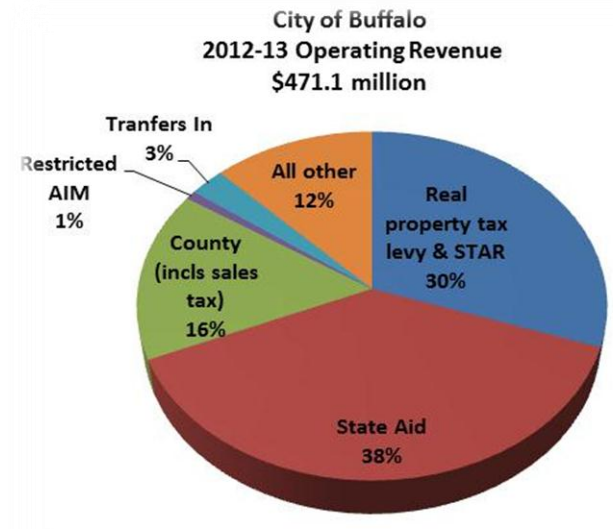
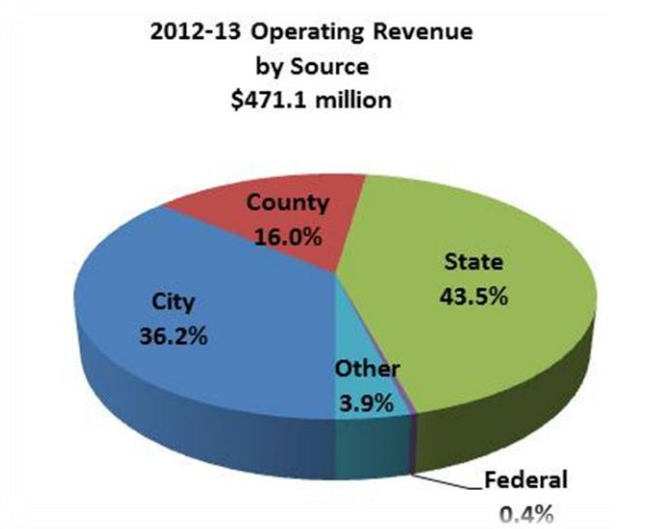
The remaining operating budget of the City, excluding transfers, provides a clearer picture of the amounts budgeted by the City for the general operations of the City and the provision of City-wide services. This adjusted amount is \$377.1 million, and has increased \$20.3 million, or 4.2 percent, on a year-to-year basis.

The following chart provides a summary of the budget with respect to categorizing the specific areas of spending:



The largest components of the budget are as follows: fringe benefits (29%), which include health insurance, pension contributions, FICA, salary adjustments and other similar commitments; transfers to other funds (22%); police (16%); and fire (11%). These four areas combined constitute 78% of the total budget. Public works comprises 6% of total budgeted appropriations and Utilities represents another 4%. All remaining departments and general charges compose 12 percent of expenditures. As a percent of total costs, Fringe Benefits is the only area that had significant growth of 3%.

The following charts provide a summary of the budget with respect to total revenues and sources of those revenues:



The first chart illustrates the main sources of estimated operating revenues \$471.1 million, by rolling the various revenues up by their source. The largest contributor of revenue to the City is New York State (the "State") which is budgeted to provide \$204.9 million to the City, an increase of \$17.4 million over prior year. Total State Aid includes State Aid to Municipalities ("AIM"), grants and program specific funding. The second largest revenue source is the City itself at \$170.7 million, which is a decrease from last year's amount of \$172.3 million. City revenue includes Taxes (including property taxes), Fines, Licenses & Permits and various other revenue categories. The third largest revenue contributor is Erie County, with the most significant revenue source representing sales tax, providing for \$74.3 million. Other reimbursements bring the total contributed amount from the County to \$75.6 million.

The second chart demonstrates the main sources of estimated operating revenues of \$471.1 million by type of revenue; the largest categories are State Aid, City revenues, and County revenues. The City's real property tax levy accounts for 30% of total budgeted revenues (an increase from 28% last fiscal year), State Aid to Municipalities "AIM" accounts for 38% (an increase of 36% last fiscal year) and County revenues, of which sales tax is the largest component, accounts for 16% of the City's total revenues (an increase from 15% last fiscal year). It is important to note that these three revenue sources compose 84% of the City's operating revenues.

In addition to the \$471.1 million in projected operating revenues, the City has projected it will utilize \$11.5 million of unassigned fund balance.

The proposed budget decreases the City's property tax levy to \$138.6 million from \$143.3 million last year. The decrease in the City's property tax levy reflects the Mayor's policy of controlling taxes, and reducing the property tax rate for businesses. A combination of reductions in property tax levies and higher total full assessed taxable valuation has increased the City's available property tax margin, which is \$41.6 million as per the current proposed budget. The proposed budget would utilize 68.2% of the City's constitutional taxing capacity, down from 71.1% last year.

### Spending Levels Compared to 2011-12

Compared to the 2011-12 adopted budget, proposed City spending is increasing by \$20.3 million. The significant changes are discussed below.

At the departmental level, total budgeted expenditures are projected at \$208.0 million, an increase of \$1.4 million over last year's adopted budget of \$206.6 million, representing an increase of less than 1%.

There are differences noted within the various budgeted departments. The department with the most significant increase is Administration & Finance which

is budgeted at an increase of \$1.0 million). Fire (increase of \$396,100) and Public Works (increase of \$353,700) are projected to increase modestly. The increase in Administration & Finance and Public Works is projected to increase for supplies and services, the City is projecting an increase in the cost of gasoline from \$4.2 million to \$4.7 million, and an increase in automotive supply costs from \$1.25 million to \$1.6 million. While spending in Fire is due to increases in personal service costs.

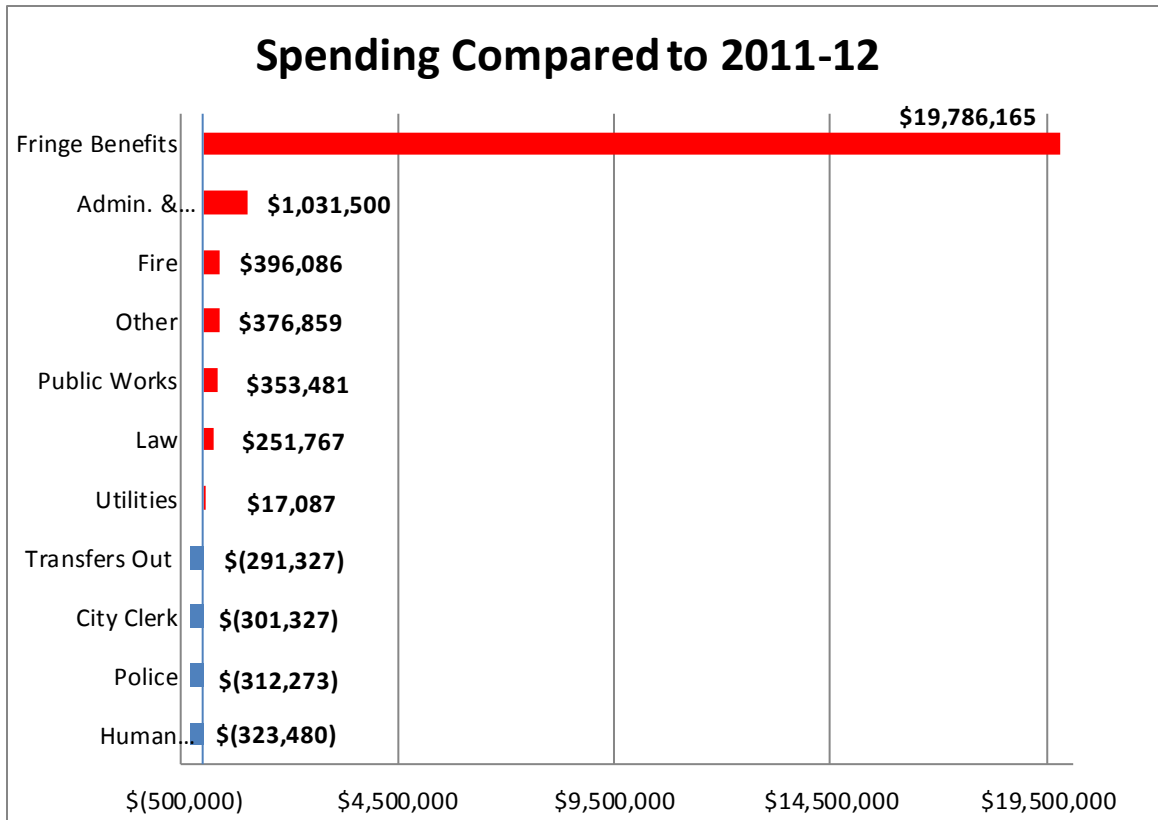
There are offsets to the budget where departments are budgeted at less than last year. The largest decreases in proposed spending are within the following departments: Human Resources (decrease of \$323,480), Police (decrease of \$312,272), and City Clerk (decrease of \$301,327). Reasons for the decreases range from decreases in personal services (see "Employee-Related Costs"), supplies and capital outlays, and decreases in travel related expenditures. Other departments are also expected to see their budgets decrease; there are no large fluctuations noted in the remaining departments.

Total General Charges are budgeted at \$169.2 million for 2012-13, an increase from the prior year budget of \$150.0. The increase of \$19.2 million, or 12.8%, over prior year is attributed to the overall increase in the budget from year-to-year of \$20.3 million.

The most significant increase is with respect to fringe benefits, which are budgeted at \$142.0 million and have increased \$19.7 million, or 16%. This is due to growth in health insurance costs for both active and retired employees (estimated to increase \$3.4 million), and higher contributions for the NYS Retirement System based on the projected contribution rate provided by the NYS Retirement Systems (\$7.7 million). The City has budgeted \$8.0 million for unsettled labor agreements as the majority of City unions are out of contract. This amount was not budgeted in 2011-12.

Utilities are budgeted at an amount consistent with the prior year; a modest increase of \$17,000 has been included.

All other general charges are projected to decrease by \$300,000. In addition, transfers out will decrease by \$300,000 as a result of decreased debt service payments.



### Employee-Related Costs

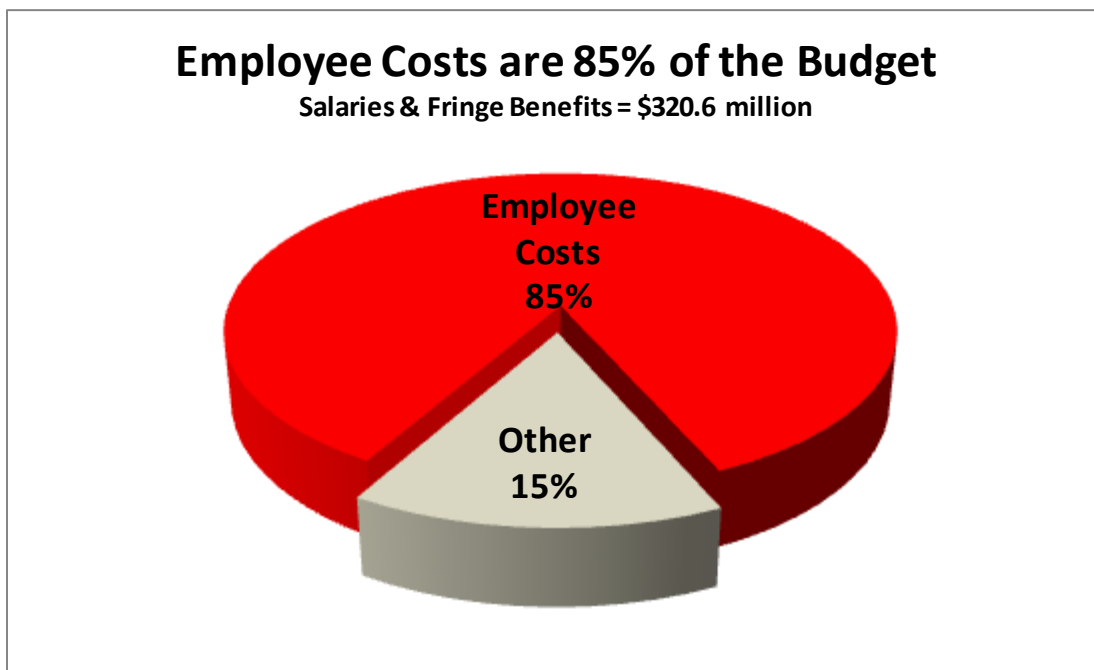
The vast majority of expenditures in the City budget are employee-related costs. Direct employee salaries and wages, coupled with fringe benefits such as health insurance, dental insurance, life insurance and pension represent nearly 85 percent of the City's General Fund expenditures exclusive of transfers, which is consistent with last year. The 2012-13 spending plan proposes \$320.6 million in direct salary and fringe benefit costs, which has significantly increased from the 2011-12 level of \$300.2 million. It's noted that this has been an area of significant growth over the last several years which has increased from \$283.5 million in 2009-10 and \$270.2 million in 2008-09; this growth represents an increase of is \$37.1 million (13.1%) from the 2009-10 adopted budget.

Police and Fire personal service (PS) costs are budgeted consistent with last year with a minor increase of \$221,000 in 2012-13 as compared to 2011-12. The City is planning to bring on both a Fire and Police recruit class to offset attrition through retirement. Policies for controlling overtime and sick leave use have also been implemented and have thus far proven mixed results in reducing related expenses, as overtime costs for the Fire Department continue to rise in the current fiscal year.

Both Police and Fire overtime spending is expected to remain static over the course of the financial plan. On a year to year basis (FY 2012 to FY 2013), the

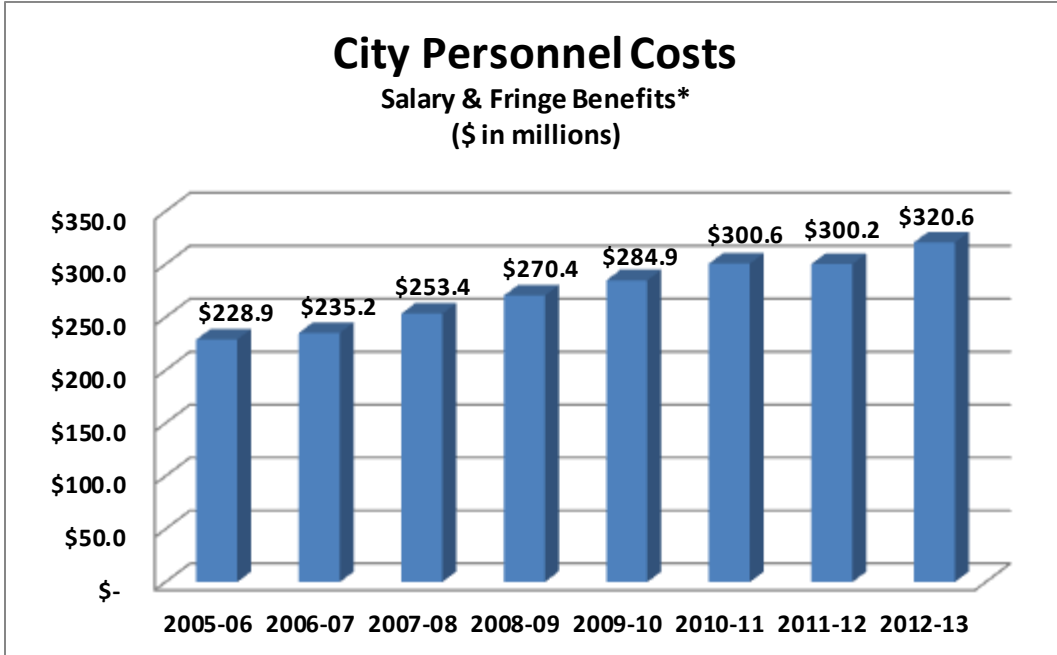
City is increasing OT for uniformed services by a net \$0.4 million. Of that increase, \$1 million will be set aside in a freeze account that would require the departments to go to the Comptroller's office and Council to draw the funds down. They would have to provide an explanation to Council as to why they surpassed their departmental budgeted amounts. Overtime is an area of concern, especially since the City is on course to be over by \$3.1 million (Police \$1.5 million and Fire \$1.6 million) in the current fiscal year; the City is using the savings from current vacancies to offset this overage. This is considered a risk in the current year budget due to the overtime overruns in the current year.

Police overtime in FY 2013 is being reduced by \$0.8 million to \$8.7 million. The Fire Department is increasing the amount budgeted in FY 2013 for overtime by \$0.2 million; and there is the establishment of the OT freeze account in the amount of \$1 million. The City is able to address overages in overtime by using unfilled positions to offset the additional costs. However, the annual increases related to salaries will offset partially the overtime savings and if additional vacancies are filled it would further impact department-wide budgetary savings.



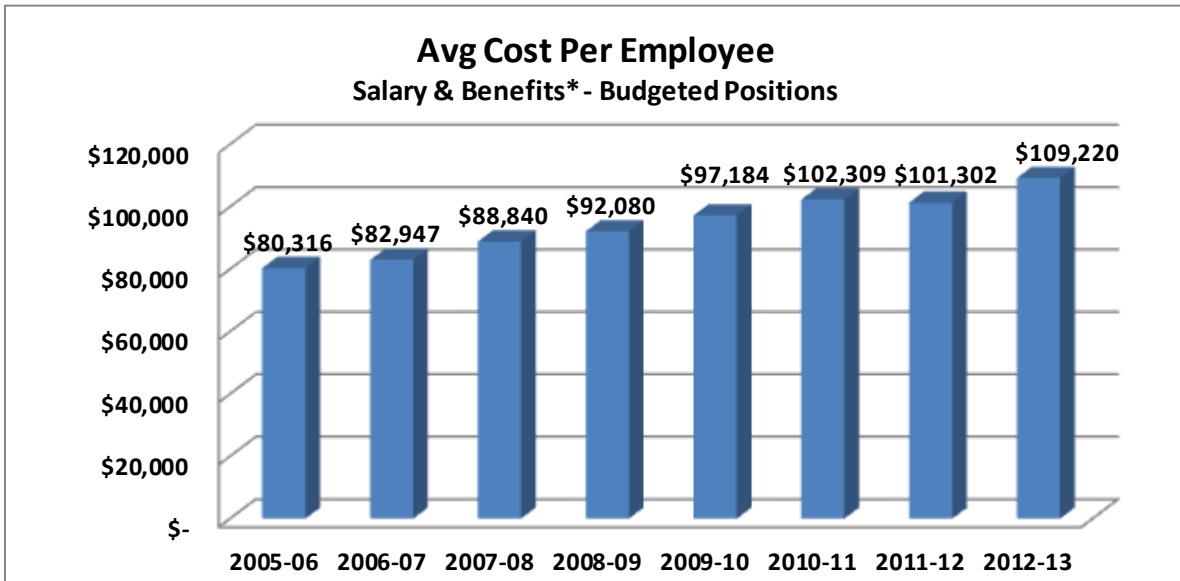
The City's personnel costs (salary and benefits) have grown steadily in recent years. In FY 2005-06 employee costs totaled \$228.6 million, while in the Mayor's proposed 12-13 budget employee compensation costs have grown to \$320.6 million, an increase of \$92 million (40%) over the last seven years. This growth has occurred outside of any settlement on the long outstanding police and fire contracts, and also has occurred irrespective of the wage freeze which was enacted in April 2004 and lifted July 1, 2007. Of the budgeted amount of \$320.6

million, \$35.0 million (10.9%) represents the amount budgeted for retiree health care. The following chart demonstrates the amounts discussed in the following two tables are based on budgeted amounts and demonstrate the annual budgetary growth since 2005-06.



\*Includes costs associated with retiree health care.

As employee costs have continued to grow, so has the average yearly cost for each City employee. The following graph takes a look at the growth in the average cost per City employee since the 2005-06 fiscal year.



\*Eliminates retiree health insurance from total PS costs.

In 2005-06 the average cost per employee, which includes salary and benefit expenses, was \$80,316 per City employee. For the upcoming 2012-13 fiscal year, the average cost per City employee will have grown to \$109,220, an increase of \$28,904 or 36 percent since 2005-06. Key factors driving the steady increase include increased costs for health insurance, employer contributions for retirement and increased employee salaries. The figures above exclude retiree health insurance costs, in order to reflect the total cost per **active** employee. For 2012-13 the amount budgeted for retirees' health care totals nearly \$35.0 million. Below is a chart showing how much the City has actually paid for retiree health insurance and active employee health insurance since 2002-03. Over the last ten years health insurance costs have increased by \$29.03 million or 71%.

	ACTUAL										BUDGETED	
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	
Active	\$ 21.45	\$ 24.21	\$ 22.69	\$ 24.15	\$ 24.90	\$ 25.57	\$ 28.25	\$ 30.08	\$ 29.21	\$ 30.65	\$ 35.29	
Retiree	\$ 19.31	\$ 24.44	\$ 23.05	\$ 25.29	\$ 27.52	\$ 29.74	\$ 30.90	\$ 32.99	\$ 31.77	\$ 35.61	\$ 34.50	
<b>Total</b>	<b>\$ 40.76</b>	<b>\$ 48.65</b>	<b>\$ 45.74</b>	<b>\$ 49.44</b>	<b>\$ 52.42</b>	<b>\$ 55.30</b>	<b>\$ 59.15</b>	<b>\$ 63.08</b>	<b>\$ 60.98</b>	<b>\$ 66.26</b>	<b>\$ 69.79</b>	

### Staffing Levels

The 2012-13 budget includes a consistent level of budgeted positions with a net increase of 2 positions noted from the 2011-12 budget. The largest increase is for non-uniformed police personal (i.e. civilian employees), which increase by 8 positions, of which 6 positions are for additional cellblock attendants. This is followed by: an increase of 3 personnel in the Parks Department; Animal Control, Forestry and Law are all projected to increase by 1 position.

Minor reductions are noted in various departments including Streets (-3), City Council (-3), MIS (-2), Engineering (-2), Uniformed Police (-1), and Parking (-1). The following table shows budgeted staff changes from the adopted 2011-12 budget to the proposed 2012-13 spending plan:

	2011-12 Budget	2012-13 Proposed	Change
Police (Non-Uniform)	191	199	8
Parks	32	35	3
Animal Control & Shelter	14	15	1
Forestry	5	6	1
Law	35	36	1
Assessment & Taxation	31	31	0
Audit & Control	45	45	0
Budget	8	8	0
City Clerk	18	18	0
Community Services	33	33	0
Division of Buildings	65	65	0
Fire (Non-Uniform)	45	45	0
Fire (Uniform)**	719	719	0
Human Resources	20	20	0
Mayor & Executive	49	49	0
Parks Admin.	3	3	0
Permits & Inspections	93	93	0
Public Works (Gen Office)	3	3	0
Purchase	31	31	0
Recreation	20	20	0
Telecommunications	2	2	0
Treasury & Collections	18	18	0
Parking	41	40	-1
Police (Uniform)*	802	801	-1
Engineering	79	77	-2
MIS	34	32	-2
City Council	39	36	-3
Sanitation & Streets	138	135	-3
<b>Total</b>	<b>2,613</b>	<b>2,615</b>	<b>2</b>

\* **Uniformed police** positions are budgeted at 801, a net decrease of (1) position from the 2011-12 budget. The proposed staffing number reflects the net effect of a couple of different things. First, while 802 positions were budgeted in 2011-12, current-year attrition has left the uniform police with 754 filled positions as of the end of the third quarter. The City expects that number to decline further through the remainder of the current year due to retirements. Additionally, the budget includes the hiring of 48 additional uniformed police personnel for the 2012-13 fiscal year, who are projected to start the academy in July 2012. In addition, there is a projected loss of an additional 10-15 uniformed police to retirement next year. Taken together, it may be challenging for the uniform police to fully staff 801 positions in fiscal year 2012-13 due to attrition.

\*\* **Uniformed fire** positions were budgeted at 719 in the 2011-12 fiscal year and will be held flat in 2012-13. Current year attrition has reduced the size of the force to 670 as of the end of the third quarter. The proposed spending plan assumes 10 to 15 retirements during the 2012-13 fiscal year. Similar to the City's police department, it may be difficult for the fire department to maintain budgeted levels in terms of actual filled positions during 2011-12.

### Estimated Revenues

The proposed budget includes an increase in estimated revenues of \$20.3 million over the 2011-12 budget. The following table shows the differences by major category:

(\$ in millions)	2011-12 Adopted	2012-13 Proposed	Change	Explanation
Taxes	\$153.8	\$148.7	(\$5.0)	Decrease in commercial property tax
Non-Property Tax	\$12.9	\$13.8	\$0.9	Cable franchise tax increase
Licenses & Permits	\$3.6	\$3.6	\$0.0	Net \$0 impact
Intergovernmental	\$238.5	\$260.7	\$22.2	State Aid Spin-Up \$10.8, Accounting Adj. \$7.8, and Sales Tax \$6, Tribal State Compact (\$1.2), Rest. AIM (\$1.3)
Service Charges	\$12.1	\$14.3	\$2.2	Increases/decreases in several categories; \$1.5 parking fine collections
Fines	\$8.5	\$8.5	\$0.0	
Interest	\$1.2	\$1.0	(\$0.2)	Investment Income down
Miscellaneous	\$7.1	\$7.8	\$0.7	Increases/decreases in several categories
Transfers In	\$12.3	\$12.6	\$0.3	Transfer from Enterprise fund parking and capital project fund
Other Funding Sources	\$12.3	\$11.5	(\$0.8)	Use of unassigned Fund Balance
<b>Total</b>	<b>\$462.3</b>	<b>\$482.6</b>	<b>\$20.3</b>	

The most significant change from last year pertains to State Aid. The State has offered a one-time spin-up of State Aid, which will allow the City to accrue an

additional \$10.8 million of state aid revenue in 2012-13. The increase is clearly a revenue under the revenue recognition criteria as per generally accepted accounting principles as the City will be advanced the funds during the 2012-13 fiscal year. The State has timed its cash payments differently so there is no difference to the State (based on a different fiscal year. This is a one-time accrual-based increase only and will not occur in subsequent years.

Additionally, the budget includes an accounting adjustment of \$7.8 million of additional state aid revenue. This reflects a timing adjustment and not an increase in dollars to the City. This adjustment does allow the City to recognize the \$7.8 million as state aid revenue in 2012-13 under generally accepted accounting principles.

These two items above are one-time adjustments; going forward State AIM is budgeted by New York State to return to the original level of \$161.3 million.

In addition, the City is currently projecting Sales Tax to increase by \$5 million or 5.4 percent. The City developed the amount by using the actual amount from June 30, 2011, and increasing incrementally by 2.5% for 2012 and another 2.5% for 2013. A 2.5% increase in sales tax is consistent with Erie County's projections. A 0.5% difference, meaning a 2% actual increase in 2012 and 2013, would reflect a budgetary shortfall of \$0.6 million. Since this variance is minor as compared to total revenues, we conclude this is a reasonable estimate.

The City has included \$3.7 million of Restricted AIM, representing funds maintained by the BFSA that may be used only upon approval by the Authority. The inclusion of the item within the budget provides for the approval of use of funds at the time the budget is approved by the Authority. Restricted AIM available at the beginning of the 2011-12 fiscal year, at July 1, 2011, was approximately \$18.0 million. The City has utilized \$3.3 million during 2011-12. After the 2012-13 amount is drawn down, approximately \$11.0 of Restricted AIM is available for use within the remaining years of the Financial Plan.

### Fund Balance

The City has budgeted for unassigned fund balance to fund the budgetary gap between estimated revenues and budgeted appropriations in the amount of \$11.5 million. The estimated available fund balance at June 30, 2012 is \$12.9 million. This \$12.9 million estimate could fluctuate dramatically based on unanticipated year end accruals and adjustments in closing the books of the City, increasing the Rainy Day Fund as necessary as per City Charter requirements, changes in estimates related to claims and contingencies, and other matters that arise during the financial reporting process. In the event there is insufficient fund balance to balance the 2012-13 budget, the budget will require modification. Additionally, it's noted that this budget relies on essentially all available remaining fund balance. This source of funding is not repetitive, is based on an

accumulation of all years prior, and the reliance is demonstrative of the operational imbalance between revenues and expenditures.

### 2012-13 Budget Summary

Budgeted appropriations appear reasonable in total. There does not appear to be areas that are under budgeted based on historical trends; however there are areas that will require monitoring, including primarily utilities and overtime for police and fire.

Estimated revenues appear reasonable in total. The increase in State Aid and the use of Restricted AIM allowed the City to balance its 2012-13 budget without needing to enact other budgetary gap closing measures. The State Aid increase is only a one year increase and will not extend to other years in the Financial Plan.

The use of fund balance is the most significant concern as it will essentially deplete all available reserves. It is noted that the Rainy Day Fund does remain intact at approximately \$33 - \$35 million. The City has not adopted a formal Rainy Day Policy related to the use of these funds although there is one that has been submitted to the Finance Committee of Common Council; it is recommended that the City complete the process of having the formal policy adopted so that it is clearly understood how funds may be utilized and what the replenishment provisions are. It is furthermore noted that fund balance is the last funding source drawn upon, and any budgetary surpluses will impact the amount of fund balance ultimately spent down.

### Summary of 2013-2016 Revised Four-Year Financial Plan

The Mayor submitted the City of Buffalo's 2013-2016 Financial Plan to the Common Council and the Buffalo Fiscal Authority ("BFSA" or "Authority") on May 1, 2012. On May 9, 2012 a revised Financial Plan was submitted to the BFSA resulting from certain revisions to revenue estimates.

This preliminary report provides a review of the Financial Plan and discusses the key assumptions underlying the Financial Plan.

The following is the summary of estimated revenues, projected expenditures, projected use of fund balance and programs to eliminate the gap (PEGs):

	2012-13	2013-14	2014-15	2015-16	Total
Total Revenues	471.1	477.5	480.6	487.6	1,916.8
Total Expenditures	482.6	484.9	488.7	492.2	1,948.4
Baseline Deficit	(11.5)	(7.4)	(8.1)	(4.6)	(31.6)
Fund Balance	11.5	3.9	3.4	1.8	20.6
Remaining Budgetary Gap	0.0	(3.5)	(4.7)	(2.8)	(11.0)
Gap Closing Measures:					
Asset Management Program		2.0	1.9	0.0	3.9
Energy Assessment and Savings		1.5	2.8	2.8	7.1
	0.0	0.0	0.0	0.0	0.0

The City's four-year financial plan projects a baseline deficit totaling \$31.6 million, representing the excess of projected expenditures over anticipated revenues.

As compared to last year's Financial Plan (2012-2015), this projected baseline deficit represents a decrease of \$29.0 million which had projected total budget gaps of \$60.6 million. With the use of nearly \$11.5 million in unassigned fund balance in 2012-13 the City is able to close the anticipated budget gap. The overall reliance on fund balance to fund operations has increased to the extent the available fund balances are essentially exhausted in the Financial Plan. The available fund balance excludes the Rainy Day Fund which can be used for unforeseen circumstances, such as unanticipated revenue shortfalls (i.e., a midyear reduction to State Aid) or unexpected expenditures. Total unassigned fund balance that has been earmarked in the proposed financial plan is \$20.6 million as compared to \$48.3 million last year. In addition to the continued reliance on fund balance in the financial plan, the City has included a variety of efficiency measures to close expected budget gaps. The Programs to Eliminate the Gap (PEG) include projected savings from the implementation of an asset and property management program, and energy savings resulting from an energy assessment program.

#### Revenues:

Revenues are estimated to increase \$16.5 million over the Financial Plan, reprinting a total increase of 3.5%, or an average of 1.2% per year. Key assumptions are as follows:

In 2012-13, the City is reporting an increase in State Aid of \$18.6 million. This increase is comprised of two transactions: a spin-up of State Aid to Municipalities ("AIM") of \$10.8 million, and a one-time adjustment of revenue to correct the fiscal year that the revenue is reported in. The technical language of the State Assistance Bill, which is Chapter 57 Part S of the 2012 Laws of New York State, involves timing changes as to when AIM is to be provided to the City, allowing the City to accrue an additional \$10.8 million of revenue in 2012-13; this is a one year adjustment only and does not affect future years. At no point over the

course of the current State financial plan is the State increasing State Aid for any city, including Buffalo. The State is providing an advance of aid that would be paid typically in March of the following year in June of the previous year. The reason the month of June is significant is that it is the last month of the City's fiscal year, but the third month of the succeeding fiscal year for the state. For example, June 2013 is in FY 2013 for the City (fiscal year end June 30), but for New York State June 2013 is in FY 2014 (fiscal year end March 31). The advancement provides a one-time increase for the City, but from a cash flow perspective amounts will return to the previous levels the following year.

The City has applied a 2% growth in State AIM for the remaining three out years of the Financial Plan. As noted above, the State has not included any increases in the State's financial plan over the same time period. It's unknown whether or not future increases in State AIM will occur; as such, this presents a risk to the financial plan. The total amount of State AIM increases included in the three out years of the financial plan is \$19.6 million.

Additionally, the City is planning on drawing down and utilizing the remaining restricted State Aim that the BFSA is currently holding. Over the four-year plan the City will draw down \$14.6 million, or the total amount available, depleting the balance of funds. It should be noted that these are restricted funds that can only be used for certain purposes; such purposes include using the funds in lieu of raising property taxes and as such the projected use of these funds are considered to meet the intended purposes. As these funds are being depleted, there will be no restricted AIM remaining as an available revenue source to the City beyond 2016.

The City is projecting an increase in Other Financing Sources - Transfers In of \$12.6 million in fiscal year 2013, increasing to a high of \$20.6 million in FY 2014, and \$20.2 million in FY 2016. This is a significant change in policy from projections in past years and appears to be indicative of fiscal pressures within the City's Financial Plan. The projected growth is solely attributed to increased transfers from the Enterprise Parking Fund, which operates at a surplus; the surplus will be used to fund the general operations of the General Fund. The annual amounts estimated to be transferred from the Parking Fund are as follows: FY 2013 \$5.6 million; FY 2014 \$12.9 million; FY 2015 \$11.3 million; and FY 2016 \$12.0 million. In addition to reliance on the operating surplus generated by the Parking Fund, the transfer is reliant on future actions including sale of parking ramps and increased parking fees. There is an inherent risk including projected revenues for actions that will still need to occur. Projected revenues for future transactions include \$11.5 million for the sale of ramps and \$7.2 million for additional revenues from increased parking rates.

The real property tax levy is projected to not increase until 2014-15. Tax Revenue, including property taxes, PILOTS, etc..., are projected to increase from

\$148.8 million to \$155.0 million (\$6.2 million or 4.2 percent) over the Financial Plan.

Sales tax is expected to grow on average of 5 percent over the course of the financial plan, increasing from \$74.3 million to \$84.9 million an increase of \$10.6 million. Beginning in 2014-15, the Authority will have fully repaid the 2004A Deficit Borrowing and will no longer be intercepting monthly sales tax for principal payments on the 2004A bond, which will provide approximately \$3.4 million of additional sales tax revenue annually to the City. The base average annual increase included in the financial plan is projected at 3.2%, with the additional dollars from the intercept provision expiring providing the remaining difference.

Fines are projected to increase by \$2.1 million over the course of the financial plan. The City is implementing license plate readers to increase parking ticket collections; this program utilizes license plate readers on patrol cars to scan license plates to identify vehicles with outstanding parking tickets. A total of \$5.5 million of additional parking ticket revenue is included in the financial plan. As this is a new program without any historical experience, it's unclear whether or not the projections are reasonable.

Non-property taxes, consisting of utility taxes, foreign fire insurance, and cable franchise taxes are projected to increase by \$900,000 or 6 percent over the four year period. On an annual incremental basis, the most significant increase relates to foreign fire insurance. Litigation involving the foreign fire insurance was recently finalized and the City will begin to receive annual payments. In 2013, the City will receive \$2.5 million, larger than normal due to back payments being included. In 2014-15, \$500,000 is projected, and the amount decreases in 2015-16 to \$250,000.

Service charges are projected to decrease by \$1.3 million over the course of the financial plan, from \$14.3 million to \$13.0 million. This decrease in revenue is attributed to a one-time retro payment expected to be received by the City in FY 2013 from BMHA for providing police services at the housing authority's properties. A smaller annual amount will continue through the plan at \$650,000 a year.

Interest revenue appears to remain flat over the life of the financial plan, with minimal growth for Miscellaneous revenue, \$172,000 as well as minimal growth within licenses and permits, \$129,000.

#### Expenditures:

Overall spending is projected to increase from \$482.6 million in 2012-13 to \$492.2 million in 2015-16, for a total of \$9.6 million in additional spending (or 2.0%).

Expenditures are broken down into three major categories for purposes of the City's four year plan and include departmental spending (projected increase of \$2.0 million or 1%) general charges (projected increase of \$11.1 million or 5.4%) and transfers out (projected decrease of \$1.5 million or 1.5%). Expenditures are expected to increase moderately over the life of the City's four year financial plan, growing by a total of \$9.6 million (2%).

The four-year plan shows minimal annual increases in each department through 2015-16. The largest increases over the period are in the following areas: administration & finance, increasing by \$672,000; police, increasing by \$547,000; fire increasing by \$317,000; and public works increasing by \$303,000. The total increase for these departments is \$1.8 million. The remaining departments combine for a net increase of \$200,000 for a total projected departmental spending growth of \$2.0 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 step progression which normally caps out at 5 steps or in some instances at 7 steps. A retroactive salary accrual is recorded annually at the conclusion of each fiscal year in conjunction with the financial reporting process. The City has budgeted for a portion of the retroactive wages within General Charges, discussed below.

Fringe benefit costs account for the largest share of the increase, growing by \$8.7 million over the four-year period. A consistent amount of \$8.0 million for retroactive salary adjustments is included within fringe benefits. Health insurance rates for active employees and retirees are projected to increase 3% annually. This area could be under budgeted as health insurance rate increases have historically been greater than 3%.

Utilities are projected to remain fairly flat, increasing modestly by \$300,000, with all other general charges being held flat over the course of the financial plan.

Other Financing Uses - Transfers Out decrease by \$1.5 million over the financial plan. Debt service costs are reduced by \$200,000 from \$31.9 million to \$31.7 million, the City's contribution to the School District is held flat at \$70.3 million and the transfer to the Solid Waste and Recycling Fund is decreasing by \$1.3 million from \$3.2 million to \$1.9 million over the course of the plan. The new recycling initiatives within the Solid Waste and Recycling Fund are projected to provide savings to this fund, reducing the operational deficit and resulting in a reduction in the amount necessary from the General Fund to fund operations of the Solid Waste and Recycling Fund. In the instance that the deficit continues in the Solid Waste and Recycling Fund, it will be necessary for the City to revisit its dedicated contribution to the fund.

## Four-Year Plan Staff Levels

	<b>2011-12 Adopted Budget</b>	<b>2012-13 Proposed</b>	<b>2013-14 Proposed</b>	<b>2014-15 Proposed</b>	<b>2015-16 Proposed</b>
Police (uniform)	802	801	801	801	801
Fire (uniform)	719	719	719	719	719
Other	1,092	1,095	1,095	1,095	1,095
<b>Citywide</b>	<b>2,613</b>	<b>2,615</b>	<b>2,615</b>	<b>2,615</b>	<b>2,615</b>
<b>Net Increase/(Decrease)</b>		<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>

As shown in the schedule above, staffing levels are held consistent over the financial plan.

## Budget and Four-Year Plan Summary

The proposed Financial Plan is indicative of fiscal pressures on the City. The City is highly reliant on State Aid, and has limited ability to raise revenue outside of increased property taxes, while expenditures continue to rise. The indicators of the fiscal pressures include:

- Proposed increases to State Aid of \$19.6 million; the State has included no increases in the State's financial plan. The State's Division of Budget has indicated that due to the State's financial situation, there is no current ability to increase State Aid.
- Increased reliance on Other Financing Sources – Transfer from the Parking Fund, to fund the general operations of the City:
  - Inclusion of \$11.5 million of one-time revenue for the potential sale of parking ramps
  - Inclusion of \$7.2 million of additional funds for increased parking rates
- An additional \$5.5 million for parking fines is budgeted based on a new program; estimates could be unattainable
- The remaining restricted AIM is being utilized, providing for no future revenue stream to the City beyond 2016
- Remaining PEG actions are used to close the remaining budget gap; it's to be determined if savings can be achieved to the extent management expects. A total of \$11.0 million is included as PEG actions.

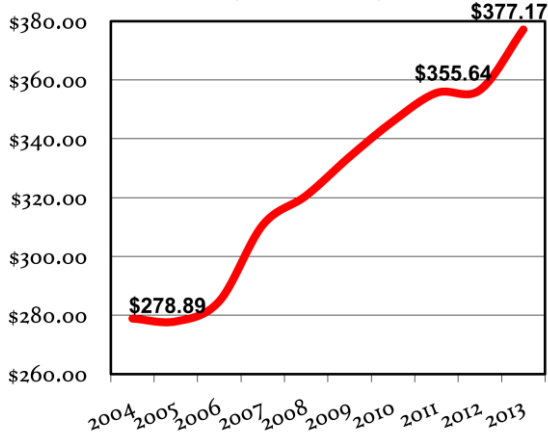
- Expenditures may be under-projected in certain areas, including health insurance and salary adjustments.
- Available fund balance is essentially depleted.

Other items of consideration include:

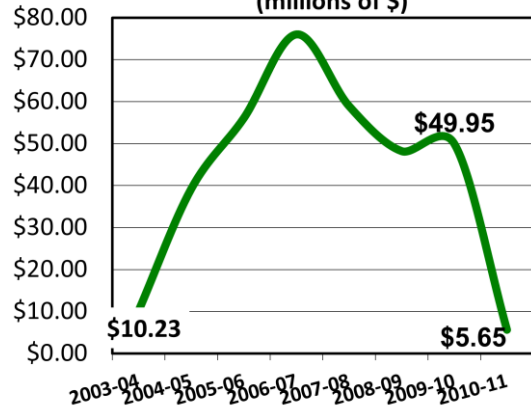
- Staff costs, consisting of wages/salaries and fringe benefits, continue to rise and now represent 83% of the City's budget.
- The City has not reached collective bargaining agreements with two of its largest unions, Police and Fire. Costs associated with either settled contracts or through arbitration would add additional strain to the financial plan.
- The COB may be underestimating their Police and Fire overtime costs for 2012-13 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.
- OPEB liabilities, estimated at about \$1.6 billion for the City, with an annual contribution of \$108 million will need consideration going forward. Despite the fact that funding is currently not required, its impact will start to be felt in the next few years and a course of action to deal with this issue will need to be contemplated.
- The City is keeping 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.
- With future potential expenditures excluded from the budget and the potential depletion of the fund balance, it's unclear from an operational standpoint how years post 2016 will be funded.
- 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 unassigned fund balance was generated during a period of significant increases to State Aid and a wage freeze. Neither of the situations exists 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 \$1.5 million of unassigned fund balance would remain at June 30, 2016. This would undoubtedly put significant pressure on budgets beyond 2016.
- The financial plan modestly addresses the deficit in the Solid Waste and Recycling Fund; however this fund continues to operate at a loss. The General Fund is responsible for the short fall of this fund; however the new recycling program has shown early positive results. The City has not developed a formal deficit reduction policy or plan to address this situation.

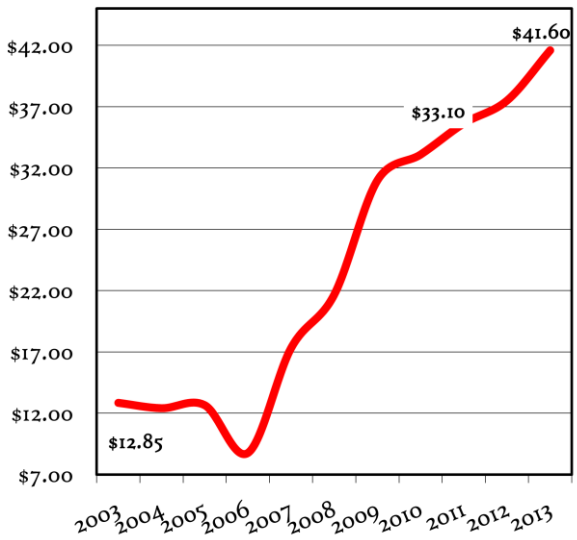
City Budget Size - Excl. Transfers  
(millions of \$)



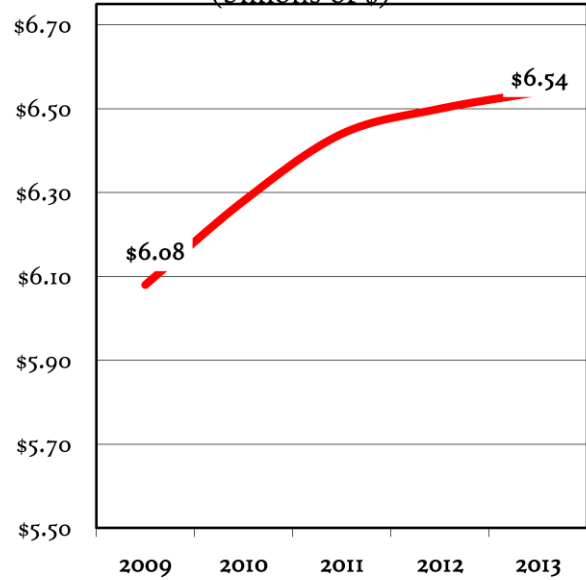
City Unassigned Fund Balance  
(millions of \$)



City Property Tax Margin  
(millions of \$)



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



# Buffalo Public School District 2013-16 Budget & Four-Year Financial Plan

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## ***Introduction***

The Buffalo Public School District (the “District”) released its preliminary budget for the 2012-13 fiscal year (“FY”) and related four-year financial plan (“Financial Plan”) on May 1, 2012. The District submitted a revised FY 2012-13 budget and Financial Plan to the BFSA on May 21, 2012; the Board of Education adopted the FY 2012-13 budget (the “Adopted Budget”) on May 23, 2012. 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 \$759.6 million, 83.4% of which is from the State of New York in the form of general operating aid, building aid, and other miscellaneous aid,
- General Fund expenditures total \$780.0 million, an increase of \$23.2 million from the 2011-12 Adopted Budget,
- Food Service Fund operating revenues total \$23.5 million while expenditures total \$26.5 million,
- The Special Projects Fund totaled \$99.4 million, a significant decrease from the prior year, largely due to the absence of federal stimulus funding,
- The Adopted Budget includes the usage of \$19.5 million in fund balance, \$15.0 million of which is Unassigned Fund Balance,
- The 2012-13 Food Service Adopted Budget includes the usage of \$2.9 million in Unassigned Fund Balance,
- The General Fund has a projected operational deficit of \$112.6 million over the course of the Financial Plan after the usage of \$53.1 million of Fund Balance. This gap is proposed to be closed in the Programs to Eliminate the Gap (“PEG”) plan, including \$70.3 million in amorphous, yet-to-be determined actions.

## ***Overview of the Buffalo Public School District***

The District is one of the “Big Five” dependent school districts along with New York City, Rochester, Syracuse, and Yonkers. These school districts are financial dependent on each respective municipality and city government, as they have no authority to levy taxes or issue bonds. The District is heavily dependent on State Aid, which comprises 83.4% of total 2012-13 General Fund revenues.

State Aid is projected to increase \$30.5 million over the course of the Financial Plan, or 4.8%. State Aid as a percentage of total General Fund revenue is projected to remain relatively flat, increasing from 83.4% of the General Fund in 2012-13 to 83.6% in 2015-16.

The Adopted Budget includes total General Fund revenues of \$759.6 million, an increase of nearly \$33.0 million, or 4.5%, from the 2011-12 Adopted Budget. The

primary revenue increase is in State Aid, which is budgeted to increase \$31.4 million, or 5.2%. Over the course of the Financial Plan, total General Fund revenues are projected to increase an additional \$33.8 million, or 4.5% (from 2012-13 to 2015-16).

The 2012-13 Adopted Budget includes General Fund expenditures of \$780.0 million, an increase of \$26.2 million, or 3.5%, over the 2011-12 Adopted Budget. Over the course of the Financial Plan, from 2012-13 to 2015-16, total General Fund expenditures are projected to increase \$70.5 million, or 9.0%. The growth in anticipated expenditures of 9.70 over the Financial Plan is exceeding the growth of revenues of 4.5% over this same four-year period, demonstrating the operational imbalance the District is facing. The District's potential initiatives to address the ensuing budgetary gap are addressed later in this report.

The following chart provides a high level summary of total budgeted revenues, expenditures, budgeted use of fund balance as a funding source and the remaining operational budgetary deficit that must be addressed annually by the District:

<b>Operational Deficit</b>					
	<b>2012-13 Adopted</b>	<b>2013-14 Outyear 1</b>	<b>2014-15 Outyear 2</b>	<b>2015-16 Outyear 3</b>	<b>4-Year Totals</b>
<b>\$ in Millions</b>					
<b>Revenues</b>	<b>\$759.6</b>	<b>\$760.1</b>	<b>\$778.7</b>	<b>\$793.4</b>	<b>\$3,091.8</b>
<b>Expenditures</b>	<b>780.0</b>	<b>801.7</b>	<b>825.3</b>	<b>850.5</b>	<b>3,257.6</b>
<b>Surplus/(Deficit)</b>	<b>(20.4)</b>	<b>(41.6)</b>	<b>(46.6)</b>	<b>(57.1)</b>	<b>(165.7)</b>
<b>Assigned Fund Balance</b>	<b>5.4</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>8.1</b>
<b>Unassigned Fund Balance</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>0.0</b>	<b>45.0</b>
<b>Remaining Deficit</b>	<b>-</b>	<b>(\$25.7)</b>	<b>(\$30.7)</b>	<b>(\$56.2)</b>	<b>(\$112.6)</b>

*Depiction of the operational deficit before and after the utilization of reserves.*

Final General Fund budgeted expenditures exceed estimated revenues for FY 2012-13 by \$20.4 million. After the planned usage of \$900,000 of Assigned Fund Balance for debt payments on a borrowing related to a prior settlement with the BTF, the remaining budgetary gap of \$19.5 million is closed by the use of \$15.0 million in Unassigned Fund Balance and \$4.5 million of Assigned Fund Balance.

Significant challenges exist in the outyears of the Financial Plan where baseline gaps exist and cannot be closed solely through the spend down of fund balance. This matter is discussed in detail below.

### ***Programs to Eliminate the Gap (General Fund PEGs)***

Along with the 2012-13 Adopted Budget and 2013-16 Financial Plan, the District submitted a Proposed Elimination of the Gap (“PEG”) plan.

As noted above, the FY 2012-13 operational deficit is closed through a combined use of both Assigned Fund Balance and Unassigned Fund Balance. No further PEG actions are required for FY 2012-13.

The use of Unassigned Fund Balance represents a real operational deficit, in that it represents the actual funding source for budgeted operating expenses that exceed estimated operating revenues. The Assigned Fund Balance had been set aside for a specific purpose; this planned use of fund balance does not rise to the level of what would be considered an operational imbalance between revenues and expenditures.

An operating deficit continues to remain in the three out-years of the Financial Plan, after taking into consideration the combined budgeted use of \$45.0 million in Unassigned Fund Balance in FY 2012-13, FY 2013-14, and FY 2014-15. The remaining cumulative deficit is \$112.6 million.

The PEG plan provides potential gap eliminating actions. It should be noted that these actions need not necessarily occur. They are often options of last resort and have the potential to undermine the District’s mission of providing quality educational services to the children of Buffalo.

The PEG plan offers the following potential actions to eliminate the remaining operational deficits in the three out-years of the Financial Plan:

#### **Known PEG Actions**

- Staffing Reductions – Staffing reductions of 50 positions annually, with average total compensation of \$75,000 in each of the three outyears of the Financial Plan, would yield a combined \$22.5 million toward reducing the \$112.6 million cumulative operating deficit. The elimination of up to 150 positions over the four year Financial Plan is expected to be made through natural attrition without the need for layoffs as the District adjusts its employment levels to reflect the declining enrollment in District.
- Administrative, Alternative, & Swing School Closures – Five facilities may be closed following the impending completion of the Phase V in of the Joint Schools Construction Board project. The combined savings would reduce the \$112.6 million cumulative operating deficit by \$5.4 million.
- Elimination of Part-Time Bus Aides – Bus Aides are members of Transportation Aides of Buffalo (“TAB”). They are part-time employees who are anticipated to earn \$12.04/ hour in FY 2012-13, after factoring in vacation and the perfect attendance pay. Services provided by members

of TAB are not mandated and could therefore be reduced if necessary to reduce the \$112.6 million cumulative operating deficit. The District has included the elimination of TAB employees as a potential PEG action with total estimated savings of \$8.0 million over the course of the Financial Plan.

- Reduction in Art, Music & Athletic Programs – Reductions in non-mandated classes, including Art, Music, and Athletic Programs, are listed as potential PEG actions. The District has estimated a combined \$5.0 million of savings from such reductions in non-mandated programs toward the \$112.6 million cumulative operating deficit.
- Consolidations with City of Buffalo Departments – Collaboration and consolidation with the City of Buffalo for the provision of administrative functions have been included as a potential PEG action. The combined impact would yield up to \$1.5 million of savings toward the \$112.6 million cumulative operating deficit.

#### **Unknown/ Yet-to-be Determined PEG Actions**

- Forced Reductions and/or Additional Revenues – After taking into consideration the above potential PEG actions and the related budgetary savings, there is a remaining cumulative operating deficit of \$70.3 million. The District has not identified any clear actions towards closing this deficit, but rather has applied broad actions to address it. Such actions include forced reductions in personnel and further reductions to programs offered by the District. Revenues are conservatively projected throughout the Financial Plan; increases in dollars from the City, State or the Federal Government would reduce the remaining deficit. The District has limited options to close significant gaps year after year. During the annual budgeting process, the financial plan is updated for changes that have occurred or are expected to occur, and action steps are evaluated annually in context of the impact on the Financial Plan.

The following chart depicts the net impact of the proposed PEG actions to close the remaining budgetary deficits:

<b>General Fund PEG Actions</b>					
	2012-13 Proposed	2013-14 Outyear 1	2014-15 Outyear 2	2015-16 Outyear 3	4-Year Totals
Revised Baseline Gap	\$ (0.0)	\$ (25.7)	\$ (30.7)	\$ (56.2)	\$ (112.6)
<b>Known PEG Actions</b>	<b>\$ in Millions</b>				
Staffing Reductions (50 per year)	\$0.0	\$3.8	\$7.5	\$11.3	\$22.5
Closures (after completion of JSCB Phase V)	0.0	1.8	1.8	1.8	5.4
Forced Layoffs of Bus Aides	0.0	2.0	2.1	3.9	8.0
Reduce non-mandated Art, Music, and Athletic Programs	0.0	1.6	1.7	1.7	5.0
Consolidation of Administrative Functions w/ City	0.0	0.5	0.5	0.5	1.5
<b>Total Known PEG Actions</b>	\$ -	\$ 9.6	\$ 13.6	\$ 19.1	\$ 42.3
<b>Unknown/ To be Determined PEG Actions</b>	\$ -	\$ 16.1	\$ 17.1	\$ 37.1	\$ 70.3
<b>Baseline Gap after PEG Actions</b>	\$ -	\$ -	\$ -	\$ -	\$ -

It's noted that the cumulative baseline deficit of \$165.7 million, prior to the usage of fund balance, in the Financial Plan is substantially lower than baseline deficit projected in the prior year's 2012-2015 Financial Plan, which depicted a baseline deficit of \$225.5 million. This significant change can be attributed to an increase in State Aid, and lower estimates for pension costs and health insurance rates, as compared to what was projected last year.

### **General Fund Revenues**

The following chart summarizes General Fund revenue as projected in the Financial Plan:

<b>General Fund Revenues</b>						
	2012-13 Adopted	2013-14 Outyear 1	2014-15 Outyear 2	2015-16 Outyear 3	\$ Change from Year 1-4	% Change from Year 1-4
NYS Aid (excluding Building Aid)	\$ 514.8	\$ 520.6	\$ 538.1	\$ 551.7	\$ 36.9	7.2%
NYS Building Aid	119.1	112.7	112.7	112.7	(6.4)	-5.3%
Real Property Tax	70.3	70.3	70.3	70.3	-	0.0%
Erie County Sales Tax	36.0	37.1	38.2	39.3	3.3	9.3%
All Other Revenue	19.4	19.4	19.4	19.4	-	0.0%
<b>Total GF Revenue</b>	<b>\$ 759.6</b>	<b>\$ 760.1</b>	<b>\$ 778.7</b>	<b>\$ 793.4</b>	<b>\$ 33.8</b>	<b>4.5%</b>

General Fund Revenues total \$759.6 million in the Adopted 2012-13 Budget. Revenues are projected to increase modestly through the outyears of the Financial Plan by approximately 1.1% annually. The increase over the four years is \$33.8 million, or 4.5%

The District receives revenues for its General Fund from several sources, most significantly State Aid.

State Aid is a composite term used for a variety of different formula-based aids, most significantly Foundation Aid, which represents funds available for the operations of the District. Foundation Aid is estimated to be \$435.4 million in 2012-13, out of the total budgeted State Aid (excluding Building Aid) of \$514.8 million, or 85.6% of total State Aid. Foundation Aid is projected to increase to \$475.8 million in 2015-16, or 86.2% of total State Aid (excluding Building Aid).

Reflected within the total State Aid figures above is a Gap Elimination Adjustment (“GEA”) of \$24.3 million annually. This adjustment reflects the portion of State Aid retained by the State to reduce its own budgetary deficits as well as to curtail the rising cost of education. The GEA is maintained at a stable level in each year of the Financial Plan for a cumulative total of \$97.2 million. It was noted that the State reduced the GEA for 2012-13 from the GEA in 2011-12 of \$33.4 million, representing a reduction of \$9.1 million. This reduction in GEA ultimately increases the amount of dollars anticipated to be received by the District.

State Building Aid is shown separately to delineate it from funds available for general operations. Building Aid is a reimbursement from the State for capital projects and is directly correlated to the District’s General Fund Debt Service payments. The State reimburses approximately 93% of eligible capital improvement costs in the form of Building Aid. These funds are applied to the related principal and interest payments due on the outstanding bonds. Building Aid is projected to decrease over the course Financial Plan from \$119.1 million to \$112.7 million. This reduction of \$6.4 million, or 5.3%, is a function of the decrease in the amount of annual debt service payments by the District primarily related to the Joint Schools Construction Board (“JSCB”) project.

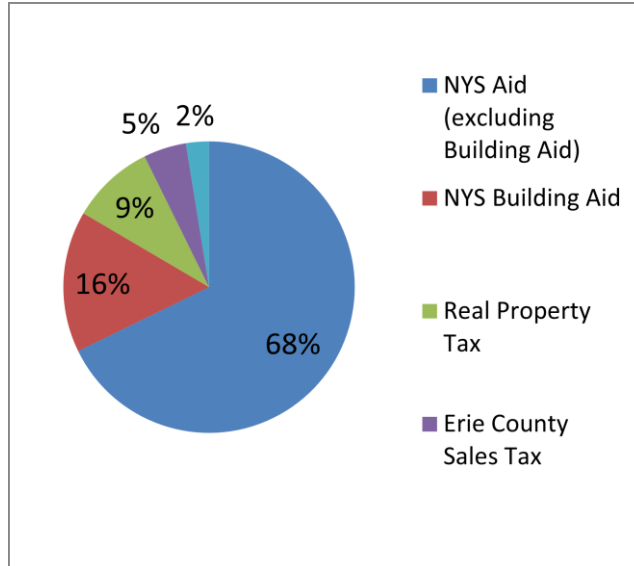
Building Aid increases \$18.9 million in the 2012-13 Adopted Budget as compared to the 2011-12 Adopted Budget, which is due to the increase in debt service payments projected for 2012-13. As noted above, Building Aid is not available for the general operations of the District.

Total State Aid, including Building Aid, is budgeted to increase \$33.4 million in the Proposed Budget over the 2011-12 Adopted Budget. This increase is not guaranteed. New York State applied for and was awarded \$700 million in “Race to the Top” funding from the Federal government, as part of the Federal Educational Recovery Act of 2009. This funding required the establishment of an Annual Professional Performance Review plan (“APPR”), or teacher and

administrator evaluation plans in place at the State level that complies with Federal law. The New York State Department of Education (“NYSED”) has subsequently required that all State school districts adopt teacher and administrator evaluations that are to be approved by the NYSED in order to be eligible to receive the “Race to the Top” funds. As of June 30, 2012, the District and the Buffalo Teachers Federation (“BTF”) had not agreed to an evaluation system that has been approved by NYSED. NYSED has stated that the full \$33.4 million increase in State Aid will be suspended if they have not approved of an evaluation system by January 17, 2013.

After State Aid, the next highest revenue source is the City’s transfer to the District. The City forwards a portion of collected property tax revenues to the District based on the amount included in the tax levy. The City’s proposed total tax levy for FY 2012-13 is \$138.6 million of which \$70.2 million represents the amount to be forwarded to the District for the use in operations and capital debt service. The amount to be transferred to the District of \$70.2 million constitutes 50.6% of the total property tax levy. The dollar amount transferred to the District has remained unchanged since 2007-08. It is noted that the amount represents a higher overall percentage of the total proposed City tax levy, as the total tax levy has decreased from \$142.3 million in FY 2011-12 to \$138.6 million in FY 2012-13.

**Breakout of 2012-13 General Fund Revenues**



The next largest revenue source for the District is sales tax, which is budgeted at \$36.0 million for 2012-13, representing an increase of \$2.0 million or 5.8%, over the 2011-12 Adopted Budget. This revenue is projected to increase \$3.3 million, or 9.3%, over the course of the Financial Plan, an average annual increase of 2.3%. The Adopted Budget adjusts expected sales tax revenues to be more consistent with actual experience over the last two years. The increases in the remaining three outyears of the Financial Plan are projected to increase 3% annually.

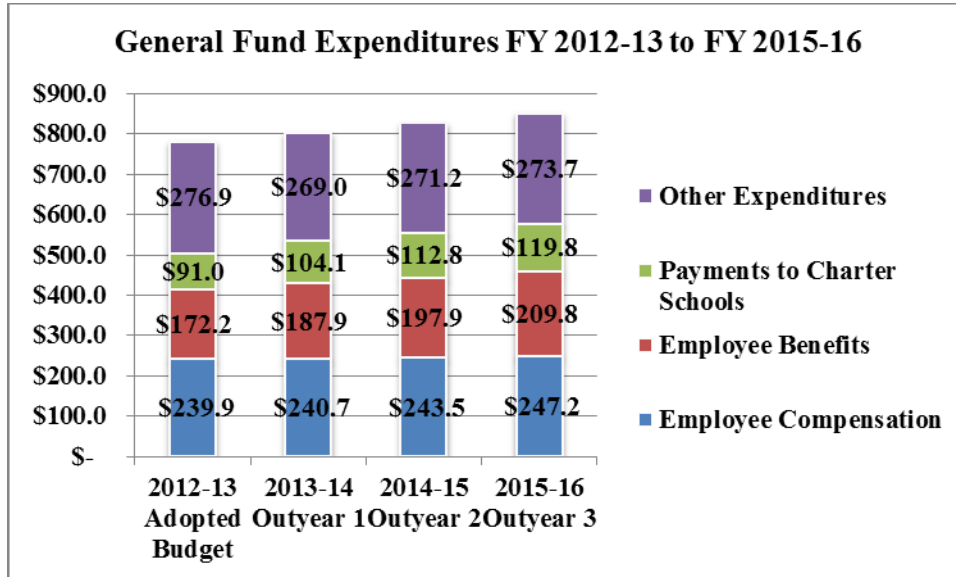
All Other Revenue combined totals \$19.4 million in the 2012-13 Adopted Budget. These amounts are maintained at \$19.4 million in each year of the Financial Plan. This category includes investment earnings, tuition received, interfund transfers, and Federal Medicaid reimbursements. All other revenues are

\$400,000 less in the 2012-13 Adopted Budget than in the 2011-12 Adopted Budget.

**General Fund Expenditures**

General Fund expenditures total \$780.0 million in the 2012-13 Adopted Budget.

General Fund expenditures are projected to total \$850.5 million in FY 2015-16, the third out-year of the Financial Plan. This is a \$70.5 million, or 9.0%, increase over the course of the four-year Financial Plan.



General Fund expenditures increase at a rate that exceeds the projected rate of increase for General Fund revenues. This larger rate of increase in expenditures drives the widening operational gap over the course of the Financial Plan.

General Fund expenditures are examined here in four separate subcategories: Employee Compensation, Employee Benefits, Payments to Charter Schools, and All Other Expenditures.

Employee Compensation includes salaries and wages for District employees. Total General Fund expenditures for Employee Compensation is budgeted at \$239.9 million in the 2012-13 Adopted Budget and increases 3.0%, to \$247.2 million, over the course of the Financial Plan.

Employee Benefits includes the cost to the District for all non-salary/wage related benefits for employees. The District has budgeted \$172.2 million for Employee Benefits in the FY 2012-13 Adopted Budget. These expenditures accelerate at a significantly greater rate than Employee Compensation. Total General Fund expenditures for Employee Benefits are projected to increase \$37.6 million, or 21.8% to \$209.8 million, over the course of the Financial Plan. Additional explanation for the increase is provided further in this report.

Payments to area Charter Schools represents a major General Fund expenditure. This represents the funds the District forwards to the area charter schools and is based on the number of students enrolled in the charter schools at a rate established by the State. Payments to Charter Schools total \$91.0 million in the 2012-13 Adopted Budget, a decrease of \$1.6 million from the 2011-12 Adopted Budget. This amount increases to \$119.8 million over the course of the Financial Plan.

All Other Expenditures is a composite category that includes all General Fund expenditures other than compensation to employees. It includes the District's annual debt service payments, transportation expenses, tuition, contracts, textbooks and supplies, repairs and maintenance, as well as a Reserve for Contingency. All Other Expenditures total \$276.9 million in the 2012-13 Adopted Budget, representing an increase of \$15.2 million from the 2011-12 Adopted Budget. All Other Expenditures decrease \$3.2 million, or -1.2%, over the course of the Financial Plan.

#### Employee Compensation

Employee Compensation includes the salary and wages for District employees including the following groups/categories:

- The Buffalo Teachers Federation (“BTF”),
- The Buffalo Council of Supervisors and Administrators (“BCSA”),
- The Professional, Clerical, and Technical Employees’ Association (“PCTEA”),
- The Buffalo Educational Support Team (“BEST”) including Teachers’ Aides who are non-certified and Teaching Assistants who are certified,
- The Transportation Aides of Buffalo or TAB,
- The Local 264 members (“Blue Collar”),
- The Local 409 members (“Engineers”),
- Board Members and Exempt employees,
- Miscellaneous and Overtime.

Total Employee Compensation in the 2012-13 Adopted Budget is \$239.9 million and increases to \$247.2 million in the final year of the Financial Plan. This constitutes an increase of \$7.3 million, or 3.0%, over the four year course of the Financial Plan.

The largest area of employee compensation is for BTF compensation. It is the largest employee group for the District, representing 2,822 of the total 4,134 budgeted full-time equivalent positions (“FTEs”) in the General Fund. General Fund expenditures for BTF compensation is budgeted at \$167.6 million in the 2012-13 Adopted Budget and increases \$7.1 million through the third out year of the Financial Plan. The increase in BTF compensation is projected based solely on annual step increases entitled to the members of the BTF. The existing collective bargaining agreement (“CBA”) between the District and the BTF

expired June 30, 2004. Any settled CBA over the four year course of the Financial Plan would increase these expenditures.

The BCSA represents the District's Administrators and is a significantly smaller bargaining unit than the BTF. Members of the BCSA represent 177 of the 4,134 FTEs in the 2012-13 Adopted Budget. General Fund expenditures for BCSA compensation is budgeted at \$16.7 million in the 2012-13 Adopted Budget and increases by \$0.9 million through the third out year of the Financial Plan. As is the case with the BTF, the increase in BCSA compensation is projected solely on annual step increases provided to the Administrators. The existing CBA between the District and the BCSA expired June 30, 2004. Any settled CBA over the four year course of the Financial Plan would increase these expenditures.

PCTEA represents the white-collar employees of the District. Personnel costs total \$17.2 million in the 2012-13 Adopted Budget and are held relatively flat over the course of the Financial Plan. The \$17.2 million compensation cost is larger than the \$15.5 million budgeted in the FY 2011-12 Adopted Budget. The District and PCTEA settled a labor agreement that was approved by the BFSA in December 2011. The new CBA increases the total compensation cost for this employee group. The rate of increase in the 2012-13 Budget is curtailed as the District has budgeted for 376 FTEs, a reduction of 24 FTEs from the 2011-12 Adopted Budget. This level of positions is held flat over the course of the Financial Plan. The District has not projected increases in the PCTEA compensation costs as most members are currently on the fourth step, the highest step in the CBA. The labor agreement expires on June 30, 2013; any increases in wages from a new collective bargaining agreement would require modification to the Financial Plan as no increases are included beyond that budgeted for 2012-13.

BEST represents both Teachers' Aides (non-certified) and Teaching Assistants (certified). The 2012-13 Adopted Budget increases the budgeted number of Teachers' Aides to 249 FTEs from the 214 FTEs in the 2011-12 Adopted Budget. The 2012-13 Adopted Budget decreases the budgeted number of Teaching Assistants from 318 FTEs in the 2011-12 Adopted Budget to 308 FTEs.

General Fund expenditures for BEST employee compensation is proposed to increase \$0.4 million from \$11.4 million in the 2011-12 Adopted Budget to the \$11.8 million in the 2012-13 Adopted Budget. This increase in proposed expenditures can be attributed to the higher overall level of budgeted FTEs.

The current CBA between the District and BEST expired June 30, 2012. As with the other expired CBAs, any new CBA over the course of the Financial Plan would impact this expenditure.

All other employee compensation expenditures includes salary and wages for Substitutes, Tradesmen, Blue-Collar, Engineers, Exempt employees and Board

of Education stipends as well as some overtime and other miscellaneous expenditures.

Exempt employees are District employees who are not represented by any collective bargaining unit. They are contracted individually, typically for 24 month terms. The terms of the contract expire at the end of the contract term, unlike the terms of CBAs, which continue in perpetuity, per New York State law.

All other employee compensation totals \$26.8 million, a decrease from the total 2011-12 Adopted Budget amount of \$27.2 million, or \$0.4 million. Expenditures in these areas decrease \$0.8 million or 3.0% over the course of the Financial Plan. This decrease in total all other expenditures is related to slight reductions in budgeted FTEs over the course of the Financial Plan, chiefly with the blue collar and exempt employees.

As of June 30, 2012, the CBAs between the District and Local 264, Local 409 and the Substitutes have expired. As noted with the expired contracts above, newly settled CBAs would impact the projected expenditure in the Financial Plan.

#### Employee Benefits

The second largest General Fund expenditure subcategory examined here is Employee Benefits. This includes all non-salary or wage-related compensation for District employees. These include payments for:

- Pension expenses under the NYS Employee Retirement System (NYSERS) and Teachers Retirement System (NYSTRS),
- Employer portion of Social Security and Medicare taxes,
- Health insurance for active employees,
- Health insurance for retired employees, and
- Termination pay and other miscellaneous benefits.

Employee Benefits total a combined \$172.2 million in the 2012-13 Adopted Budget, a decrease of \$4.8 million from the 2011-12 Adopted Budget. They substantially increase \$37.6 million, or 21.8%, over the course of the Financial Plan to \$209.8 million.

General Fund expenditures for NYSERS and the NYSTRS are budgeted at a combined amount of \$29.1 million in the 2012-13 Adopted Budget and increase slightly by \$0.3 million to a combined \$29.4 million over the course of the Financial Plan. The \$29.1 million combined total increase the 2012-13 Adopted Budget is a significant decrease of \$9.8 million from the \$37.9 million in the 2011-12 Adopted Budget. The decrease is due to a one-time budgeted payment in 2011-12 of \$12.8 million related to the State's early retirement incentive that was adopted by the District in June 2010. Therefore, the reduction in this expenditure does not forecast a declining trend.

The District's payments to NYSERS and NYSTRS are based on pension contribution rates established by the respective State retirement systems. The 2012-13 rate for ERS is 18.7%; the 2012-13 rate for TRS is 11.84%. The District payment to the retirement systems is a function of these rates and the salary of the employees. The rate of increase for pension expenditures over the course of the Financial Plan is consistent with the modest increases in employee compensation as the long-term contribution rates were projected at a stable level. As with employee compensation costs, the costs of these fringe benefits would be impacted by settled CBAs.

The District's employer portion for payroll taxes remains at 7.65% of total budgeted Employee Compensation over the course of the Financial Plan and is budgeted at \$18.4 million for 2012-13, increasing to \$19.0 million, or 3.3%, over the course of the Financial Plan. This increase is consistent with the established contribution rates as well as the modest projected increase in employee compensation costs. As with employee compensation costs, the cost of this fringe benefit would be impacted by settled CBAs.

Health insurance for active employees is one of several major General Fund expenditures for the District. Health insurance expenditures for active employees are budgeted at \$41.2 million in the 2012-13 Adopted Budget. This represents a \$3.5 million increase from the 2011-12 Adopted Budget. The cost of this fringe benefit increases \$14.6 million, or 35.4%, over the course of the Financial Plan.

Total health insurance costs are driven largely by the number of District employees as well as significant increases in the cost per participant. The 2011-12 Adopted Budget included 3,961 FTE employees within the General Fund. The 2012-13 Adopted Budget includes 4,134 FTE employees within General Fund. This higher number of employees partially accounts for the increased anticipated cost of health insurance from the 2011-12 Adopted Budget to the 2012-13 Adopted Budget. Additionally, the 2012-13 Adopted Budget assumes an 11% increase in the average cost per participant. The projected increase utilized for each of the three out-years of the Financial Plan is 7%.

The District currently offers a single carrier for health insurance. This has allowed the District to curtail the growth in cost. However, this move from a multiple carrier provider to a single carrier provider was not approved by the District's unions. The District's unions litigated the move and received a favorable ruling from the State's courts.

The District has not returned to a multiple carrier provider system, as these plans are no longer available. This issue is still pending resolution in court. The major District unions have publically expressed the willingness to move to a single carrier provider system as part of the framework of a new CBA.

The cost of health insurance for retired employees is another major General Fund expenditure. It increases slightly from the 2011-12 Adopted Budget to the 2012-13 Adopted Budget from \$63.6 million to \$63.8 million. Projected spending for retiree health insurance increases \$21.9 million or 34.3% over the course of the Financial Plan. The minor increase in this expenditure from the 2011-12 Adopted Budget to the 2012-13 Adopted Budget is related to the number of participants, rather than a decrease in the cost of health insurance premium costs. The 2011-12 Adopted Budget anticipated 90 more retirees than the actual count.

The District estimated 3,909 retiree participants in the 2012-13 Adopted Budget, growing to 4,209 retiree participants in FY 2015-16. The average cost to the District is \$16,900 per participant in the 2012-13 Adopted Budget and grows to \$20,316 per participant in FY 2015-16. Retiree contributions to the \$63.8 million cost of this expenditure are \$1.3 million in the 2012-13 Adopted Budget, or \$500 per retiree. As the number of retirees increase, the contribution from retirees increases to \$1.45 million in FY 2015-16.

Termination pay and all other fringe benefits total a combined \$19.7 million in the 2012-13 Adopted Budget, a slight decrease of \$0.6 million from the \$20.3 million in the 2011-12 Adopted Budget. Termination pay includes compensation to newly retired individuals for unused paid leave. All other fringe benefits include supplemental benefits, workers' compensation costs, unemployment, and other minor fringe benefit costs. These combined General Fund expenditures increase slightly by \$0.3 million, or 1.5%, over the course of the Financial Plan.

The overall decrease in these budgeted expenditures as compared to the 2011-12 Adopted Budget is directly correlated with the lower than anticipated number of retirees during this last year. Termination pay is projected to show a positive budgetary variance at FYE 2011-12. Additionally, unemployment costs are lower in the 2012-13 Adopted than in the 2011-12 Budget, as the District is not anticipating the number of layoffs seen in the 2011-12 Adopted Budget.

With the exception of a minor increase in the cost of supplemental benefits in the 2012-13 Adopted Budget, all of these fringe benefits are projected flat over the course of the Financial Plan. The cost of these fringe benefits would be impacted by settled CBAs, along with other employee compensation and benefits.

#### Charter School Payments

A significant General Fund expenditure is the payment to area Charter Schools. As noted, this expenditure relates to the portion of State Aid received by the District that it forwards to area Charter Schools. It is formula-based and driven by the number of students enrolled in the charter schools.

Payments to Charter Schools total \$91.0 million in the 2012-13 Adopted Budget, a decrease of \$1.6 million from the 2011-12 Adopted Budget. This amount increases to \$119.8 million or 31.7% over the course of the Financial Plan.

The payment is based on the number of students in area Charter Schools multiplied by \$12,540 for FY 2011-12 and 2012-13. The 2011-12 Adopted Budget assumed a higher level of Charter School enrollment than were actually enrolled. The enrollment amounts are determined by professional demographers contracted by the District, adjusted by the District for known changes.

Payments to Charter Schools increase over the Financial Plan due to projected increases in enrollment as well as an anticipated increase in the per pupil transfer amount in each of the three outyears of the Financial Plan. The per pupil transfer rate is currently frozen at the FY 2010-11 level. The per pupil rate increases in each of the three outyears of the Financial Plan based on the formula established by State law.

The District has cited that such payments to Charter Schools represent an imbalance for the District. Foundation Aid to the District for FY 2012-13 totals \$411.1 million when factoring in the GEA, or approximately \$10,234 per student enrolled in the District, whether in a charter school or District school. The District will transfer \$12,540 for each student enrolled in area Charter Schools.

#### All Other General Fund Expenditures

The final General Fund expenditure subcategory examined here is All Other Expenditures. This subcategory is a composite term for all General Fund expenditures not related to employee compensation or benefits. This includes the following:

- Debt Service,
- Transportation,
- Utilities,
- Reserve for Contingency, and
- Miscellaneous expenditures.

The 2012-13 Adopted Budget includes total All Other Expenditures of \$276.9 million, an increase of \$15.2 million from the \$261.7 million in the 2011-12 Adopted Budget.

Total All Other Expenditures decrease \$3.2 million, or -1.1%, to \$273.7 million over the course of the Financial Plan.

General Fund debt service expenditures are \$129.3 million in the 2012-13 Adopted Budget and decrease to \$122.8 million in the FY 2015-16. Debt service includes borrowing for capital improvements, including work associated with JSCB. As previously noted, as the amount for debt service increases or decreases, building aid revenue will also increase or decrease.

Transportation expenditures total \$40.6 million in the 2012-13 Adopted Budget, an increase of \$0.1 million from the FY 2011-12 Adopted Budget. This increase is consistent with the anticipated actual cost of transportation expenditures for the CFY, which is anticipated to show a favorable budgetary variance at FYE 2011-12. Transportation expenditures are projected to remain relatively flat over the course of the Financial Plan. The FY 2015-16 projected expenditure is \$39.9 million.

Costs for this expenditure has been curtailed through more efficient bus runs as well as lower than earlier anticipated requests for transportation services by non-public schools. Transportation Aid is received by the District at a rate of 85% of the prior year's actual expenditures. Further efficiencies have been proposed and may be implemented following approval by the various District collective bargaining units.

Utility expenditures total \$12.3 million in the 2012-13 Budget, \$0.6 million less than the FY 2011-12 Adopted Budget. This expenditure is projected to grow \$1.1 million to \$13.4 million over the course of the Financial Plan. The District has been able to reduce the rate of increase in utility costs using pooled rates with the City of Buffalo. Additionally, expenditures have been reduced due to relative lows in the cost of natural gas.

The Reserve for Contingency expenditure was created in the prior fiscal year. It is not a specific General Fund expenditure and was established as a contingency to cover unforeseen cuts in revenues and/or increases in expenditures.

Miscellaneous General Fund expenditures include: tuition, contracts, equipment, repairs and maintenance, textbooks, supplies, and interfund transfers. These expenditures total \$93.6 million in the 2012-13 Adopted Budget and increase to \$96.2 million or 2.8% over the course of the Financial Plan.

The 2012-13 Adopted Budget increases total spending for these miscellaneous expenditures a combined \$0.3 million from the 2011-12 Adopted Budget. The largest of these miscellaneous General Fund expenditures is for tuition costs which total \$37.1 million in the 2012-13 Adopted Budget and increases \$3.4 million, or 9.3%, over the course of the Financial Plan to total \$40.6 million. Tuition payments are primarily related to outsourced programs for students with special needs. The rates charged for the services are established by the State.

### ***Food Service Fund***

The Food Service Fund totals \$26.5 million in the Proposed Budget, an increase of \$2.9 million from the 2011-12 Adopted Food Service Budget. Food Service expenditures increase to \$27.0 million over the course of the Financial Plan.

Revenue for the Food Service totals \$23.5 million in the Proposed Budget and increases 7.2% to \$25.2 million over the course of the Financial Plan. These

revenues come primarily from Federal Aid which comprises approximately 75% of total revenue. State Aid and interfund transfers comprise the other sources of Food Service revenue.

Expenditures for the Food Service fund total \$26.5 million in the Proposed Budget and increase 1.9% to \$27.0 million over the course of the Financial Plan. These expenditures cover the costs of providing meals to District students including the employee compensation and benefit costs of all Food Service employees.

The Proposed Budget for the Food Service Fund has a baseline deficit of \$3.0 million. The cumulative operational deficit is \$7.9 million over the entirety of the Financial Plan. These gaps are eliminated solely through the PEG action of the utilization of Unassigned Fund Balance. Unassigned Fund Balance for the Food Service Fund totaled \$14.1 million as of June 30, 2011. The utilization of Unassigned Fund Balance at this level would reduce total Food Service Unassigned Fund Balance to \$6.2 million by June 30, 2016.

### ***Special Projects Fund***

The Special Projects Fund includes grants from a variety of sources, mostly from both State and Federal sources. The 2012-13 Adopted Budget for the Special Projects fund totals \$99.4 million and funds 837 District FTEs. This funding level is projected at a static level across each year of the Financial Plan. The year-to-year level of grant funding will fluctuate as new grants are established and eliminated.

The 2012-13 Special Projects Fund is significantly lower than the 2011-12 Adopted Special Projects Budget of \$133.3 million. This is reflective of the impact that the American Recovery and Reinvestment Act ("ARRA") had on available grant funding. These grants were associated with the Federal Stimulus Plan in 2009, which has expired.

It is important to note that, as with the increase in New York State Aid, some of the District's awarded Title I School Improvement Grants are in jeopardy. The grants have been approved but are suspended pending an approved APPR plan by NYSED. As of June 30, 2012, approval of the plan had not been received.

### ***Financial Plan Risks***

The following are some of the major risks associated with the 2012-13 Budget and Financial Plan:

- There is a total of \$33.4 million of State Aid budgeted in 2012-13 that is contingent upon the successful agreement and approval of a teachers and administrators evaluation process. The loss of this revenue would have a substantially detrimental impact on the District.

- The District is highly dependent on State Aid. Mid-year cuts and adjustments to the GEA are conceivable and represent a significant risk to the District.
- The District has projected a cumulative baseline gap of \$112.6 million, after the use of \$48.6 million in fund balance. The utilization of Unassigned fund balance of \$45.0 million over the course of the Financial Plan would leave \$6.8 million in Unassigned fund balance by June 30, 2016.
- Actions may be necessary by the District to close the future projected annual budgetary gaps that could have a devastating impact on the District.
- The 2012-13 Adopted Budget and Financial Plan do not include estimates for settled CBAs. As noted, most collective bargaining units are currently out-of-contract while several others have CBAs that expire in the near future. Settled CBAs will impact the cost of Employee Compensation and Employee Benefits. The hypothetical scenarios run show that the operational deficit that is currently projected could be substantially greater. The District has set aside approximately \$86.5 million as Assigned Fund Balance for retroactive costs to be settled in future labor contracts.
- The District's long-term liability for other postemployment benefits has grown substantially since last reported and is projected to be \$1.68 billion (in total) at June 30, 2011. The Annual Required Contribution to fully fund this long-term liability was estimated at \$158.9 million.

## Buffalo Urban Renewal Agency

### Summary

#### *Overview of 2013 – 2016 Financial Plan*

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. The reduction in population has had an impact on the amount of funding provided by HUD, which has subsequently been reduced. The notice of funding from HUD for the 2012-13 year has been received and is as follows:

	<b>2011-12</b>	<b>2012-13</b>	<b>Increase/ (Decrease)</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Grant:			
Community Development Block Grant	14,540,753	13,319,409	(1,221,344)
HOME	4,476,638	2,772,819	(1,703,819)
Housing Opportunities for Persons with Aids	567,151	550,703	(16,448)
Emergency Shelter Grants	705,316	1,259,191	553,875
Emergency Shelter Grants - Homeless Prevention	2,198,027	0	(2,198,027)
	<u>22,487,885</u>	<u>17,902,122</u>	<u>(4,585,763)</u>

As per above, BURA has been notified of a significant reduction in HUD grants of approximately \$4.6 million, which represent a 20% decrease in funding.

The following chart provides a summary of the 2013 – 2016 Financial Plan as it related to the Grants Budget. It's noted that BURA's administrative expenses are reflected as either a direct program cost or is reflected separately as Administrative and Planning costs.

	2012	2013	2014	2015	2016
	Budget	Budget	Projected	Projected	Projected
	\$	\$	\$	\$	\$
<b>Grant Revenues:</b>					
CDBG	14,540,752	13,319,409	13,319,409	13,319,409	13,319,409
CDBG-R	1,400,000	-	-	-	-
HOME	4,476,638	2,772,819	2,772,819	2,772,819	2,772,819
ESG	705,316	1,259,191	1,259,191	1,259,191	1,259,191
ESG for Homeless Prevention	2,198,027	-	-	-	-
HOPWA	567,151	550,703	550,703	550,703	550,703
Neighborhood Stabilization Program	658,755	1,105,420			
CDBG Program Income	1,650,000	1,300,000	1,300,000	1,300,000	1,300,000
HOME Program Income	250,000	250,000	250,000	250,000	250,000
BURA Yr 35 & 36 Program Administrative Funds	-	477,104	583,091	388,688	-
<b>Total grant revenues</b>	<b>26,446,639</b>	<b>21,034,646</b>	<b>20,035,213</b>	<b>19,840,810</b>	<b>19,452,122</b>
<b>Grant Expenditures:</b>					
<b>Program costs:</b>					
CDBG public service costs	2,428,566	2,192,911	2,192,911	2,192,911	2,192,911
Section 108 repayments	760,286	1,468,768	1,591,181	2,429,952	1,249,638
CDBG program costs	8,645,205	7,167,435	7,039,514	6,006,341	6,797,966
CDBG-R program costs	1,270,113	-	-	-	-
HOME set aside	671,496	415,922	415,922	415,922	415,922
HOME program costs	3,582,503	2,245,403	2,356,897	2,356,897	2,356,897
ESG program costs	670,050	1,164,752	1,164,752	1,164,752	1,164,753
ESG for homeless prevention	2,198,027	-	-	-	-
HOPWA program costs	550,136	534,182	534,182	534,182	534,182
NSP program costs	658,755	1,105,420	-	-	-
<b>Total program costs</b>	<b>21,435,137</b>	<b>16,294,793</b>	<b>15,295,359</b>	<b>15,100,957</b>	<b>14,712,269</b>
<b>Administration and Planning costs:</b>					
CDBG administration	3,238,151	2,923,882	2,923,882	2,923,882	2,923,882
CDBG-R administration	129,887				
HOME administration	472,638	302,282	302,282	302,282	302,282
ESG administration	35,266	94,438	94,438	94,438	94,438
HOPWA administration	17,015	16,521	16,521	16,521	16,521
<b>Total administration and planning costs</b>	<b>3,892,957</b>	<b>3,337,123</b>	<b>3,337,123</b>	<b>3,337,123</b>	<b>3,337,123</b>
<b>Program delivery costs</b>	<b>1,118,545</b>	<b>1,402,730</b>	<b>1,402,730</b>	<b>1,402,730</b>	<b>1,402,730</b>
<b>Total Grant Expenditures</b>	<b>26,446,639</b>	<b>21,034,646</b>	<b>20,035,212</b>	<b>19,840,810</b>	<b>19,452,122</b>

Total projected grant revenues are \$21.0 million for 2013, which is a decrease of \$5.4 million (20.5%) from the 2012 budgeted amount of \$26.4 million. The major revenue categories are as addressed below:

- Community Development Block Grants (CDBG) – CDBG funds represent the most significant revenue source to BURA and comprises 63% (in 2012) to 68.5% (in 2016) of total grant revenue. BURA has maintained this balance as consistent throughout the four-year financial plan, however it is noted that funding has substantially decreased over the last two years. Future decreases would place additional pressure on BURA's program delivery as well as on the ability to maintain the budget for administrative and planning costs. This economical and financial risk is mitigated to a certain extent in that BURA is limited in spending up to the amount of the grant awards. However, administrative costs are limited to a certain percentage of the grant awards and could be impacted by reductions in such grants awards. The larger social and city-wide

issues are challenging, and would be driven by policy as implemented by BURA's Board of Directors.

CDBR-R represents a grant authorized in 2009-10 and expires on June 30, 2012.

- HOME Program Funds – HUD reduced 2012-13 funding by \$1.7 million, or 38%. Last year HUD had reduced 2011-12 funding by \$600,000. This reduction is reflected in 2013, and is held at this level for the remaining years of the financial plan. Similar risks and mitigating factors as noted above are applicable.
- Emergency Solution Grants (“ESG”, previously titled Emergency Shelter Grants) is budgeted at the 2013 authorization level of \$1.3 million for each of the four years, representing an increase of approximately \$550,000, or 78%. The ESG for Homeless Prevention was awarded in a prior year and 2011-12 was the last year that funds could be drawn upon.
- Program income for the CDBG and HOME grants is budgeted in 2013 at prior year actual amounts and includes amounts captured by BURA from sub recipients. The decrease in the budget in 2013 as compared to 2012 adjusts the amount to a more reasonably expected level.
- It is noted that the Neighborhood Stabilization grant ends after 2013.
- Program administrative funds are budgeted beginning in 2013 in the amount of \$477,000 and expire at the conclusion of 2015 and represent prior year awards that are expected to be drawn upon in the years in the amounts as budgeted.

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. The cap for CDBG is 20% of the total grant amount plus any program income generated; the cap for the HOME program is 10% of the grant plus any program income generated; ESG caps the amount at 7.5% and HOPWA at 3%. Administrative costs as included in the Financial Plan are limited to these amounts.

On average, approximately 23% - 24% of grant revenues will be spent for administration and planning expenditures. This percentage has become larger as compared to prior years as total grant awards are decreasing and administrative costs continue to rise. The current collective bargaining

agreement expires on June 30, 2013 and estimated cost increases for future settlements are not reflected in the total for budgeted administrative costs. BURA will be challenged in maintaining the current staffing level as grant awards only permit a certain amount of administrative costs to be paid for with grant dollars, as noted above.

The following schedule provides a summary of the Financial Plan for BURA's Operating Expenditures:

	2012	2013	2014	2015	2016
	Budget	Budget	Projected	Projected	Projected
	\$	\$	\$	\$	\$
<b>BURA Administration:</b>					
Base salaries	2,266,517	2,064,341	2,064,341	2,064,341	2,064,341
Longevity	34,725	34,092	34,092	34,092	34,092
Perfect attendance	9,528	9,998	9,998	9,998	9,998
Total direct salaries	2,310,770	2,108,431	2,108,431	2,108,431	2,108,431
Fringe benefits	1,270,924	1,279,891	1,279,891	1,279,891	1,279,891
Health insurance cost increase	57,592	24,992	24,992	24,992	24,992
Total fringe benefits	1,328,516	1,304,883	1,304,883	1,304,883	1,304,883
General operations	235,000	235,000	235,000	235,000	235,000
Total BURA Administration	3,874,286	3,648,314	3,648,314	3,648,314	3,648,314
<b>Program delivery:</b>					
Base salaries	808,386	850,671	850,671	850,671	850,671
Longevity	12,579	13,258	13,258	13,258	13,258
Perfect attendance	3,199	3,888	3,888	3,888	3,888
Total direct salaries	824,164	867,817	867,817	867,817	867,817
Fringe benefits	390,091	527,416	527,416	527,416	527,416
Health insurance cost increase	19,197	7,497	7,497	7,497	7,497
Total fringe benefits	409,288	534,913	534,913	534,913	534,913
Total Program Delivery	1,233,452	1,402,730	1,402,730	1,402,730	1,402,730
Total BURA Operating Expenditures	5,107,738	5,051,044	5,051,044	5,051,044	5,051,044

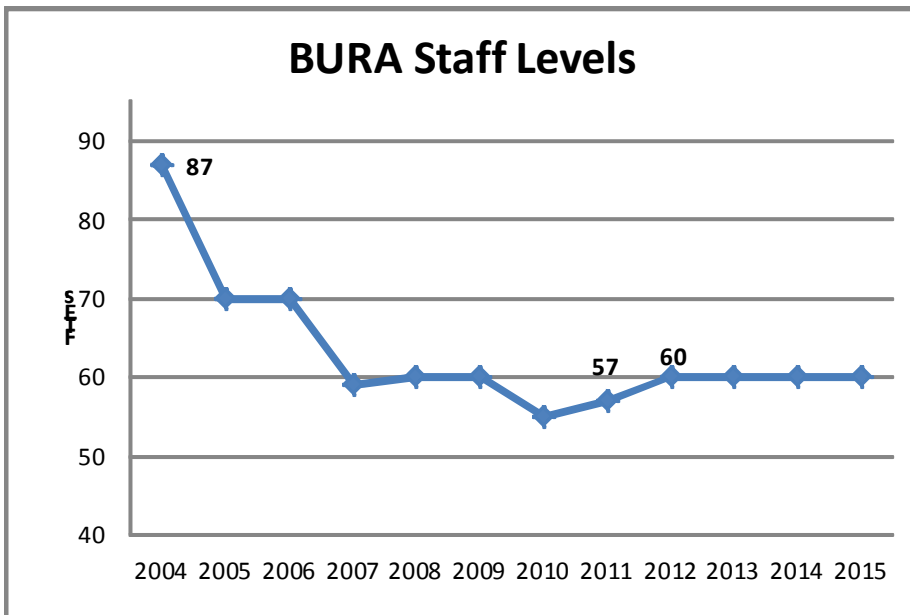
The four-year plan includes 63 budgeted positions for each year of the Financial Plan. This represents an increase of 3 positions over last year. Five positions are currently vacant and are expected to be filled in the near future.

BURA has reflected the cost of self-funding of prescription costs which began in 2012. Fringe benefits reflect approximately \$100,000 of additional pension costs expected to be incurred in 2013; BURA has used the long-term rates as provided by the New York State Employees Retirement System to project pension costs in the remaining years of the financial plan.

Other notable items include:

- BURA continues to repay old Section 108 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. Approximately \$4.8 million is outstanding (as compared to \$5.56 million last year), and will be paid off by August 1, 2018.
- HUD has received BURA's 2012-13 Annual Action Plan and is reviewing such plan for approval or disapproval. In the event the plan is disapproved, BURA will be required to revise the plan, hold public meetings, and re-submit the plan to HUD. The timing of the approval of the plan will have a direct impact on when BURA will be able to allocated funding to sub recipients, as well as draw down funds. This annual process is typical in that it affects the timing of the release of funds.

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 2013-2016 FOUR-YEAR FINANCIAL PLAN SUMMARY**

#### **SUMMARY**

The Buffalo Municipal Housing Authority's (the "BMHA") 2013-2016 financial plan is not consistent with the prior year's approved financial plan as major changes in estimates and assumptions have been made in fiscal years 2013 – 2016. 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 changed with what was projected last year, and therefore management concluded that these key underlying assumptions changes were appropriate to apply within the 2013-2016 financial plan.

The BMHA's financial results for the year ended June 30, 2011, as reported by the BMHA, reflect a cash flow decrease of \$790,000 as compared to the budgeted increase amount of \$749,000, representing a negative variance of \$1,539,000. It is noted that the BMHA overspent their 2011 budget by approximately \$918,500, or 2.7%. 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 2012-13 budget and related financial plan.

#### **HIGH LEVEL OVERVIEW**

Operating revenues are budgeted to decrease \$2.6 million in fiscal year 2013 as compared to the 2012 budget, representing a decrease of 7.3%. For the remaining years of the financial plan, revenues are projected to increase each year from \$33.4 million in fiscal year 2013 to \$35.2 million in fiscal year 2016, representing an increase of \$1.8 million or 5.5% over the four year period.

To make up for some of the spending increases in excess of revenue increases, reserves will be used as follows: \$2.8 million in 2013, \$1.3 million in 2014, \$.8 million in 2015 and \$.3 million in 2016. Use of the reserves to balance the budget and make up for the revenue shortfall is the first time reserves had to be used in recent history at BMHA.

Expenses are budgeted to increase at a slightly lower rate. Total budgeted expenses for fiscal year 2013 are \$35.5 million, representing an increase of \$332,400 (.9%) compared to the fiscal year 2012 budget. Expenses are projected to decrease modestly from \$35.5 million in fiscal year 2013 to \$34.7 million in fiscal year 2016, reflecting a decrease of \$703,300 over this time period, or 2.0%. With respect to operating expenses, the BMHA has applied an inflation factor of 1.5% for most expenses. All labor contracts were expired on June 30, 2011; there remains one older outstanding contract with the Operating Engineers Local 17 which expired on June 30, 2002. The 1.5% inflation factor was applied to employee benefits for fiscal years 2013, 2014, 2015 and 2016.

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

	2011	2012	Financial Plan			
	Actual	Budget	2013	2014	2015	2016
Total operating revenue	\$34.4	\$36.0	\$33.4	\$33.3	\$34.2	\$35.2
Total operating expenses	35.2	35.1	35.5	33.8	34.3	34.7
Excess of operating revenue over/under total operating expenses	<b>0.8</b>	0.9	<b>2.1</b>	<b>0.5</b>	<b>0.1</b>	0.5
Use of reserve	-	-	2.8	1.3	0.8	0.3
Less: Non-operating expenses	0.7	0.7	0.6	0.7	0.7	0.8
Total cash flow impact	<b>-\$1.5</b>	\$0.2	\$0.1	\$0.1	\$0.0	\$0.0

It is noted that non-operating expenses include debt service payments (i.e., principal payments).

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 III currently in the planning stage. In addition, it is noted the Kensington Heights demolition has begun. The towers are currently being abated and demolition had been expected to begin in the summer of 2010 and is now scheduled for the middle of 2012.

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 in process.

### **OPERATING REVENUES**

The following chart summarizes operating revenues within the Financial Plan:

	<b>Financial Plan</b>			
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Operating Subsidy	18,985,700	19,555,300	20,141,900	20,746,200
Dwelling Rental Income	9,755,100	9,950,200	10,149,200	10,352,200
Transfers from Capital Grant	2,093,400	2,552,900	2,629,500	2,712,900
Other	2,532,600	1,253,000	1,317,000	1,386,700
	<u>33,366,800</u>	<u>33,311,400</u>	<u>34,237,600</u>	<u>35,198,000</u>

The most significant components of operating revenue include the Operating Subsidy and Dwelling Rental Income, which account for 57% and 29% 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 impact the Operating Subsidy to housing authorities, and there have been discussions at the federal level related to a potential recapture of excess reserves which will impact BMHA. The Operating Subsidy is projected to increase 3% annually in total dollars from 2014-2016, with the funding level of 95% being applied to 2014, 2015 and 2016. 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 2011 is reported to have been \$9.3 million. The balance of \$9.8 million as budgeted for 2013 represents an increase of \$474,700, or 5.1%, over 2011 actual amounts. This revenue is projected to increase annually beginning in 2014 through 2016 at a rate of 1.5%. 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 6% 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 2011 was \$1.9 million. This income, representing the transfer of administrative expenses from the capital budget, is projected to increase by 1.5% each year from the 2013 budget level through 2016. BMHA is allowed to use up to 20% of grant funds for administrative purposes and has used less than the allowable amount in previous years.
- All Other includes non-dwelling rental income, interest income, fee for service, administrative fee for development and other income. In total, these fees are budgeted to decrease to \$896,600 in 2013, representing a 15.6% decrease compared to the 2012 budgeted amounts.

## **OPERATING EXPENSES**

Total 2013 budgeted operating expenses are \$35.5; budgeted debt service payments of \$550,000 result in total projected cash outflows of \$36.1 million. In 2013, operating expenses have increased compared to the 2012 budget by

\$332,400 (.9%). The budget decreases in 2014 by \$1.6 million (4.6%) and then increases modestly each year, with an increase of \$456,600 (1.3%) in 2015 and \$464,000 (1.4%) in 2016.

**Total Expenses – General Operating Fund and Central Office**

	Actual 2011 \$	Budget 2012 \$	Financial Plan			
			Budget 2013 \$	Budget 2014 \$	Budget 2015 \$	Budget 2016 \$
<b>EXPENDITURES:</b>						
Total Administrative Cost	9,522,532	10,379,732	9,227,420	9,013,240	9,148,439	9,285,665
Total Tenant Services Cost	741,690	711,932	882,835	867,571	880,584	893,793
Total Utilities Cost	7,255,468	8,126,253	5,660,753	6,534,374	6,632,389	6,731,875
Total Ordinary Maintenance	11,474,784	9,339,489	11,962,790	10,501,996	10,644,802	10,789,603
Total Protective Service	734,779	929,972	1,021,301	1,036,621	1,052,170	1,067,952
Total Other General Expenses	5,497,733	5,632,183	6,696,861	5,874,274	5,926,274	5,979,776
Total Expenses	35,226,986	35,119,561	35,451,961	33,828,076	34,284,658	34,748,664
Excess Revenue Over Expense	<b>-790,246</b>	868,480	<b>-2,085,124</b>	<b>-35,347</b>	372,241	800,712
Use of Reserve	---	---	2,800,000	1,260,000	810,000	321,000
Debt Service	711,023	711,023	550,015	739,748	754,543	769,634
Cash Flow Impact	<b>-1,501,269</b>	157,457	164,861	3,536	8,452	661

The BMHA has applied an inflation rate of 1.5% to most expenses; this inflation factor was obtained from HUD. With respect to salaries, there are no increases projected throughout the financial plan. Benefits are also budgeted to increase 1.5% during the period 2013 – 2016. Total salaries and benefits for all departments are budgeted at \$21.3 million in 2013, \$20.7 million in 2014, \$21.0 million in 2015 and \$21.3 million in 2016.

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

Administrative Costs - Salaries and benefits (including retiree benefits) comprise approximately 60% of total operating expenses. As noted above, the BMHA has included a 1.5% salary increase throughout the financial plan. The current contracts with the collective bargaining units all had expired as of 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 34% of the total budget. The 2013 budget of \$12.0 million is more than 2011 actual by \$488,000. Minor increases in maintenance materials and maintenance contracts are budgeted for 2014 through 2016. Total expenses for the out years of 2014 through 2016 range between \$10.5 million and \$10.8 million and are projected to increase 4.1% over the four years of the financial plan.

Utilities Costs - Utility costs represent the third largest expense category at 16% of the budget. Utility costs are budgeted at \$5.7 million in total. Actual utility expenses for 2011 were \$7.3 million. Utility costs are budgeted at a decrease of \$1.6 million (22%) in 2013 as compared to 2012. From 2014 through 2016, utilities are budgeted at 1.5%, or roughly \$100,000, 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 19% 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 \$6.7 million in 2013 and is projected to increase 1.5% over the out years of the financial plan, or \$106,000.

Retiree health insurance was budgeted for separately within Other General Services beginning in fiscal year 2011, and is budgeted at \$2.6 million - \$2.7 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 2013 budgeted amount is \$0.9 million and remains relatively flat through 2016. Actual tenant services costs were \$0.7 million in 2011.

Protective Services - Protective Services of approximately \$1.0 million annually are contractually based.

## **CAPITAL AND OTHER GRANTS SUMMARY**

The summary of the Capital Fund as provided for within the four-year financial plan is as follows; the 2012 budgeted amounts were included for comparison purposes.

### **Budget Projections Capital and Other Grants**

**Four-Year Financial Plan 2013-2016**

	<b>Budget</b>	<b>Financial Plan</b>			
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Capital Grants	10,179,316	8,261,833	8,509,688	8,764,979	9,027,928
Capital Fund Recovery Act	---	---	---	---	---
HOPE VI Grants	---	---	---	---	---
ROSS Grants	391,000	309,000	309,000	309,000	309,000
Section 8 City of Buffalo	3,024,178	4,411,929	4,544,287	4,680,615	4,821,034
Section 8 - 002 Program	2,013,565	1,918,109	1,975,653	2,034,922	2,095,970
Total Grants Revenue	15,608,059	14,900,871	15,338,627	15,789,516	16,253,931
Capital Grant Transfer to Operating	<b>-3,644,828</b>	<b>-2,093,465</b>	<b>-2,552,906</b>	<b>-2,629,494</b>	<b>-2,712,878</b>
Grant Revenue Net Of Operating Transfers	11,963,232	12,807,406	12,785	13,160,022	13,541,053

## WORKFORCE SUMMARY

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

### Buffalo Municipal Housing Authority Workforce Four-Year Plan

	Budget	Financial Plan			
	2012	2013	2014	2015	2016
<b>Department:</b>					
Audit	5	5	5	5	5
Executive	23	23	23	23	23
Mis	8	8	8	8	8
Finance & Budget	14	14	14	14	14
Personnel	6	6	6	6	6
Capital Improvement & Development	31	31	31	31	31
Section 8	9	9	9	9	9
Asset Management	191	191	191	191	191
Total	287	287	287	287	287

## CONCLUSION

The BMHA has submitted to BFSA a financial plan which is operationally balanced by using reserves, with operating revenues and the use of reserves exceeding operating expenses each year and with adequate cash flow to pay the principal on its outstanding long-term debt. It does appear that utilities are under budgeted, and we encourage BMHA to review its estimates and revise its budget as necessary.

## Joint Schools Reconstruction Board

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The Joint Schools Construction Board (“JSCB”) was created in 2000 by resolutions of the Buffalo Board of Education, the Buffalo Common Council, and an amendment to the City of Buffalo Charter. It was given special powers under the laws of New York State of 2000, 2003, and 2004, 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, 2012 was as follows:

- Honorable Byron Brown, Mayor, City of Buffalo,
- Honorable Mark Schroeder, Comptroller, City of Buffalo,
- Ms. Amber Dixon, Interim Superintendent, Buffalo Public School District,
- Honorable Demone Smith, Buffalo Common Council designee,
- Ms. Florence Johnson, Buffalo Board of Education designee,
- Mr. Jason McCarthy, Buffalo Board of Education designee.
- Vacant, New York State Regent for the Eighth Judicial District.

Note: the Buffalo City Charter names the New York State Board of Regent representing the eighth Judicial District an ex-officio member of JSCB. Chancellor Emeritus 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 June 30, 2012, the JSCB had completed improvements to nine schools from Phase I, for a total cost of \$173.47 million. Improvements were 99.9 % complete with \$166,000 in District-wide technology improvements remaining, a total cost of \$326.89 million.

As of June 30, 2012, Phase III was 98.9% complete with \$4.5 million in scheduled improvements remaining at the nine schools, a total cost of \$358.72 million. Construction work had been considered completed. An additional \$8,667,348.88 in investment proceeds associated with the delayed commencement of Phase III was allocated toward further capital improvements in the schools associated with Phase III. BFSA approved the associated budget modification and related change order on October 3, 2011.

## **Phase IV**

Series 2009A bonds to finance the Phase IV of the JSCB project where issued in November of 2009. Total project costs are \$292.53 million. Phase IV includes ten schools, as well as District-wide technology enhancements and improved energy performance.

As of June 30, 2012, \$289.9 million or 99.1% of the projected \$292.53 million of the work had been completed. The ten schools selected for Phase IV are as follows:

Status of Phase IV Projects	Project Cost (\$ in millions)	Spent as of 06/30/2012	Percent Complete
<b>PS #3 D'Youville Porter Campus</b>	\$12.84	\$12.84	100%
<b>PS #17 Early Childhood Center</b>	\$11.37	\$11.37	100%
<b>PS #54 Dr. George E. Blackman, ECC</b>	\$11.00	\$11.00	100%
<b>PS #72 Lorraine Academy</b>	\$15.90	\$15.90	100%
<b>PS #81 School 81</b>	\$14.37	\$14.37	100%
<b>PS# 84 ECHCC for Children</b>	\$10.31	\$10.31	100%
<b>PS #93 Southside Elementary School</b>	\$27.51	\$27.51	100%
<b>PS # 197/306 Science, Math &amp; Technology Prep School at Seneca</b>	\$35.22	\$35.22	100%
<b>PS #203 Olmsted 5-12 Kensington</b>	\$33.59	\$33.59	100%
<b>PS #305 McKinley High School</b>	\$50.33	\$48.03	95.4%
<b>District-Wide Technology</b>	54.00	\$53.68	99.4%
<b>Energy Performance</b>	\$16.08	\$16.08	100%
<b>Totals</b>	<b>\$292.53</b>	<b>\$289.9</b>	<b>99.1%</b>

The District anticipated completion of Phase IV by June 30, 2012. The construction work was 99.8% completed as of August 31, 2012 with \$634 thousand of capital improvements at McKinley High School as well as in District-wide technology remaining.

## Phase V

Borrowing to finance the project occurred in June 2011. Total project costs are projected at \$175.0 million. Phase V includes seven schools, as well as District-wide technology enhancements and improved energy performance. As of June 30, 2012, \$87.66 million or 50.1% of the projected \$175.0 of the work had been completed. The ten schools selected for Phase IV are as follows:

<b>School</b>	<b>Project Cost</b>	<b>Spent to 06/30/2011</b>	<b>% Completed</b>
<b>PS# 18 Dr. Antonia Patoja Community School of Academic Excellence</b>	\$16.40	\$10.95	66.7%
<b>PS #53 Community School</b>	\$17.98	\$12.67	70.5
<b>PS #59M Charles R. Drew Science Magnet Museum Site</b>	\$14.90	\$1.55	10.4%
<b>PS #61 Early Childhood Center</b>	\$10.57	\$7.50	71.0%
<b>PS #64 Fredrick Law Olmsted School</b>	\$16.89	\$11.91	70.5%
<b>PS #65 Roosevelt Early Childhood Center</b>	\$9.70	\$1.39	14.3%
<b>PS #202 Grover Cleveland Comp. High School of Choice</b>	\$27.79	\$12.02	43.2%
<b>District-Wide Technology</b>	\$49.14	\$14.74	30.0%
<b>Energy Performance</b>	\$11.64	\$9.19	78.9%
<b>Total</b>	<b>\$175.00</b>	<b>\$81.91</b>	<b>46.81%</b>

Completion of the Phase V is anticipated to be largely completed prior to the commencement of the 2014-15 school year.

# **BUFFALO FISCAL STABILITY AUTHORITY**

## **BY-LAWS**

### **ARTICLE I**

#### **THE AUTHORITY**

**SECTION 1. The Authority** – The Buffalo Fiscal Stability Authority (“the Authority”) is a corporate governmental agency and instrumentality of the State of New York constituting a public benefit corporation.

**SECTION 2. Acts of the Authority** – All acts, agreements and documents of the Authority shall be performed or executed in the name of the Authority by a Director or other duly authorized officer of the Authority.

**SECTION 3. Certification of Instruments** – Each Director or other duly authorized officer of the Authority shall have the authority, when necessary or appropriate, to certify the records, proceedings, rules and regulations and other instruments of the Authority and to affix and attest to the official seal of the Authority on contracts and other instruments of the Authority.

**SECTION 4. Administration** – The powers, organization and administration of the Authority shall be in accordance with the provisions of the Buffalo Fiscal Stability Authority Act, or other applicable laws and these By-Laws.

**SECTION 5. Fiscal year** – The fiscal year of the Authority shall begin July 1 and end the following June 30.

**SECTION 6. Seal of the Authority** – The official seal of the Authority shall be in such form as may be determined, from time to time, by the resolution of the Directors of the Authority. The seal on any corporate obligation for the payment of money may be a facsimile.

**SECTION 7. Offices** – The principal office and place of business of the Authority shall be located in the City of Buffalo, State of New York. The Authority may also have other offices at such other places within the State of New York as may be deemed necessary by the Directors of the Authority.

## ARTICLE II

### DIRECTORS & OFFICERS

**SECTION 1. Directors** – The business and affairs of the Authority shall be managed by the Board of Directors of the Authority who shall be selected and shall hold office as provided in the Buffalo Fiscal Stability Authority Act.

**SECTION 2. Compensation of Directors** – The Directors of the Authority shall serve without salary or benefits, but each Director shall be reimbursed for actual necessary expenses incurred in the performance of such Director's official duties as a Director of the Authority.

**SECTION 3. Chairperson and Vice-Chairperson** – The Governor shall designate a Chairperson and Vice-Chairperson from among the Directors. The Chairperson shall preside over all meetings of the Directors and shall have such other duties as the Directors of the Authority may direct. The Vice-Chairperson shall preside over all meetings of the Directors in the absence of the Chairperson and shall have such other duties as the Directors of the Authority may prescribe; except that if in such event that the office of the Vice-Chairperson is vacant or the Vice-Chairperson is absent or disabled, the Chairperson shall designate a Director to preside at such meeting.

**SECTION 4 Appointment and Delegation** – The Directors of the Authority shall appoint a Treasurer, who shall not be a member of the Authority's Board of Directors, and may appoint such officers, employees and other agents of the Authority as are deemed necessary to effectuate the purposes of the Authority and may delegate to such officers, employees and agents such powers and duties as the Directors may deem proper. Officers shall serve at the pleasure of the Board of Directors. No Board member, including the Chairperson, shall serve as the Corporation's chief executive officer, executive director, chief financial officer, comptroller, or hold any other equivalent position while also serving as a member of the Board.

**SECTION 5. Removal and Vacancy** – Any officer may be removed or have his or her authority suspended by the Authority at any time, with or without cause. If an office becomes vacant for any reason, the Authority shall have the power to fill such vacancy.

**SECTION 6. Officers Holding Two or More Offices** – Any two or more offices may be held by the same person, but no officer shall execute or verify any instrument in more than one capacity if such instrument is required by law or otherwise to be executed or verified by two or more officers.

**SECTION 7. Delegation** – In the event of a vacancy in any office or the absence or disability of any officer or for any other reason that the Authority may deem sufficient, the Authority, except as otherwise provided by law, may temporarily delegate the powers or duties of any officer to any other officer or to any Director.

## **ARTICLE III**

### **MEETINGS OF THE AUTHORITY**

**SECTION 1. Meetings** – Regular meetings of the Authority shall be held at such times as the Board of Directors may from time to time determine. Special meetings of the Board of Directors shall be held at any time, upon call from the Chairperson, and shall be called by the Chairperson upon the request of at least five Directors of the Authority.

**SECTION 2. Place of Meetings** – Regular and special meetings of the Board of Directors shall be held at the principal office of the Authority or at such other place within the State of New York as the Board of Directors may from time to time determine.

**SECTION 3. Notices** – Notice of the place, date and time of every regular and special meeting of the Authority or any committee of the Board shall be given by mailing the same, at least three days before the day on which the meeting is to be held, to the address of each Director or committee member designated by him or her for such purpose (or, if none is designated, to his or her last known address) or by delivering it personally, electronically or telephonically at least 12 hours in advance of the time for which the meeting is called. Neither the business to be transacted at, nor the purpose of, any meeting of the Authority or committee need be specified in any notice or written waiver of notice unless so required by these By-Laws. Special meetings may be called only for a specific purpose or purposes, and such action(s) at such special meeting shall be limited to the purpose(s) set forth in the notice.

**SECTION 4. Waiver of Notice** Notice of a meeting of the Board or any committee need not be given to any director who submits, or whose duly appointed representative submits, a signed written waiver thereof, whether before, during or after the meeting, nor to any director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to him.

**SECTION 5. Cancellation and Rescheduling of Meetings** The Chairperson, or in the Chairperson's absence, the Vice Chairperson, may cancel or postpone a scheduled regular or special meeting by delivering notice personally, electronically, telephonically, or by mail to all other members of the Board of Directors, which such notice must contain the reason for cancellation of such meeting. A regular or special meeting may also be cancelled or postponed by a majority of the Directors, but in no case fewer than five Directors. For any meeting scheduled fourteen days or more prior to the meeting date, such notice shall be furnished at least 5 days prior to the meeting date. For any meeting scheduled less than fourteen days prior to the meeting date, such notice shall be furnished as soon as is practicable. The Chairperson or Vice Chairperson shall consult each director as to scheduling, prior to rescheduling any cancelled or postponed meeting.

**SECTION 6. Quorum and Exercise of Powers** – Five Directors shall constitute a quorum for the transaction of any business or the exercise of any power of the Authority.

The Authority shall have power to act pursuant to a favorable vote of five Directors. If at any meeting there is less than a quorum, a majority of those Directors present may, from time to time, adjourn the meeting without further notice to any absent Director.

**SECTION 7. Action Without a Meeting** – Any action required or permitted to be taken by the Board of Directors or any committee thereof at a duly held meeting may be taken without a meeting if all members of the Board of Directors or the committee consent in writing to the adoption of a resolution authorizing the action. Such resolution and the written consents thereto by the members of the Board of Directors or committee, which may be executed in counterpart, shall be filed with the minutes of the proceedings of the Board of Directors or the committee.

**SECTION 8. Personal Attendance by Video Conference; Participation by Telephone** – If the Chairperson determines that there is a need for the Directors to act under circumstances where it is not possible or practicable to bring a quorum of the Directors together at the same location, the Chairperson or the Executive Director, upon direction of the Chairperson, may give notice that any one or more members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee by means of video conference equipment allowing all persons participating in the meeting to hear and observe each other at the same time and to see all material presented, and presentations made, at the meeting. Participation by such means shall constitute presence in person at the meeting. A Director also may participate in a Board or committee meeting by telephone, but may not vote or be counted as present for any such meeting.

**SECTION 9. Procedure** – The order of business and all other matters of procedure at each meeting of the Authority may be determined by the presiding officer.

## **ARTICLE IV**

### **COMMITTEES**

**SECTION 1. Audit, Budget and Finance Committee** – The Board shall establish an Audit, Budget and Finance Committee to consist of one or more members, each of whom qualifies under the Public Authorities Law ("PAL") as an independent member, for the purpose of recommending to the Board the hiring of a certified independent accounting firm, establishing the compensation to be paid to the accounting firm and providing direct oversight of the performance of the independent audit by the accounting firm hired for such purposes; also to develop and oversee the Authority's budget, to receive and distribute funds that come into the custody of the Authority, to maintain appropriate internal controls and separation of functions, to receive the annual report of the independent auditor, to recommend to the Board of Directors actions based on recommendations of the independent auditor and to undertake such other activities as the Board Chairperson may direct from time to time.

**SECTION 2. Governance Committee** – The Board shall establish a Governance Committee to consist of one or more members, each of whom qualifies under PAL as an independent member, for the purpose of keeping the Board informed of current best governance practices, to review corporate governance trends; and to update the Authority's corporate governance principles.

**SECTION 3. Other Committees** – The Board of Directors may create one or more other committees of the Board. The Board shall determine the membership, powers and duties of such committees, provided that only members of the Board of Directors may serve as members of committees of the Board established under this Article.

**SECTION 4. Meetings** – Regular meetings of any committee of the Board shall be held at such times as each such committee or the Board of Directors may from time to time determine. Special meetings of any committee, which may be called only for a specific purpose or purposes, shall be held at any time upon call from the Secretary of the Authority, upon the request of at least two members of the committee.

**SECTION 5. Place of Meetings** – Regular and special meetings of committees shall be held at the principal office of the Authority or at such other place within the State of New York as each committee may from time to time determine.

**SECTION 6. Cancellation and Rescheduling of Committee Meetings** The Chairperson of a committee, or if the chair is vacant, or the Chairperson is absent or disabled, the member of the committee with the longest period of membership on the Authority (“Senior Member”), may cancel or postpone a scheduled meeting by delivering notice personally, electronically, telephonically, or by mail to all other members of the committee, which such notice must contain the reason for cancellation of such meeting. A regular or special meeting may also be cancelled or postponed by a majority of the committee members, but in no case fewer than two committee members. For any meeting scheduled fourteen days or more prior to the meeting date, such notice shall be furnished at least 5 days prior to the meeting date. For any meeting scheduled less than fourteen days prior to the meeting date, such notice shall be furnished as soon as is practicable. The Chairperson or Senior Member shall consult each committee member as to scheduling, prior to rescheduling any cancelled or postponed meeting.

**SECTION 7. Quorum and Exercise of Powers** – A majority of the total number of members of a committee shall constitute a quorum for the transaction of any business or the exercise of any power of a committee. All action by a committee shall be taken by vote of a majority of the total number of its members. If at any meeting there is less than a quorum, a majority of those members present may, from time to time, adjourn the meeting without further notice to any absent member.

**SECTION 8. Conduct of Meetings** – The Chairperson of a committee or, or if the chair is vacant, or the Chairperson is absent or disabled, the Senior Member, shall preside at each meeting of the Committee. The Secretary of the Authority, except as otherwise provided by the Authority, shall act as Secretary at all meetings of the committee, and in the absence of the Secretary, a temporary Secretary shall be appointed by the presiding officer. The order of business and all other matters of procedure at each committee meeting may be determined by the presiding officer of the committee.

**SECTION 9. Minutes** – All committees shall keep minutes of their acts and proceedings to the extent required by law, or as otherwise required by a majority of the Authority’s Directors, which shall be submitted to the Authority.

## **ARTICLE V**

### **INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES**

**SECTION 1. Right of Indemnification** – Each Director, officer and employee of the Authority, all of whom shall be deemed officers and employees of the State for the purposes of section seventeen of the public officers law, shall be held harmless and indemnified as provided for in section 3870 of the Buffalo Fiscal Stability Act enacted as chapter 122 of the laws of 2003.

## **ARTICLE VI**

### **AMENDMENTS**

**SECTION 1. Amendments** – These By-Laws may be adopted, amended or repealed by resolution duly adopted at any meeting of the Authority, notice of which shall have referred to the proposed action, by a vote of a majority of the total number of Directors.

## **ARTICLE VII**

### **SUSPENSION OF BY-LAWS**

**SECTION 1. Suspension of By-Laws** – By affirmative vote of a majority of the total number of Directors, the provision of any or all of these By-Laws, except as may be otherwise provided by law, may be temporarily suspended.